

How safe is it to invest in Switzerland?

- Excerpts from a press release by the Swiss Federal Department of Finance (June 2002)

Positive findings of the IMF on the stability of the Swiss financial sector

Last year, Switzerland voluntarily participated in the "Financial Sector Assessment Program " (FSAP) of the IMF and World Bank for the first time. The results of this assessment have now been released. Overall, the IMF finds the Swiss financial system to be robust and in conformance with internationally recognised standards. This highly positive conclusion is a reflection of the effectiveness and adaptability of Swiss financial market supervision and mature risk management in the financial sector. The IMF welcomes the current plans for regulatory reform aimed at strengthening the basic conditions of the financial centre.

Switzerland is one of the first industrialised countries to participate in the FSAP. In so doing it seized the opportunity to present the quality of regulation and supervision in our internationally exposed financial sector, as well as benefit from the IMF 's expertise concerning current proposals for regulatory reform.

IMF Assessment

The general conclusion of the IMF on the stability of the Swiss financial system is very positive. The Swiss economy is characterised by a high degree of development and a well-established renowned financial sector. Several of the most significant financial institutions worldwide are based here. This international orientation is highly relevant for its stability: On the one hand, domestic shocks can be better balanced thanks to the worldwide diversification possibilities as was the case during the domestic property crisis in the 1990s. On the other hand, there is also a risk that external shocks can be carried over to the domestic market. The outcome is largely dependent on the quality of the regulatory environment, the system of supervision and the risk management of individual institutions. **All three control mechanisms are judged to be solid and intact in Switzerland.**

The **banking sector** with two large globally oriented banks and the cantonal, regional and Raiffeisen (co-operative) banks presents itself as well-diversified and stable. The large banks are highly capitalised and profitable and prove themselves to be well-equipped for international competition thanks to their highly developed risk management systems. In terms of the regional and Raiffeisen (co-operative) banks, a certain consolidation potential was identified on the basis of the limited prospects for growth in the home market and the pending need for investment in new technologies. They face competition from the cantonal banks, whose preferential regulatory position is noted with reservations. With regard to the structure of supervision, the IMF unreservedly supports the merger of banking and insurance supervision in one integrated supervisory authority in view of the increasing overlapping of their business activities and risks.

The Swiss **insurance sector** can look back upon a long tradition of solid growth, which has not been clouded by a single case of insolvency. The domestic insurance market is practically saturated, a factor which provides incentives to develop international markets. Even in the insurance branch several Swiss companies are among the important Global Players. Following the terrorist attacks, a certain fall in the closing accounts of the (re-)insurers must be reckoned with although it should be possible to make up for these losses in the medium-term through higher premium volumes. In contrast the significant correction in the share prices of insurance companies has left its mark and has in turn led to a reappraisal of risk management systems and internal capital guidelines.