



## Credit Analysis in Swiss Banking: From Preliminary Investigation to Approval

Swiss banks manage credit applications totaling over \$6.5 trillion annually, with each credit decision significantly impacting the nation's financial stability. The process demands a thorough analysis that seamlessly integrates Swiss banking precision with contemporary risk assessment methodologies.

The comprehensive investigation process begins with a detailed review of each application, during which banking professionals carefully evaluate loan and financing requests. A well-structured framework ensures that each stage, from document verification to risk assessment and final approval, is rigorously followed. This disciplined approach has contributed to Swiss banks maintaining one of the lowest default rates worldwide.

This article provides an in-depth exploration of the credit analysis process within Swiss banking, encompassing all stages from initial screening to final approval. It highlights the latest risk assessment models, regulatory requirements, and decision-making protocols that have established Swiss credit analysis as a benchmark for global banking standards.

### CREDIT ANALYSIS PROCESS FOR BANKING INSTITUTIONS



## Modern Credit Analysis Framework

Swiss banking's risk analysis frameworks have changed dramatically. Banks now use sophisticated models to manage risks, make business decisions and create regulatory reports <sup>1</sup>.

### Risk Assessment Models and Tools

The model validation processes undergo independent reviews every three years. These reviews ensure that the risk measurement systems are thoroughly tested, particularly when asset and liability management tools, which focus on interest rate risks, are involved. The Swiss Financial Market



Supervisory Authority (FINMA) not only approves these models but also continuously monitors them to ensure compliance with supervisory requirements <sup>1</sup>.

### **Data Analytics and AI Implementation**

AI applications now merge with several banking functions:

- Client and transaction monitoring to prevent money laundering
- Portfolio analysis and suitability assessment
- Trading systems and strategy optimization
- Process automation for document processing <sup>2</sup>

Research indicates that the insurance sector is at the forefront of AI adoption. Companies within the sector make extensive use of AI for various applications, including customer interactions, claims processing, and pricing <sup>2</sup>.

### **Regulatory Compliance Integration**

FINMA's regulatory framework guides operations through prudential and risk-oriented supervision of banks and securities firms <sup>3</sup>. Organizations must follow corporate management rules and meet minimum capital requirements <sup>3</sup>. The compliance teams should conduct an annual risk assessment and develop risk-oriented plans, which are then submitted for approval by the executive board <sup>3</sup>.

These frameworks play a vital role as Swiss laws shift from institution-specific regulations to rules that apply across the financial sector <sup>3</sup>. This modern approach helps maintain a credible and competitive regulation in Switzerland's financial center.

### **Preliminary Investigation Process**

The credit investigation process begins with a comprehensive evaluation of each application, adhering to the strict standards set by FINMA. Since 2012, a total of 43 preliminary investigations have been completed for potential enforcement proceedings, highlighting a consistent commitment to thorough and detailed credit analysis <sup>4</sup>.



## **Document Verification Standards**

Every credit application needs detailed documentation that has:

- Three months of salary statements
- Valid identification documents (passport or identity card)
- Residence permits for foreign nationals
- Tenancy agreements and additional income proof where applicable <sup>5</sup>

## **Background Check Procedures**

Strict AML/KYC background checks happen in multiple ways. The verification process screens against Politically Exposed Persons (PEP) databases, national and international sanctions lists, and looks for negative media coverage <sup>6</sup>. When enhanced due diligence is required, multilingual structured media research is conducted to learn about potential links to money laundering, fraud, or other financial crimes when enhanced due diligence is needed.

## **Financial Statement Analysis**

Swiss law dictates the priorities for financial statement reviews, ensuring a comprehensive assessment of annual accounts, balance sheets, profit and loss statements, and the accompanying notes <sup>7</sup>. Third parties must be able to rely on this analysis to accurately evaluate the economic position of the company <sup>8</sup>. For companies with revenues exceeding CHF 40 million <sup>8</sup>, additional documentation is required, including cash flow statements and detailed annual reports, to provide a complete financial overview.

Confidentiality remains of utmost importance throughout the investigation process, with strict adherence to data protection regulations. Credit agencies must demonstrate a legitimate interest to access any information <sup>9</sup>. Additionally, all investigation documents are retained in our records for the mandatory ten-year period, in compliance with legal requirements <sup>7</sup>.



