Lending prohibition

Federal Council supports lifting prohibition on lending by PostFinance

In the future, PostFinance should be allowed to issue its own loans and mortgages. To this end, the Federal Council has instructed DETEC and the FDF to draw up a consultation draft on a partial revision of the Postal Organization Act.

The interest differential business is the key source of revenue for PostFinance. Unlike other banks, however, it is not allowed to issue its own loans and mortgages to third parties. This is set out in the Postal Organization Act. PostFinance has therefore invested a large share of the customer deposits entrusted to it in fixed-interest securities on the national and international financial markets. In the next two years alone, bonds from earlier investments yielding good interest rates and worth around 20 billion francs will expire from this investment portfolio. These can only be reinvested at significantly lower interest rates. PostFinance's operating result is therefore likely to again decline significantly by 2021, despite the numerous countermeasures that have been implemented in recent years.

Strategic goals set by the Federal Council will not be met

This decline in profits reduces both the value of the company and PostFinance's ability to build up equity or distribute dividends. It also makes it more difficult to finance the universal service. This trend runs counter to the strategic objectives defined by the Federal Council for Swiss Post and PostFinance. The Federal Council has therefore concluded that in the long term, no promising business model is possible for PostFinance without access to the domestic loan and mortgage market.

According to the Federal Council, PostFinance's entry into the loan and mortgage market is also to be welcomed from a consumer point of view, as it will stimulate competition. Since PostFinance would enter the market in small steps over several years, the Federal Council also sees no additional risk to the stability of the financial market.

Build-up of additional equity

The new Capital Adequacy Ordinance entered into force on 1 January 2019. It provides for increased capital requirements for the possible financial recovery and resolution of systemically important domestic banks, of which PostFinance is one. This means that PostFinance will have to build up additional equity of around 2 to 2.5 billion francs over the next seven years.

The Federal Council has argued that the gone-concern capital at PostFinance should be built up primarily by means of equity. Given the gloomy profit outlook, this is a major challenge and involves greater risks and limitations for business activities. PostFinance will have to credit future profits in full to equity and therefore may not be able to pay a dividend to Swiss Post in the coming years. Ultimately, this may also mean that PostFinance will have to implement further price increases, restrictions on its product range and cost-cutting measures.

38 percent
collapse in interest income since 2014.

2 to 2.5 billion
francs in additional equity will have to be built up by PostFinance over the next seven years.

> The lifting of the lending prohibition is the key factor in ensuring PostFinance's long-term profitability and competitiveness.

Felicia Kölliker
Head of Risk, Legal & Compliance

Interview

"The lending prohibition is a significant competitive disadvantage"

PostFinance has been fighting for years for the lifting of the lending prohibition. Felicia Kölliker, Head of Risk, Legal & Compliance and Member of the PostFinance Executive Board, gives her view of the Federal Council's policy decision.

What went through your mind when the Federal Council published its policy decision?
I was delighted. For the Federal Council to come out in favour of lifting the lending prohibition is a milestone for PostFinance. At the same time, I am realistic. This is a policy decision that requires a change in the law. And in such matters, Parliament has the last word. A great deal of persuasion will therefore still be required.

The negative interest rates affect the entire financial sector. To what extent is the lending prohibition a competitive disadvantage for PostFinance?
With the prohibition on lending, the legislature has, so to speak, amputated one of our legs. The other banks have largely been able to stabilize their interest margins despite negative interest rates, as they can still generate good margins in the mortgage business. Because we have to invest our customer deposits in the financial markets, we do not have this option. This means that the effect of negative interest rates hits us much harder. Our interest margin has been dwindling for years and our interest income is collapsing. The lifting of the lending prohibition would eliminate this disadvantage over time.

It is likely to take several more years before this is actually the case. Can PostFinance afford to wait that long?
No. That is why we are already doing everything in our power to make PostFinance fit for the future. We are focusing our strategy more heavily on digitization and tapping into new sources of non-interest income. At the same time, we are reducing our costs through efficiency measures. But this will not be enough to compensate for our declining income from interest operations. The lifting of the lending prohibition is therefore the key factor in ensuring PostFinance's long-term profitability and competitiveness.

In addition to the lifting of the lending prohibition, there is also discussion of partial privatization. How do you feel about that?
The lending prohibition is very damaging economically, and we are fighting to have it lifted. If the price we have to pay for this is partial privatization or stock market flotation, then that is definitely the road we should take. Partial privatization could also support the growth of the emergency capital required by law.

What would be the consequences if the lending prohibition were to remain in place?
First of all, I would be very disappointed if our opponents, with their mostly disingenuous arguments, were to find a majority in Parliament. It is very obvious that they are opposing the proposal solely out of self-interest – in other words, to prevent a new competitor from emerging. For us, it would mean that our entrepreneurial freedom would continue to be severely restricted and that long-term positive corporate development would hardly be possible. We would then have to implement additional, even more radical cost-cutting measures and tap into further alternative sources of income, with new and potentially higher risks.