Check against delivery.
Speech by Herbert J. Scheidt, Chairman SBA

Networking with a vision

Esteemed Members of the Press

Welcome to our annual media conference! I am very pleased about your interest in the Bankers Association and the work we do, and to see so many of you here today.

This is the first year that we are holding our annual media conference with our new CEO Jörg Gasser. I am delighted to be committing to a competitive financial centre together with him. Our goal is clear: in the interests of the prosperity of our country and its people, we want a strong Switzerland and we want a strong economy, which also means a competitive financial centre.

Networking with a vision means finding joint solutions
This year's Bankers Day is being held under the motto "Networking with a vision". We are convinced that foresight and results-oriented collaboration are essential success factors for Switzerland and our financial centre.

In recent years, we at the Bankers Association have worked according to this principle – and have done so successfully, as the following examples show:

1. Finding a solution together was the approach we took when we discussed the measures to further stabilise the investment properties market with the authorities. Following an intensive dialogue between the sector and the authorities, the Bankers Association's amended **self-regulation** will come into force starting on 1 January 2020. Ultimately, the authorities welcome our amendments, through which we as a sector will make an effective and targeted contribution to the continued security and stability of the financial centre.

2. The Bankers Association also brought all of the relevant stakeholders to the same table during the drafting process for our **cloud guidelines**. Representatives from the banks, cloud providers, auditing and law firms, and the authorities were all involved in this process. With the guidelines for secure cloud banking, our banks now have concrete recommendations for how they can use cloud technologies to further develop their business models.

3. A third example is the **small banks regime**, which will next year transition seamlessly from a pilot project directly into an established regime. The small banks regime will permanently reduce the regulatory burden for smaller and medium-sized banks. This is another

regulatory project where the intensive dialogue between the SBA and the authorities was an important key to success. We thank FINMA in particular for the excellent collaboration.

4. Finding common solutions is not always easy when diverging interests need to be reconciled and all sides must be willing to compromise. In the case of the **EU framework agreement**, we still have a way to go. The framework agreement is very important for the banks because it serves as the basis for improving access to the EU market. At the Bankers Association, we therefore consider the agreement to be decidedly positive.

5. We also had an intensive dialogue with FINMA, namely about the extent to which a supervisory authority can and should regulate. Part of this process was to address, on a factual basis, the existing parliamentary initiatives and demands for a **clearly established regulatory process**. We are convinced that the FINMA Ordinance proposed by the Federal Council provides the necessary clarifications in terms of the separation of regulation and supervision. The proposed ordinance strengthens the overall regulatory process by requiring that the need for a regulation be carefully clarified before any new regulation comes into force, while at the same time taking into account all relevant interests.

Securing and broadening financial market stability
Networking with a vision also means looking beyond our borders to the changes going on in the world. When we do so, we see that many things are in upheaval and appear threatening. Geopolitical changes, political extremism, a European Union without a clear political direction, climate change and the digital revolution are resulting in uncertainty and therefore also impact us in Switzerland. Security and stability have always been of paramount importance for our financial centre, and these attributes must be protected and expanded to an even greater extent in view of global developments.

It is therefore time to sharpen our focus on what makes a financial centre secure and stable both today and in the future, and who should make which contribution to this. We are referring here on the one hand to our work at the Bankers Association. But we would also like to raise the question of how the authorities' and the public's understanding of stability, and how the National Bank carries out its stability mandate, need to be adapted.

The banks have contributed significantly to security and stability since the financial crisis, but focusing only on banks and their capital and liquidity buffers is no longer in line with the times. We are of the opinion that new and very serious sources of systemic risk have emerged which require a new understanding of stability and joint action by both the sector and the authorities. The following examples highlight our assessment of this matter.

Comprehensive defence measures to protect against cyber risks
Protection against cyber risks is of the highest priority for our banks. However, the threat posed by cyber criminality goes far beyond the borders of the individual banks because cyber attacks happen unexpectedly, trigger network effects and can therefore potentially have a systemic impact.

