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Financial market policy: a shift in perspective from crisis to innovation?

New perspectives in Federal Parliament |
SBA discussion paper



Financial market policy: a shift in perspective from crisis to innovation?

The momentum seen in terms of procedural requests in Federal Parliament has been consistently strong. Last year, the number of parliamentary procedural requests even reached a new record high. For procedural requests relating to financial market policy, however, momentum has recently slowed. Of note is that politicians are increasingly concerning themselves with the capacity for innovation and future viability of the Swiss financial centre.

Overview

- Using financial market policy to address problems of the past: this solution has characterised Swiss Parliament during the last two legislature periods. Effective responses to the financial crisis were needed. Capital and liquidity requirements were increased, and investor and client protection were strengthened. At the same time, with the shift away from bank client confidentiality vis-à-vis other countries, the Swiss financial centre underwent a fundamental transformation. The Automatic Exchange of Information (AEOI) with countries abroad is now a reality.
- Financial market policy has recently been experiencing a paradigm shift. Greater focus is being placed on questions relating to innovation and competitiveness. While the number of procedural requests that address crisis-related matters has decreased significantly, procedural requests concerning digitalisation and innovations in financial services such as fintech, mobile payments or blockchain, have increased. The Federal Council, too, is much more intensively addressing innovation in the financial sector: for example, the barriers to market entry were recently lowered for fintech companies and the rules of the game were simplified. The Federal Council is currently discussing ways to improve the legal framework for blockchain.

The Swiss Bankers Association (SBA) commissioned the research institute Sotomo to analyse the dynamics in Federal Parliament as they relate to procedural requests and subject matter.¹ The analysis centres on two questions: first, the degree to which Parliament concerns itself with the financial centre and second, which matters are focused on. Parliamentary procedural requests and Federal Council items of business relating to financial market policy were analysed for this purpose.

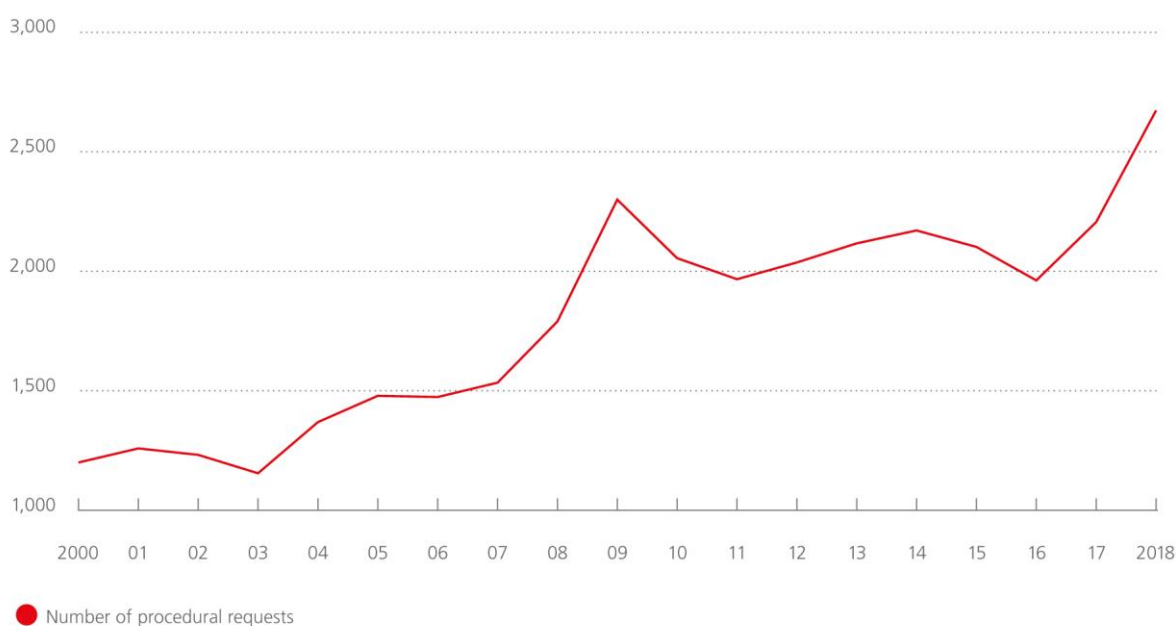
¹ The complete study by Sotomo can be found at the following link: <https://sotomo.ch/site/politische-themenkonjunktur-im-bundesparlament>

Significant increase in parliamentary procedural requests

In 2018 alone, Federal Parliament submitted 2,673 procedural requests (see Figure 1). This is a new record. Although the flood of procedural requests and high density of regulation are often criticised, this is obviously not resulting in fewer procedural request submissions. On the contrary: the continued intensification of procedural request activity is a clear trend.

