

## **Annual Media Conference, 31 March 2009**

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### **The first 100 days of FINMA – the challenges and outlook**

For three months now, I have served as Director of FINMA. As a “new face” at the podium, I won’t comment on the matters of 2008 nor on the most recent developments. Instead, I’d like to provide you with an outline of the challenges that I think FINMA will have to face in the coming months. I would also like to explain how FINMA plans to tackle these challenges and how we will further develop our supervisory activities.

There is one obstacle that our new agency has cleared: “positioning” FINMA. FINMA has got off to a running start, and the FINMA brand has become remarkably well known in just a short time. Any brand manager would tell you that that’s a good thing. But not at any price, in my opinion. After all, the name “FINMA” is best known for the controversies that our decisions have ignited in politics, the media and the general public over these past few months. Both the approval of UBS’ bonus pool for 2008 and the protective measures we took, which circumvented the usual administrative mutual assistance process, to mandate the release of UBS client data, are far from normal business for a supervisory authority.

#### **The crisis is a catalyst for new risks**

Overcoming the financial market crisis has been the burning issue for supervisory authorities over the last few months. Supervisory activities have expanded greatly in scope, while the frequency of our monitoring activities has increased dramatically in some areas. These were emergency measures necessitated by the crisis, but the crisis is far from over.

That’s why we need to ask ourselves: what risks do we think the financial sector will face going forward? As a supervisory authority, it is our job to have a pessimistic view of the future, so that we can equip ourselves to handle any negative developments. We anticipate the following risks and implications for the immediate future:

1. The crisis has substantially weakened many organisations. While the markets have calmed down a bit, they are still fragile. Fresh shocks could result in further price falls, and even threaten the solvency of some institutions.

2. The recession is in full swing. The economic slump is causing increased credit defaults, forcing banks to take write-downs and in turn placing a higher claims burden on insurance companies.
3. The political and economic climate is raising doubts about the viability of established areas of business and even entire business models. Profit margins are dwindling, and low interest rates are putting insurers under increased pressure. As a result, companies have been forced to adapt their business strategy, for example in offshore banking or with regard to funds or structured products in their current form.
4. In response to the crisis, a wave of de-globalisation, coupled with the nationalisation of large banks in certain countries, is damaging international cooperation in these difficult times: government aid programmes are leading to national pressure group politics and isolationism in the financial sector. Specifically, a “he who calls the piper, calls the tune” attitude is increasing the influence of politicians, acting solely with domestic interests in mind.

### **FINMA continues to improve its supervisory activities**

FINMA must find answers to these challenges. The lessons we have learned from the financial crisis will play a key role in how we respond. The merger that created FINMA, despite the additional workload that the process caused for many employees, has resulted in new opportunities for our supervisory activities in particular. It will enable us to transfer insights and specific knowledge from our supervisory activities in the insurance industry to the banking industry, and vice versa.

At the moment, we are working in cross-sector teams to develop proposals to strengthen the supervisory tools at our disposal. We want to complement our proven methods based on new findings. We are also in the process of comparing our existing supervisory methods – across all areas – to create a best practice approach that uses the most effective elements. We will present our proposals to the Swiss Federal Council this autumn as part of our strategy discussion. However, I can already give you an idea of the direction in which we are heading:

Our first goal is to expand the horizon of the supervisory authority. FINMA must refine its diagnostic methods. The focus on individual institutions must be broadened to create the macro-prudential supervision being called for internationally. This requires an overarching view extending beyond individual institutions. In so doing, we will close the gap between the macroeconomic assessment of, for instance, a national bank and the risk profile of a single institution. To this end, we will increase FINMA's economic analysis capability, thus enhancing our cooperation with the national bank, international bodies and committees and foreign supervisory authorities in particular. Tighter supervision takes a forward-looking approach and strives to recognise trends early on. FINMA must be able to formulate its own assumptions and confront the organisations it supervises with these assumptions.

This also means that in future we will have to be tougher and more critical in our scrutiny of those we supervise. We will also conduct even more stress tests. This is a necessary addition to our current testing regime, which has primarily focused on the correct use of and adherence to control systems.

The third issue relates to regulation: we want to quickly and efficiently implement the regulatory measures that have been introduced or that are emerging from international standard-setters. These plans will include a dramatic increase in capital requirements, although Switzerland, as we have already mentioned, has led the way in this regard. We will also place tighter restrictions on liquidity management for those we supervise. With regard to accounting regulations, we will try to reverse the current pro-cyclical reinforcement effect. And finally, in response to the excesses seen in recent months, and based on the recommendations of the Financial Stability Forum, we will publish a circular regarding remuneration systems in the Swiss financial sector.

Fourth, FINMA will continue to follow the integrated supervision approach for insurance companies initiated by the Federal Office of Private Insurance (FOPI). This will link new and existing supervisory instruments. The Swiss Solvency Test (SST), a quantitative, risk-based tool, will be part of the authority's toolbox. It will include quality controls and traditional instruments such as Solvency I and restricted assets, as outlined by Monica Mächler in her earlier presentation.

The fifth and final point relates to auditing the current organisational structure and processes in tandem with operational integration work. We are not talking about reorganisation at any cost. Rather, we are talking about taking the right organisational measures in light of the challenges I have mentioned to efficiently manage our core tasks: to approve, supervise, sanction and regulate.

But how we can meet all these demands? Often, in answering a question like this, we focus too quickly on the issue of understaffing. I think we can meet the challenges that lie ahead. But reinforcing our supervisory capacity will not depend on increasing FINMA's headcount alone. Rather, the early identification of risks will help us use our existing resources even more efficiently. We must also rely on our special strengths as a supervisory authority. I'd like to mention a few key points in this regard:

- Unlike those we supervise, we can concentrate fully on the risks and on the negative impact. A certain amount of pessimism is a virtue for supervisory bodies.
- We can and must remove ourselves from the herd mentality of the markets: for instance, we can define scenarios for stress tests that are seen as "irrational".
- Our long-term memory is good, and we can take a longer view than many organisations we supervise, and than politicians.

And at a very practical level:

- We have access to confidential information from various institutions. We can cross-reference this information like no one else and derive knowledge from this.

If FINMA continues to use these strengths and closes the gaps we have identified, it will be prepared to face the challenges I have outlined here.

Thank you for your attention.