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Interview Qingdao TV China with Martin Maurer, CEO of the Association of Foreign Banks in Switzerland, at the Chinese Wealth Forum

CEO of the Swiss Association of foreign banks: "shadow banking" should be incorporated into the banking system

July 7, 2018 17: 34

On July 7, at the fourth China Wealth Forum, CEO Martin Maurer of the Swiss Association of foreign banks noted that shadow banks offer products that are not covered by traditional banks or are not allowed to provide high-cost services. Given the real needs of society in these areas, we need to somehow allow the presence of shadow banks to serve SMEs, individuals and small innovative companies.

Martin Maurer said that for such small entities, we have to take some special supervision and may give some relevant credit. Otherwise, they cannot survive more than a few months. We have to allow some small institutions, some small fund-raising. At such times, we may have different approaches to regulation. I also know that China is moving in this direction, and we are placing all the shadow banks under supervision, and these are probably ways to explore in the future.

Xiao Geng: Next we ask the Swiss Foreign Bank Association CEO Martin Maurer, he came to give us a talk from the perspective of foreign investment, what experience should we learn from the banking industry? Please.

Martin Maurer: Thank you very much for the invitation. Yes, I would also like to share with you today some of Switzerland's experiences, Switzerland is a very small country compared to China. traditionally, we are a very open economy and have a great financial sector, so some of Switzerland's experiences may be useful to China. I used to talk to an Italian chef who said that if I wanted to learn something new, I wouldn't go and talk to another Italian chef, I would talk to Japanese and Chinese chefs, and see what ideas they had that I could use in my own cooking. So I hope that the Swiss experience will be useful to you.

Shadow banking is a constant concern, but it is not entirely new. It's just some of the things we didn't really care about in the past, but the sudden realization of these things in the shadow banks was more dangerous than we thought. So in the field of shadow banking, some are not very important, As we said before, it may be illegal, it is not possible to allow banking operations, whether it is shadow banking or formal banking, they also provide some products that cannot be covered by traditional banking services or are not allowed to provide services or are over-cost services, but socio-economy is in demand, so at this time, the services offered by shadow banking

are legitimate, but banks are not able to provide them with services. It is not necessarily illegal, but our society does have such a demand that we may need some way to allow the provision of such services to these SMEs, to these individuals, to these small innovative companies.

The third is that there are products that are not regulated, and in the regulatory process, we have three objectives, and we ask that the regulation provide the necessary protections, including the prevention of systemic risks, the protection of investment. We have just said that if investors invest in a very risky asset, this is their own problem, and we will not consider this in the scope of banking regulation, especially in the shadow banking sector. What is our supervisor's response? We can't have very big shadow banks, because there's a big problem in the middle of it, and in Switzerland, our regulators, there's a lot of behavior, they don't care, if there's an illegal problem, they don't have a license to serve, then this time the regulators may shut down the institution, and he says You know there's a problem, you have to get a license to continue, it's an ongoing process. Every industry may come to mind is not there is some shadow of the industry, is there is some product service is normal industry no way to provide. In another area, we need to take into account our needs for these small entities, they have some funding requirements, and we may need to see if they have financial technology and other innovations, which is the most difficult problem for these companies that do not have enough credit, and this time, regulators may say that there is no way to put that responsibility on someone, because its funding costs, and other requirements are too high, and we have to have some special supervision, to target such entities. They have to be compliant, but for them, these funding requirements and other may not be the same, for such companies, we may give it some relevant credit. Otherwise, they could not survive for more than a few months, so it is necessary to allow some small institutions, some small fund-raising. At a time like this, we may have different approaches to Regulation, and in China, where I know that China is moving in this direction, we are placing all the shadow banks under supervision, and these may be approaches that can be explored in the future.

Our goal is to take into account what we want to regulate, and we want to take into account, for example, this, but we want to tell the story of the Swan in the field, that hundreds of years ago in Europe, the Swan was definitely white, no other color of the Swan, and then they introduced the Black-feathered Swan from New Zealand, and they all said that it was definitely not a swan, and it was absolutely another creature created by God, but biologists say it was a swan, in other words, if it was something new, there must be a whole new name, no matter what it was given, and what kind of capital, but it was not a creature and a creature entirely different from a creature. So, like the swans that we just mentioned, we need to consider what the fundamental characteristics are, we can implement similar regulations, and we can apply them to such a new thing from the structure, from the other aspects, and at such a time, we can more easily provide related services and requirements. This is also the experience

we have learned in Switzerland, and we are willing to extend it to one of our experiences in banking and financial systems.

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So when we look at these expectations, and we see these new ducks, and they may see things in different ways, they are new risks, they may have new financing methods, these ducks may have new providers of financial services, they are more technology-based, they are more prone to operational risks, so we have to be careful to check the speed of the transaction, what they do, how we deliver the services, can't we do this in a way that offers more and faster ways than traditional services. If this is the time to see that it is more advanced, it is necessary to prevent them from making mistakes through self-defense. This is the time when the competitiveness must exist, and you need to take into account how these new financial service providers serve these small and medium-sized companies, and they will not have any problems in this regard, affecting other large companies.

Every time we talk about bubbles and crises, you look at its characteristics, and if there is no way to release the gas or venom, we will eventually know that these toxins will have some effect, probably not the immediate, but the long-term effect. So we also need to avoid this as much as possible, and we may also use other ways, different ways to regulate.

So, here is our experience, basically, long story short, in Switzerland, where we want all the shadow banking systems to be incorporated into the banking system, not just to define its institutions, but to apply the regulatory framework, they apply the regulation of these banks to the characteristics of these institutions, and if they meet the characteristics of such as swans or ducks, there are a lot of advantages in this regard, one can treat them in the same way, and the second point is not such a shadow banking, some people may have a big problem when you don't know. Third, even if there are external newcomers, they know what we're going to do, how we're going to do it in a legal way, in the financial industry. These are some of my very

simple ideas, if you have some other ideas in the follow-up I'm willing to communicate with you. Thank you.

Xiao Geng: Thank you, this is mainly about shadow banking abroad and is not surprising, new things, there are some services, the formal traditional bank cannot solve through shadow banking approach, and then regulators need to find ways to regulate financial products that are not traditional financial business in scope. This is also a reference to our country, because just as CAO also mentioned, the shadow banks exists because there is such a need for financial products, SMEs also have this demand, including local governments. So all three of our speakers emphasized how to encourage, innovate and find real financial services for the real economy, including small and medium-sized businesses and families.

Xiao Geng: what obstacles prevent you from implementing these proposals in China? Are your proposals relevant to the development of Qingdao Finance? Is there any good idea that Qingdao could benefit from? Think about it. I'll talk to two foreign friends.

Martin Maurer: I think we can use a pilot program to attract foreign banks and foreign financial institutions. For some institutions, they will not go to retail markets, but they can work with Chinese financial institutions, because they already have these relationships and networks to target the Chinese economy, whether individuals or start-ups to develop the product, to speed up our model, which would be very beneficial to the region and the country.

Xiao Geng: How do local governments protect against potential financial risks?

Martin Maurer: I'm not so sure that the government is protecting itself from financial risks, or how the government is protecting local banks from risks, which is the problem of local debt .How to guard against such risks, it is some historical question. When China uses traditional development methods, there are high local debts, and I want to answer this question, it is necessary to know more about China. First of all they and the parties have no such very good risk-sharing mechanism, and if you are now experiencing a big problem, you are not the only one influencing factor. Second, I would like to know if there are different ways to use these bonds or credit to share the risk .We can manage risk in such a way that we have no way of completely removing it, but we can manage it.