



SWITZERLAND

FINANCIAL SYSTEM STABILITY ASSESSMENT

September 2025

This paper on Switzerland was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on August 26, 2025.

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KEY ISSUES

Context: The Swiss financial system is large, sophisticated, and of global importance, especially through its asset and wealth management services. It has faced significant challenges since the last FSAP, most notably during the collapse of Credit Suisse (CS), its second largest Global Systemically Important Bank (G-SIB). Financial stability was preserved through exceptional government measures, which attracted intense public scrutiny and highlighted salient gaps in supervision and crisis management frameworks. The authorities are rightly seizing the momentum to push for bold reforms, most of which will require parliamentary approval.

Findings: Switzerland's private sector leverage ranks among the highest globally and large real estate exposures pose systemic risks. Stress tests for banks and insurers indicate broad resilience to severe solvency and liquidity shocks. Housing-related risks are rising, while the sole dedicated macroprudential tool nears its effectiveness limit. Gaps in legal powers for early intervention and enforcement, resource constraints, and reliance on external auditors hinder effective supervision. Switzerland has strengthened the oversight frameworks for cyber risk, securities, insurance, and fintech and implemented the final Basel III rules in a timely manner.

Policies: Once implemented, the authorities' proposed reforms are expected to strengthen the Swiss Too-Big-To-Fail (TBTF) framework, bank governance, and crisis prevention and preparedness. To bolster supervisory effectiveness, the Swiss Financial Market Supervisory Authority (FINMA) needs enhanced legal powers, increased resources, and a more direct and intrusive approach. Heightened vigilance is needed in the areas of governance, risk management, market conduct, anti-money laundering/combating the financing of terrorism (AML/CFT), and cyber risk, together with maintaining strong capital and liquidity buffers. To address rising systemic risks, new capital and borrower-based measures should be considered. Recovery and resolution planning should be further extended to designated insurance groups, financial market infrastructures (FMIs), and proportionately to non-systemic banks. Reforms should include upgrading resolution tools, operationalizing the recently expanded emergency liquidity assistance (ELA) framework, establishing a Public Liquidity Backstop (PLB), and reforming deposit insurance.

Approved By
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This report is based on the work of the Financial Sector Assessment Program (FSAP) mission that visited Switzerland in October 28 – November 11, 2024 and March 31 – April 14, 2025. The FSAP findings were also discussed with the authorities during the Article IV Consultation mission in June 17 – July 1, 2025.

The FSAP team was led by Oana Croitoru (Mission Chief) and included Jiří Podpiera (Deputy Mission Chief), Ismael Boudiaf, Gabriela Conde, Jamie Fraser, Marco Gross, Nila Khanolkar, Meguy Kuete, João Marques, Rangachary Ravikumar, Katharine Seal, Javier Uruñuela (all MCM); Salvatore Dell’Erba (EUR); Maximilian Fandl, Michael Grist, Jane O’Doherty, and Bernhard Mayr (external experts); and Carolina Claver and Maksym Markevych (LEG). Betty Afework provided research assistance, and Natalia Naryshkina and Hazel Quinonez provided editorial assistance (all MCM).

The FSAP team met with the Swiss National Bank (SNB) Governor, Mr. Martin Schlegel; Deputy Governor, Mr. Antoine Martin; the CEO of the FINMA, Mr. Stefan Walter; the Chair of the Board of FINMA, Ms. Marlene Amstad; the State Secretary for International Finance (SIF) at the Federal Department of Finance (FDF), Ms. Daniela Stoffel; the Assistant Secretary at the SIF, Mr. Michael Manz; members of Swiss Parliament and Senate, and senior leaders and officials from the SNB, FINMA, and the Occupational Pension Supervisory Commission (OPSC). The team also met with the Swiss Banking Association (SBA), banks, insurers, stock exchanges, fintech firms, experts in the real estate and pension fund sectors, and auditors.

FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risk affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

Switzerland is deemed by the Fund to have a systemically important financial sector according to SM/10/235 (9/16/2010), and the stability assessment under this FSAP is part of bilateral surveillance under Article IV of the Fund’s Articles of Agreement.

This report was prepared by Oana Croitoru and Jiří Podpiera, with contributions from the Switzerland FSAP team. It is based on the information available at the time it was completed on July 1, 2025.

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Glossary

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BCPs	Basel Core Principles
CCP	Central Clearing Counterparty
CCyB	Countercyclical Capital Buffer
CCoB	Capital Conservation Buffer
CET1	Core Equity Tier 1
CMG	Crisis Management Group
CRE	Commercial Real Estate
CRR	Capital Requirement Regulation
CS	Credit Suisse
CSD	Central Securities Depository
DIA	Deposit Insurance Agency
DLT	Distributed Ledger Technology
D-SIB	Domestic Systemically Important Bank
DSTI	Debt Service to Income
DTI	Debt to Income
ELA	Emergency Liquidity Assistance
ELF	Extended Liquidity Facility
FDF	Federal Department of Finance
FIU	Financial Intelligence Unit
FMI	Financial Market Infrastructures
FINMA	Swiss Financial Market Supervisory Authority
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
FX	Foreign Exchange
G-SIB	Global Systemically Important Bank
GDP	Gross Domestic Product
G-RAM	Global Risk Assessment Matrix
HTM	Held-to-Maturity
IAIG	Internationally Active Insurance Groups
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LTI	Loan-to-Income
LTV	Loan-to-Value
MoU	Memorandum of Understanding
NBFI	Non-Bank Financial Institutions
NCSC	National Cybersecurity Centre
NPL	Nonperforming Loan
NSFR	Net Stable Funding Ratio
OPSC	Occupational Pension Supervisory Commission
OFIs	Other Financial Institutions

PD	Probability of Default
PLB	Public Liquidity Backstop
PUK	Parliamentary Investigation Commission
RAM	Risk Assessment Matrix
RCP	Representative Concentration Pathway
ROA	Return on Assets
RTGS	Real Time Gross Settlement Payment System
SBA	Swiss Banking Association
SDX	Swiss Digital Exchange
SFSO	Swiss Federal Statistics Office
SIB	Systemically Important Bank
SIF	Secretariat for International Finance
SNB	Swiss National Bank
SST	Swiss Solvency Test
STeM	Stress Test Matrix
TBTF	Too-Big-To-Fail
TN	Technical Note
wCBDC	Wholesale Central Bank Digital Currency
WEO	World Economic Outlook

EXECUTIVE SUMMARY

Since the previous FSAP, the Swiss financial system has contended with episodes of turbulence in the global and domestic economic environment. Financial stability was maintained despite challenges posed by the COVID 19 pandemic, regional conflicts, and most significantly, the collapse of its second largest G-SIB in 2023. However, the acquisition of CS by UBS, facilitated by significant fiscal contingent liabilities, has raised questions about the effectiveness of the Swiss TBTF framework and exposed salient gaps in supervision, resolution, and crisis management frameworks, many of which have been previously identified in FSAP assessments. The authorities are proposing important reforms, mostly aimed at addressing TBTF risks; expanding the scope of these efforts is necessary to protect the long-term stability of the Swiss financial center.

Systemic Risk Analysis: Reinforcing Resilience

Forward-looking stress tests suggest that the Swiss financial sector is resilient to significant shocks. Under a severe supply shock scenario, most banks, including all systemically important banks (SIBs), stay above regulatory hurdles, although two asset management and four small banks would experience a combined Core Equity Tier 1 (CET1) capital shortfall of 0.4 percent of GDP. The stressed average CET1 ratio declines by 5.9 percentage points to 11.1 percent, with losses concentrated in mortgage books, fees and commissions, trading activities, and net interest income. Liquidity risks appear limited, although some small regional banks exhibit vulnerabilities. Interconnectedness analyses indicate that SIBs exert large spillovers in the event of default, primarily affecting cantonal banks. Insurers demonstrate resilience to severe solvency and liquidity shocks. Under adverse climate physical risk scenarios, banks benefit from insurance transfer mechanisms that mitigate losses. Maintaining strong capital and liquidity buffers remains essential for safeguarding financial stability in an increasingly uncertain environment.

Financial Supervision: Enhancing the Ability and Willingness to Act

Critical legal reforms are needed to enhance the timeliness, decisiveness, and effectiveness of financial sector supervision. FINMA's supervisory powers in the banking sector remain significantly limited relative to most international peers. To align with best practices, FINMA should be granted comprehensive early intervention powers applicable to all banks; ability to conduct onsite inspections as deemed necessary; broad, clearly defined and forward-looking Pillar 2 powers; and ability to address governance failures. FINMA's supervisory decisions should be exempted from automatic suspension in the event of legal appeals, and FINMA should be able to issue binding prudential standards across all relevant areas, together with circulars that provide clear supervisory expectations.

Financial supervision must become more hands-on, requiring increased staffing and reduced reliance on external regulatory audits. FINMA needs to improve the breadth and depth of its direct supervision while maintaining a risk-based approach. Additional staffing and increased direct engagement with the industry are needed, particularly in the areas of corporate governance, risk management, market conduct, AML/CFT, cyber risk, and recovery and resolution. Strategic investment in FINMA's own staff, together with a gradual reduction in reliance on external regulatory audits, would help cultivate a supervisory culture geared towards willingness to act.

Targeted improvements in supervision should be complemented by a more holistic transversal view of risks, based on enhanced data. The recent reorganization of FINMA across risk areas aims at capturing the cross-sectoral nature of activities. Mechanisms to prevent, detect, and enforce market abuse should be strengthened. Insurance supervision would benefit from more direct conduct oversight. Cantonal pension funds supervisors need authority and tools to intervene. Cyber risk regulations should extend to all financial institutions and external service providers, together with enhanced incident reporting and testing. Direct oversight of cyber risk and AML/CFT should be improved across all supervised entities. The rollout of the Registry of Beneficial Ownership should be expedited, and the legal framework extended to gatekeepers (e.g., lawyers, accountants). Data gaps in asset management, secondary markets, cross-sectoral bilateral exposures, and pensions should be addressed.

The evolving FMI and fintech landscapes pose new challenges. In view of the international expansion of the SIX Group, which operates all systemically important domestic FMIs, FINMA and the SNB need to intensify supervision and collaborate closely with relevant foreign authorities. The Central Clearing Counterparty (CCP) and Central Securities Depository (CSD) should retain capacities to manage risks independently from the group. The authorities should remain agile in adapting the oversight of the growing sector of regulated firms offering crypto services domestically and internationally, including by implementing the Basel Committee crypto standard. A formal platform for collaboration among stakeholders should be established for open finance.

Systemic Risk Oversight: Leaning Against the Wind

Systemic risks from the real estate market are rising and call for new measures and changes to the institutional structure. The sectoral Countercyclical Capital Buffer (CCyB) has reached its upper ceiling of 2.5 percent and appears insufficient to mitigate rising systemic risks, as reflected in stretched housing market valuations, widespread loosening of underwriting standards, and historically high household debt relative to GDP. Monetary easing and cantonal initiatives to improve affordability for new borrowers may lead to further risk build-up. Policy enhancements should incorporate a debt-service-to-income (DSTI) cap and an additional capital-based instrument distinct from the CCyB. Furthermore, a Systemic Risk Council—led by the SNB and comprising FINMA and the FDF—should be formalized to conduct regular assessments of systemic risks and decide on appropriate policy responses.

Financial Crisis Management: Casting a Wider Safety Net

An early intervention framework, together with broader recovery, resolution, and crisis planning, are needed to preemptively tackle emerging risks. A clear intervention framework should be established, with sufficiently early and forward-looking triggers and adequate tools and enforcement mechanisms. All banks should be required to prepare proportionate recovery plans. Resolution planning should extend beyond SIBs to include Category 3 banks, designated insurance groups, and FMIs, pending the enactment of expanded FMI legislation. FINMA, the SNB, and the FDF should establish and routinely test a coordinated crisis response framework. The cap on banks' deposit insurance contributions should be removed, and over time the scheme should be brought into alignment with international best practices.

A flexible ELA framework alongside a PLB would enhance crisis response capacity. The SNB's

recently announced Extended Liquidity Facility (ELF) represents a positive step toward developing and operationalizing a comprehensive ELA framework. To strengthen preparedness, the SNB should be authorized to require banks to prepare collateral. A PLB that formalizes government backup for ELA—available to both SIBs and non-SIBs whose failure could pose systemic risks—would reinforce the credibility of the TBTF regime and safeguard financial stability.

Table 1. Switzerland: FSAP Key Recommendations

	Responsibility	I/ST/MT
Systemic Risk Analysis		
Improve data collection on mortgage exposures, trading investment portfolios, Lombard loans, and bilateral exposures (beyond banks) to enhance risk analysis.	FINMA/SNB	MT
Enhance the solvency stress test model (including risks relevant for asset managers, micro data on households and firms); develop a liquidity stress test model.	SNB	MT
Develop a dataset and regularly collect data on pension funds to enable market-wide horizontal and systemic risk analyses.	OPSC	MT
Financial Regulation and Supervision		
<i>Cross-Cutting Themes (Banks, Insurance, Securities, AML/CFT, FMIs, Cyber Risk)</i>		
Exempt FINMA's supervisory measures from automatic suspension in the event of legal appeals and introduce FINMA's power to levy fines on institutions and individuals.	FDF	I/ST
Enable FINMA to issue binding prudential standards in all necessary areas and to provide clear supervisory expectations through circulars.	FDF	ST
Increase FINMA's supervisory staff and improve the breadth, depth, and intensity of direct risk-based supervision, including on conduct, fintech, cyber risk and AML/CFT.	FINMA	ST
Enable FINMA to fully mandate, oversee, and pay for external regulatory auditors, and reduce reliance on external regulatory auditors.	FDF/FINMA	MT
<i>Banks</i>		
Expand and strengthen FINMA's legal powers (to all banks) in early intervention, onsite examinations, Pillar 2 capital adds-on, governance failures; introduce a Senior Manager's Regime applicable to all banks.	FDF, FINMA	I/ST
<i>Securities Markets (Asset Management and Trading Venues)</i>		
Improve market monitoring and reporting, plugging significant data gaps in both asset management and secondary markets.	FINMA	ST
Enhance the mechanisms to prevent, detect, and enforce market abuse.	FDF, FINMA	MT
<i>Insurance and Pension Funds</i>		
Provide cantonal supervisors with authority and instruments to intervene.	FDF, OPSC	MT
Strengthen suitability review for insurers to cover all the heads of control functions.	FINMA, FDF	MT
Implement recovery planning for all internationally active insurance groups (IAIGs) and designated non-IAIGs; implement resolution planning for IAIGs, as applicable.	FINMA	ST

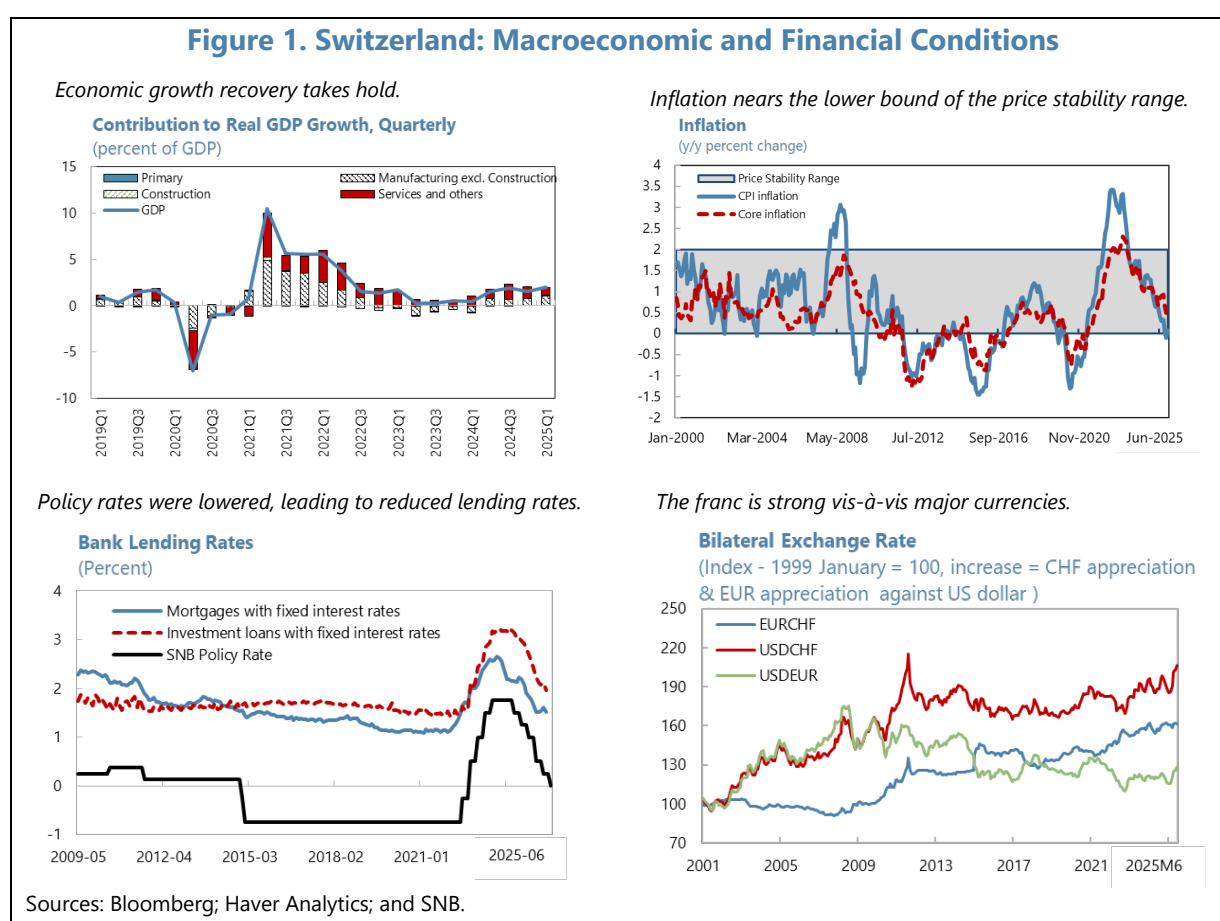
Table 1. Switzerland: FSAP Key Recommendations (concluded)

Cyber Resilience		
Extend cyber and outsourcing regulations to all parts of the financial sector.	FDF, FINMA, NCSC	ST
Expand cyber risk oversight over critical third-party service providers, improve the incident reporting regulation, and develop a testing framework.	FDF, FINMA, SNB, NCSC	ST
AML/CFT		
Implement the Register of Beneficial Owners and introduce legal obligations for gatekeepers (lawyers, accountants, etc.) to enhance regulatory oversight.	FDF	ST
Issue more granular supervisory guidance and continue enhancing the monitoring of risks from cross-border activities and virtual assets.	FINMA	ST
Financial Market Infrastructure and Fintech		
Increase direct oversight of FMIs and collaboration with foreign authorities.	FINMA, SNB	I
Assess bank's crypto assets exposures comprehensively and implement the Basel prudential standard in a faithful and timely manner.	FDF, FINMA	ST
Develop a governance structure for open finance.	FDF	MT
Macprudential Framework and Policies		
Introduce a binding DSTI cap, remove the ceiling on the CCyB, adopt a positive neutral setting for the CCyB, and introduce a capital-based instrument separate from the CCyB to address remaining systemic risks.	FDF, FINMA, SNB	I/ST
Establish a formal Systemic Risk Council, including SNB (lead), FINMA, and FDF, with a clear mandate, procedures, and accountability to review and propose measures to mitigate systemic risks.	FDF, FINMA, SNB	MT
Financial Safety Net, Crisis Preparedness and Management		
Develop a clear early intervention framework detailing sufficiently early and forward-looking triggers, tools, and enforcement mechanisms.	FDF, FINMA	I
Adopt a PLB to formalize government backup to ELA provided to SIBs or non-SIBs that may become systemic in failure to preserve financial stability.	FDF, SNB	I
Expand, proportionally, recovery planning to all banks, and resolution planning and resolvability assessments to all Category 3 banks and above; enlarge FINMA's authority to remove impediments to resolution.	FDF, FINMA	ST
Conduct a deep review of legislation to assess the feasibility of implementing a full range of resolution options and adopt necessary changes.	FDF, FINMA	ST
Increase the staff working on recovery and resolution.	FINMA	ST
Operationalize and communicate the comprehensive ELA framework; enable SNB to ask banks to prepare collateral, targeting a wide range of assets.	SNB, FDF	ST
Enhance crisis preparedness by adopting a national contingency plan and conducting regular multi-agency crisis simulations, including cross-border.	FDF, FINMA, SNB	ST
Remove the legal cap on banks' contributions to esisuisse and introduce an ex-ante fund with back-up from the government.	FDF	MT
Note: In terms of time frame, I, ST, and MT stand for immediate (within 1 year), short-term (2–3 years), and medium-term (3–5 years).		