Fig. 1

Total number of parliamentary procedural requests per year



Source: Sotomo 2019

Interpellation is the most common type of procedural request, accounting for a share of 34 percent thereof. An interpellation requires the Federal Council to provide a statement on a current matter. The second most frequent type, with a share of 28 percent, is questions posed to the Federal Council during Question Time. Both types can trigger debates, but do not require concrete measures to be taken. Of the procedural requests aimed at concrete political measures, motions are the most frequent, accounting for a share of 21 percent.

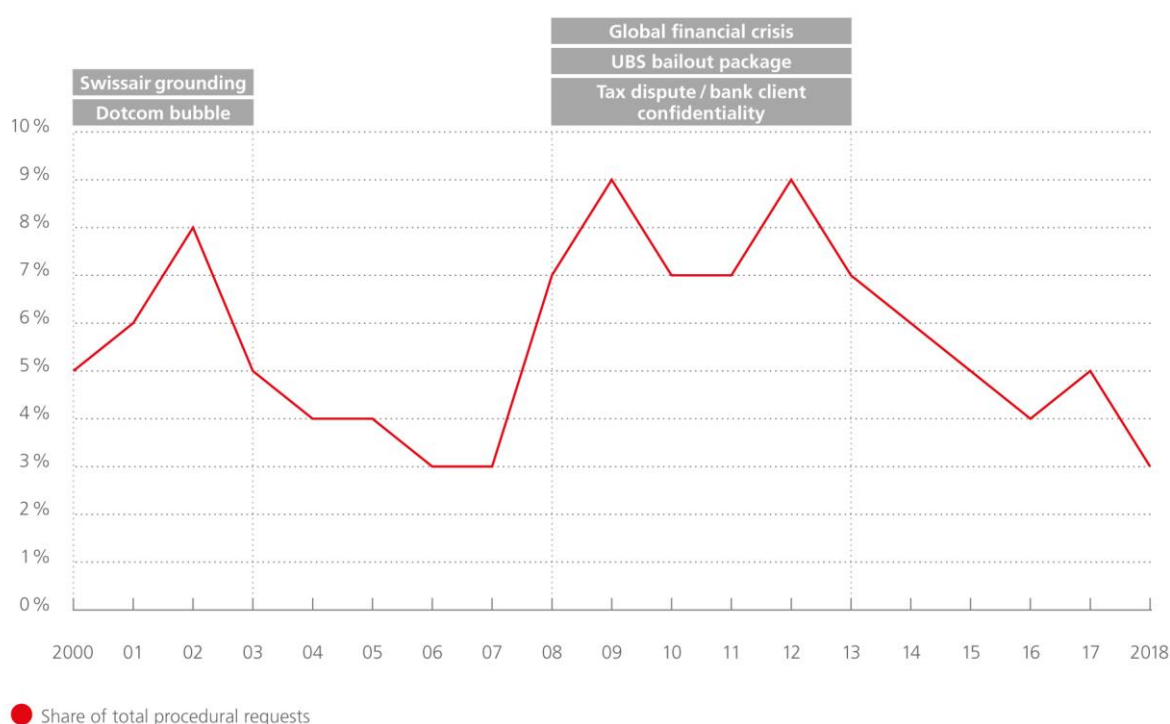
Parliament's focus on the financial centre

As shown in Sotomo's analysis, the level of attention given to the financial centre depends to a high degree on external events. The global financial and economic crisis that began in 2007 resulted in a significant rise in the number of parliamentary procedural requests. In 2009 and 2012, almost every tenth procedural request related to the financial centre (see Figure 2). The financial crisis led to intense debate about financial market stability. At the same time, the tax dispute with the US escalated and the changeover to the OECD standard for administrative assistance in tax

matters gave rise to a broad debate about bank client confidentiality. After the too-big-to-fail provisions had been established and the tax dispute was concluded, Parliament's focus on banks and the financial centre decreased somewhat. In 2018, roughly 3 percent of procedural requests related to the financial centre.

