

# Country Report Switzerland

“FinTech – a new challenge for deposit insurance“

Universität Zürich-esisuisse-EFDI Fintech-Symposium

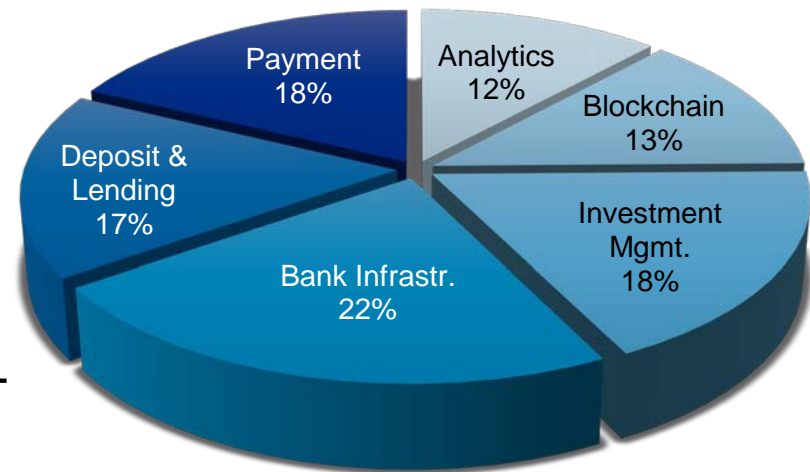
13 March 2017

# Innovation in an ever-changing market environment

- Current macroeconomic environment still influenced by moderate economic growth and high insecurity among market participants
  - Low to negative interest rates reduce profitability of core banking activities
  - Adaption of business models to tax transparency and legacy cross-border issues
  - Hightened political risks – globally and regionally
- 
- Technological innovation allows for efficiency gains, new services and products, and brings new competitors to financial sector
  - At the same time: new emerging risks (cybercrime, outsourcing, etc.)

# Swiss Fintech Eco-system

- Since 2000 ca. 200 Fintech businesses have been founded in Switzerland
- High diversity in terms of business models within the Fintech population
- Disruptive business models only emerging, but use test still missing (e.g. "Blockchain")
- Increasing cooperation between incumbent market participants and start-ups (accelerator/ incubator programs)
- Emerging dynamics in «InsurTech»



