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Keynote at the Future of Finance Conference held on 1 October 2019 in Zurich

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The Direction of Travel

Ladies and Gentlemen,

I am delighted to be able to join you today and have been given carte blanche on your conference topic of "The Future of Finance". A rather narrow theme…

In preparing for this speech, I was struck by last week's collapse of a company in a completely different industry, the travel industry. The company in question being the Thomas Cook Group, the UK's oldest travel company, which started off in 1841 organising excursions for anti-alcohol campaigners in middle England, and developed in to the largest exporter of not always so abstemious Britons to holiday destinations around the world.

Why do I choose to mention a company as far away from finance as Palma da Mallorca is from Paradeplatz? For four reasons, four rather disparate lessons we could maybe learn.

First lesson: Industries can change massively

Firstly, it is yet another example of how industries can undergo massive change, and leave some of their dominant players behind. We all know the example of photography: never in human history were so many photographs taken as today, but they are taken in such a different way to before that firms with household names have simply disappeared. Never in human history have so many travelled so often and so far as today. The demand for holiday travel has exploded, but one of the biggest and most storied firms in the business was unable to adapt to the way those holidays were sold. The fixed costs of carrying a high street distribution network when people simply don't buy holidays face-to-face any more led to financial disaster. An analogue business model in a digital world. A company which first defined the future of travel and then failed to understand how it was changing.

Is finance immune from this kind of disruptive change? I cannot find a single good reason why that should be the case. As in these other industries, the demand for financial services won't sink – rather the opposite. But the method of delivery will most likely change dramatically. And that poses a challenge for every regulator.

Regulators are naturally risk-averse and backward-looking animals. We are typically busy making sure that the business models of today don't replicate the mistakes of the past. Regulation is often a barrier to entry. But our mandate is to ensure that the clients and users of the financial system are fairly served, and that the institutions that serve them are stable, sound and acting with integrity. Our mandate says nothing about what type of institutions should deliver financial services in what way. The basic financial services: payments, deposit-taking, credit, investment advice, market making, etc.,

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will not change. But who delivers them and how, can alter significantly as technology opens up new possibilities and clients change behaviour.

That is why, some five years ago, we set FINMA decidedly on the path of understanding innovation in financial services, and removing unnecessary barriers to it. Since then, on the principle of technology neutrality we have removed all analogue hardcoding from our own regulation. And as a supervisor, the principle-based regulatory framework we have here, gives us the flexibility to deal with new business models in a way that fits their activities and their risks – "same risks, same rules" is another way to define the famous level playing field. We have shown new providers in fields as disparate as narrow banking, payment services and blockchain-based fundraising how to launch services in full compliance with pre-existing rules and regulations. And make no mistake, we are as passionately against financial crime as we are against the discrimination of innovative business models. We have in Switzerland for example probably the strictest anti-money laundering standards worldwide for payment services delivered via the blockchain.

So the simple message for all of us in the financial industry is not to assume that our current way of looking at things will perpetuate and not to be so inflexible that our business models, regulations, or processes go the way of Thomas Cook.

Here I can add a simple example. For all of you in the room who believe that LIBOR as a benchmark will continue to exist for more than a few more years, you are almost certainly mistaken. Just because something has been extremely important in the past doesn't mean that it will continue to exist when it has been proven to have irredeemable flaws. Still less will it continue just because an industry is unprepared for its discontinuation. There will always be interest rate curves – rather peculiar ones maybe, but that's another story – but there will not always be a benchmark called LIBOR, and the financial industry needs to prepare for that much more urgently than has been done to date.

Second lesson: You'd better have an emergency plan

My second lesson learnt from the demise of Thomas Cook is a more specific one. That if something looks like it might go badly wrong, you'd better have a plan. The buying and selling of holidays is not a critical service. Getting home from holiday is rather more of a requirement. That means that the UK government has been conducting the largest peacetime repatriation of their citizens in history. Despite all the inevitable hardship stories, it is remarkable to me how clear it is that there was a well-drilled plan in place to have the state step in, not to rescue the firm, but to bring its services to a safe conclusion for its clients. Incidentally, the UK government's plan is called Operation Matterhorn, lending it that subtle touch of Swiss reliability or perhaps showing the Matterhorn-like size of the task. Having such a plan in place is somewhat analogous to the resolution planning exercises we at FINMA are responsible for regarding our systemically relevant financial institutions. We hope never to need these kind of plans, but they had better be there if we do, and we need to front up to the role that the state will always need to temporarily play as a backstop to bridge difficult situations. That does not mean governmental bailouts, but it does, for example, mean the willingness to make sure temporary liquidity support is available to financial firms going through a rescue, restructuring or resolution.

