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Introductory remarks by Niklaus Blattner

Centre of Competence for System Stability

With effect from the year 2001, the Swiss National Bank has set up a Centre of Competence for System Stability. In doing so, it is putting into practice a lesson learned from long experience – namely, that a stable and competitive financial system is an essential prerequisite for successful monetary policy. A central bank can influence price stability only in an indirect way, i.e. by changing the supply of money – which means through the money and capital markets. It is thus particularly interested in maintaining a solid financial system, as only such a system will respond reliably to changes in monetary policy.

The stability of the financial system is of interest not merely to the National Bank but also to the Federal Banking Commission as well as to other federal authorities and private institutions that have self-regulatory responsibilities. The Banking Commission is the National Bank's principal partner, and is also involved in the work of the Centre of Competence. Other authorities and institutions are called upon to assist in specific areas.

In addition to the stability of the financial system in general, the Centre is also concerned with the stability of the payment systems, which also includes securities clearing.

Efficient and reliable financial market infrastructure is conducive to the profitability, smooth functioning, solvency and stability of its users and customers. By contrast, poorly constructed or badly managed infrastructure is a source of systemic instability. Financial market infrastructure not only offers advantages in terms of size and product range but also provides networks – and users of networks depend on the stability of the entire structure. Consequently, financial market infrastructure has two distinct aspects: under favourable circumstances it contributes to the stability of financial systems, whereas under unfavourable circumstances it jeopardises them.

This ambivalence shapes the attitude of the supervisory authorities and the central bank towards financial market infrastructure. From the regulators' point of view, the operation of important financial market infrastructure requires both initial authorisation and continuous supervision – however much trust may exist.

The National Bank's supervisory function in Swiss Interbank Clearing (SIC) is set out in contractual form. The draft revision of the National Bank Law (NBL), which is currently at the consultation stage, explicitly states that the National Bank will be empowered to supervise the operation of cashless payment systems if these are likely to pose a threat to the stability of the financial system. It also provides for sanctions to be imposed under administrative law should the parties operating the payment system fail to meet the minimum requirements. A system could, for example, be denied access to the sight deposit account at the National Bank. The National Bank could also issue a public warning against the use of a defective system. Any further sanctions, however, would have to be imposed by the Swiss or foreign authorities responsible for supervising the system's operator and users rather than by the National Bank.

The proposals contained in the draft legislation would create a clear legal basis for the National Bank's traditional efforts to contribute to the stability of the payments infrastructure. The National Bank is by no means interested in becoming a regulatory activist. It is purely concerned with monetary policy. The fact that its security requirements for payment systems enhance Switzerland's appeal as an international centre of finance is merely a welcome side effect.

Switzerland's attractiveness as a business location is one of the main factors in the competitiveness of financial service providers. And competitive financial service providers are themselves essential to stable financial systems. Sustainable success can only be achieved if the operating conditions are right. That is why the Centre of Competence for System Stability also addresses the general background, i.e. the regulatory and supervisory framework of the financial markets, including aspects of tax law and money laundering.

To avoid misunderstanding, we should mention that the competitiveness of the financial sector is by no means the primary goal of the financial market supervisory authorities or of the central bank. The chief concern of the financial market supervisory authorities – i.e. the Banking Commission – is to protect creditors and investors. For its part, the National Bank focuses on conducting monetary policy serving the interests of the country as a whole. Specifically, it aims to safeguard price stability while taking due account of the cyclical development of the Swiss economy.

For the supervisory authorities and for the National Bank, the competitiveness of the financial sector is a secondary goal which is important only insofar as it affects the primary objectives. Competitive financial service providers are also profitable ones. If profitability is lacking, solvency will be at risk in the long run. Service providers whose profitability is doubtful will therefore ultimately jeopardise the security of creditors and investors. And sooner or later they will also cease to be partners to the National Bank's monetary policies. What makes matters worse is the fact that the weakness of banks and defective payment systems is contagious: problems can spread, undermining the solvency of the financial system as a whole.

The Centre of Competence for System Stability is headed by the Head of the National Bank's Department II. The Governing Board of the National Bank is advised regularly on these matters and takes the major decisions.

By setting up the Centre of Competence for System Stability, the National Bank is concentrating the resources it already has in this area, thus enhancing its contribution to the security and soundness of Switzerland as an international financial centre. This does not, of course, call into question the existing allocation of powers in the field of financial market regulation and supervision.