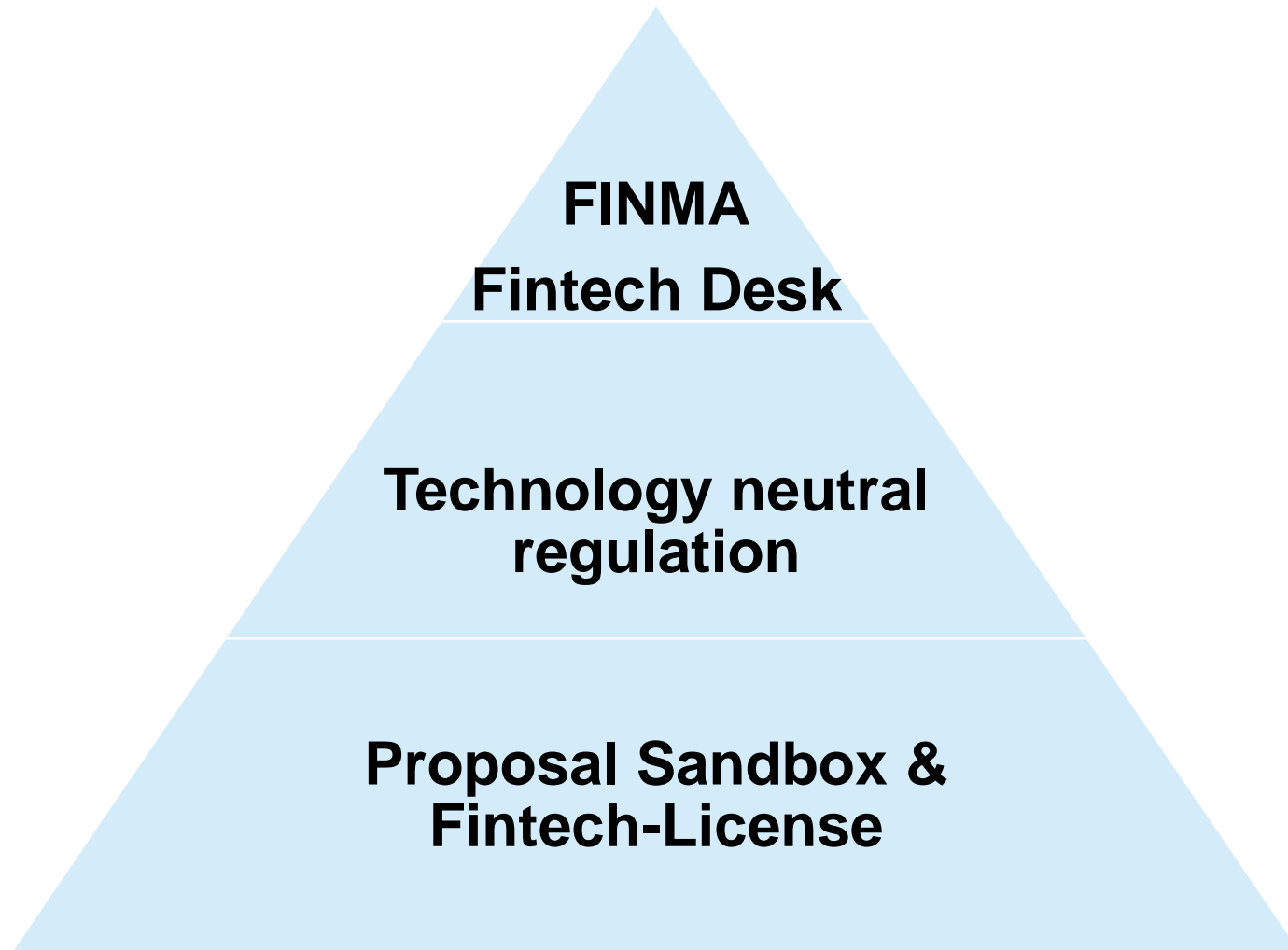
Source: Hochschule Luzern, IFZ Fintech Study 2016, p. 27

## FINMA strategic goals (2017 – 2020)

***"FINMA will push for the removal of unnecessary regulatory obstacles for innovative business models."***

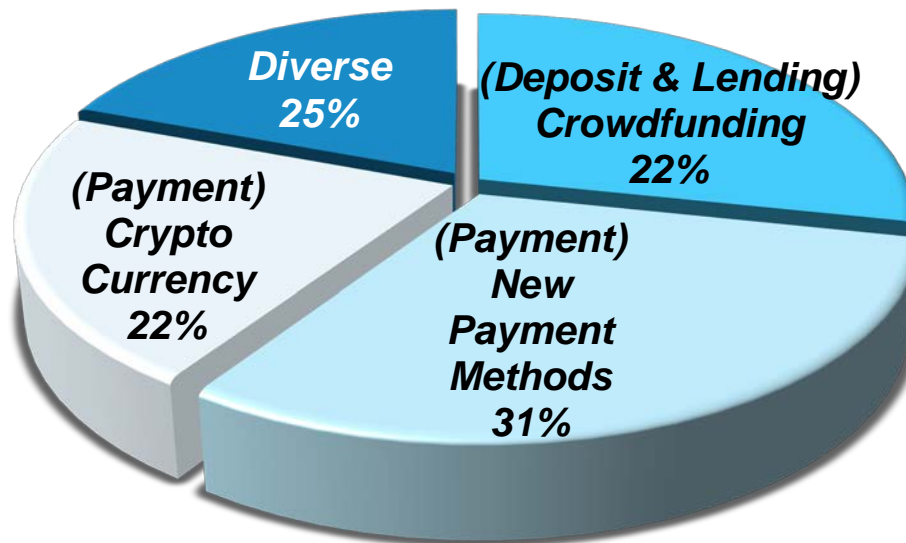
- Ensuring an attractive regulatory framework to unleash potential for innovation through market forces
- Keeping an open and ongoing dialogue with industry, and building adequate know-how
- Abstaining from public steering in market mechanism
- Relevant specificities of the Swiss financial market
  - Traditional focus of Swiss financial center on wealth management, private banking and insurance activities, with presence of large international financial groups
  - Relatively small domestic market with strong export orientation / international dimension

