SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

Berne, 13 June 2019
Fritz Zurbrügg

Introductory remarks by Fritz Zurbrügg

In my remarks today, I will present the key findings from this year's Financial Stability Report, published by the Swiss National Bank this morning. In the first part of my speech, I will talk about the big banks, before going on, in the second part, to outline our assessment of the situation at the domestically focused banks.

Big banks

The global economic and financial market conditions that the two Swiss big banks are facing have become slightly more difficult since our assessment this time last year. Nevertheless, further progress has been achieved in implementing the revised 'too big to fail' regulations. This holds true for both areas covered by the regulations: resilience and resolution.

As regards resilience, the Swiss big banks Credit Suisse and UBS have slightly improved their capital situation overall. As a result, they are now close to full compliance with the look-through going-concern capital requirements on a consolidated basis. The current calibration of these regulatory requirements is necessary to ensure adequate resilience at both banks. This is confirmed by both our loss potential analyses and the historical loss experience during the last financial crisis.

The market's assessment of the two big banks' resilience is generally similar to that of the previous year. Their stand-alone ratings, which evaluate the intrinsic financial strength of the banks, assuming no extraordinary external support, remain unchanged. Furthermore, after rising in the second half of 2018, credit default swap premia are now back at roughly the same level as in mid-2018.

In the area of resolution, the Swiss big banks have improved their gone-concern loss-absorbing capacity since last year's *Financial Stability Report*. Credit Suisse and UBS already meet all look-through requirements on a consolidated basis.

In addition to those at group level, the Federal Council has drawn up requirements on big banks' loss-absorbing capacity at the level of individual group entities, and in early April initiated a consultation on a corresponding amendment to the Capital Adequacy Ordinance. These requirements are intended to ensure that not only the group as a whole, but also material group entities have sufficient loss-absorbing capital in the event of a crisis. The SNB supports the proposed amendments to the Capital Adequacy Ordinance.

Work is also underway with regard to liquidity in a crisis, known as 'funding in resolution'. It is aimed at ensuring that the big banks have sufficient liquidity during preparations for and in the phase immediately after resolution. For this purpose, FINMA is drawing up resolution funding plans in line with international standards. In cooperation with the SNB and the two banks concerned, it is currently assessing the big banks' liquidity needs under possible crisis scenarios.

Finally, both big banks are in the process of finalising their Swiss emergency plans, in which they have to demonstrate that they would be able to maintain their systemically important functions without interruption in a crisis. Credit Suisse and UBS have taken important measures in this context over recent years. For instance, they have both established Swiss subsidiaries to house their systemically important functions. According to FINMA, further efforts by the big banks are required to ensure their plans are finalised by the statutory deadline of end-2019.[1]

Domestically focused banks

I would now like to turn to the domestically focused banks. The mortgage and real estate markets remain the biggest source of risk for these banks. Imbalances persisted on these markets in 2018. Both mortgage lending volume and prices for single-family houses and privately owned apartments continued to rise at a moderate rate in 2018. In the residential investment property segment, transaction prices fell slightly in 2018. Nevertheless, the risk of a price correction in this segment remains particularly high. On the one hand, this is due to strong price increases in previous years. On the other, the further rise in the number of vacant dwellings suggests that the brisk construction activity in rental apartments may have led to an oversupply.

The risk appetite of domestically focused banks in this environment remained high. Mortgage growth at these banks continued to be robust at around 4.2% last year. Banks' current lending policy in the residential investment property segment should be viewed as particularly risky. First, a growing share of new mortgage loans in this segment was used in 2018 to finance properties in regions with high vacancy rates. Second, the affordability risks of new mortgages financing residential investment property are high and have continued to rise. Since many of these loans also carry considerable loan-to-value (LTV) risk, they are

[1] Cf. FINMA, *Annual Report 2018*, 4 April 2019.

particularly vulnerable in a scenario involving a correction in real estate prices and a sharp increase in interest rates.

Given the risks I have just described, the SNB continues to take the view that targeted mortgage loan-related measures are necessary in the residential investment property segment. The SNB supports the Federal Council's proposal to raise the capital requirements for high-LTV loans in this segment. Specifically, this would involve increasing the risk weights for loan tranches exceeding two-thirds of the residential investment property's value. The SNB welcomes the Swiss Bankers Association's readiness to consider a revision to the self-regulation guidelines as an alternative to the Federal Council's proposal. Such a revision would reduce the LTV ratio and shorten the amortisation period for new loans financing residential investment property.

In the SNB's assessment, the domestically focused banks hold sufficient capital to cover their risk exposure. Despite a fall in profitability in 2018 as a result of a further reduction in interest margins, they have been able to maintain their capital situation. SNB stress tests continue to suggest that most of these banks have a sound capital base, enabling them to cover any losses they might incur under adverse scenarios. The proposed measures should help to ensure that the level of risks incurred in the mortgage market remains bearable in the future.

For its part, the SNB will continue to monitor developments on the mortgage and real estate markets closely, and will regularly reassess the need for an adjustment of the countercyclical capital buffer.