BACKGROUND

A. Macrofinancial Context

1. Switzerland has shown notable resilience in the face of challenging global conditions. In 2024, the economy expanded by 1.3 percent y-o-y, driven primarily by robust performance in the services and manufacturing sectors. Inflation dropped to 0.1 percent in June 2025, from one percent in 2024, driven by a strong franc and global disinflationary trends (Figure 1). Net exports declined due to weaker external demand. GDP growth is projected to reach 1.3 percent in 2025 (adjusted for sporting events), with notable downside risks from persistent global economic uncertainty, rising geopolitical tensions, volatile energy prices, and uncertainty over trade policies.



2. Interest rates have recently declined and are expected to remain low. Amid ongoing disinflationary pressures, the SNB lowered its policy rate to zero in June 2025 and projects inflation at 0.2 percent for 2025 and 0.5 percent for 2026. Market expectations point to a return to negative policy rates by year-end, driven by heightened uncertainty and safe-haven flows. A sustained period of low or negative interest rates is likely to stimulate lending, encourage risk taking, and exert upward pressure on real estate prices.

3. Credit and housing markets are regaining momentum (Figure 2). Domestic credit started to recover, growing by 2.3 percent in 2024, on the back of monetary easing. Credit gap

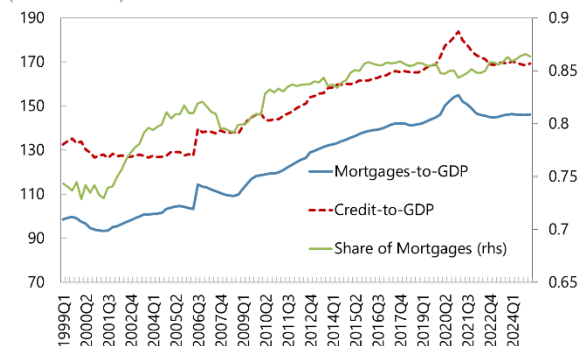
estimates present a mixed picture; however, credit and mortgage-to-GDP ratios have remained broadly stable. Declining mortgage rates have driven mortgage growth to 2.8 percent in 2025 Q1, while prices in the owner-occupied and single-family home segments grew by nearly 4 percent.

Figure 2. Switzerland: Macrofinancial Indicators

Credit and mortgages remain at an elevated level

Credit Aggregates

(Percent of GDP)

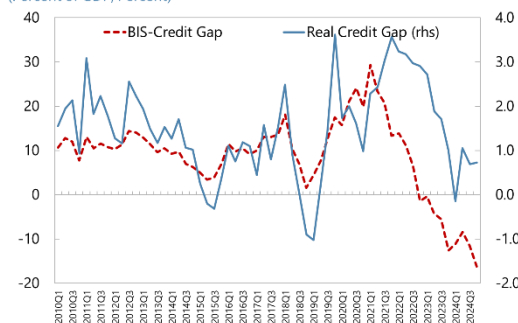


Sources: SNB; Haver Analytics; IMF staff calculations.

Credit gaps measures paint a mixed picture.

Credit Gaps

(Percent of GDP, Percent)

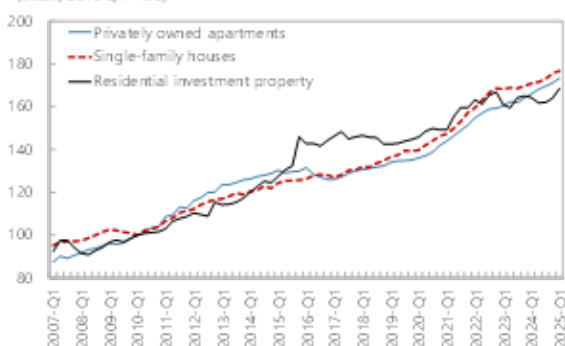


Source: IMF staff calculations based on Baba et al. (2020), BIS.

House prices continue to grow ...

Residential Property Transaction Prices

(Index, 2010 Q1=100)



Sources: IMF staff calculations based on Chikako et al. (2020); BIS; SNB; Wuest Partner; and IAZI.

Commercial Real Estate prices are recovering from a low level ...

Commercial Real Estate Asking Prices

(Index, 2010 Q1=100)



Sources: Swiss National Bank; Wuest Partner; and IMF staff calculations.

4. Estimates of house price overvaluation range between 20 and 35 percent (Box 1).

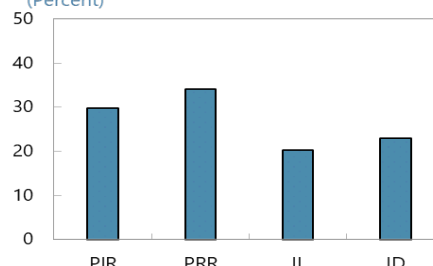
According to valuation metrics, house prices are currently about 30 percent above the historical average. Econometric models that take structural factors into account put estimates of overvaluation at 20–25 percent. The SNB estimates that apartment prices overvaluation is around 15–40 percent (SNB, 2024).

Box 1. Switzerland: Estimating Real Estate Market Valuation¹

Various estimation methods indicate that house prices may be overvalued by approximately 20–35 percent:

- Valuation ratios using Price-to-Income (PIR) and Price-to-Rent (PRR) to compare real house prices to household incomes and rent with their long-run historical averages;
- Regression-based measures (based on *Igan and Loungani, 2012-IL*) using the error-correction model that regresses the growth in house prices to economic variables; and
- Inverted-demand (ID) model (based on *Mullbauer, 2012*) which regresses the level of real house prices against real income per capita, housing stock per capita, and the real long-term interest rate, aiming to model both demand and supply factors.

House Price Overvaluation Measures (Percent)



¹The estimates were used for housing market analysis and macrofinancial scenarios. Sources: SNB; IAI; OECD; and IMF Staff.

B. Financial Sector Structure and Developments

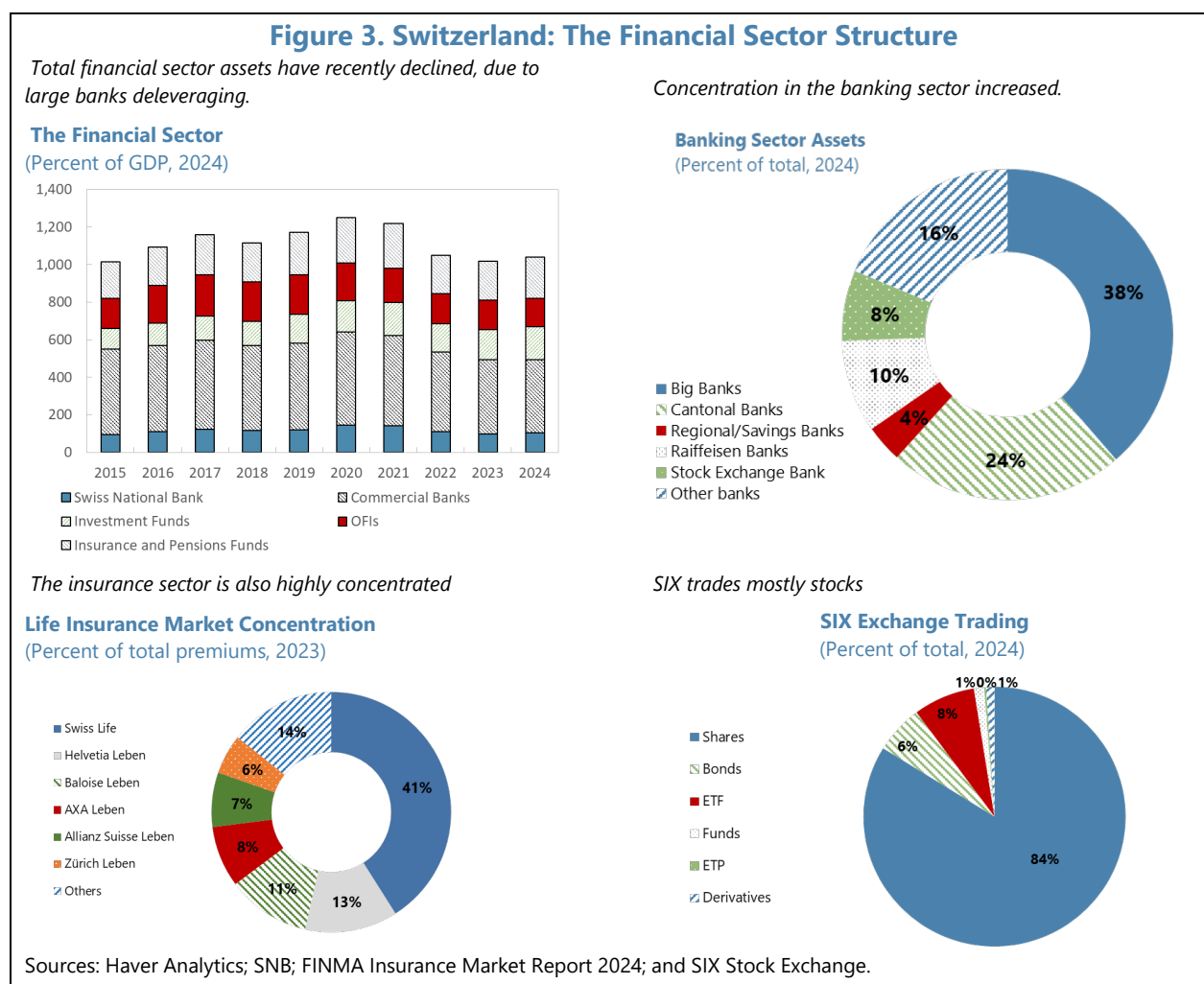
5. The Swiss financial system is large, diverse, and globally interconnected, with total assets close to ten times the country's GDP (Figure 3):

- The banking sector is large, although somewhat downsized since the last FSAP, and is highly concentrated, characterized by two dominant business models.* Banks assets amount to close to 420 percent of GDP, with SIBs (UBS, Zurich Cantonal Bank, Raiffeisen, and Post Finance) accounting for about two-thirds of the total. UBS is the only Swiss G-SIB. UBS, Post Finance, and Raiffeisen hold the bulk of customer retail deposits. Globally active banks focus on asset and wealth management, which yield most of their income, while loans of domestically focused banks make up two-thirds of their portfolios and half of their income.
- The insurance sector is well-developed and has a significant international footprint.* Premiums and total assets account for close to 18 percent and 90 percent of GDP, respectively. The sector is highly concentrated, with the five largest life insurers accounting for 80 percent of the market share and the five largest non-life insurers holding 67 percent. Swiss Re is the second largest global reinsurer and earns nearly all its premiums abroad.
- The pension fund sector is large and fragmented, with assets of around 140 percent of GDP.* More than 1,300 institutions operate occupational pension schemes, although market consolidation is underway. Most pension plans are defined-contribution regimes.¹
- The rest of the financial sector comprises investment funds and other financial institutions (OFIs), each accounting for about 160 percent of GDP.* OFIs are a highly heterogeneous group, including securities and derivatives dealers, consumer credit providers, corporate leasing firms, captive finance companies, etc.
- The asset and wealth management industry, taken together, is large—*Swiss asset managers manage around CHF 7.8 trillion in assets, of which CHF 1.3 trillion are in collective assets and

¹ They share some features of defined benefit schemes.

CHF 1.9 trillion in discretionary mandates. Banks manage most of these assets.

6. FMI and exchanges are dominated by a single private entity. The SIX Group AG, which is owned by banks, serves as the primary provider of trading and post-trading services. The group operates the SIX Stock Exchange (Europe's third largest), the real time gross settlement payment system (RTGS), the CCP, the CSD, the securities and settlement system (SSS), the Swiss Digital Exchange (SDX), and the SIX Repo Trading Platform. The SIX Stock Exchange has a free float market capitalization of around CHF 1.4 trillion (175 percent of GDP) and lists some of Europe's largest industry leaders.



7. Switzerland has a well-developed infrastructure for digital asset trading, and its fintech sector is expanding. The SDX went live in 2021, when the legal framework for distributed ledger technology (DLT) was introduced. The SIX Group offers services in tokenized securities, cryptocurrencies, and open finance solutions. Project Helvetia—exploring a wholesale central bank digital currency (wCBDC) for settling tokenized financial assets—has advanced to a pilot phase in a “live” environment. The number of fintech firms and their share in funding have been rising. In 2019, the government introduced a new category for fintech licenses in the banking law, allowing institutions to accept public deposits up to CHF 100 million or crypto assets.

8. Financial sector stability is a shared responsibility of several authorities. The SNB is the monetary authority and has a financial stability mandate. FINMA is responsible for the supervision and resolution of banks, insurance, FMI, and securities markets. The FDF is responsible for financial stability policies and has significant regulatory powers. Pension schemes are supervised at the cantonal level, with some federal oversight. The SNB, FDF, and FINMA are responsible for macroprudential policies. A tri-partite MOU (SNB-FINMA-FDF) focuses on cooperation among agencies during crises.

C. Progress Since the Last FSAP

9. Progress with the implementation of the 2019 FSAP recommendations has been modest (Table 4). Despite improvements in asset management legislation and supervision, fintech data collection, and FMI legislation, and targeted upgrades to supervisory tools, fundamental issues persist. These include FINMA's constrained legal powers and resources, heavy reliance on external regulatory audits, scarce macroprudential tools, and unresolved gaps in the financial safety net.

10. The 2023 crisis has underscored persistent and critical shortcomings in the supervisory, resolution, and crisis management frameworks. The 2024 Financial Stability Board (FSB) Peer Report emphasized the need to strengthen FINMA's powers and resources, as well as supervisory, recovery, and resolution frameworks. FINMA's own assessment of CS failure concluded that the current supervisory and resolution powers have reached their limits. The 2024 government review of the TBTF regime and the parliamentary investigation into the CS failure (PUK) have also highlighted shortcomings and proposed reforms, albeit mostly targeting SIBs. The final set of reforms proposed by the Federal Council on June 6, 2025 for discussion in the Parliament go in the right direction, although many are yet to be detailed and will take years to implement (Box 2).

Box 2. Switzerland: Main Recommendations From Reviews Following the 2023 Crisis

The [government review](#) of the TBTF framework from 2024 identified three areas of action:

- **Strengthening the prevention regime for SIBs** through introducing a Senior Managers' Regime, tighter capital requirements, and enhancing early intervention and recovery.
- **Strengthening the liquidity regime for SIBs** by increasing liquidity requirements, reviewing and refining the ELA framework and expanding preparedness by banks, and introducing a PLB.
- **Expanding the crisis toolkit for SIBs** by improving resolution planning and resolvability (i.e., reducing legal and implementation risks, expanding resolution options, etc.), and strengthening crisis cooperation.

The [PUK](#) attributed the failure to the bank's mismanagement. It recognized that FINMA was under extreme political pressure but criticized it for granting capital relief that, over time, masked the true state of the bank. It noted that the Swiss Federal Council and the Parliament had put SIBs' interests of market competitiveness above preserving financial stability by de-emphasizing the timely implementation of international standards. It proposed:

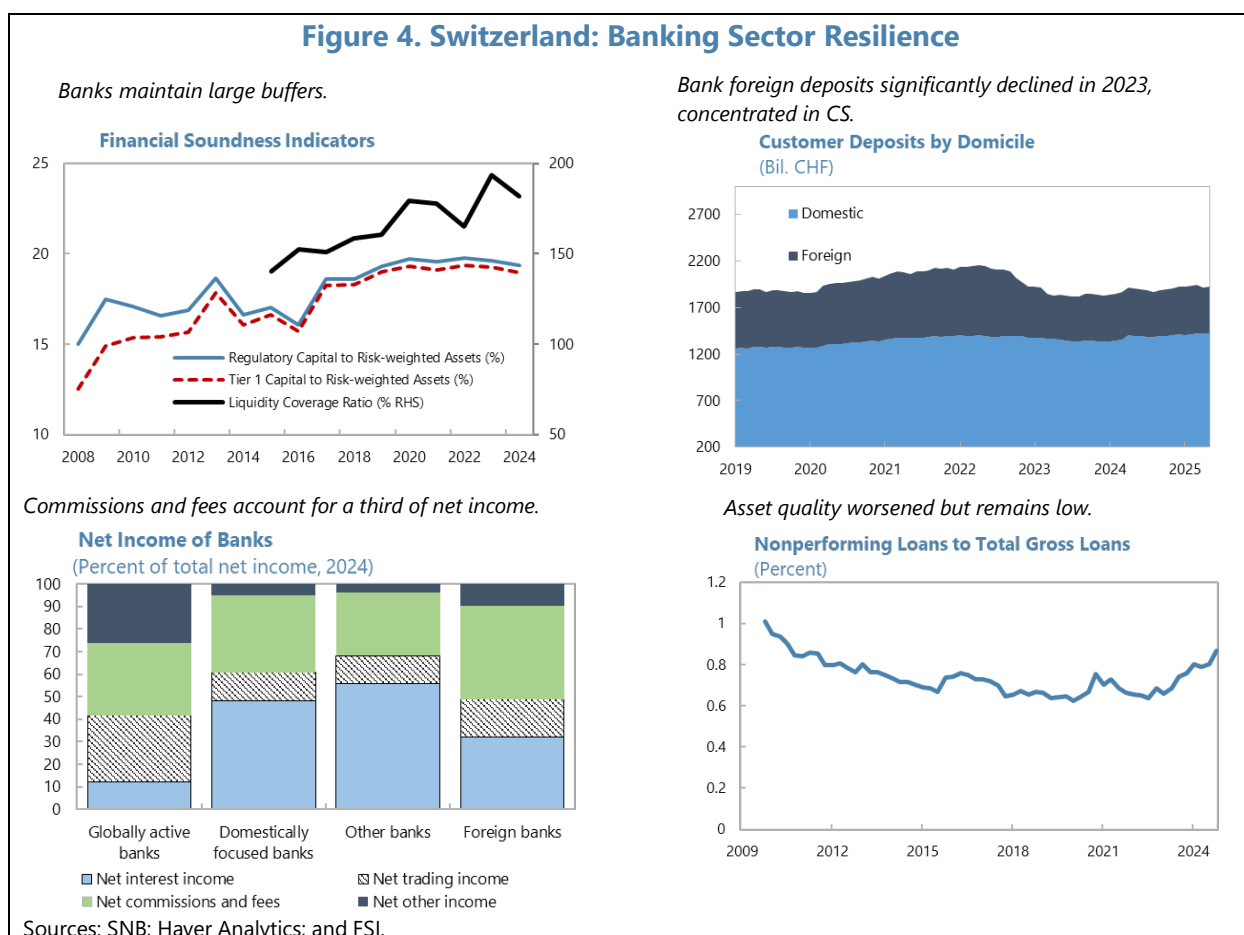
- **Enhancing SIBs' governance and oversight** through linking remuneration and benefits to commercial success, tightening SIBs' own funds regulations.
- **Empowering FINMA** by limiting SIBs' appeals against supervisory actions, granting it the power to impose fines, requiring SIBs' capital planning, and expanding early intervention and disclosure of enforcement.
- **Strengthening liquidity support** by requiring SIBs to take preparatory measures for potential ELA.
- **Improving crisis preparedness and coordination** mainly through better cooperation between the SNB and FDF and less emphasis on FINMA's role as resolution authority.

The [reform proposals formulated by the Federal Council](#) in June 2025 enhance the TBTF regime, and broaden the application of selected provisions for governance, Senior Management Regime, or administrative fines to all banks. FINMA's early intervention and enforcement proposals, among others, are not yet detailed.