# FINMA initiatives for Fintech



# FINMA-Fintech Desk

- Single point of contact for all Fintech-related inquiries
- 270 Fintech-related consultations in 2016
- High diversity of topics:



# Technology & competitively neutral FINMA-regulation

- FINMA regulates through Ordinances & Circulars

## Example 1: «online onboarding»

**finma**  
Eidgenössische Finanzmarktaufsicht (FINMA)  
Autorité fédérale de surveillance des marchés financiers (FINMA)  
Autorität für die Überwachung des Finanzmarktes (FINMA)  
Bank für den Finanzmarkt (Supervisory Authority (FINMA))

**Circular 2016/7**  
**Video and online identification**

Due diligence requirements for client onboarding via digital channels

Reference: FINMA-Cir. 167 "Video and online identification"  
Date: 9 March 2016  
Entry into force: 9 March 2016  
Legal framework: FINMA Act Art. 7 para. 1 let. b  
AMLO/FINMA Article 3 para. 2  
Appendix: Glossary

|   |                               | Addresses |     |       |      |      |       |  |  |  |  |  |  |  |  |
|---|-------------------------------|-----------|-----|-------|------|------|-------|--|--|--|--|--|--|--|--|
|   |                               | BA        | ISA | SESTA | CISA | AMLA | Other |  |  |  |  |  |  |  |  |
| X | Bank                          | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Financial groups and group    | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Other intermediaries          | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Insurance                     | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Insurance groups and group    | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Stock exch. and participants  | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Securities markets            | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Financial institutions        | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | LINKS (not branch, for CISA)  | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | C-credit institutions         | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | CIF trust vehicles            | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Other entities of foreign CIs | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Other intermediaries          | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | SWX                           | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | SWX participant entities      | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Asset firms                   | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Rating agencies               | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |

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## Example 2: «asset management»

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Autorität für die Überwachung des Finanzmarktes (FINMA)  
Bank für den Finanzmarkt (Supervisory Authority (FINMA))

**Circular 2009/1**  
**Guidelines on asset management**

Guidelines for the recognition of self-regulation in asset management as minimum standard

Reference: FINMA Cir. 201 "Guidelines on asset management"  
Date: 18 December 2008  
Entry into force: 1 January 2009  
Last amendment: 10 June 2016 (Modifications are indicated by an asterisk (\*) and are listed at the end of the document.)  
Legal framework: FINMA Act, 7 para. 1 let. b  
SESTA Art. 11  
CISA Art. 5, 14, 20  
CISG Art. 27

|   |                                | Addresses |     |       |      |      |       |  |  |  |  |  |  |  |  |
|---|--------------------------------|-----------|-----|-------|------|------|-------|--|--|--|--|--|--|--|--|
|   |                                | BA        | ISA | SESTA | CISA | AMLA | Other |  |  |  |  |  |  |  |  |
| X | Bank                           | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Financial groups and group     | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Other intermediaries           | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Insurance                      | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Insurance groups and group     | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Insurance intermediaries       | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Stock exch. and participants   | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Securities markets             | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Financial institutions         | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Linked participations (LPCs)   | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | SESTAs                         | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Guidelines (bank)              | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Asset managers (CIs)           | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Distributors                   | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Representatives of foreign CIs | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Other intermediaries           | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | SWX                            | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | SWX participant entities       | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Asset firms                    | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |
|   | Rating agencies                | X         | X   | X     | X    | X    | X     |  |  |  |  |  |  |  |  |