Such risks can therefore only be mitigated through comprehensive defence measures.

The Swiss Bankers Association and our banks have recognised the significance of such threats and have done a lot of preliminary work in this area, e.g. in the form of realistic simulations, intensive exchanges with the Swiss stock exchange and benchmarking against financial centres in other countries. Our realisation is that the authorities and independent government agencies such as the central bank must be part of the defence measures in order for the appropriate information platforms and crisis organisations to be built effectively and for regular crisis simulation exercises to be conducted. Our sector depends on our financial centre remaining stable and secure. This calls for new forms of collaboration between banks and the authorities and requires the central bank to consider cyber criminality to be part of its stability mandate.

New stakeholders must not endanger stability

Digitalisation is not just giving rise to threats from the cyberworld, it has in many regards become a game changer, also for our finance industry. Part of this change lies in the fact that new stakeholders from the tech sector – some of whom have very strong financial clout – have become active in the financial centre or want to do so.

The digital transformation and the changing competitive environment make innovation possible for our banks and therefore open up many opportunities for them. However, focus should also be placed on the risks involved, for example in the areas of tokenising currencies and assets, applying new distributed ledger technologies or using artificial intelligence to automatically trigger transactions in the lending business.

Because the environment is so dynamic, we believe that a forward-looking stability mandate must include an ongoing analysis and assessment of such new stakeholders and their business models in order to be able to identify risks at an early stage and initiate countermeasures.

Some of the potential new stakeholders bring together strong financial clout, meaning they can enter a market very quickly and could therefore also very quickly pose a systemic risk for the security and stability of our financial centre.

Persistent negative interest rates causing massive structural damage

The SBA also sees major risks arising if a move away from negative interest rates is not achieved in the long term. Today, more than ten years after the financial crisis, a normalisation of interest rate levels still appears to be a long way off, and that in particular impacts Switzerland, our citizens and our banks.

Our banks pay the SNB a total of approx. CHF 2 bn per year in negative interest rates. This figure corresponds to around 5% of gross interest revenues and therefore represents a massive interference in the profitability of our banks. US banks, on the other hand, are expected to this year alone benefit from around USD 30 bn in risk-free interest income. The banks in the eurozone are also receiving massive subsidies, in the form of the targeted longer-term refinancing operations.

Within the framework of this programme, banks in the eurozone can usually conduct financing rounds at a price that is well below that of the market. Depending on how much credit and how many mortgages the banks have granted over a certain period of time, they can actually receive money from the ECB instead of paying interest on it.

From a business perspective, our banks are innovative, competitive, stable and secure. But how are they to survive in international competition if they are hindered by negative interest rates and comparably tougher regulatory requirements? Unfortunately, international capital markets interpret the situation in the same way and are punishing the Swiss banks for it.

For the implementation of Basel III-Final, the Bankers Association will therefore be very focused on ensuring that we do not introduce the new standards before the financial centres with which we compete have also done so.

No less important are the structural effects of negative interest rates:

- Negative interest rates are driving prices in almost all asset classes – at least nominally – and we are seeing numerous asset bubbles.
- In our Swiss economy, the interest rate-driven growth momentum that had been hoped for has not materialised. We are seeing that when negative interest rates are in place, profitable companies no longer invest as they do when interest rates are low. In contrast, unprofitable companies are being kept alive artificially, resulting in long-term damage to the competitiveness of our economy as a whole.
- And finally, negative interest rates are affecting Swiss citizens' pensions, as they particularly impact the first, second and third pillars. Should interest rates be lowered once again, this would be certain to further aggravate the problem.

These examples provide an excellent illustration of the damage that negative interest rates are already causing us today. Unfortunately, the societal, structural and long-term damages will become even greater, the longer we find ourselves in this "lower forever" environment. At the Bankers Association, we therefore ask: when will the damage be so great that countermeasures must be taken against negative interest rates?

Esteemed members of the press, our CEO Jörg Gasser will now speak to you about the other areas we are focusing on and where we want to strengthen our efforts.

Thank you very much for your attention.