

Press release

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FINMA Risk Monitor 2022: increased risks due to uncertain prospects

In its 2022 Risk Monitor the Swiss Financial Market Supervisory Authority FINMA identified seven significant risks for the financial sector. It derives its supervisory focus from these. Due to great uncertainty about the development of interest rates and the economy, FINMA sees increased risks in the areas of loans and interest rates.

FINMA today published its Risk Monitor 2022. This report provides an overview of what FINMA believes are the most important risks currently facing supervised institutions and describes the resulting focus of its supervisory activity.

Global economic growth has slowed down considerably in recent months due to the war in Ukraine. In view of the high inflationary pressures, central banks have altered their monetary policy and raised interest rates considerably in some cases. A long period of negative rates also came to an end in Switzerland on 22 September 2022. The uncertainty regarding the further development of inflation, interest rates and economic growth presents risks.

Against this backdrop, FINMA identifies seven principal risks for the financial sector. Six of those are the same as in the previous year. They are the following: interest rate risks, credit risks associated with mortgages, credit risks associated with other loans, risks of cyberattacks, risks in the area of combating money laundering and risks due to increased impediments to cross-border market access. Whereas FINMA considers the risks in connection with cyberattacks to have remained consistently high, it sees increased risks compared with the previous year in all other mentioned areas. The widening of credit spreads is cited as an additional risk in the Risk Monitor for the first time.

Risks emanating from decentralised digital financial services

Furthermore, each Risk Monitor explores one selected trend with the potential to impact on the Swiss financial market over the long term. In this year's report, FINMA focuses on so-called decentralised finance applications operating on open-access blockchain infrastructures. These are a global trend and have recently attracted much attention.

The use of such applications present risks. In the first instance consumers risk losing assets, for example due to severe market fluctuations, input errors, bugs in the applications, hacking or fraud. For institutional users, the risks are operational as well as legal and reputational in nature. However, FINMA does not currently see any systemic risks as the volume is still small.

The topic of decentralised finance also poses challenges for regulators and supervisory authorities. For instance, if financial market applications were to be effectively decentralised, responsibility could no longer be clearly assigned under current financial market law. In addition, the risk of money laundering is also generally high for decentralised finance applications due to their anonymity.

Transparency about risk-oriented supervision

The main focus of FINMA's work is the supervision of the financial sector. This is designed to ensure that the supervised financial institutions remain stable going forward, given the possible risks they are facing. Assessing the risk position of the whole sector as well as that of the supervised institutions is therefore a critical part of FINMA's supervisory activity. This makes its supervisory focus essentially forward-looking. The Risk Monitor creates transparency both for supervised institutions and the wider public about how FINMA fulfils its statutory responsibilities.