SYSTEMIC RISK ANALYSIS

A. Financial Sector Vulnerabilities and Risks

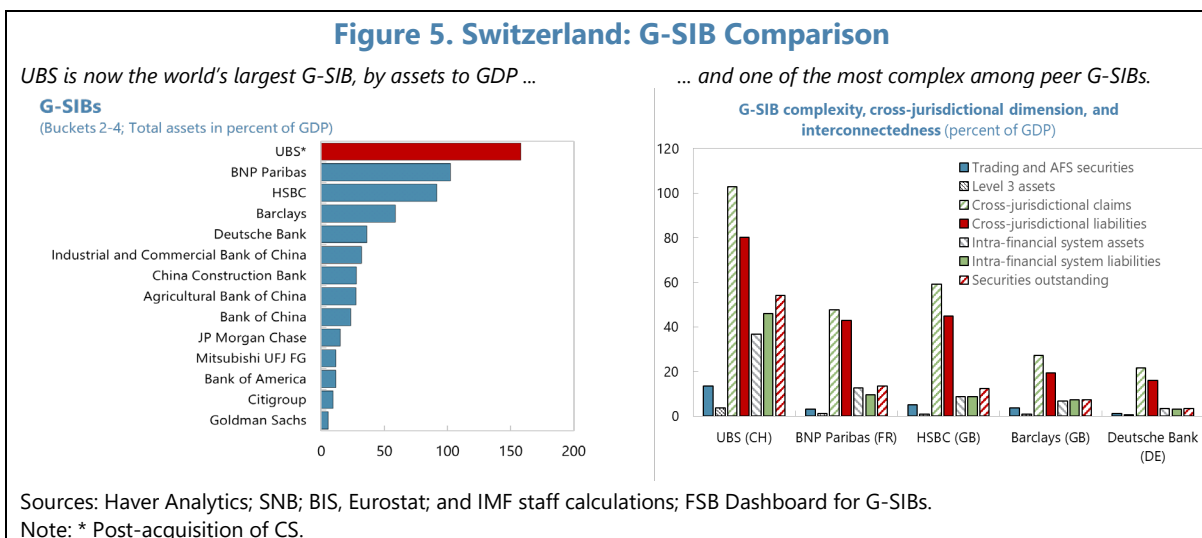
11. The financial system maintains large buffers. The banking sector maintains a Tier 1 regulatory capital ratio of about 19 percent, while the liquidity coverage ratio (LCR) exceeds 190 percent (Table 3). Credit and deposit growth has resumed after the CS crisis. Asset quality remains strong, although nonperforming loans have been on the rise—particularly in construction, hospitality, and retail sectors—yet they remain at very low levels overall (Figure 4). Banks’ structural low profitability (due to protracted periods of low interest rates and competition from non-bank financial institutions (NBFIs) was temporarily alleviated by the short-lived monetary policy tightening cycle (Figure 16), although the return to low interest rates and, to a lesser extent, changes in the SNBs reserve remuneration policy, will further pressure profitability.² Banks’ exposure to unrealized losses from security holdings at amortized cost is limited. Temporarily elevated market rates have further strengthened the already robust profitability and solvency of insurers (Figure 17). Non-life insurers experienced solid growth in premiums, including contributions from international markets. Pension funds achieved a median yield of 4.5 percent and maintained a positive balance between contributions and benefits (Figure 18).



² Interest margin increased across all banks in 2023.

12. The financial system is vulnerable to real estate market corrections and interest rate shocks. Real estate lending by banks is sizeable (86 percent of loans) and represents an important source of profit for domestically focused banks. Real estate-related investments are significant also for insurers and pension funds (31 percent of life insurers and 23 percent of pension funds' assets, respectively). The significant real estate exposure—of which, about 20 percent is at variable rates—coupled with significant house price overvaluation, elevated household debt, and loosening lending standards make the financial system highly vulnerable to a sharp downturn in the real estate market.

13. UBS has become the world's largest G-SIB relative to the domestic economy, which further contributes to systemic risk. Following the government-assisted acquisition of CS, UBS's total assets now comprise 167 percent of GDP, 45 percent of banking sector assets, 23 percent of total mortgages, and 25 percent of domestic deposits. UBS provides critical functions for the Swiss financial system and is also globally systemic, with significant exposures to international clients and markets. Compared to other G-SIBs that are similarly large relative to their home economies, UBS stands out in terms of complexity, cross-jurisdictional activities, and interconnectedness (Figure 5). As both the largest D-SIB and a G-SIB, UBS is systemic to the domestic and global financial system, with potential to trigger contagion and amplification of international shocks.



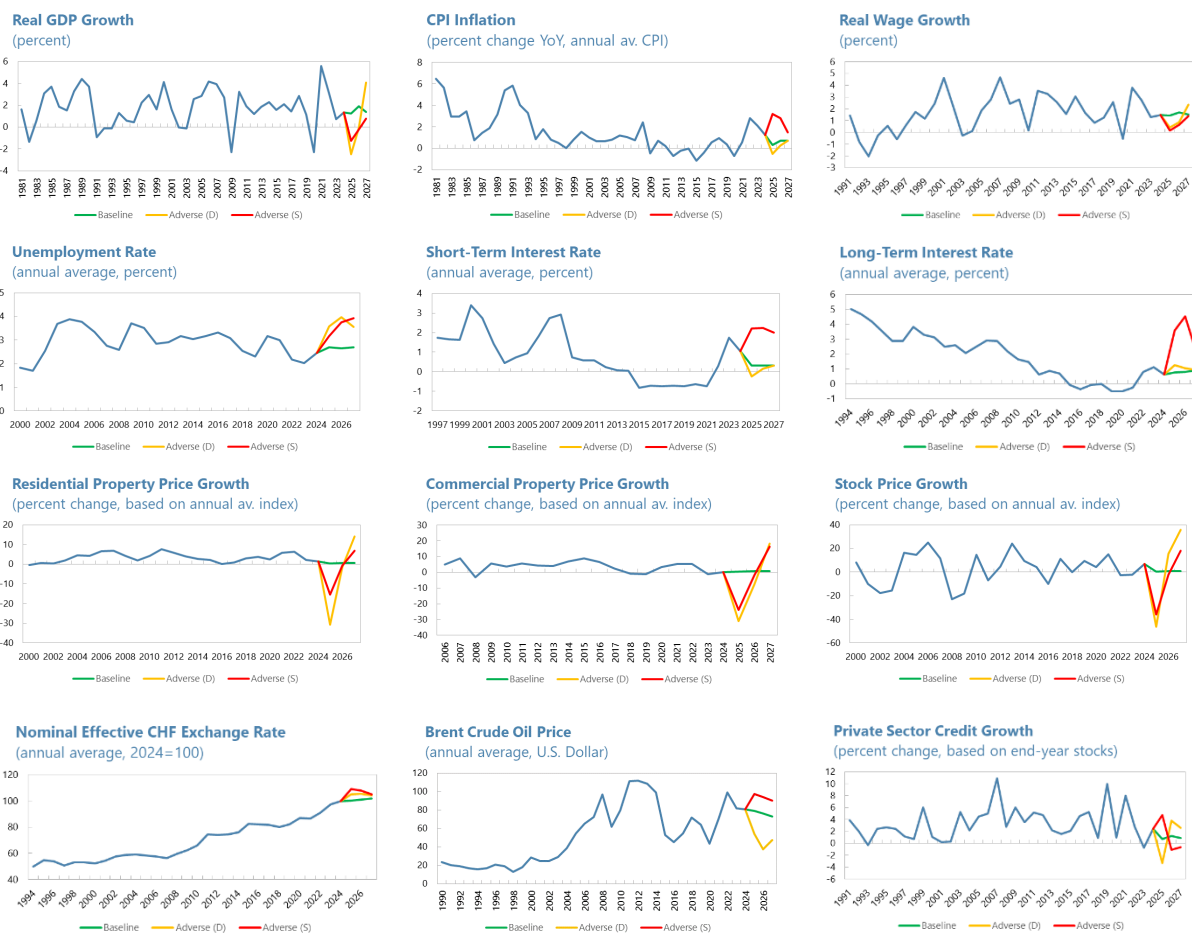
14. UBS is subject to Swiss TBTF regulations, as well as total loss-absorbing capacity requirements applicable to G-SIBs. Under both regimes, UBS must meet higher capital adequacy and liquidity requirements, enhanced recovery and resolution planning, and be under intensified supervisory oversight. The integration of CS—a process of unprecedented complexity—has been progressing smoothly, though risks persist until its completion. The authorities' ongoing efforts to further strengthen the TBTF regime, including intensified focus on capital and liquidity measures, along with recovery policies and close supervisory oversight, are crucial.

B. Macrofinancial Scenarios

15. The systemic risk analysis, including stress tests for banks and insurers, was based on macrofinancial scenarios with a three-year horizon spanning 2025–27 (Figure 6). The baseline scenario is aligned with the IMF World Economic Outlook (WEO) projections (an intermittent version as of end-February 2025). Two adverse scenarios were used, with their narratives informed by the Risk Assessment Matrix (Table 5).

16. The two adverse scenarios entail a demand-driven disinflationary shock and a supply-driven inflationary shock. The latter is referred to as a geopolitical risk scenario. Both scenarios have a global component that assumes deepening geoeconomic fragmentation and materialization of global risks. The demand shock scenario involves an easing in monetary policy, while the supply shock scenario assumes an increase in monetary policy rates to counter inflationary pressures. Both scenarios assume a downward correction in housing markets.

Figure 6. Switzerland: Macrofinancial Stress Test Scenarios



Source: Haver Analytics; and IMF staff calculations.

Note: Adverse (D) and Adverse (S) denote the demand and supply shock scenario, respectively.

C. Bank Stress Testing

17. The FSAP assessed the resilience of the banking system with regard to solvency, liquidity, and interconnectedness (Appendices I and III). In addition, the FSAP undertook climate risk analysis to assess the impact of hypothetical adverse climate scenarios on bank capital.

18. The bank stress test exercise covered all SIBs, cantonal banks, private banks with asset and wealth management focus, and a large number of regional and smaller banks. The sample used for solvency, liquidity, and interconnectedness analyses consisted of a common set of 92 banks at the consolidated level, covering 93 percent of Swiss banking system assets at end-2024. It included various private banks—primarily asset and wealth management banks, hereafter referred to as asset managers—which are not covered by SNB stress tests, as well as 42 regional banks, including cooperatives.

Bank Solvency Risk

19. The bank solvency stress test evaluated the sector's resilience across all key impact channels. These included credit risk, interest rate and market risk, banks' liquidity risk, and the potential feedback loop from liquidity to solvency—specifically through unrealized losses that could materialize due to forced asset sales under liquidity stress. The household credit risk model used microdata provided by the Swiss Federal Statistics Office (SFSO).³ Hurdle rates under the adverse scenarios were defined as the sum of regulatory minimum capital requirements (Pillar 1), Pillar 2 requirements, and surcharges for the four SIBs. The capital conservation buffer (CCoB) and CCyB were assumed to be available for use.

20. The Swiss banking system was found to be resilient overall. Under the most severe scenario, the supply shock scenario, the aggregate CET1 capital ratio of the 92 banks falls from 17 percent at end-2024 to 10.8 percent at the trough (Figure 7). In this scenario, most banks reach their lowest CET1 ratio in the first or second year. Cantonal banks' solvency appears to be the least affected, dropping by 4.3 percentage point. Asset managers begin with the highest CET1 capital ratio among bank groups—at 20 percent—but experience the largest decline, falling by 13.6 percentage points. SIBs' aggregate CET1 ratio also drops considerably (by 6.3 percentage points), but all SIBs remain above the hurdle rates. Five of 92 banks fall below the CET1 hurdle rate by the third year of the scenario. Regarding total capital ratios, six banks (with combined assets of 4.6 percent of banking system assets at end-2024) fall short of the hurdle rate. Their combined CET1 capital shortfall amounts to 0.4 percent of GDP. This should be interpreted with caution given model uncertainties for the asset managers.⁴

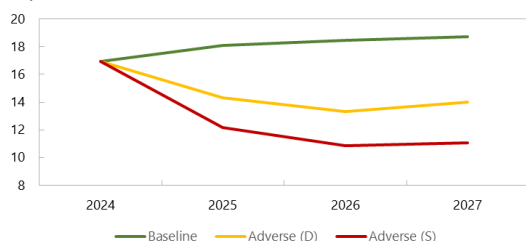
³ Based on Gross and Población (2017, [link](#)) and Gross et al. (2022, [link](#)).

⁴ Due to lack of data, conservative assumptions were used for starting point risk parameters for sizeable Lombard loans, e.g., LGDs; hedging of trading and investment portfolios; and fees and commissions income.

Figure 7. Switzerland: Bank Solvency Stress Test Results

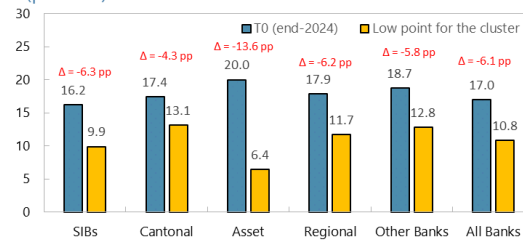
The capital ratio of the aggregate sample of 92 banks drops by about 6 p.p. to the low point in Year 2.

CET1 Capital Ratio (All Banks)
(percent)



The solvency impacts differ by bank clusters, due to differential business models and implied sensitivities.

CET1 Capital Ratio: T0 to Trough
(percent)



Sources: FINMA, SNB, banks' financial reports, and IMF staff calculations.

Note: Adverse (D) and Adverse (S) denote the demand and supply shock scenarios, respectively.

21. Several factors contribute to the decline in total capital adequacy ratios under the adverse scenarios. Under the supply shock, the capital impact is primarily driven by loan losses, which results in a 4-percentage point decline relative to the baseline scenario over the three-year horizon. This is followed by reductions in fees and commissions income (-2.2 pp), trading income (-1.7 pp), and net interest income (-1.4 pp) (Figure 8).

22. The drivers of capital depletion under stress vary across bank clusters. Loan losses are primarily driven by deteriorating mortgage portfolios, with regional banks, cantonal banks, and other smaller institutions being most affected (Figure 9). Significant additional losses arise from Lombard loans tied to international business, particularly impacting asset managers and SIBs. The adverse effects on fee and commission income, as well as trading revenues, are especially pronounced for asset managers; however, these results should be interpreted cautiously due to elevated model uncertainty within this bank cluster. In the supply shock scenario, rising interest rates amplify stress through increased funding costs, higher loan losses from variable-rate borrowers and valuation losses on bond holdings.

23. A sensitivity analysis was conducted on the revaluation of banks' held-to-maturity (HTM) bond portfolios. The impact of optional HTM revaluation is most pronounced under the supply shock scenario, driven by rising short- and long-term interest rates. Cantonal and regional banks experience capital impacts of -1.5 and -0.9 percentage points, respectively. These effects are high relative to the small size of these banks' investment portfolios, as the majority of their holdings are in long-duration HTM bonds.⁵

⁵ For more details and additional sensitivity analyses, see the accompanying Switzerland 2025 FSAP Technical Note on Systemic Risk Analysis and Stress Testing.

Figure 8. Switzerland: Bank Solvency Stress Testing—Capital Contribution Analysis

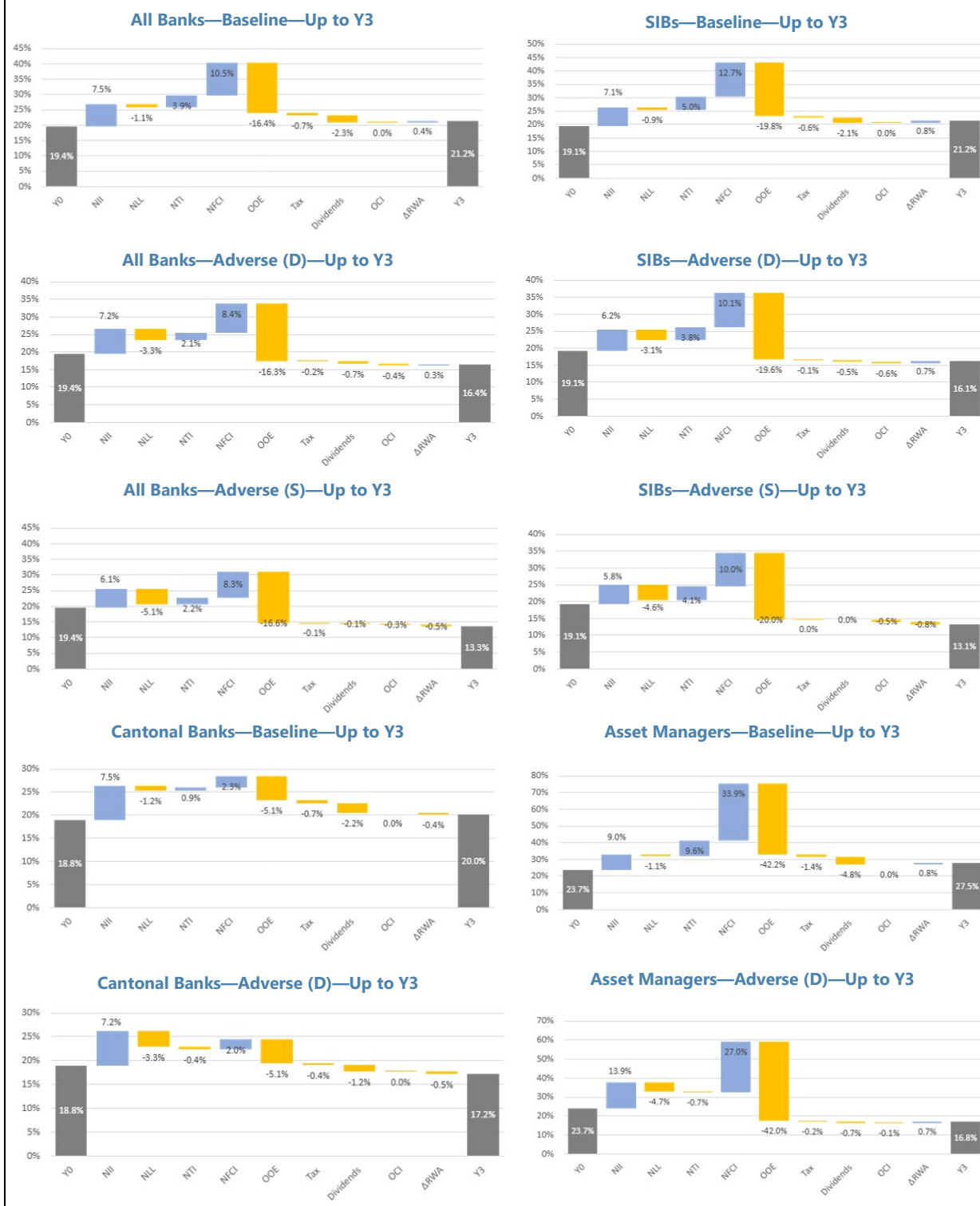


Figure 8. Switzerland: Bank Solvency Stress Testing—Capital Contribution Analysis (concluded)

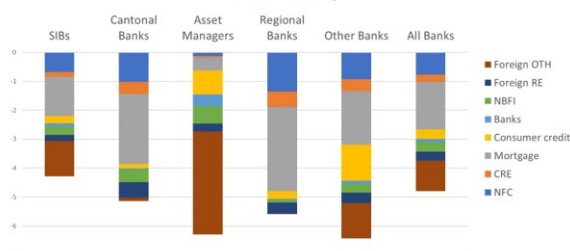


Sources: FINMA, SNB, banks' financial reports, and IMF staff calculations.

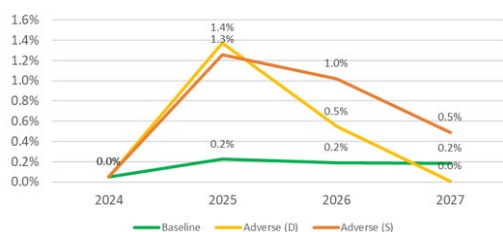
Note: The charts show the evolution of the total capital ratios of the bank clusters and the three scenarios (baseline, demand shock, and supply shock scenario). The contributions, in p.p., that drive the Year-0 (end-2024) capital ratios forward, here in cumulative terms to Year-3 (end-2027), include: NII = net interest income, NLL = net loan loss, NTI = net trading income, NFCI = net fee and commission income, OOE = other operating expense (a residual P&L item up to pre-tax net income), and OCI = other comprehensive income. The OCI item captured AFS bond valuation changes.