## **Risk Assessment Methodology**

Credit analysis in Swiss banking integrates traditional principles with modern analytical tools, utilizing an advanced risk assessment method. A layered approach is employed to ensure a comprehensive understanding of credit applications, ensuring thorough evaluation at every stage.

### **Credit Scoring Systems**

The credit scoring framework utilizes data from various economic intelligence systems to assess creditworthiness <sup>9</sup>. We assess:

- Payment history and regularity
- Current financial commitments
- Debt collection proceedings
- Outstanding loans and rejected applications
- Credit default probability

The credit scoring system generates a numerical value that reflects an individual's or entity's creditworthiness, with higher scores indicating better financial reliability <sup>9</sup>. To ensure transparency in data processing, the methodology and underlying mechanisms of the algorithms are shared with clients, allowing them to understand the factors influencing the assessment process <sup>9</sup>.

### **Industry-Specific Risk Factors**

The detailed industry analysis focuses on identifying and evaluating risks specific to each sector. To gain a comprehensive understanding of potential vulnerabilities, stress tests are conducted across four key scenarios <sup>10</sup>:

- Swiss financial services recession with deteriorating asset markets
- Inflation-triggered interest rate increases
- Emerging markets crisis
- Protracted euro area recession



These scenarios are designed to assess how various industry sectors could be impacted, allowing for more accurate and informed risk assessments. The insights gained from this analysis significantly shape and guide the risk evaluation process <sup>10</sup>.

### **Collateral Evaluation Methods**

Strict protocols are adhered to in mortgage-backed lending, ensuring that the collateral value aligns with either the sales price or market value, whichever is lower <sup>11</sup>. Only mortgage claims secured by register mortgage certificates from SIX SIS Ltd are accepted as valid for Swiss properties <sup>12</sup>.

The evaluation process focuses on two primary risk factors <sup>13</sup>:

1. **Default Risk:** An assessment is conducted to determine whether customers are able to meet their interest and amortization obligations.
2. **Collateral Risk:** A thorough examination is carried out to understand how property values could be impacted in various crisis scenarios.

To mitigate risks, sufficient equity is required, and strict loan-to-value ratios are maintained. Stress testing reveals that a severe real estate crisis could result in significant losses, underlining the critical importance of a comprehensive collateral evaluation process <sup>13</sup>.

### **Decision Making Protocols**

Swiss banking's decision-making protocols employ a structured approach that ensures both thoroughness and efficiency. A comprehensive framework is utilized, which integrates insights from initial investigations and detailed risk assessments. This approach provides a complete and accurate picture, enabling informed decision-making while maintaining operational efficiency.

### **Credit Committee Structure**

Swiss banks' credit committees operate at multiple levels, ensuring a thorough and structured decision-making process. At the highest level, the board of directors is composed of a minimum of three qualified members who are responsible for overseeing strategic credit decisions <sup>14</sup>. These members must adhere to strict independence criteria and demonstrate strong connections to Switzerland, either through residence or education. Depending on the size and complexity of the bank,



the Swiss Financial Market Supervisory Authority (FINMA) may require the inclusion of additional members to ensure robust governance and oversight <sup>14</sup>.

### Approval Hierarchy Levels

A tiered approval system works with clear responsibilities:

Level	Authority	Key Responsibilities
Board of Directors	Strategic Oversight	Credit policy, risk framework
Executive Management	Implementation	Day-to-day decisions
Regional Committees	Local Assessment	Market-specific evaluation

Board members stay non-executive, with clear lines between director and manager roles <sup>14</sup>. Executive management puts board directives into action and makes sure decisions happen within Switzerland, as FINMA rules require.

