Thomas Jordan: Structures of a new financial system

Summary of a speech by Mr Thomas Jordan, Vice-Chairman of the Governing Board of the Swiss National Bank, at the Volkshochschule Zürich, University of Zurich, Zurich, 15 April 2010.

The complete speech can be found in German on the Swiss National Bank's website (www.snb.ch).

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Well-functioning financial systems are fundamental for long-term economic growth. They enable capital to be allocated efficiently and facilitate trade in goods and services. However, financial systems also harbour major risks. The recent financial market crisis clearly revealed the vulnerability of our globally integrated financial system. Wrong turns taken in the past few years together with government rescue measures have led to a situation that is, from a liberal perspective, untenable. All this underscores the urgent need to make financial systems more robust and to minimise the risks faced by governments and by national economies as a whole.

It will not be possible to banish crises forever, since we cannot be sure what the origins of the next crisis might be or when exactly it will occur. Building a more robust financial system therefore represents a major challenge. The key role that banks play in the economy combined with their high level of vulnerability clearly underline the necessity of effective bank regulation. Greater stability and security, however, do not automatically mean less efficiency or growth. On the contrary, the creation of an intelligent and stabilising framework is a basic prerequisite for the efficient functioning of the financial system. To achieve this, systemic risks need to be more clearly identified and kept in check by means of better regulation. This involves, among other measures, the introduction of additional systemic capital and liquidity requirements, countercyclical buffers and provisions regarding risk concentrations in interbank positions. The financial markets, for their part, need more standardisation and greater transparency. It is important, for example, that products are increasingly traded and settled through stock exchanges. Moreover, a market economy can only function efficiently if companies – including banks – can be allowed to fail and disappear from the market as a consequence of poor decision-making. The aim of such reforms is not to prevent banks from taking risks, but to ensure that, in future, the banks themselves fully bear the risks they take.