Figure 9. Switzerland: Bank Solvency Stress Test Results

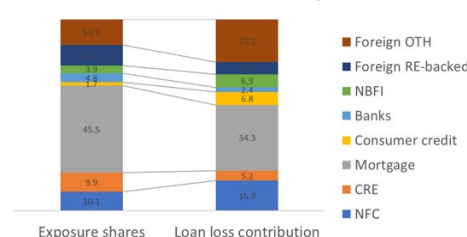
Loan losses stem from the banks' sizeable retail mortgage loan portfolios, while additional losses for asset and wealth managers may arise from Lombard loans (though very uncertain regarding their underlying risk parameters).

Loan Loss Contribution to Capital Ratio Shift
(from Year 0–3, in p.p., supply shock, all banks)


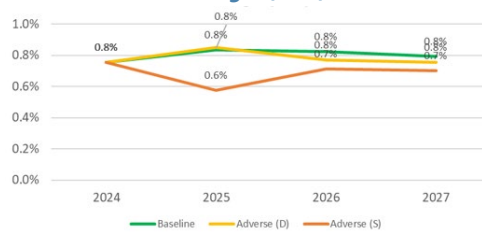
The portfolio-aggregate loan loss rates at banking system level rise sharply in Year 1 and are more persistent in the supply shock scenario.

Net Loan Loss Rate: All Banks


The loss contribution from mortgage lending relative to their portfolio size is smaller than for other portfolio segments.

Loan Book Composition Vs. Loan Loss Contributions
(the latter cumul. Y1–3, supply shock, all banks)


Net interest income drops notably in the first year of the supply shock scenario due to rising funding costs, alongside more intense defaults of variable rate borrowers.

Net Interest Margin (NIM): All Banks


Sources: FINMA, SNB, banks' financial reports, and IMF staff calculations.

Bank Liquidity Risk

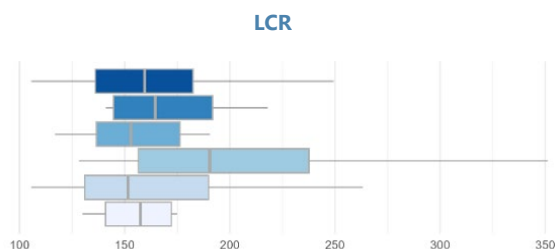
24. Liquidity risk for banks was assessed using several metrics and a cash flow-based stress test. Liquidity risk metrics—including regulatory LCR, cumulative funding gaps, and net stable funding ratio (NSFR)—were assessed at the bank, cluster, and system levels. A cash flow-based liquidity stress test incorporated liquidity-to-solvency feedback loops and released collateral from secured funding at stressed valuations. The model applied stringent assumptions regarding deposit outflows, drawdowns on committed credit lines, and declines in asset valuations, with run-off rates guided by regulatory LCR stress parameters and the recent outflow patterns observed at CS. Additional valuation changes in banks' bonds and equity exposures were based on solvency stress test results and market shocks under the shock scenarios (Appendix I).

25. The liquidity stress test suggests that the banking system is generally resilient to severe liquidity stress. However, although all banks meet the LCR requirements, regional and smaller banks—as well as certain asset managers—show signs of vulnerability. Under the stress scenario, 10 out of 92 banks are estimated to face a liquidity shortfall within 30 days, all of which are regional or "other banks." Extending the horizon to 6 months and applying the most severe stress assumptions for bond and equity holdings, 19 banks are projected to experience liquidity shortfalls,

with the majority being small regional banks.⁶ Moreover, data-based metrics further underscore the vulnerability of regional and “other banks” (Figures 10 and 11).

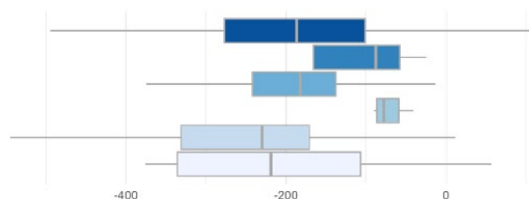
Figure 10. Switzerland: Bank Liquidity Risk—Selected Metrics

Cantonal, regional, and other banks have lower LCRs than the other bank clusters.



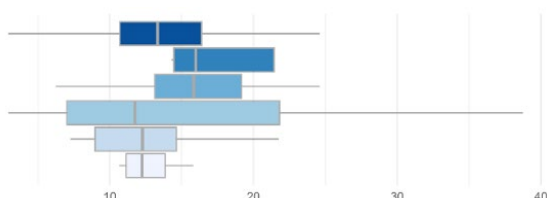
The cumulative funding gap relative to banks' initial liquid assets is most negative for regional banks.

Cumulative Funding Gap (-) After 1 Month (From LMT)

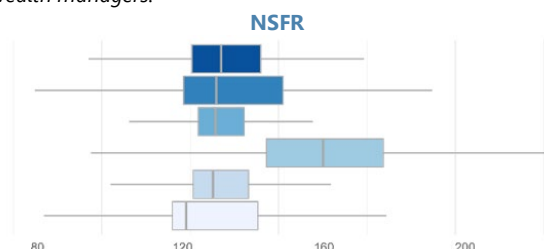


Cash and reserves relative to total liabilities (TL) are lower (at the median) for asset managers, regional, and other banks.

Cash and Reserves Over TL

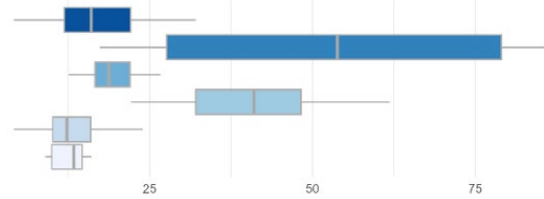


NSFRs rest at comfortable levels for the median of the banks in all clusters, while they are comparably higher for asset and wealth managers.



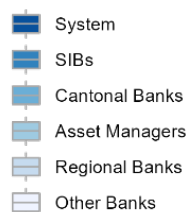
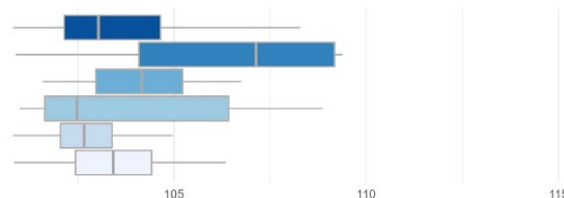
Unencumbered liquid assets (cash, reserves, bonds) as a percent of total liabilities are lowest for regional and other banks.

Unencumbered Assets Over TL



Off-balance sheet commitments, e.g., through credit lines for bank customers and in the form of guarantees, are highest for SIBs.

Off+On-BS Over On-BS Assets



Sources: FINMA, SNB, and IMF staff calculations.

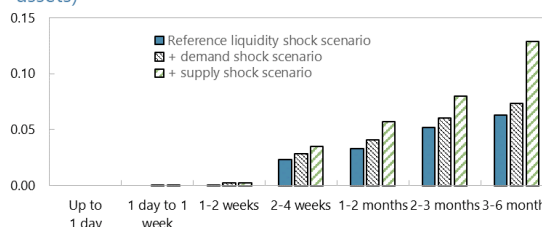
Note: The horizontally arranged box plots follow the sequence of bank clusters as shown in the legend at the bottom of this figure panel. The vertical lines in the middle of the boxes are medians. The edges of the boxes mark the 25th and 75th percentiles of the distributions of the underlying banks. The whiskers on the left and right extend to 1.5 times the interquartile range.

⁶ Such severe stress is primarily used to rank banks in relative terms.

Figure 11. Switzerland: Bank Liquidity Stress Testing

The liquidity shortfall of the failing among the 92 banks accumulates to 0.15 percent of initial liquid assets of all banks.

Cumulative Liquidity Shortfall
(in percent of initial unencumbered liquid assets)



Unencumbered liquid asset stocks drop most visibly in the regional (and other) bank cluster.

Drop in Unencumbered Liquid Asset Stocks - Median Within Clusters
(percent)



Sources: FINMA, SNB, and IMF staff calculations.

D. Insurance and Pension Risk Analysis

26. The FSAP conducted a stress test on Switzerland's largest insurance groups and performed a risk analysis of the pension fund sector.

Insurance Solvency Stress Test

27. The insurance stress test was conducted on a consolidated group basis, including all insurance activities worldwide (Appendix II). The analysis included bottom-up and top-down stress tests, using scenarios broadly aligned with those for banking stress tests. Six Swiss insurance groups were included, accounting for two-thirds of the life and non-life insurance market and more than 70 percent of the reinsurance sector. Five of the six groups are classified as IAIGs, deriving between 44 and 98 percent of their premiums from foreign markets. The stress tests were based on the Swiss Solvency Test (SST).

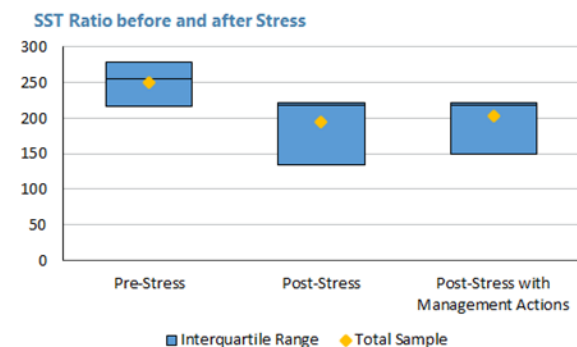
28. Stress test results suggest that the industry could withstand severe price shocks, despite existing vulnerabilities on the asset side. The median SST ratio declined from 255 percent pre-stress to 219 percent post-stress, yet no insurer fell below the regulatory minimum (Figure 12). Only two insurers implemented some reactive management actions, which raised their SST ratios by 15 and 20 percentage points, respectively—bringing the SST ratio closer to the internal risk appetite limit.

29. Valuation losses from severe market stresses lead to a significant fall in insurers' own funds. The sample's SST ratio fell by almost 60 percentage points, from 250 percent under the baseline. The main driver was the reduction in risk-bearing capital after stress. The dramatic fall in the value of asset was only partially compensated for by a corresponding reduction of technical provisions, shrinking the balance sheet by CHF 180 billion and almost halving the risk-bearing capital. Due to lower asset and liability post-stress exposures, the new target capital falls by 32 percent, offsetting some of the impact of the losses of risk-bearing capital on the SST ratio. The average assets to liabilities ratio fell from 117 percent to 110 percent, or a corresponding loss in equity (the excess of assets over liabilities) of nearly CHF 60 billion.

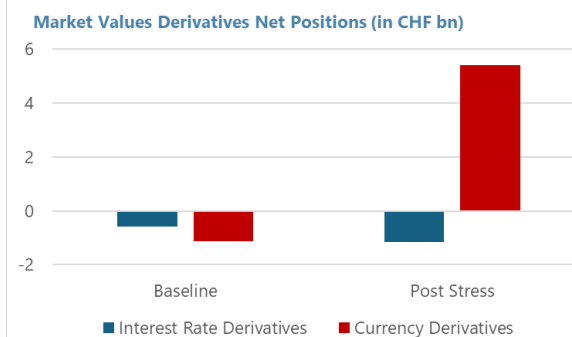
30. Spread and property sector risks, followed by equity risk, have the largest net impact on equity. This is due to the size of the exposure and the lack of any offsets on the liability side. A real estate shock can propagate through several asset types, thus increasing the sector's overall exposure and the actual contribution to the stress on balance sheets.

Figure 12. Switzerland: Insurance Stress Test Results

The financial shocks lead to 40-percentage point fall of the weighted average SST ratio

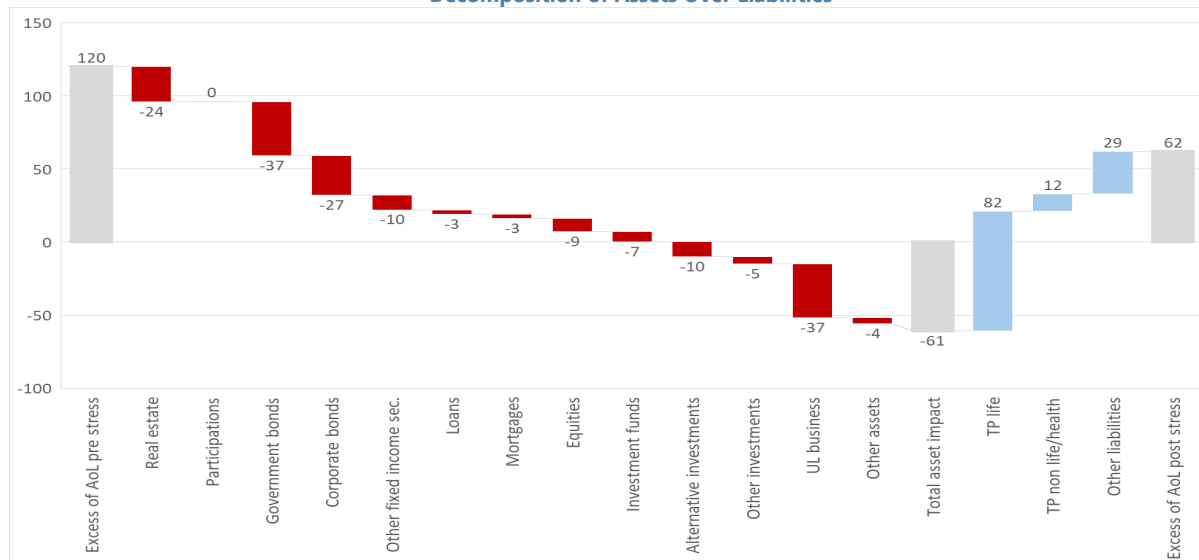


Currency stresses lead to significant change in market values of derivatives.



The insurers' excess of assets over liabilities is significantly affected by a drop in asset values, which is only partially compensated for by a fall in technical provisions and other liabilities.

Decomposition of Assets Over Liabilities



Sources: IMF staff calculations based on companies' submission.

Pension Funds Risk Analysis

31. The analysis of the pension fund sector was conducted on a market-wide basis. It was based on data from the SFSO and the OPSC and market reports. The analysis examined risks to the pension funds' solvency, the risk profile of their investments, and the implications of the current regulatory framework for institutions offering benefits at the statutory minimum.

32. The structure of the pension sector helps mitigate its systemic footprint. The sector is large but consists of many, often very small, institutions. Except for sizable domestic real estate and mortgage exposures, asset allocation is geographically diverse. Individuals have restricted early access to their funds, limiting potential liquidity concerns. While the pension scheme includes some defined benefits elements, the risk of forced disinvestment is limited by broad and flexible restoration mechanisms. Regulations governing derivative instruments are stringent. However, significant variation exists in the choice of technical interest rates and fluctuation reserves, highlighting the need for greater consistency in technical assumptions. Ongoing consolidation in the sector warrants close monitoring for possible implications for financial stability.

E. Interconnectedness Analysis

33. The FSAP examined contagion risks within the financial sector, interbank market, and banking cross-border operations. The network analysis and model-based default simulations used bank-level domestic interbank exposures for 92 banks, BIS cross-border exposure data, and SWIFT payments flow data.⁷ This exercise also examined OFIs' and banks' exposures to other sectors (Appendix IV). Data constraints limited the scope of the cross-sectoral risk analysis.

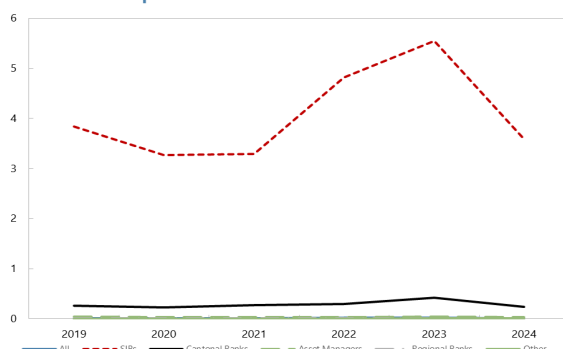
34. As expected, the hypothetical default of SIBs would trigger significant domestic interbank spillovers, particularly affecting cantonal banks. These banks appear especially vulnerable to the simulated defaults of other banks (Figure 13). The simulations also identified one bank with the potential to amplify systemic spillovers.

Figure 13. Switzerland: Interconnectedness Analysis

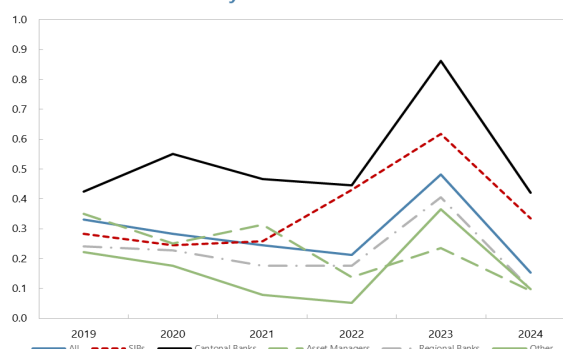
SIBs stand out in potential impact ...

... but cantonal banks exhibit highest vulnerability.

Evolution of Impact Metric



Evolution of Vulnerability Metric



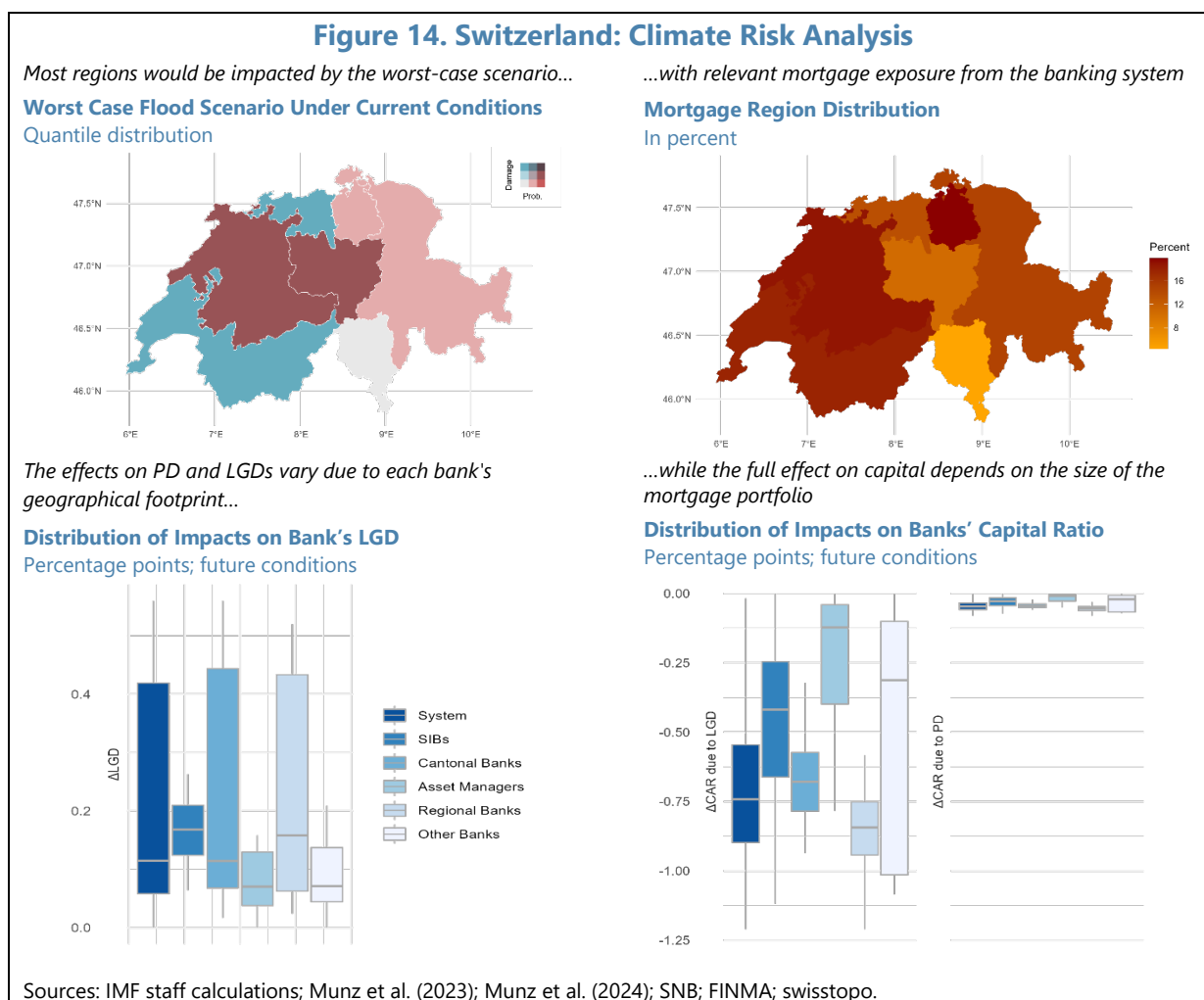
Sources: SNB and IMF staff calculations.