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# FINMA proposals for removing unjustified barriers to market entry

## **Sandbox**

- Fully license-exempt area to test new services / products / technologies in live-environment
- Deposit taking allowed up to certain threshold
- Irrespective of the number of depositors

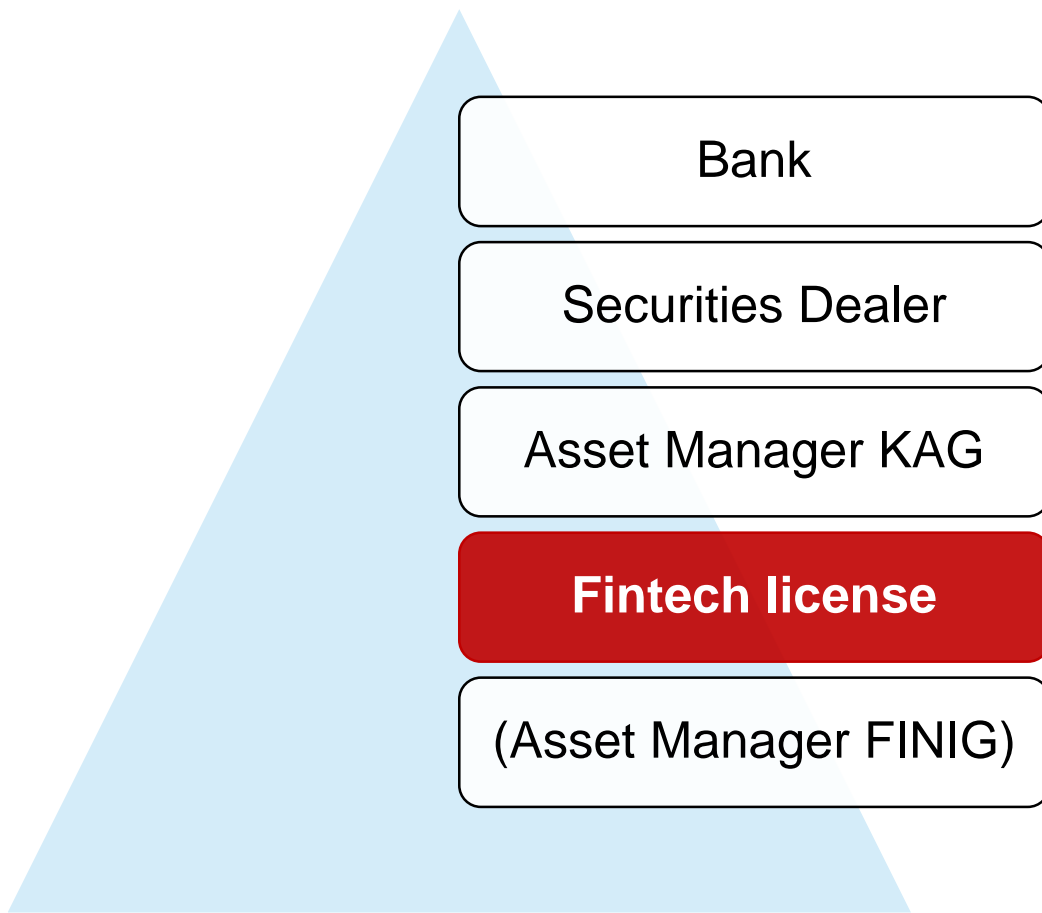
## **Fintech-License**

- Establishing new licensing category with significantly reduced requirements compared to traditional bank or securities dealer
- Limited acceptance of client assets allowed
- No credit intermediation, strict rules on asset investment
- Authorized and supervised by FINMA