Fig. 2

Share of procedural requests concerning banks and the financial centre over time



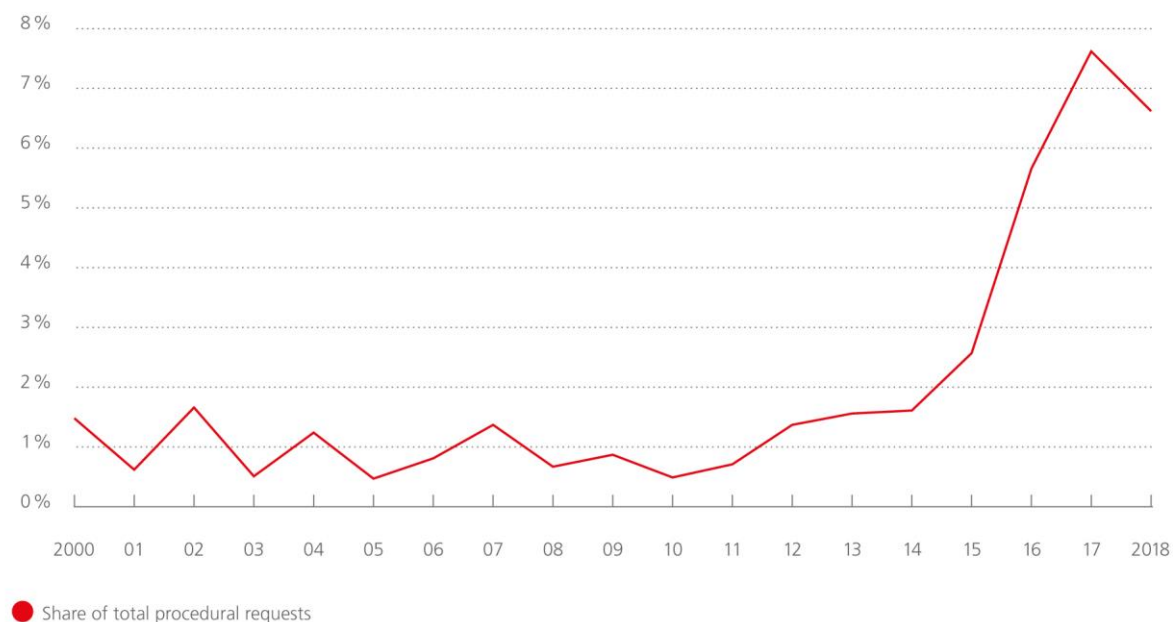
Source: Sotomo 2019

A shift in perspective from crisis to innovation

It is interesting to note that recently, the number of procedural requests relating to digitalisation in general, as well as innovations in the financial services segment such as fintech, mobile payments or blockchain, have increased. Until 2014, less than 2 percent of all procedural requests related to digitalisation, while last year, a total of nearly 8 percent of these requests addressed this topic (see Figure 3). Sotomo therefore also concludes that Parliament has changed its perspective, also with regard to the financial centre: crisis-related procedural requests have decreased significantly in recent years, while parliamentary procedural requests with an innovation aspect have increased, albeit at a relatively low level (see Figure 4). Politicians are increasingly interested in the opportunities and challenges arising in the financial centre as a result of the digital transformation.

Fig. 3

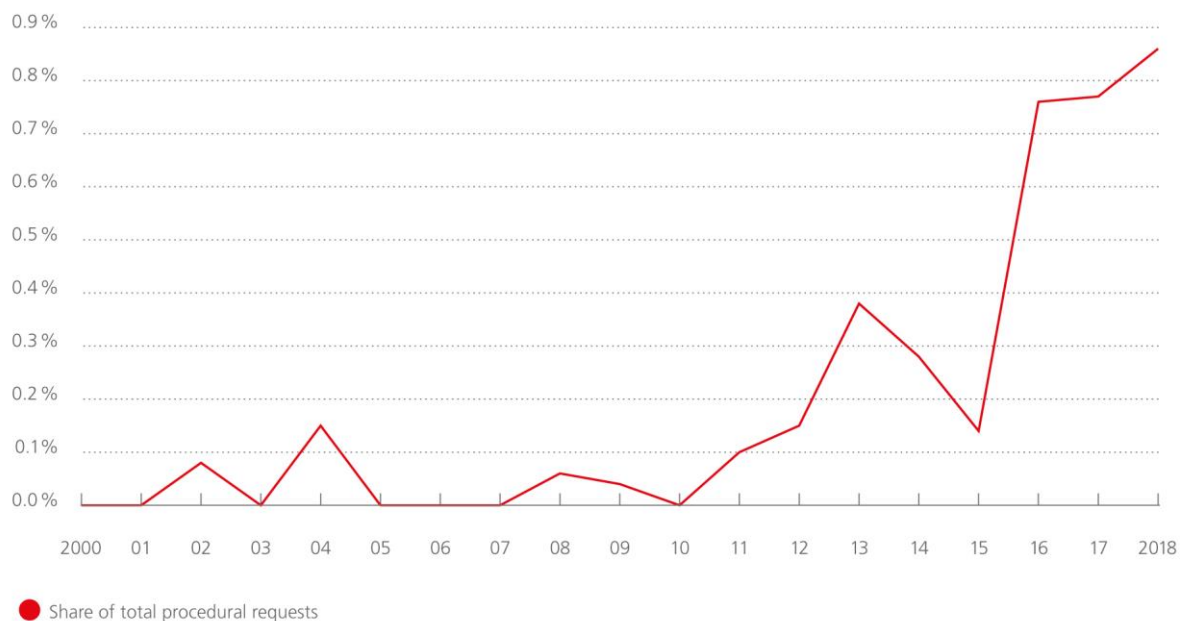
Share of procedural requests with reference to the term digitalisation over time