Notes: The impact metrics (left side) capture the banking system-wide average capital depletion in response to an assumed default of the banks in the bank cluster as indicated in the legend (one after another). It is expressed as a percentage of pre-shock excess capital of the other banks. Excess capital is defined as actual capital minus capital requirements, with the latter containing Pillar 1 and 2 requirements and SIB surcharges. The vulnerability metric (right side) shows the average excess capital loss when assuming that all other banks (other than the one whose vulnerability metric is computed) are assumed to default one after another, as a percentage of the bank's own excess capital.

⁷ Espinosa-Vega and Solé (2010).

F. Climate Risk Analysis

35. Banks were assessed under a climate risk scenario focused on physical risk to their mortgage portfolios. The scenarios, selected for relevance, incorporated flood risk and conditions aligned with Representative Concentration Pathway 8.5 (Annex III). Impacts on the household sector were evaluated based on property damage and increased financial burden. These household-level effects translated into higher credit risk costs for banks, reflected in loss given default (LGD) due to physical damage and elevated probability of default (PDs) from rising insurance premiums. The analysis included nine acute flood scenarios and chronic increases in annual expected flood damage, influencing insurance premiums.⁸ These impacts were mapped to regional house price declines, modeled into LGD changes via the mortgage portfolio model,⁹ and translated into capital effects.



36. An extreme flood scenario could impact property values and bank capital ratios, although the overall impact is mitigated by risk transfer mechanisms. Cantonal and regional banks are most exposed (Figure 14). A 57 percent increase in the annual average flood risk by mid-

⁸ Munz et al. (2013); Munz et al. (2024); NGFS—Climate Analytics, Climate Impact Explorer.

⁹ Gross et al. (2017, 2022). With coverage, assuming premiums were paid and the risk covered by building insurers; without coverage, the impact is direct to the house value and then to the banks.

century is estimated to raise the building insurance expenditures, increasing PDs by 6 basis point and reducing the aggregate capital ratio by 4 basis point.¹⁰ Switzerland's compulsory building insurance system plays a key role in redistributing the risk. It mitigates adverse selection and helps stabilize premium fluctuations through a double solidarity principle: among insured individuals—who pay uniform premiums within each canton—and among insurers—via an inter-cantonal fund, and compensation fund in GUSTAVO cantons.¹¹

G. Recommendations

37. Enhancing the collection of more granular data for banks and other financial entities would support the timely identification, measurement, and management of sectoral and systemic risks. Specifically:

- *Banking sector:* Improve data coverage on (i) mortgage exposures and trading and investment portfolios for non-SIBs (e.g., the largest 10–15 banks beyond SIBs); (ii) foreign exposures and Lombard loans; and (iii) income derived from asset and wealth management fees and commissions.
- *Insurance:* Expand reporting to include (i) detailed data on derivatives and surrender/lapse rates by insurance product type; and (ii) more frequent submissions of the asset template underpinning the prudent person principle. Regular collection of standardized data would support more effective oversight.
- *Pension funds:* Increase the granularity and standardization of data collected on a regular basis to reinforce supervision capabilities and facilitate a horizontal market-wide analysis.
- *Cross sectoral:* Extend bilateral exposure data to cover *all NBFIs* types, with time-series elements to support trend analysis.
- *Climate-related analysis:* require financial institutions to provide additional data to quantify climate-related risks.

38. The authorities are encouraged to further advance modeling capabilities and strengthen cross-agency collaboration. In particular, the SNB and FINMA should jointly develop a bank liquidity stress testing model. FINMA should continue its close monitoring of spread risks and real estate-related exposures in the insurance sector, as well as the adequacy of banks' provisioning for performing exposures, using forward-looking, expected loss approaches). Advancements in developing structural micro data-based models for households and nonfinancial firms leverage micro data collected by the SFSO. The SNB's top-down stress testing model may serve as a useful benchmark for bottom-up stress tests, while insights from FINMA's bottom-up exercises could inform enhancements to the SNB's top-down stress testing model.

¹⁰ Climate risk analysis is subject to caveats and limitations regarding data and models and results should be interpreted with caution.

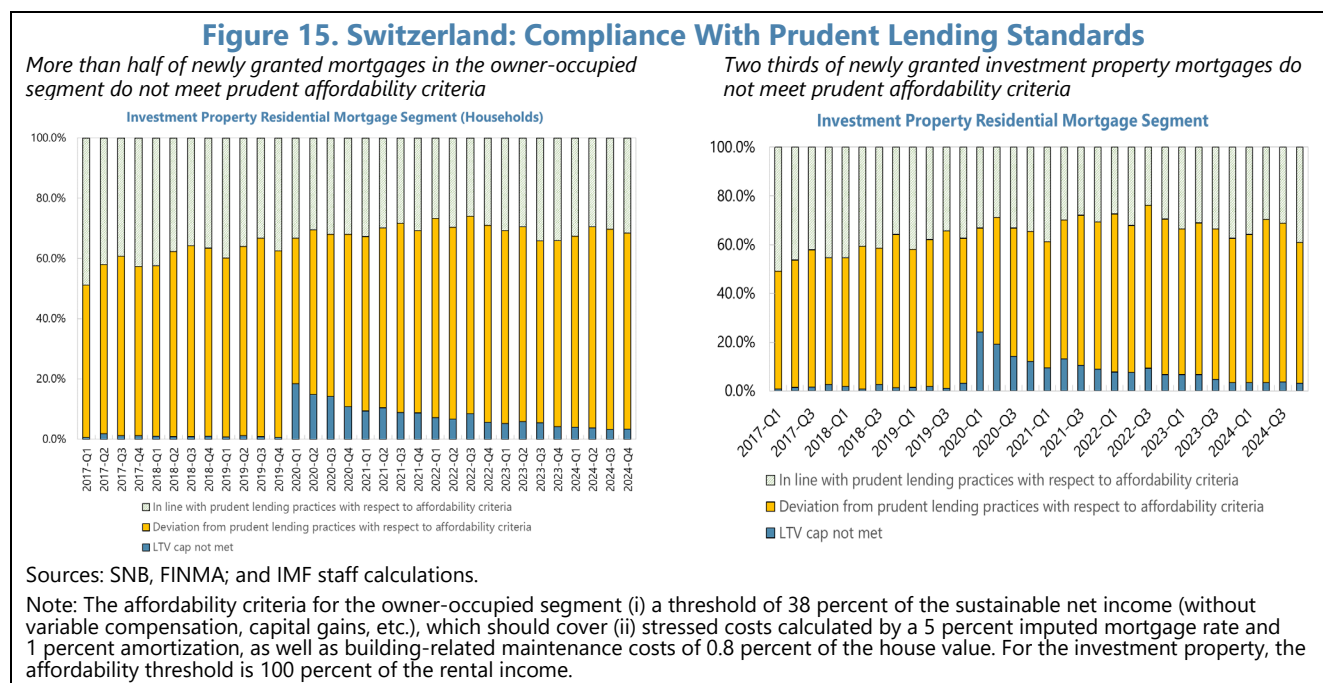
¹¹ Geneve, Uri, Schwyz, Ticino, Appenzell Innerrhoden, Valais, and Obwalden.

FINANCIAL SECTOR OVERSIGHT

A. Systemic Risk Oversight and Macroprudential Framework

39. The sectoral CCyB has reached its upper ceiling and appears insufficient to mitigate rising systemic risks. The only dedicated macroprudential tool, the CCyB, was set with a sectoral focus on residential mortgage loans at 2 percent from 2014 to March 2020, released during the pandemic, and raised to its legal maximum of 2.5 percent in 2022. No borrower-based measures are in place. The authorities rely on a self-regulation regime for mortgage lending, issued by the SBA, that includes qualitative guidelines, loan-to-value (LTV) caps, and amortization requirements. However, it does not incorporate formal benchmarks for income-based affordability (e.g., DSTI cap). The latter are instead acknowledged in unwritten “industry standards” and customarily used by FINMA as benchmarks to assess bank policies.¹²

40. Data suggest that lending practices may not consistently align with prudent standards, particularly in relation to income-based affordability criteria. While banks have broadly complied with the SBA’s LTV caps, they increasingly deviated from prudent lending practices in income-based affordability criteria. In about half of owner-occupied newly granted mortgage loans and around 60 percent of investment-property related lending since 2017, stressed debt service and maintenance costs exceeded the income-based affordability threshold used by FINMA. Affordability risks are also not sufficiently covered in the Basel III final risk weights implementation for mortgage loans, which assume that only 15 percent of mortgage loans carry elevated risks due to affordability or valuation, which is in practice much higher (Figure 15).



¹² See May 2025 [FINMA Guidance on Risks in the Real Estate and Mortgage Markets](#) p. 4–5.

41. Additional measures are warranted to mitigate the build-up of systemic risks. Recent monetary easing and cantonal initiatives aimed at improving affordability for new borrowers¹³ are expected to further stimulate credit demand and contribute to house price overvaluations, looser lending standards, and increased systemic risks. To strengthen the existing macroprudential framework, consideration should be given to introducing a DSTI cap, alongside the existing LTV cap, with a binding effect on applicable risk weights, for example, as a new minimum requirement under the existing SBA self-regulation. Additionally, removing the existing ceiling on the CCyB and introducing a second, distinct capital-based instrument would help ensure that mortgage-related systemic risks are adequately addressed. Such an improvement would support a more flexible use of broad-based and sectoral capital tools and facilitate the introduction of a positive cycle-neutral CCyB.

42. Counterfactual analyses suggest that introducing a DSTI cap would be useful to address affordability risks, without unduly constraining lending. While the LTV cap helps limit LGD, which is important given overvalued house prices, a DSTI cap would help limit borrowers' PD. The counterfactual analyses show that a DSTI cap of 30 percent would primarily affect high loan-to-income (LTI) mortgage lending, restrict investment-property lending more than owner-occupied mortgage lending, and be more binding for variable-rate mortgages, which expose borrowers to interest rate risk (Figure 19). The analysis, based on household micro data¹⁴ and utilizing the integrated dynamic household balance sheet model, indicates that a 30 percent DSTI cap would reduce the PD impact of the severe supply-shock scenario on mortgage loans by 33 percent.¹⁵ This corresponds to a reduction in the capital impact by 37 bps for the system.

43. A clearer institutional structure for assessing and mitigating systemic risks is highly desirable to reduce inaction bias. Under the existing framework, unchanged since the 2019 FSAP, the SNB has a financial stability mandate and makes recommendations regarding the CCyB to the Federal Council, in consultation with FINMA. However, no institution has a formal mandate to advise on adjustments of the macroprudential toolkit if existing tools were found insufficient, which can result in inaction bias. Formalizing a Systemic Risk Council—led by the SNB and comprising FINMA and the FDF—would help to regularly assess systemic risk and decide on policy measures, while maintaining the SNB's authority to propose appropriate measures. This committee should also provide joint communication, which would enhance transparency and accountability.

B. Financial Sector Supervision and Regulation

44. The Swiss financial sector oversight framework faces important legal limits on its supervisory activities. Unlike many peer supervisors (e.g., European Union, United Kingdom, United States), FINMA's supervisory decisions are automatically suspended if institutions file appeals in court. FINMA can only issue binding prudential standards in the specific areas indicated by the law. It faces restrictions on conducting onsite inspections (e.g., in smaller banks) and cannot impose fines

¹³ Canton Geneva can grant loans to individuals up to 15 percent of mortgages. Canton Zurich's initiative, subject to plausible referendum, envisages guarantees for borrowers to purchase property with only 5 percent downpayment.

¹⁴ Based on the Statistics on Income and Living Data, as of 2020, covering a representative sample of 8,000 Swiss households and about 18,000 individuals.

¹⁵ Using the model by Gross and Población (2017, [link](#)).

on supervised institutions or individuals. Several other supervisory powers are either incomplete or defined at a very high level. These legal limitations, which have been flagged in previous FSAPs, were particularly exposed by the recent CS failure. These constraints have influenced FINMA's capacity and, at times, readiness to act, due to concerns about potentially exposing the limitation of its legal mandate.

45. A more robust legal foundation is essential for FINMA to effectively fulfill its supervisory responsibilities and ensure forward-looking oversight. Preemptive, forward-looking supervision requires the authority to act decisively and with legal certainty. To this end, FINMA's supervisory decisions should not be subject to automatic suspension when appealed by supervised institutions. Enabling FINMA to issue supervisory standards in all necessary areas and codifying supervisory expectations across the suite of supervisory issues—through circulars, for example, to promote sound governance and risk management—would help promote greater clarity and more consistency in implementation by the industry. FINMA should be empowered to impose administrative fines on regulated institutions and individuals. Importantly, these enhanced powers should apply uniformly across all institutions, even as FINMA's supervisory approach and intensity remain risk based.

46. Curtailing the extensive reliance on external regulatory audits and significantly reinforcing FINMA's internal capacity are critical to ensuring effective supervision. External regulatory audits, a long-standing practice, have limited value for prudential supervision as they primarily focus on compliance checks, lack the capacity to assess bank management, and may present conflicts of interest—given that financial and regulatory audits are performed by the same firms, which are selected and paid by the banks themselves. Overreliance on external parties also impairs FINMA's ability to develop an in-depth understanding of banks' risk management practices, thereby limiting its ability to intervene effectively. To enhance the quality and relevance of regulatory audits, FINMA should have the authority to directly mandate and pay for these audits and gradually reduce reliance on external regulatory audits. Additionally, increasing FINMA's staffing level is essential to intensify its direct supervisory engagement across all categories of firms.

Banking Supervision

47. The detailed assessment of the Basel Core Principles (BCPs)¹⁶ shows that FINMA's powers are not commensurate with the size and complexity of the banking system and lag those of peers overseeing G-SIBs. Specifically, FINMA's formal powers are triggered late (i.e., mostly at a breach of law and regulation),¹⁷ at which point effective course-correction for the bank may no longer be achievable. It is challenged by incomplete sanctioning powers over bank management and board, the absence of a legal basis to fully articulate risk management standards, and a poorly defined Pillar 2 regime, along with other deficiencies such as the capital treatment of participations in subsidiaries, where the risk weighting of participations rather than the application of a prudent deduction permits a parent bank's participations in its subsidiaries to only be only

¹⁶ The BCP assessment was based on the revised 2024 methodology.

¹⁷ FINMA may intervene if "there are any other irregularities" (Art. 31 FINMASA), although this a very high-level provision that has never been used for a bank.

partially backed by capital.

48. FINMA must be equipped with a comprehensive set of early intervention powers that apply uniformly across all banks. FINMA should be able to preemptively restrict business activities, require capital conservation measures, order the activation of a recovery plan, remove senior management, and require a rectification of deficiencies in risk management or internal controls. Based on these powers, FINMA should prepare a clear early intervention framework, relying on both quantitative and qualitative factors, and with forward-looking triggers and tools. The Pillar 2 framework should be clarified and expanded to allow FINMA to routinely impose capital add-ons using both stress tests and supervisory judgement. FINMA should be able to require all banks to implement an internal capital adequacy assessment process (ICAAP), scaled proportionately.

49. Ongoing critical enhancements to supervisory staffing resources, approach, and tools are welcome and must continue unabated. The authorities should be commended for the timely implementation of the final Basel III framework. Reforms initiated after the 2023 crisis to supervisory staffing, tools, and intensity must not lose momentum. A new supervisory rating system and an upgraded toolkit are underway, and FINMA has increased the number and scope of its inspections with a particular focus on governance. These reforms, for which FINMA could not get credit in the BCP assessment, given their incipient stage, should be boldly pursued, together with an enhanced supervisory approach for Category 3 banks (many being large and complex), the preparation of a comprehensive supervisory handbook, and improved data analytics.¹⁸

50. Recent legislative reforms proposed by the Federal Council will help reinforce bank supervision. Strengthening FINMA by clarifying and extending its supervisory powers is a vital step forward, though FINMA itself must be ready and willing to use all options currently at its disposal, including issuing rulings, until legislative amendments can be delivered.

Securities Markets

51. Major progress has been made to the legal, regulatory, and supervisory framework since the last FSAP. The legal framework for the asset management industry was upgraded with two new acts in force since 2020, including a new licensing regime for portfolio managers and trustees. Substantial improvements were also made to the collective investment scheme) framework, notably for liquidity risk management, reporting, and supervisory process, hereby implementing several recommendations from the previous FSAP. Several key reforms to trading systems framework are underway, including market abuse.

52. FINMA should continue improving its organizational structure and supervisory framework. FINMA's organization should reflect the cross-sectoral nature of asset management and trading activities to enable a holistic supervisory perspective; its recent reorganization marks a positive step toward this goal. Furthermore, additional staff are needed to bolster supervision of asset and wealth management as well as trading venues, while reducing reliance on regulatory auditors. Supervision should be strengthened by enhancing reporting requirements, publishing

¹⁸ FINMA's risk-oriented supervision entails five supervisory categories for classifying financial institutions, ranging from most complex and systemically important to less significant. See [link](#).

supervisory expectations, zooming on key risks, and periodically reviewing processes. FINMA should improve market monitoring, especially with respect to trading outside venues and shifts in liquidity patterns, to identify evolving risks and adjust supervision accordingly. Data gaps, which are substantial, should be addressed and related reporting frameworks strengthened.¹⁹

53. The regulatory framework should continue to be upgraded in line with international standards. Implementing FSB and IOSCO standards on liquidity risk management for open-ended funds is a priority.²⁰ FINMA's supervisory perimeter should include pure investment advisory and distribution services, preferably through holistic licensing, regulatory and supervisory regime. The cooperation between FINMA and Self-Regulatory Organizations should be codified, and FINMA's relevant powers enhanced in line with IOSCO principles. The framework for portfolio managers and trustees and prospectus review functions should be reviewed for effectiveness, and, if necessary, reformed. The ongoing FMIs reforms, including trading systems, are a priority, particularly for market abuse. FINMA must have adequate investigative and enforcement tools, particularly powers to fine individuals, for an effective enforcement of market abuse cases.

Insurance and Pension Supervision

54. The targeted review of insurance supervision indicates a high level of compliance with selected IAIS principles. Insurance regulation is generally robust and broadly aligned with international standards. The framework has extensive requirements for risk management and internal controls, backed by a risk-based and forward-looking supervisory approach and generally robust intervention powers (drawing from specific insurance legislation). The SST is a sophisticated risk-based capital adequacy regime. Increasing FINMA's direct engagement with insurers, especially in the area of conduct, would enhance effectiveness of supervision. Suitability requirements should apply to all heads of control functions of insurers. FINMA should ask all IAIGs and designated insurance groups to prepare recovery plans, and FINMA should itself prepare resolution plans for all identified IAIGs in coordination with relevant foreign authorities.

55. Pension fund supervision should be further reinforced. Further convergence of technical bases and more transparency is needed to ensure consistent and risk-adequate reserving, especially given the low-interest environment and increasing life expectancy. Cantonal supervisors should have the authority and instruments to intervene when they identify discrepancies. Reliance on external regulatory auditors should be reduced, and more intrusive supervision should be applied in a risk-based manner. More detailed and frequent data will enable market-wide horizontal and systemic risk analyses. A formal platform to discuss developments and risks to financial stability should be established among cantonal supervisors, OPSC, and FINMA.

¹⁹ Data gaps relate to asset management and secondary markets, including market monitoring and firm reporting frameworks, may hinder systemic risk oversight.

²⁰ Open-ended funds constitute more than 99 percent of the Swiss domiciled investment funds by net assets; hence liquidity risk management is of high importance.

Cyber Risk Supervision

56. Switzerland has a relatively new cyber risk oversight framework. Significant reforms have taken place since 2020, including amendments to the Information Security Act—covering critical infrastructures—new FINMA circulars requiring the reporting of cyber incidents and enhancing operational risk and resilience, and the establishment of the National Cyber Security Centre (NCSC) along with a public-private partnership. This partnership facilitates the exchange of threat intelligence, assists with incident response, and conducts cyber exercises. A summary of reported incidents is also published periodically.