Third lesson: Skilled employees matter

My third lesson learnt is a more personal reflection on the side effects of rapid industrial change, where the financial industry is just as implicated. When the dust has settled and the holidaymakers are back in the office, who suffers the most? The typical answer from a financial sector audience would probably be the shareholders, then the creditors. Not incorrect, but many of them are professionals who could make their own judgement on risks and returns. My answer would be different: I would focus on the 21,000 people who lost their jobs from one day to the next. Many of those have skills that will instantly be in demand elsewhere, but for how many of them is that true? If business models decline, and employees have not kept up with the changing technical or technological environment, how easy will it be for them to find reemployment.

And what about the financial industry? As the financial industry faces at the very least a wave of automation, and the elimination of administrative positions, I would argue that it is the responsibility of employers to make sure that their workforce is fit for the future of finance. Clearly that is a responsibility that is shared with our employees, but investing in the skills of the financial sector workforce is a necessary condition not only for their future, but also for the future of a financial centre. Switzerland correctly prides itself on its skilled labour pool. So, keeping that differentiating factor, keeping that labour pool skilled-up as processes and requirements change is a highly important challenge. In our small organisation, we at FINMA are also trying to tackle this topic, identifying processes or positions which may no longer be needed in future, planning in detail for the future of the incumbent staff, and introducing for example the concept of annual time off for training as a right, not just a possibility.

Fourth lesson: There is nothing new under the sun

My final takeaway comes from the distant past of Thomas Cook. Some may remember that Thomas Cook was a pioneer of the concept of travellers' cheques. Few will know that Thomas Cook himself introduced in 1874 a system of so-called "circular notes" which could be changed at hotels, banks, and ticket agencies for Italian lira at a predetermined exchange rate, facilitating travel within Italy. According to historians, this token system spread rapidly, was well accepted in Italian cities and even led to an expansion of the circulation of the then new lira currency.

145 years later we in the regulatory community are scratching our heads over projects to set digital tokens in circulation, pegged to currencies or a basket of currencies, so-called "stable coins" as for example the project of the Libra Association. There's nothing new under the sun.

Much has already been said and written about these projects. We will respond to them as we have to all other innovative ways of delivering financial services. With an open mind, with the attitude that the same risks require the same rules, with a clear expectation that the highest standards of compliance are a prerequisite, and with a willingness to engage. That engagement is not a negotiation. Our rules and standards are non-negotiable. But our indications of how a project might fit into the existing rules and regulations can have important influences on the design of a project as it iterates.

My view of our role as supervisors and regulators: we are not here to make such projects possible, nor to make them impossible, but to explain how the laws of the land apply to them. Projects that are developed in full view of and triggering intensive debate with the international regulatory community make me less nervous than projects that maybe try to exploit regulatory loopholes or arbitrage different jurisdictions. And it was clear to us from the beginning that a project like Libra can only be tackled through international coordination with other supervisory and regulatory authorities.

Which brings me back to the future of finance and the role of innovation. However you react to the Libra project, what is difficult to dispute is that it has shone a light on parts of the international financial system, in particular cross-border payments, which are ripe for redesign. There are benefits to be had from such a redesign, if the technology allows it. There are inefficiencies and undue costs in the provision of the most basic financial services that could and probably should be eliminated.

The debate on who should deliver such solutions and under what conditions is an important one and will continue. For our part, we have outlined under what conditions such a regulated payment system could be launched here in Switzerland. But, make no mistake, technological progress is not reversible.

So will Libra or other "stable coins" succeed? Are they part of the future of finance? Or will they disappear along with Thomas Cook's firm, his travellers' cheques, his token system, and the Italian lira itself? We don't know, and we shouldn't claim to know, because it is not our role as regulators to pick winners. It is our role to set the standards for being permitted to play the game. And then may the best solutions for clients and the markets prevail.