Source: Sotomo 2019

Fig. 4

Share of procedural requests relating to financial innovations over time



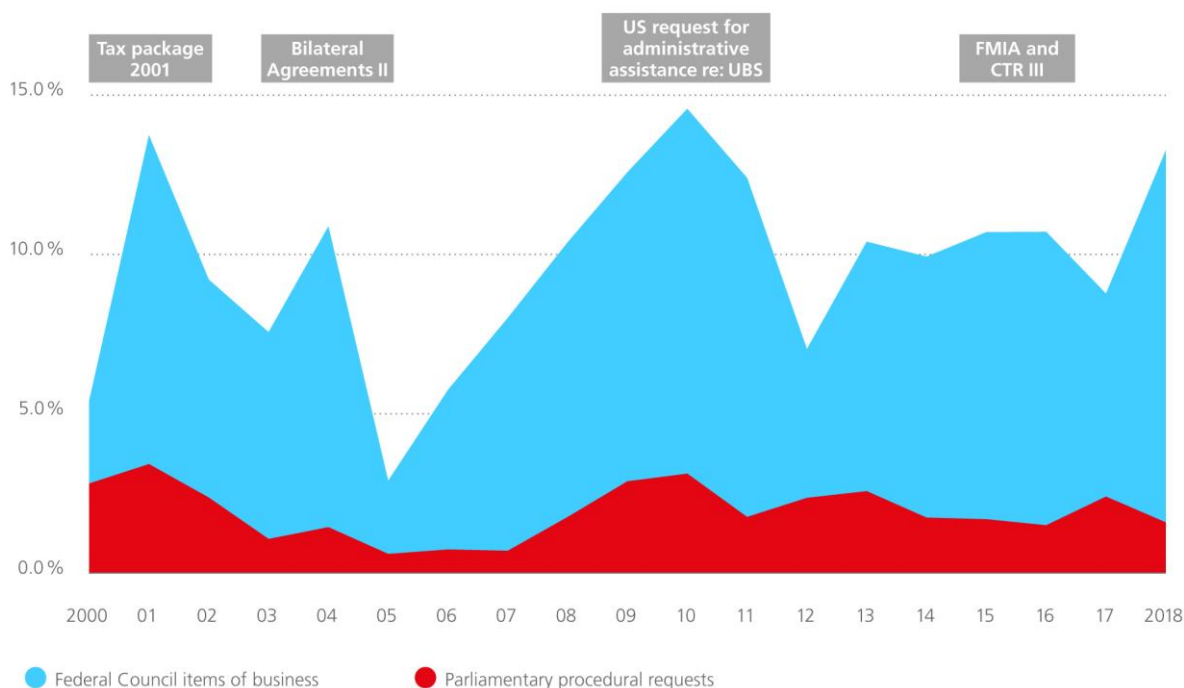
Source: Sotomo 2019

Level of focus on financial centre high

Parliamentary procedural requests represent only one part of parliamentary activities. A more substantial part of the work done by Parliament comes in the form of Federal Council business. Here too, the period during the financial crisis stands out. However, Parliament's focus on banking matters has increased significantly and remained high since (see Figure 5). In contrast to parliamentary procedural requests, the process for Federal Council items of business is longer. Of note is the rise in Federal Council items of business with a financial centre connection starting in 2012 and the clear peak in 2015 (see Figure 6). This shows that it took the Federal Council quite some time after the outbreak of the financial crisis to submit corresponding draft bills to Parliament, which can be explained by the longer lead times required for legislation planned by the Federal Council (consultation process). While in 2012 and 2013, the too-big-to-fail bills were submitted to Parliament, in 2014 and 2015 the major regulatory projects were the Financial Market Infrastructure Act (FMIA), and the Financial Services Act (FinSA) and Financial Institutions Act (FinIA).