57. Additional progress is needed to increase regulatory coverage, supervisory arrangements, and resources for cyber risk oversight. FINMA should broaden its cyber risk regulations to all supervised entities. Cybersecurity is as strong as the weakest link, and thus supervision needs to be strengthened further for smaller banks, other financial sector entities, and external service providers. The staff resources of FINMA, the SNB, and the NCSC should be reinforced to adequately monitor cyber risks. The incident reporting framework, testing requirements, and coordination among authorities should be further strengthened.

AML/CFT Supervision

58. The targeted review of the AML/CFT framework highlighted areas where further progress is needed, particularly in the oversight of gatekeepers. While steps have been taken to strengthen the AML/CFT regime—including certain legal enhancements—continued efforts are required to implement the Registry of Beneficial Ownership and to reinforce the oversight of gatekeepers (e.g., lawyers, accountants, trust, and company service providers), both of which necessitate an expanded legal framework. Limitations to supervision—such as the inability to impose fines, resource constraints, and overreliance on regulatory auditors—hinder FINMA’s ability to effectively engage with banks on AML/CFT matters to enhance compliance with AML/CFT requirements and prevent future violations. Providing more in-depth and tailored guidance to the industry, along with inspections across all institutions, not only those deemed high risk, should help improve compliance. In addition, the growing sector of virtual assets and virtual asset service providers warrants continued close supervisory attention.

59. The growing volume and complexity of cross-border payments underscore the need to closely monitor financial integrity risks and their potential implications for financial stability. Analysis of financial flows using SWIFT data has revealed an increase in unusual cross-border payments, highlighting the importance of continued close scrutiny of non-resident risks, including by deepening the coverage of cross-border risks in the upcoming National Risk Assessment, as currently planned by the authorities, and incorporating transactional data into the risk-based supervision of banks and payment service providers.

FMI Oversight and Fintech

60. The oversight framework for FMIs appears largely adequate, although the increased complexity poses new risks and warrants closer supervisory scrutiny. The Six Group, which

provides a full range of FMI services, has been innovating and expanding its operations, including across borders. Its increased size and complexity raise risks for the group and individual FMIs. FINMA and the SNB have implemented robust risk-based supervision of systemically important FMIs. However, stretched supervisory resources do not allow onsite inspections to keep up with ongoing changes in the group structure and risk management practices. The planned expansion of services to EU counterparties will require increased direct supervision by FINMA and the SNB, and enhanced collaboration with host authorities on common risk management platforms and recovery procedures.

61. The remaining gaps in alignment with international standards and best practices should be addressed promptly. In particular, the revision of the regulatory framework for FMIs to fully conform with the Principles for FMI should be expedited, and resolution plans for the domestic CCP and CSD should be finalized.

62. The regulation and supervision of fintech activities have improved significantly, but the sector is quickly evolving. The DLT Act and FINMA's guidance have clarified the regulation and supervision of crypto activities (Box 3). The number of crypto service providers reached 40 in 2024, and regulated entities mostly hold off-balance sheet exposures, trading on behalf of clients and offering third-party custody. Custodial accounts (CHF 13.9 billion in crypto assets) are significantly lower than those deposited and managed by Swiss banks (CHF 1,983.5 billion and CHF 9,782.5 billion, respectively at end-2024). The prudential regulation only applies capital charges to on-balance sheet exposures (800 percent risk weight). The regulatory perimeter includes complex business models (e.g., staking) and entities (e.g., a DLT trading facility since March 2025). The authorities set out policy objectives and review progress with open finance, which currently funnels significantly low volumes of transactions.

63. The authorities should keep up with the sector's dynamics and continue to adapt the framework. The dynamic evolution of crypto activities and the ongoing expansion of regulated entities both locally and abroad warrant close monitoring, for which FINMA needs sufficient resources. Crypto assets exposures should be comprehensively assessed and Basel's prudential standards for crypto adopted. The governance structure for open finance should be strengthened by establishing a formal collaboration forum among stakeholders to assess emerging risks.

Box 3. Switzerland: Pioneering Financial Innovation: DLT and Challenges for Tokenized Assets

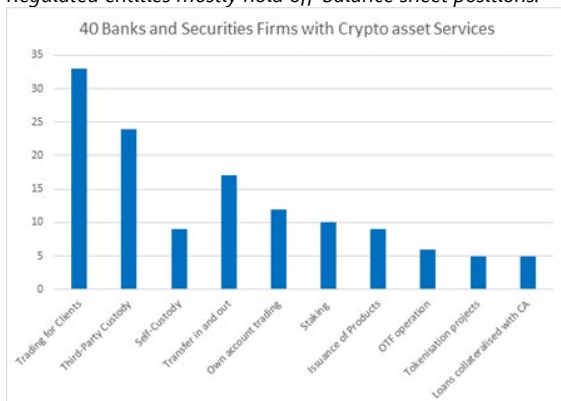
Switzerland is among the first countries to provide a legal base for blockchain technology. The DLT Blanket Act defined ledger-based securities, prudential supervision of crypto-asset custodians, and established FMI with new technologies and DLT-based settlement. FINMA licensed two FMIs:

- Six Digital Exchange (SDX) to operate a DLT-based settlement and exchange (in 2021);
- BX Digital (BX) for a novel DLT trading facility (in 2025).

The DLT-based FMIs compete in post-trade efficiency. The seamless integration and matching of the payment and securities settlement for tokenized securities is attractive, but the value proposition is complicated by operational complexities, costs, and reluctance of banks to switch. SDX experiments with the settlement of commercial transactions with wCBDC (the Helvetia pilot) are encouraging. BX, however, settles the cash leg through the RTGS, with limited efficiency gains compared to traditional FMIs.

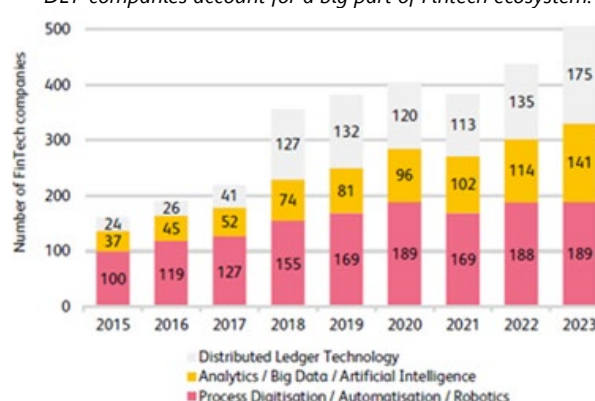
The absence of a secondary market for digitally issued tokenized securities poses challenges. The predominantly T+2 market, low use of SDX, and the absence of a secondary market indicate weak market interest. Atomic settlement grapples with liquidity and prefunding arrangements.

Regulated entities mostly hold off-balance sheet positions.



Source: FINMA.

DLT-companies account for a big part of Fintech ecosystem.



Source: IFZ FinTech Study 2024.

FINANCIAL SAFETY NET AND CRISIS MANAGEMENT

64. The crisis intervention framework has been tested by several crises (Box 4). During the recent CS crisis, the authorities took decisive measures to preserve financial stability but did not implement a resolution of CS using the existing TBTF framework. They opted for a government-assisted acquisition of CS by UBS, putting at risk substantial contingent fiscal liabilities, and creating the largest G-SIB relative to the size of the home economy, which raised TBTF risks. The FSAP assessment considered international standards, best practices, and conclusions of various public reports issued following the CS collapse.

Box 4. Switzerland: Navigating Financial Crises

	1990's Cantonal Banks' Crisis	2008: UBS Rescue during the Global Financial Crisis	2023: CS crisis
Context	The economic boom and low interest rates preceded the recession in the early 1990's, with a sharp decline in property prices and increases in nonperforming loans severely impacting regional and cantonal banks.	The high-risk expansion strategy of UBS in the U.S. in the early 2000s exposed it to the US real estate derivatives market. At the height of the crisis, UBS lost market access and its viability was at risk.	The CS crisis in March 2023 culminated years of poor governance, aggressive risk taking, and scandals, which eroded investor and customer confidence.
Stabilization measures	The cantonal banks of Bern, Geneva, Jura, Solothurn, and Vaud required financial assistance from their cantons (e.g., Geneva canton bore a recapitalization cost of CHF 2.1bn).	The UBS rescue included a transfer of CHF 45.9 billion of its illiquid assets to the StabFund, controlled by the SNB, in addition to a capital injection by the federal government of CHF 6 bn.	Acquisition of CS by UBS was backed by CHF 168 bn (liquidity from the SNB's ELA, ELA+, and a PLB to secure SNB's liquidity assistance). A federal loss protection guarantees of CHF 9 bn were issued for a specific portfolio of assets.
Fiscal costs or liabilities	Below 1 percent of Swiss GDP. Higher burden for individual cantons (e.g., Geneva canton support was equivalent to 10 percent of its income).	6 percent of Swiss GDP. Initial fiscal costs were fully recovered by 2013.	Contingent fiscal liabilities of 20 percent of Swiss GDP. Fully recovered, including compensation by mid-2024.

Sources: Association of Swiss Cantonal Banks (VSKB), SNB Financial Stability Reports from 2012 and 2023.

65. The FSAP identified substantial gaps in the early intervention and recovery planning framework. As revealed by the BCP assessment, FINMA's legal early intervention powers are severely constrained, which should be immediately addressed. FINMA should adopt an explicit early intervention framework with early triggers, tools, and enforcement mechanisms. Additionally, the legal basis for mandating recovery plans should be strengthened, providing FINMA with clear powers to enforce compliance and request necessary enhancements. All banks, not just SIBs, should be mandated to prepare and activate, as needed, proportionate recovery plans, based on FINMA's guidance.

66. Resolution powers, planning, and resolvability assessments need to be broadened and strengthened to ensure preparedness across a range of scenarios. A thorough legal review of resolution powers is essential, and any legal barriers should be removed to enable the use of bail-in tools—including full and partial write-down and conversion of liabilities—and in combination with transfer powers. Given that crises can originate from diverse sources (Box 4), resolution plans should be developed not only for SIBs but also for Category 3 banks, some of which are sizable and could become systemic if they fail. For cantonal banks benefiting from cantonal guarantees, MoUs should be established to mitigate execution risks.²¹ The authorities should also assess the resolvability of

²¹ Guarantees can encourage risk taking; 14 cantonal banks hold assets exceeding its respective canton's income, putting taxpayer at high risk and questioning the credibility of guarantees.

the G-SIB and ensure that any impediments to an orderly resolution in case of failure—particularly in light of limited domestic sale options—are addressed.

67. Collaboration arrangements on crisis preparedness and management should be decisively pursued. FINMA should develop internal procedures for all resolution tools, not just preferred strategies. A national contingency plan should be drawn up, and regular crisis simulation exercises should be conducted to allow FINMA, the SNB, and the FDF to practice coordinated response strategies, identify weaknesses in current protocols, and foster collaboration. Cross-border exercises with Crisis Management Group (CMG) members should also be incorporated. FINMA should significantly expand its recovery and resolution staffing to ensure adequate capacity for effective crisis preparedness and management.

68. The Swiss deposit insurance should be improved in line with best international practices. To achieve this goal, the authorities should remove the legal cap of 1.6 percent of insured deposits on bank contributions and provide for ex-ante contributions by banks, ideally to a public deposit insurance agency with a broader mandate. A dedicated resolution funding mechanism should be set up to cater for capital needs not covered by bail-in.

69. Recent progress with codifying an explicit ELA framework is welcome. The SNB has announced that ELA can be extended to non-SIBs and launched an [ELE](#), whose implementation should strike an appropriate balance between ELA pre-commitment and effectiveness in crisis. The SNB should develop and publicly disclose key elements of its ELA framework—clearly differentiating it from other policy instruments—and establish a coordinated approach with FINMA for forward-looking solvency and viability assessments to enable timely and effective intervention. The ELA framework should incorporate robust supervisory measures and crisis management tools, capable of addressing the underlying causes of liquidity stress and mitigating risks to financial stability. The SNB should have the authority to require banks to prepare for broad collateral mobilization—including foreign assets—and should conduct regular collateral scanning, as well monitor intragroup liquidity and runnable liabilities.

70. Adopting a PLB is critical for credibility of the ELA and resolution frameworks. The 2023 crisis showed that significant deposit outflows can challenge SNB's ELA capacity and jeopardize its balance sheet. To safeguard financial stability, a formal legal agreement is needed—such as a law—to clearly define the Federal Council's role in backstopping the ELA. In addition, a complementary arrangement, such as a non-public MoU between the SNB and the Federal Council, would be valuable for addressing risks posed by non-SIBs, whose failure could nonetheless have systemic implications.

AUTHORITIES' VIEWS

71. The authorities appreciated the exchanges in the course of the FSAP exercise, and they broadly concurred with the main recommendations.

The authorities welcomed the finding that the financial system, including banks and insurances, would withstand severe economic downturn scenarios. They agreed that insights gained from the circumstances surrounding the merger of CS with UBS included the need for measures to further strengthen regulation and supervision. This has led to the ongoing comprehensive revision of the TBTF toolkit, which in many aspects aligns with staff's main recommendations. However, they emphasized that the time frames proposed by staff should better take into account legislative processes in Switzerland. As a general point, they noted that staff's recommendations would have benefited from a fuller consideration of the main country-specific institutions and frameworks.

72. The authorities were receptive to the recommendations on financial sector regulation and supervision, though they considered some of the identified shortcomings to be overstated by staff.

The authorities reaffirmed their commitment to high standards of regulation and supervision, as well as to further strengthening FINMA's powers. They noted that FINMA enjoys a high degree of operational independence, including budgetary autonomy, and generally has significant powers—including the issuance of binding supervisory standards and expectations—though some areas for improvement remain. FINMA has intensified supervision through additional resources and supervisory benchmarks, in coordination with international peers. Also, in the context of the ongoing work to strengthen TBTF toolkit, measures are being considered to reinforce FINMA's early intervention powers and to remove the suspensive effect of those powers by law, thus sparing FINMA from having to justify the withdrawal of the suspensive effect. Importantly, pending legislative approval, SIBs with foreign subsidiaries will face heightened capital requirements as they will be required to fully back these participations with CET1 capital. More broadly, the authorities emphasized that some of staff's main findings follow from certain misconceptions of the regulatory and supervisory system, as elaborated on in some detail in the authorities' response to the BCP assessment.

73. The authorities broadly concurred with staff's appraisal of systemic risk.

The authorities shared the staff's view on the need to closely monitor developments of mortgage credit exposure. The authorities are aware that the sectoral CCyB is at its legal maximum (although the coverage of the CCyB could still be extended across sectors) and that any potential adaptation or implementation of new measures would entail a certain lead time. However, they do not currently identify an urgency to adapt the macroprudential toolkit in light of the latest developments in the mortgage and real estate markets. They emphasized that microprudential supervisory measures are available, including to take action in case of any excessive risk-taking by individual institutions.

74. The authorities broadly concurred with staff's recommendations in other areas.

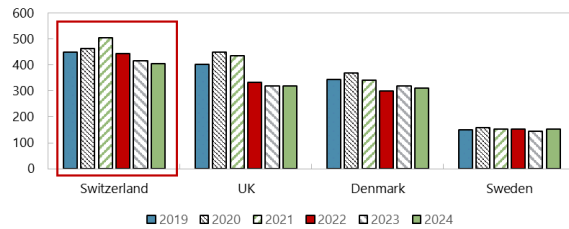
The authorities agree with the assessment of insurance regulation and supervision. They noted staff's recognition of the SST as a highly sophisticated risk-based capital adequacy regime and welcomed that the staff acknowledged the robust regulatory framework. The authorities broadly share the assessment on cyber resilience, and they are in process of identifying any gaps in the regulatory

regime. Regarding securities markets, the authorities agreed that some aspects of the legal, regulatory, and supervisory framework should be further strengthened and noted that a number of reforms, including for trading systems, were underway. On pensions, the authorities agreed that data limitations should be reduced. Regarding fintech, the authorities welcomed the call to keep regulation and supervision up with rapid evolution of financial innovation and noted that an ambitious legislative proposal was underway to this end.

Figure 16. Switzerland: Banking System Cross-Country Comparison

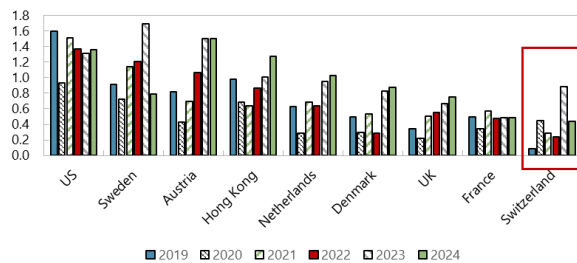
Switzerland's banking system is large compared to peer countries.

Banking System Total Assets / Nominal GDP
(percent)



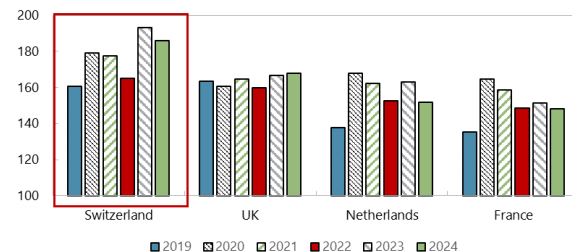
However, profitability is consistently lower compared to peers

Return on Assets
(percent, net income before tax over total assets)



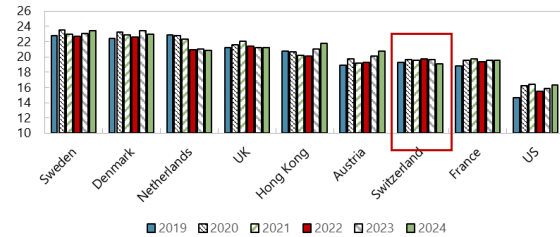
Bank liquidity in Switzerland compares favorably.

Liquidity Coverage Ratio (LCR)
(percent)



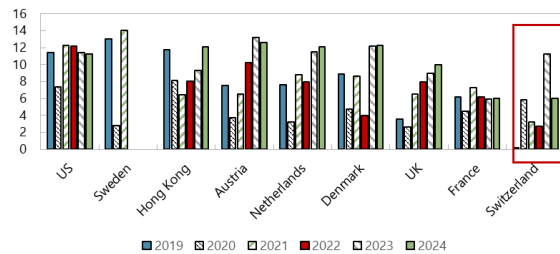
Capitalization is comparable to peers.

Regulatory Capital Ratios
(percent)



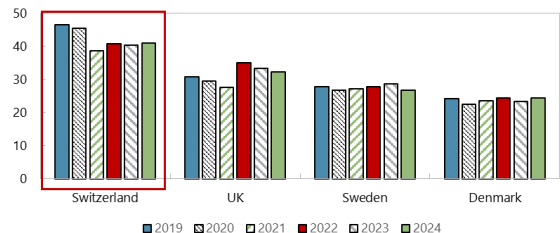
... also, in terms of return on equity.

Return on Equity
(percent, net income after tax over equity capital)



Asset risks are higher compared to peers, reflected in higher risk weight densities.

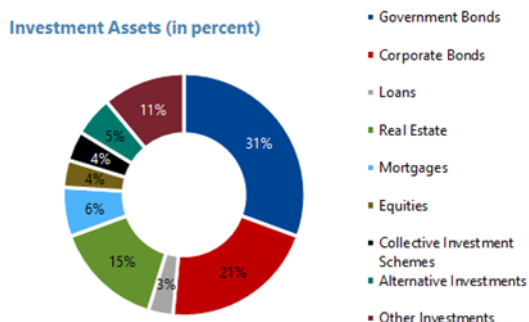
Risk Weight Densities
(percent, risk-weighted assets over total assets)



Sources: IMF staff calculations based on Chikako et al. (2020); BIS; SNB; Wuest Partner; and IAZI.

Figure 17. Switzerland: The Insurance Sector

Fixed income assets, including government bonds, corporate bonds and real estate dominate the insurers' investments.

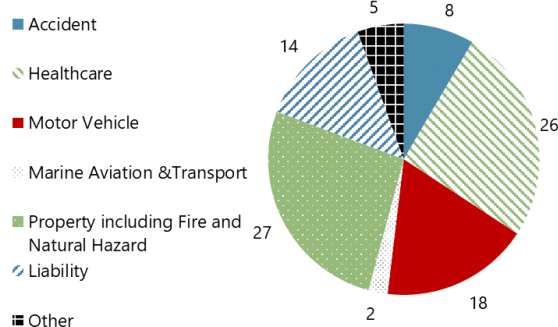


Bond investments are generally of high quality with 56 percent of AA rating or higher.



