Press release

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FINMA Annual Media Conference 2015:
Focus on models and their limitations

The Swiss Financial Market Supervisory Authority FINMA placed increasing emphasis on enforcement in 2014. Meanwhile, both the Federal Council and the International Monetary Fund gave a positive overall assessment of FINMA's work in two independent reviews. Ensuring that supervised institutions are adequately capitalised will remain one of FINMA's main aims going forward. FINMA stresses the limitations of internal models for calculating capital requirements.

FINMA's Board of Directors and Executive Board looked back on another busy year at the Annual Media Conference held today. Chair Anne Héritier Lachat praised the authority's successful handling of its tasks in what remains a challenging environment, and welcomed the positive feedback given by third parties at both national and international levels.

High marks at home and abroad

The International Monetary Fund (IMF) concluded that FINMA has well-qualified staff and provides high quality supervision. The Federal Council also scored FINMA highly and concluded that there was no need to change its remit or organisation. Both the IMF and the Federal Council would like to see more on-site supervisory reviews of supervised institutions. Héritier Lachat agrees with them: "FINMA has been working since 2010 to make its supervision more direct, and acting decisively to build the necessary competencies. We completed 122 on-site supervisory reviews at supervised institutions in 2014."

Enforcement is visible

FINMA also informed the general public about key enforcement proceedings against supervised institutions in 2014. As set out in the enforcement and communication policies FINMA published last year, visible enforcement is intended not only to correct mistakes but also to act as a deterrent. Héritier Lachat stressed: "Proceedings that attract media coverage represent only part of our activities. The bulk of our work is carried out behind the scenes."

FINMA’s protection objectives: prudential supervision plays a central role

Héritier Lachat was referring to prudential supervision of banks, insurers and other institutions, which plays a central role in protecting financial market and clients. It ensures that the institutions FINMA supervises comply with rules on capital adequacy, as well as liquidity and organisation. Banks and insurers alike use risk models to calculate their capital requirements. They can either adopt standard models provided by FINMA or develop their own in-house and submit them to FINMA for approval.

Models for calculating required capital reaching limits

FINMA’s prudential supervision involves looking closely at how these models are used and calculated. A particular problem in this regard is the incentive to use internal models to downplay risks so that less capital has to be set aside. FINMA CEO Mark Branson stated: “We have reached the limits of the model approach to financial risk. So, I do not think we need more models with more complexity; what we need in fact is fewer and simpler models.”

Mark Branson: “Building trust in the capital requirements framework”

FINMA has taken steps to ensure appropriate levels of capitalisation. It has introduced institution-specific multipliers for various portfolios – most recently investment properties and investment banking loans. Changes to models resulting in materially lower risk weightings are not being approved at present. In addition, banks are now also required to disclose how their internal model calculations differ from those using standard models. The Basel Committee is additionally working on minimum risk weightings designed to prevent capital requirements falling too low. Mark Branson emphasised: “The measures announced by FINMA to underpin capital adequacy in the internal model approach, combined with plans to raise capital requirements and thresholds, will help build trust in the capital regime.”

Insurance: simpler, more robust models

In the insurance industry too, institution-specific and standardised models are used to calculate capital requirements. FINMA’s Deputy CEO and Head of Insurance Division Peter Giger sees a trend emerging: “Recently, internal models have become progressively more complex, but the impression of greater precision can often be deceptive.” He believes that simpler, robust models are the better option: “In future, FINMA will explicitly ensure that users of standard models do not incur any overall capital disadvantage compared with users of internal models.”

FINMA costs stable

FINMA’s expenditure totalled CHF 127.3 million in 2014, compared with CHF 126.8 million in 2013. Together with allocations to its statutory reserves, this gives total costs of CHF 140.2 million, up from CHF 139.6 million. These are covered by income from supervisory fees and charges levied. The fact that expenditure was practically unchanged year-on-year reflects FINMA’s cost discipline and targeted use of resources.

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