### Appeals and Exceptions Process

The appeals system is governed by specific rules to ensure fairness and transparency in decision-making. These rules include:

- People must file appeals within 30 days after getting decision notices <sup>15</sup>
- Those who appeal must show direct effects and protection-worthy interest <sup>15</sup>
- The original submission needs a complete explanation <sup>15</sup>

Commercial cases go through two court levels - a higher cantonal court or commercial court and the Federal Supreme Court <sup>15</sup>. Appeal claims must meet minimum values:

- 15,000 Swiss francs for employment cases <sup>15</sup>
- 30,000 Swiss francs for other commercial cases <sup>15</sup>

Cantonal appeal decisions usually stop contested parts from being enforced <sup>15</sup>. But systemically important banks get FINMA's approval for restructuring plans without asking creditors first <sup>16</sup>. This



allows banks to take prompt action when necessary, while still preserving the right to appeal, ensuring a balance between efficiency and fairness in decision-making.

## **FORFIRM's Approach**

FORFIRM supports its clients through activities designed to ensure compliance, accuracy, and efficiency in credit transactions. These activities cover various aspects of credit application processing, customer verification, and ongoing loan management, ensuring alignment with regulatory requirements and industry best practices. The key activities include:

### **1. Investigation and Pre-Investigation of Credit Applications, with Income Analysis:**

A thorough investigation is conducted on credit applications to assess the financial health of the applicant. This involves a detailed income analysis to determine the borrower's ability to repay the loan. The analysis includes reviewing income sources, employment status, credit history, and other relevant financial information. This step ensures that the bank can make informed lending decisions and manage risk effectively.

### **2. Preparation and Investigation of Know Your Customer (KYC) Procedures:**

KYC procedures are implemented to verify the identity of the applicants and ensure compliance with anti-money laundering (AML) regulations. This process involves collecting personal and financial information about the applicant, such as identification documents, proof of address, and information regarding the source of funds. The verification process helps mitigate the risks of financial crime, ensuring that the bank is dealing with legitimate clients.

### **3. Management of Client Record Updates and Access to Third-Party Databases:**

Client records are regularly updated to reflect any changes in personal or financial information. This includes tracking changes in employment, income, or credit status. Access to third-party databases, such as credit bureaus, is essential for retrieving updated information on client creditworthiness. Ensuring that the client's record is up-to-date is critical for making accurate lending decisions and managing risk.

### **4. Management Updates for Proprietary or Third-Party Systems:**

Both proprietary and third-party systems used for managing client information and credit processes are regularly updated. This ensures that the bank is using the most current tools and technologies to



assess and manage credit applications. Updates are implemented to reflect regulatory changes, improve system efficiency, and maintain accurate records across all platforms.

## **5. Business Process Outsourcing (BPO) for Loan Processing:**

BPO services are utilized to manage specific loan-related processes. These services encompass the full lifecycle of loan management for various types of loans, including:

- **Mortgage Loans:** This involves managing the entire mortgage application and approval process, including property appraisals, income assessments, and compliance checks.
- **Lombard Loans:** The process includes assessing the value of collateral, such as securities, and ensuring that loan-to-value ratios are within acceptable limits.
- **Commercial Loans:** These are tailored to businesses, requiring detailed financial analysis and risk assessments for corporate applicants.
- **Institutional Loans:** This involves managing loans for larger organizations or institutional clients, including complex negotiations and credit assessments.

## **Conclusion**

Swiss banking's meticulous approach to credit analysis reflects a deep commitment to financial stability and risk management excellence. The detailed framework integrates traditional banking precision with innovative technology, which plays a key role in maintaining one of the world's lowest default rates.

Several critical elements define the credit analysis process. Modern risk assessment tools, combined with AI-powered systems, operate within strict regulatory compliance frameworks to evaluate each application thoroughly. The preliminary investigation process underscores the focus on document verification and background checks. Advanced risk assessment techniques ensure that lending decisions are made based on sound and informed judgment.

Multiple levels of committee-based decision-making protocols within Swiss banks offer an added layer of protection in the credit approval process. These protocols, coupled with clear appeals processes, guarantee fair and transparent credit decisions while preserving high standards.

By leveraging comprehensive activities, FORFIRM helps Swiss financial institutions efficiently manage the entire credit process, from initial investigation to loan execution. With a focus on regulatory





compliance, data accuracy, and operational efficiency, these services ensure that credit-related operations are streamlined and risk-managed effectively. This systematic approach drives success and continuously evolves with technological advancements and market changes, ensuring that Swiss banking's reputation for excellence endures.

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