⇒ **No deposit insurance**



# Licencing hierarchy

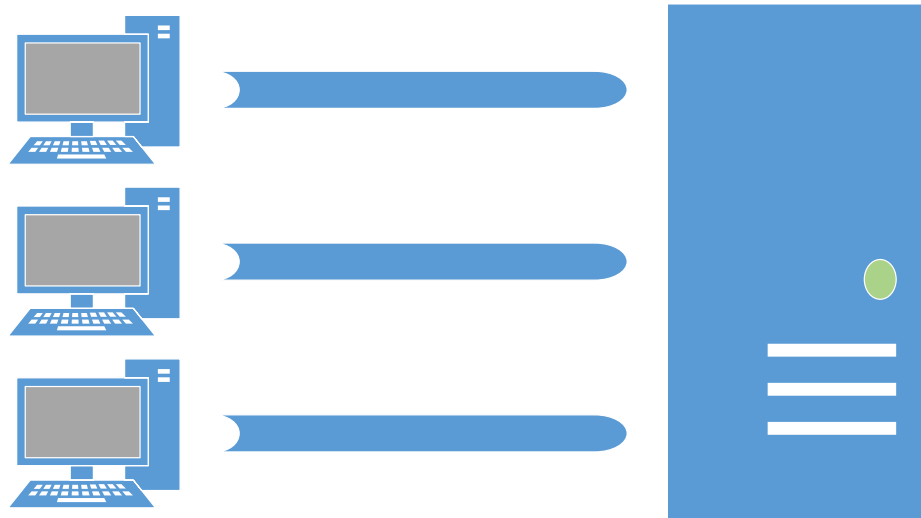


# Regulatory Implementation

- November 2016: Federal Council decided to reduce barriers to market entry for fintech firms
- February to May 2017: Public consultation on new Fintech regulations
  - Extension of settlement accounts and sandbox to be implemented by summer 2017
  - Fintech-Licence: implementation expected in 2018

# Custody of virtual currencies and other assets

E.g. Bitcoin Vault



- Qualification under property law?
  - Treatment in case of insolvency, in particular right of separation?
- ⇒ **Deposit insurance?**

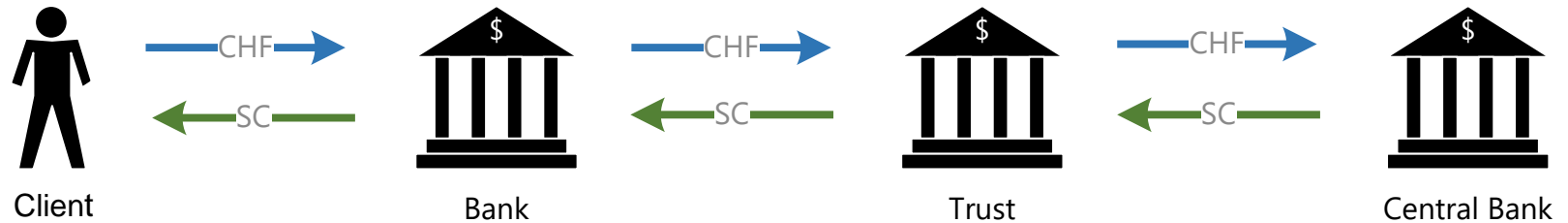
# Virtual currencies on bank / securities custody accounts?



- Segregation?
- Valuation?
- Conversion?

⇒ **Deposit insurance?**

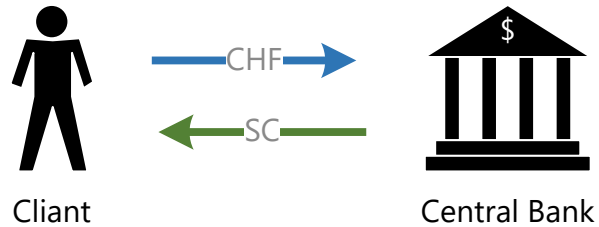
# Settlement coins



- Coins are fully asset-backed by cash
- Cash is held in individual account at central bank

⇒ **Deposit insurance?**

# Virtual national currency?



- Deposit character?
- Direct claim against central bank?

⇒ **Deposit insurance?**

# Deposit insurance on a blockchain?

- Deposit insurance as separate party on the blockchain
- Allocating client deposits in the insured amount as privileged
- All clients and claims known
- Faster payoff in case of bank insolvency