Fig. 5

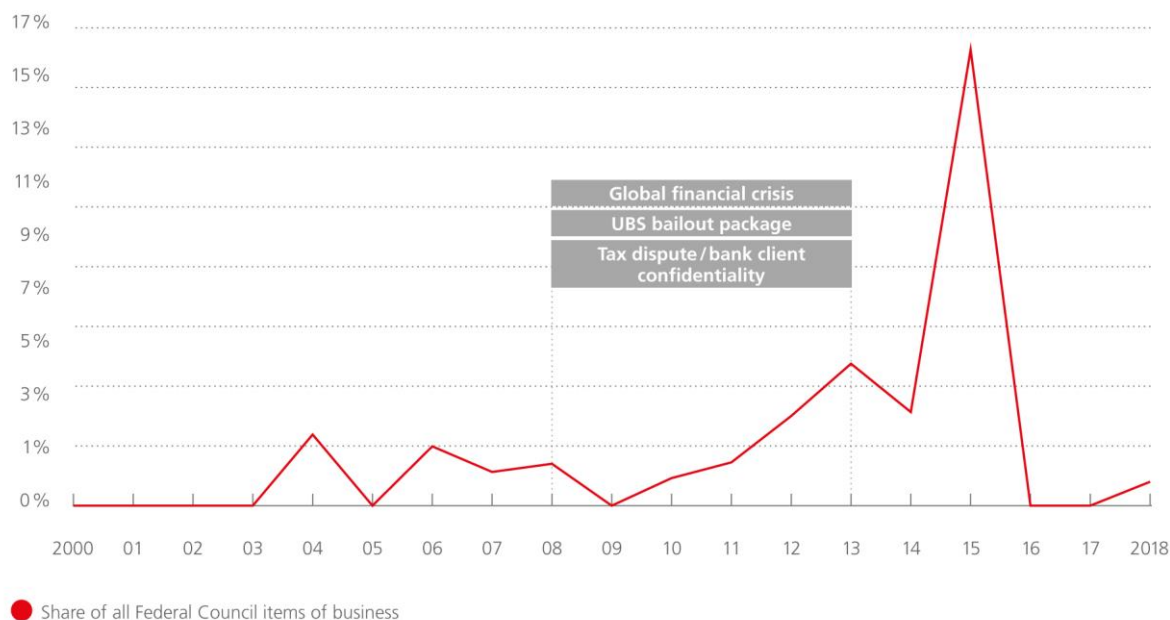
Parliamentary procedural requests and Federal Council items of business: comparison of share of speaking time devoted to topic of banking



Source: Sotomo 2019

Fig. 6

Share of items of business relating to banking regulation vis-à-vis total Federal Council items of business over time



Source: Sotomo 2019

In the meantime, the consultations for the FMIA, FinSA and FinIA legislative projects launched in 2014 and 2015, have been concluded. It is interesting to note the fact that the Federal Council has recently also significantly increased its focus on innovation in the area of finance: for example, the barriers to market entry have been lowered for fintech companies and the rules of the game have been simplified. Improving the framework conditions for blockchain is also currently under discussion.

Change of focus: from the past to the future

The financial centre today stands on firm ground and respects the international standards. This solid foundation must be maintained and continuously improved in the future. At the same time, the Federal Council and Parliament have recognised the signs of the times: politicians are increasingly focusing on the innovation and competitiveness of the financial centre. However, the true test is yet to come. It will also be up to this year's newly elected Parliament to effectuate the paradigm shift towards shaping the future in a consistent manner and to deal comprehensively with the digital future of the financial centre. This will come down not only to framework conditions for new financial technologies, but much more to examining all of the legal and tax conditions in Switzerland to see whether they strengthen the future viability and competitiveness of the financial centre.

Are you interested in this topic and do you have an opinion on the matter? Our experts look forward to hearing your thoughts and would be happy to exchange ideas with you.

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