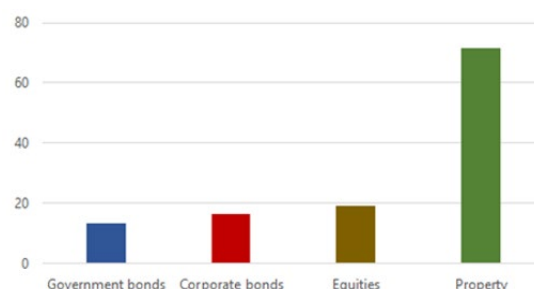
The non-life insurance business is well diversified.

Composition of Non-Life Premiums 2023
(Percent of total)



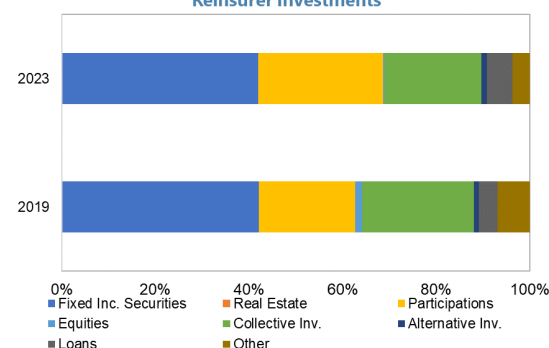
The home bias in financial securities is small compared to peer countries, which reflects the internationality of Swiss insurance groups.

Investments in Domestic Market (in percent)



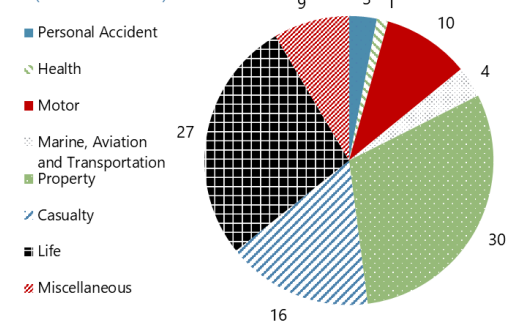
Reinsurers increased participations on the account of equities and collective investment schemes.

Reinsurer Investments



The largest part of reinsurance premia comes from life, property, and casualty segments.

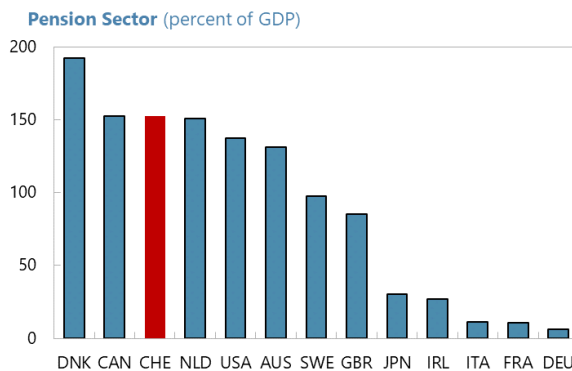
Composition of Reinsurance Premiums 2023
(Percent of total)



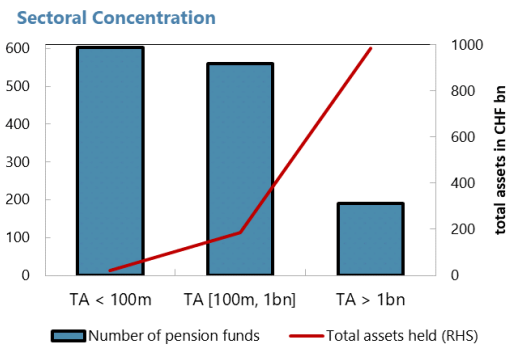
Source: FINMA.

Figure 18. Switzerland: The Pension Fund Sector

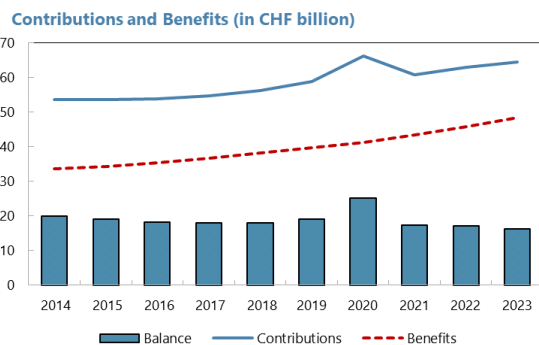
The Swiss pension sector is very large (relative to GDP) ...



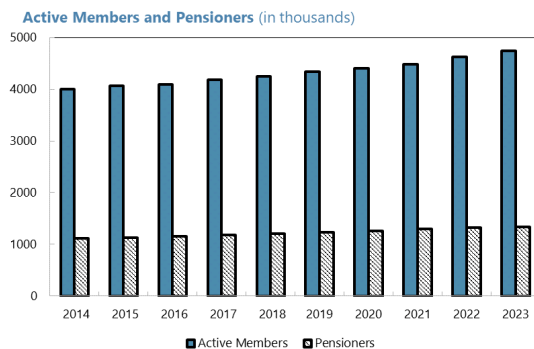
... and very fragmented.



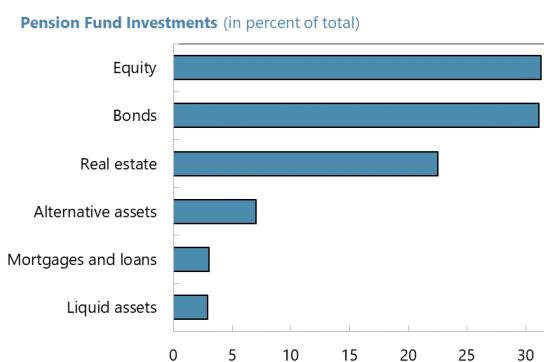
There is a steady positive balance of contributions over benefits.



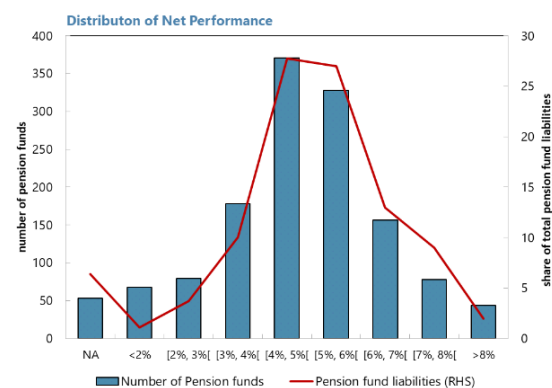
Active members have been growing faster than pensioners.



Pension funds invest mainly in equities, bonds, and real estate.



Pension funds achieve a median net yield of 4.5 percent.

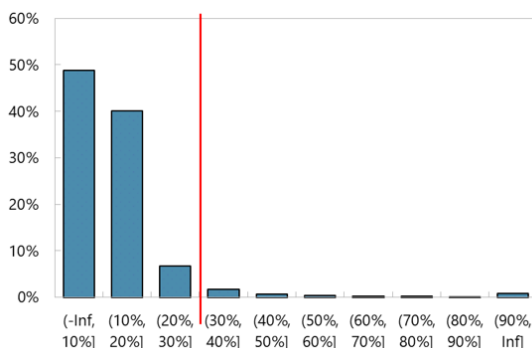


Source: OAK BV and FSO data.

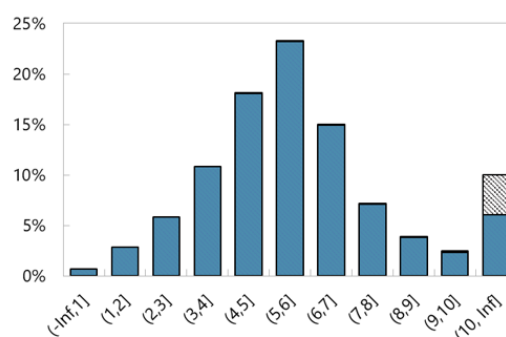
Figure 19. Switzerland: Macroprudential Counterfactual Analysis

DSTI limits of 30 percent do not affect many owner-occupied borrowers...

Owner-Occupied Mortgages DSTI

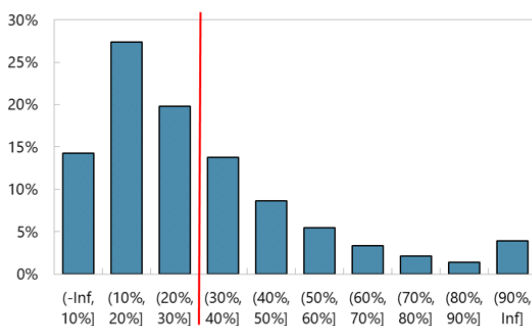


Owner-Occupied Mortgages LTI

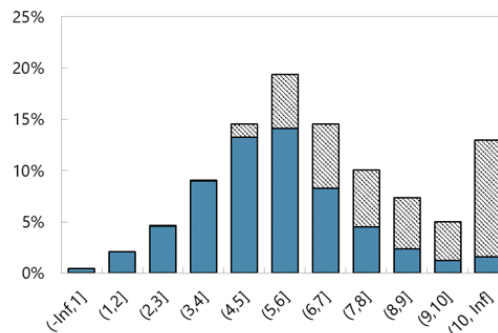


DSTI limit of 30 percent affects much more investment property of households

Investment-Property Mortgages (Households) DSTI

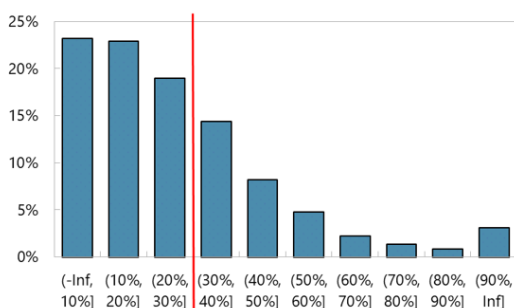


Investment-Property Mortgages (Households) LTI

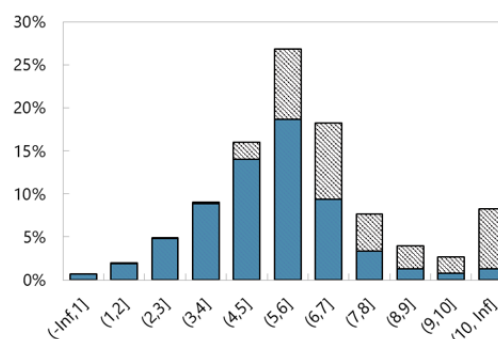


.... and corporate borrowers.

Investment-Property Mortgages (Commercial Borrowers) DSTI



Investment-Property Mortgages (Commercial Borrowers) LTI



Source: FSO; SNB; and IMF staff calculations.

Note: Grey bars indicate mortgage lending affected by the 30 percent DSTI cap. Based on Hypo B data for newly granted mortgages from Q1 2017 to Q4 2024. LTIs and DSTIs in the investment property mortgage segments are scaled to match the LTI distribution in the owner-occupied mortgage segment.

Table 2. Switzerland: Selected Economic Indicators, 2018–2030

(In percent, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
								Staff projections					
Real GDP (Percent Change) 1/	2.9	1.2	-2.3	5.6	3.1	0.7	1.4	0.9	1.3	1.1	1.8	1.2	1.8
Real GDP (adj. for sporting events)	2.5	1.5	-2.2	5.3	2.9	1.2	1.0	1.2	1.0	1.4	1.5	1.5	1.5
Total domestic demand	1.2	2.0	-0.4	0.2	2.1	2.0	1.9	1.2	1.3	1.2	1.2	1.2	1.2
Private consumption	0.7	1.2	-3.4	2.2	4.3	1.5	1.8	1.1	1.0	1.1	1.1	1.1	1.1
Public consumption	0.8	0.8	3.8	3.0	-1.2	1.7	0.5	1.0	0.7	1.0	1.0	1.0	1.0
Gross fixed investment	0.8	0.9	-1.5	2.8	0.0	0.1	-0.8	0.8	2.1	1.6	1.5	1.5	1.5
Inventory accumulation 2/	0.3	0.8	1.3	-1.9	-0.1	0.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance 2/	1.8	-0.6	-2.0	5.3	1.3	-0.9	-0.3	0.0	0.2	0.1	0.8	0.2	0.8
Nominal GDP (billions of Swiss francs)	709.8	717.3	696.1	744.5	791.1	804.0	825.6	834.5	850.2	865.6	887.2	903.9	926.3
Savings and Investment (Percent of GDP)													
Gross national saving	31.3	29.9	30.1	33.4	33.6	31.2	32.0	30.7	31.2	31.8	32.2	33.0	33.4
Gross domestic investment	25.7	26.4	29.6	26.4	24.8	25.9	26.9	25.7	26.1	26.5	26.6	27.0	27.1
Household savings	9.9	11.0	14.7	13.6	11.1	...	...	...	...	...	...	...	...
Current account balance	5.6	3.5	0.5	7.0	8.7	5.3	5.1	5.0	5.0	5.3	5.6	6.0	6.3
Prices and Incomes (Percent Change)													
GDP deflator	0.8	-0.1	-0.7	1.3	3.0	0.9	1.3	0.1	0.6	0.7	0.7	0.7	0.7
Consumer price index (period average)	0.9	0.4	-0.7	0.6	2.8	2.1	1.1	0.1	0.6	0.7	0.7	0.7	0.7
Consumer price index (end of period)	0.7	0.2	-0.8	1.6	2.9	1.8	0.6	0.1	0.6	0.7	0.7	0.7	0.7
Nominal hourly earnings	0.5	0.8	0.9	-0.2	0.9	1.7	1.8	1.3	1.0	1.0	1.0	1.0	1.0
Unit labor costs (total economy)	-0.7	1.8	1.1	-1.3	2.3	2.7	1.1	0.7	0.6	0.3	0.2	0.2	0.2
Employment and Slack Measures													
Unemployment rate (in percent)	2.5	2.3	3.2	3.0	2.2	2.0	2.4	2.9	3.1	2.9	2.8	2.8	2.8
Output gap (in percent of potential)	0.7	0.4	-1.6	-0.4	0.5	0.0	-0.2	-0.3	-0.6	-0.6	-0.4	-0.3	-0.1
Capacity utilization	73.8	74.6	71.7	76.3	77.7	77.3	...	...	...	...	...	...	...
Potential output growth	1.8	1.8	-0.3	4.0	2.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
General Government Finances (Percent of GDP)													
Revenue	33.0	33.3	34.0	34.1	32.7	32.2	32.5	32.3	32.3	32.3	32.3	32.3	32.3
Expenditure	31.8	32.0	37.0	34.4	31.6	32.1	31.9	32.1	32.3	32.2	32.2	32.3	32.3
Balance	1.3	1.3	-3.0	-0.3	1.2	0.1	0.6	0.3	0.1	0.2	0.2	0.1	0.1
Cyclically adjusted balance	1.1	1.2	-2.5	-0.2	1.0	0.1	0.6	0.4	0.3	0.3	0.3	0.1	0.1
Gross debt 3/	39.8	39.7	43.2	40.9	37.2	38.7	37.5	36.9	36.1	35.3	34.3	33.6	32.7
Monetary and Credit (Percent Change, Average)													
Broad money (M3)	3.2	0.8	6.5	1.4	0.1	-2.0	1.9	1.1	1.9	1.8	2.5	1.9	2.5
Domestic credit, non-financial	4.0	4.2	2.4	3.8	2.6	1.8	2.3	1.1	1.9	1.8	2.5	1.9	2.5
Three-month SFr LIBOR	-0.7	-0.7	-0.7	-0.8	0.5	1.8	0.9	...	...	...	...	...	...
Yield on government bonds (7-year)	-0.2	-0.7	-0.6	-0.4	0.6	1.0	0.6	...	...	...	...	...	...
Exchange Rates (Levels)													
Swiss francs per U.S. dollar (annual average)	1.0	1.0	0.9	0.9	1.0	0.9	0.9	...	...	...	...	...	...
Swiss francs per euro (annual average)	1.2	1.1	1.1	1.1	1.0	1.0	1.0	...	...	...	...	...	...
Nominal effective rate (avg., 2000=100)	120.4	123.2	130.2	129.9	135.9	144.5	149.0	...	...	...	...	...	...
Real effective rate (avg., 2000=100) 4/	103.2	104.2	108.2	105.5	105.9	109.3	110.8	...	...	...	...	...	...

Sources: Haver Analytics; IMF's Information Notice System; Swiss National Bank; and IMF staff estimates.

1/ The medium-term forecasts reflect the impact on Swiss GDP of major international sporting events, such as the Olympic Games, FIFA World Cup and UEFA European Championship.

2/ Contribution to growth. Inventory accumulation also includes statistical discrepancies and net acquisitions of valuables.

3/ Reflects new GFSM 2001 method, which values debt at market prices. Calculated as the sum of Federal, Cantonal, Municipal and Social security gross debts.

4/ Based on relative consumer prices.

Table 3. Switzerland: Bank Financial Soundness Indicators, 2012–2024

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital Adequacy													
Regulatory Tier I capital as percent of risk-weighted assets 1/ 2/	15.7	17.8	16.1	16.6	15.7	18.2	18.3	19.0	19.3	19.1	19.4	19.3	19.0
Regulatory Tier 1 capital as percent of assets 2/	5.7	6.3	7.0	7.5	7.3	8.3	8.5	8.8	8.7	7.4	7.9	7.8	7.6
Non-performing loans net of provisions as percent of Tier I capital	5.0	4.5	3.7	3.8	3.9	3.0	3.2	2.9	3.3	2.9	2.9	3.5	3.8
Return on Assets	0.1	0.4	0.3	0.6	0.3	0.4	0.4	0.1	0.4	0.3	0.2	0.4	0.6
Liquidity Coverage Ratio 3/	...	...	...	140.3	152.7	150.9	158.3	160.6	179.2	177.6	165.3	193.4	181.8
Asset Quality and Exposure													
Non-performing loans as percent of gross loans	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.8	0.7	0.7	0.8	0.8
Sectoral distribution of bank credit to the private sector (percent)													
Households	66.9	66.2	66.6	67.6	67.4	67.6	67.2	66.9	66.1	66.1	66.1	65.9	65.8
Agriculture and food industry	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Mining and Quarry	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.0
Manufacturing	3.0	2.6	2.4	2.2	2.1	2.1	2.1	2.0	2.0	1.9	1.9	1.9	1.8
Utilities	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.6	0.6	0.6
Construction	1.6	1.6	1.5	1.6	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.6
Retail	3.0	2.7	2.8	2.5	2.7	2.5	2.6	2.4	2.6	2.7	2.4	2.1	2.1
Hotels and restaurants / Hospitality sector	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.7	0.7
Transportation & Storage	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.7	0.7	0.7	0.6	0.6	0.6
Info & Comm, Real Estate, Professional, Scientific & Admin. Activities	12.6	13.0	13.2	13.2	13.4	13.6	13.9	14.2	14.5	14.8	15.2	15.6	16.1
Finance and Insurance	5.2	5.7	5.3	4.8	4.7	4.7	5.0	5.4	5.7	5.8	5.8	5.8	5.6
Public Administration and Defence	1.7	2.3	2.3	2.3	2.3	2.0	1.9	1.8	1.7	1.6	1.5	1.5	1.6
Education	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Health & Social services	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.4	1.5	1.4	1.4	1.4	1.4
Art and Entertainment	1.0	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Extraterritorial Organization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Swiss National Bank.

1/ Based on parent company consolidation. This consolidation basis equals the CBDI approach defined in FSI compilation guide plus foreign bank branches operating in Switzerland, and minus overseas deposit-taking subsidiaries.

2/ The reported figures comply with the definitions in the Capital Adequacy Ordinance and in FINMA's institution-specific 'too big to fail' (TBTf) decrees, and take into consideration the Basel III transitional provisions for 2013 to 2018. The figures have only limited comparability over this period, since the capital definitions in the transition phase became stricter with each year.

3/ The 'Liquidity Coverage Ratio' indicator was introduced as of Q1 2015. Data from the old 'Liquid Assets to Short-Term Liabilities' indicator are shown prior to that time.

Table 4. Switzerland: Status of Key 2019 FSAP Recommendations

Recommendation and Responsible Authority		Timing*	Implementation ¹
1	Strengthen FINMA's autonomy, governance, and accountability, and preserve the primacy of its prudential mandate. (FDF/FINMA; ¶132–34)	C	Partly taken into account in the 2020 Ordinance to the Financial Market Supervision Act, which is being fully implemented and applied. Steps needed to strengthen FINMA autonomy, governance, and accountability are under review.
2	Increase resources for high-quality data gathering and analysis of financial system risks, especially for the fast-moving fintech sector, and to advance recovery and resolution planning. (SNB/FINMA/OAK BV; ¶115, ¶129, ¶136 ¶141, ¶151, ¶154, ¶158, ¶163)	MT	The SNB and FINMA decided to introduce a supervisory loan-by-loan dataset on banks' exposures to non-banks, with more than 90 percent coverage (as only the smallest banks in Switzerland are exempted). The dataset will replace existing credit surveys and fill existing gaps in the context of banks' credit risk exposures. The first data release is expected in 2026.
Financial Stability Policy Framework			
<i>Macroprudential</i>			
3	Expand the macroprudential toolkit with mandated supply- and demand-side tools and strengthen accountability and expectations to act. (SNB/FINMA/FDF; ¶135–36)	ST	New mandated tools have not been introduced in the macroprudential toolkit.
<i>Banking</i>			
4	Ensure that FINMA—rather than banks—contracts and pays directly for supervisory audits using 'audit-level' practices in critical areas. (FDF/FINMA; ¶138)	ST	FINMA published the results of the analysis "Ex-post evaluation of the revision of the "Auditing" Circular in May 2023. Following the takeover of CS by UBS in March 2023, the Federal Council instructed the FDF to review various aspects of the current legislation, which is part of the review of the TBTF.
5	Focus supervisory audits and increase FINMA's risk-based on-site inspections. (FINMA; ¶138)	ST	FINMA has revised its supervisory approach by guiding external regulatory auditors to follow a more risk-focused approach under FINMA guidance. Results over three years have been analyzed as part of an ex-post analysis in 2022, and a comprehensive assessment was published in 2023. This confirmed increased benefits for FINMA and improved efficiency and reduced costs in regulatory auditing. Resource savings have been re-invested to increase effectiveness of on-site inspections of both specific risk areas (e.g., interest rate risk, cyber and IT risks, and climate risk), supervision of large banks and by establishing dedicated on-site teams,

Table 4. Switzerland: Status of Key 2019 FSAP Recommendations (continued)

Recommendation and Responsible Authority		Timing*	Implementation ¹
			as well as strengthening the authorization and licensing process. FINMA's internal policy on on-site inspections has also been revised to reflect the changes made to its organization and processes.
6	Strengthen assessments of key risk management and control practices. (FINMA; ¶139)	MT	Measures identified by the FINMA Risk Barometer process are integrated into the supervisory planning process. Its findings also feed into Assessment Letters. A FINMA governance barometer was introduced. Furthermore, in some specific cases, FINMA has, based on critical findings on risk management controls and practices, influenced banks' remediation plans. A supervisory concept for corporate governance was established and the assessment resulting from the Corporate Governance Questionnaires influences the supervisory assessment of the relevant firms and the supervisory intensity on a risk-based approach (i.e., supervision is intensified when the assessment is negative). FINMA has further formalized its internal risk assessment process for both large banks and has developed a risk inventory, where supervision and the support functions identify risks/track supervisory measures. The inventory and the corresponding supervisory actions are discussed between the head of banks, head risk management and the heads of the supervisory teams.
<i>Financial Market Infrastructures</i>			
7	Strengthen recovery and resolution planning for FMIs. (FINMA/SNB/SIX; ¶149)	I	FINMA assesses recovery plans for SIX x-clear and SIX SIS on a yearly basis. FINMA approved both plans, with a few remaining noncritical expectations, in December 2022. Both FMIs have addressed and fulfilled the mentioned few noncritical expectations in 2023, resulting in an approval again of both plans in December 2023. For SIX x-clear, the preferred resolution strategy and preferred resolution tool set have been defined and discussed with the CMG of SIX x-clear. The necessary legal basis for some preferred resolution tools has been addressed by FINMA as part of the evaluation of the Swiss Financial Market Infrastructure Act (FMIA). However, entry into force of FMIA is not expected before 2027/2028. Identified challenges regarding its implementation are assessed and addressed.
8	Improve independence of FMIs governance arrangements. (SNB/SIX; ¶148)	ST	As part of the redesign of consolidated supervision, significant adjustments were negotiated and implemented to FMI's governance and its autonomy in risk management and independence from Group support in crisis situations.

Table 4. Switzerland: Status of Key 2019 FSAP Recommendations (concluded)

Recommendation and Responsible Authority		Timing*	Implementation ¹
<i>Asset Management</i>			
9	Better monitor and manage risk of concentration in regulated funds; FINMA to impose administrative fines. (FDF/FINMA; ¶52–53)	ST	Legislation with additional requirements for risk monitoring has been approved by Parliament. There are currently no plans to increase the monitoring of concentration risks of regulated funds. Further, the opportunity to empower FINMA to impose administrative fines is being examined.
<i>Fintech and Crypto-Assets</i>			
10	Enhance the monitoring of activities and address regulatory gaps. (FDF/FINMA; ¶58–59)	ST	FINMA has, among other things, increased its resources dedicated to analyzing fintech projects presented to the authority to give feedback regarding regulatory implications to market participants. Furthermore, investigations on suspected unauthorized activities of fintech firms remain a priority issue. In 2023 FINMA established a report for banks regarding crypto assets they hold on the balance sheet as well as crypto assets held in custody. FINMA published guidance for staking services in 2023 and for the issuance of stablecoins in 2024. To address challenges in case of bankruptcy, FINMA requires a Crypto Resolution Package to regulated entities involved in custody and staking. The Federal Council Report on digital finance of 2022 identified a need for action in different areas. Several follow-ups to this report are currently underway. One of them concerns the revision of the Swiss Fintech-license. Going forward, FINMA will particularly focus on improving the data quality of the reporting.
Financial Safety Net and Crisis Management			
11	Enhance, expand, and expedite recovery and resolution planning, including resolvability. (FDF/FINMA; ¶63–66)	ST	A “PLB” that covers SIBs was adopted under an emergency ordinance for 6 months in March 2023. The Federal Council adopted a dispatch in September 2023 and is under legislative review. On June 2, 2023, the Federal Council approved the amendments to the Insurance Oversight Ordinance (IOO) and brought both the revised Ordinance and the revised Insurance Oversight Act (IOA) into force with effect from 1 January 2024.
12	Reform the DIS with a public DIA that is included in the crisis management framework, ex-ante DIS funding, and the authority to use deposit insurance funds for resolution funding, subject to safeguards. (FDF; ¶67–68)	MT	The Federal Council has brought amendments to the Banking Act and Banking Ordinance into force with effect from January 1, 2023. The reform strengthens the DIS while not relying on a public DIA, ex-ante DIS funding, or the use of deposit insurance funds for resolution funding, as previously recommended by the FSAP. FINMA approved the self-regulation of the Swiss Deposit Insurance Scheme esisuisse.
* C = Continuous; I = Immediate (within one year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years).			
¹ Based on information provided by the Swiss authorities.			

Table 5. Switzerland: Risk Assessment Matrix /1

Sources of risk	Likelihood	Expected impact on financial stability when realized
Conjectural Risks		
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	High	<p>These three risks, in conjunction, form the starting point for the supply shock oriented adverse scenario for the Switzerland FSAP.</p> <p>A material supply shock, if it were to materialize, would trigger inflation pressure particularly at global level, the risk of de-anchoring inflation expectations, and therefore the tendency for policy response to increase interest rates. This would pressure Swiss banks' funding costs and therefore their net income, because the long-duration real estate lending is dominant in size and mostly at fixed rate terms. The nonfinancial corporate sector may suffer from diminished export-based income, alongside rising bank borrowing costs for the affected firms, thereby leading to rising corporate defaults and associated loan losses for banks.</p>
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.		
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Medium	
Sharp correction in the real estate market. The imbalances, especially in residential real estate, continue, as house prices remain high. While there has been some moderation in house prices, in response to higher interest rates, a steep increase in interest rates, along with other negative shocks (e.g., lower growth, higher living costs, cross border linkages), could trigger declines in housing prices.	Medium	The Swiss financial system has a very large exposure to the real estate market. An abrupt correction in real estate prices could potentially lead to asset quality deterioration for banks, lower returns or losses for investors, shrinking wealth for households, and a contraction in construction and other related activities, posing risks to economic and financial sector stability.
Structural Risks		
Risks stemming from the ongoing UBS takeover of CS and the very large G-SIB. Although so far successful, execution risks remain significant until the consolidation of operations is completed. The large size of the G-SIB poses risks during stress periods.	Medium	The very elevated size of the larger G-SIB implies substantial concentration concerns, both in terms of connectedness/centrality as well as regarding competition/concentration in the Swiss banking system. This may have adverse consequences for the solvency position of the remainder of the Swiss banking system.

Table 5. Switzerland: Risk Assessment Matrix /1 (concluded)

Sources of risk	Likelihood	Expected impact on financial stability when realized
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	High	Switzerland is a leader in cross-border asset management and fintech, prone to cyberattacks. Successful attacks can lead to outages of information and communication technology systems and jeopardize the goals of availability, confidentiality, and integrity, compromising the attractiveness of the financial system.
Systemic financial instability. Financial sector instability in major Swiss banks' counterparts and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers affecting weak banks and NBFIs.	Medium	Switzerland is a global financial center. In the event of a severe financial crisis in major jurisdictions to which the Swiss banking system is exposed, Swiss banks could face adverse spillover effects, including through materializing credit risk, rising funding costs, and liquidity risk events.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	Switzerland is affected by climate change. Related extreme events have become more frequent over the past century, often causing significant economic losses. Such developments also bring challenges to insurance and reinsurance companies.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline (with respective probabilities as "low" = below 10, "medium" = 10–30, and "high" = 30–50 percent) in the next 1–3 years.

Appendix I. Banking Sector Stress Test Matrix (STeM)

I.1 Banking Sector Solvency Stress Test Matrix (STeM)		
Domain		Description
1. Institutional perimeter	Institutions included	<ul style="list-style-type: none"> 92 banks at consolidated level will be in-scope, including the four SIBs, all cantonal banks, and various universal commercial banks and private banks
	Market share	<ul style="list-style-type: none"> 93 percent of banking system assets
	Data sources and cut-off date	<ul style="list-style-type: none"> Public and supervisory data Cut-off date: end-December 2024 Consolidated banking groups, including their foreign exposures where material (>5 percent of a bank's total assets)
2. Methodology	Framework	<ul style="list-style-type: none"> Balance sheet model that accounts for all relevant risk drivers: credit risk, interest rate and market risk, other P&L components, RWA Dynamic balance sheet Combination of structural and econometric model components
	Model components	<ul style="list-style-type: none"> Credit risk: structural model (micro-macro simulation model) for household mortgage portfolios, for both PD and LGD components, rooted in micro/household survey data; econometric satellite models for nonfinancial corporate portfolios; satellite models based on Moody's KMV PDs for financial corporate portfolios Interest income and expense: econometric pass-through equations, capturing all structural dependences of bank rates on market rates, policy rates, market price of risk, possible feedback from solvency to cost of funding, etc. Net fees and commission income and other income/expenses: bank panel econometric models Market risk: modified duration approach for bond valuation; possible account for hedging STA risk weights constant IRB risk weights modeled dynamically using the relevant risk parameter inputs, themselves projected via structural or econometric model components
	Stress test horizon	<ul style="list-style-type: none"> 3 years: 2025-2027
3. Type of analyses	Scenario analysis	<ul style="list-style-type: none"> Baseline scenario, based on the IMF WEO (an intermittent version as of end-February 2025) Two adverse scenarios: (1) demand shock-dominated, disinflationary scenario with falling base interest rates; (2) supply shock-dominated, inflationary scenario with initially rising interest rates Informed by (G)RAM
	Sensitivity analysis	<ul style="list-style-type: none"> Optional mark-to-market for HTM bonds, in T0 and then revaluing them in line with the interest rate trajectories in the macrofinancial scenarios
4. Regulatory and accounting standards		<ul style="list-style-type: none"> Accounting and regulatory standards as relevant for banks in Switzerland (in particular, Swiss GAAP), in particular for what concerns expected credit loss provisioning Expected credit loss provisioning principles, including provisioning for performing exposures, will be accounted for in the stress test model
5. Capital buffers and hurdle rates		<ul style="list-style-type: none"> Minimum capital requirements (Pillar 1) plus prudential buffers (Pillar 2), CCoB, CCyB, SIB surcharges and others, as relevant Under the adverse scenarios, CCoB and CCyB are allowed to be "consumed;" capital shortfalls are examine with and without these buffer requirements, to inform how many banks would fall into such buffer ranges
6. Reporting of results		<ul style="list-style-type: none"> System-wide capital evolution/depletion and capital shortfalls Aggregated contributions to evolution of capital ratios All possibly by clusters of banks, ensuring that no individual institutions and their results can be inferred

I.2 Banking Sector Liquidity Stress Testing Matrix (STeM)

Domain		Description
1. Institutional perimeter	Institutions	<ul style="list-style-type: none"> Same as for solvency stress test (see Table I.1)
	Market share	<ul style="list-style-type: none"> Same as for solvency stress test (see Table I.1)
	Data and base date	<ul style="list-style-type: none"> Regulatory data based on Basel III standardized liquidity monitoring tools Cut-off date: end-December 2024.
2. Channels of risk propagation	Methodology	<ul style="list-style-type: none"> Cash flow-based liquidity stress test, with account for liquidity-solvency feedback and add-back mechanism pertaining to secured funding Link to market risk, by involving equity and bond revaluation in the liquidity stress test model Additional monitoring metrics: <ul style="list-style-type: none"> LCR in CHF (requirement) and in significant currencies (EUR, GBP, JPY, USD) (monitoring metric) Net Stable Funding Ratio (reporting requirement) Concentration of funding (monitoring metric)
3. Risks and buffers	Risks	<ul style="list-style-type: none"> Funding risk, rollover risk, market liquidity risk
	Buffers	<ul style="list-style-type: none"> Stock of liquid assets
4. Tail shocks	Size of the shock	<ul style="list-style-type: none"> Runoff shock calibration for the cash flow-based liquidity stress test informed by LCR parameterization and historical experience in Switzerland and other jurisdictions Revaluation of bond holdings that form part of the counterbalancing capacity in line with market risk shocks that are relevant for the solvency stress test
5. Regulatory standards	Regulatory standards	<ul style="list-style-type: none"> Basel III full implementation for the LCR ratio at 100 percent. Counterbalancing capacity above net cash outflows under stress scenario.
6. Reporting format for results	Output presentation	<ul style="list-style-type: none"> Changes in average liquidity position and counterbalancing capacity by scenario. Distribution of banks' liquidity position by scenario. Number of banks with counterbalancing capacity below net cash outflows. Banks' post-shock net liquidity position. Liquidity shortfall in terms of banking system total liabilities.

Appendix II. Insurance Sector Stress Testing Matrix (STeM)

Domain		Description	
		Bottom-Up Insurance Undertakings	Top-Down by IMF
1. Institutional perimeter	Institutions included	<ul style="list-style-type: none"> Six insurance groups (Baloise, Helvetia, Mobiliar, Swiss Life, Swiss Re, Zurich) 	Six insurance groups (Baloise, Helvetia, Mobiliar, Swiss Life, Swiss Re, Zurich)
	Market share	<ul style="list-style-type: none"> [>70 percent of total balance sheet assets] 	[>70 percent of total balance sheet assets]
	Data	<ul style="list-style-type: none"> Companies' own data FINMA regulatory reporting 	Companies' own data from bottom-up stress test FINMA regulatory reporting
	Reference date	<ul style="list-style-type: none"> December 31, 2024 December 31, 2023 for cyber scenarios 	December 31, 2024
2. Channels of risk propagation	Methodology	<ul style="list-style-type: none"> Investment assets: market value changes after price shocks, affecting the solvency position Sensitivity analysis: effect on available capital and solvency position. 	Investment assets: market value changes after price shocks, affecting the solvency position Sensitivity analysis: effect on available capital and solvency position.
	Time horizon	<ul style="list-style-type: none"> Instantaneous shock 3-year projections 	Instantaneous shock
3. Tail shocks	Size of shock	<ul style="list-style-type: none"> Macrofinancial scenario broadly in line with the banking sector stress test Instantaneous shock 	Macrofinancial scenario broadly in line with the banking sector stress test Instantaneous shock
	Sensitivity analysis	<ul style="list-style-type: none"> Outage of cloud service provider Petya/WannaCry-Type ransomware attack Estimation of impact on risk bearing capital and SST ratio from underwriting losses (both affirmative and silent cyber) 	None
4. Risks and buffers	Risks/factors assessed	<ul style="list-style-type: none"> Market risks: interest rates, share prices, property prices, credit spreads Summation of risks, no diversification effects. Separate sensitivity analysis for cyber event 	Market risks: interest rates, share prices, property prices, credit spreads Summation of risks, no diversification effects.
	Buffers	<ul style="list-style-type: none"> Product-specific 	None
	Behavioral adjustments	<ul style="list-style-type: none"> Management actions limited to non-discretionary rules in place at the reference date. Including realistic management actions 	None
5. Regulatory standards and parameters	Regulatory/accounting standards	<ul style="list-style-type: none"> Swiss Solvency Test National GAAP, IFRS, US-GAAP 	Swiss Solvency Test National GAAP, IFRS, US-GAAP
6. Reporting format for results	Output presentation	<ul style="list-style-type: none"> Impact on solvency ratios Impact on net income Contribution of individual shocks Dispersion measures of solvency ratios and net income. 	Impact on assets over liabilities Contribution of individual shocks Dispersion measures of assets over liabilities

Appendix III. Climate Stress Testing Matrix (STeM)

Domain	Description
1. Institutions included	<ul style="list-style-type: none"> • Same as in the banking sector stress testing, covering mortgage portfolios
2. Data and starting position	<ul style="list-style-type: none"> • Public and supervisory • Cut-off date: December 2024 • Public or authorities' data on climate projections and insurance conditions
3. Methodology	<ul style="list-style-type: none"> • Structural model (micro-macro simulation model) for household mortgage portfolios, for both PD and LGD components, rooted in micro/household survey data, geographically differentiated, linked to climate projections, and considering insurance conditions
4. Scenarios	<ul style="list-style-type: none"> • Baseline scenario, same as in the banking sector stress testing (current climate conditions) • At least one adverse scenario, based on future climate conditions from IPCC (depending on the availability of AR5 or AR6 and heterogeneity of future climate conditions)
5. Time horizon	<ul style="list-style-type: none"> • 3 years: 2025–2027, and consider future climate conditions for 2050 and 2100
6. Risks/factors assessed	<ul style="list-style-type: none"> • The impact of chronic and acute climate conditions on households and its effects on PD and LGD components
7. Output presentation	<ul style="list-style-type: none"> • Delta PDs and delta LGDs • Individual banks' capital ratio impacts

Appendix IV. Interconnectedness and Contagion Analysis

Domain	Description
Institutions involved	<ul style="list-style-type: none"> • Swiss banks • Switzerland and other countries (BIS data) to which Switzerland is exposed through banking system asset-side claims and liability-side borrowings
Data and starting position	<ul style="list-style-type: none"> • Swiss domestic sectoral exposures • BIS cross-country exposures, alongside additional data for assets, risk-weighted assets, and capital, across countries • Swiss banks' bilateral interbank exposure data (largest cross-exposures) • SWIFT cross-country transaction flow data
Methodology	<ul style="list-style-type: none"> • Domestic cross-sectoral exposure analysis (net lenders, net borrowers) • Network metrics • Default contagion simulations, using the Espinosa-Vega & Solé (EVS 2010) model, based on BIS cross-country exposure data and Swiss banks' interbank exposure data • Systematic shock simulations (each node fails one after another), and inform triggers by result of solvency/liquidity stress test • Analysis and visualization of SWIFT transaction flow data (not as input for EVS models)
Buffers	<ul style="list-style-type: none"> • Banks' capital and liquid asset buffers
Output, results	<ul style="list-style-type: none"> • Network metrics and visualizations • EVS model results: bank and country level impact and vulnerability rankings, capital losses • Emphasis placed on entities (banks) ranking high in terms of both impact and vulnerability