Deposit Insurance in Switzerland

Swiss Reform and its Benefits

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Deposit Insurance Switzerland

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Deposit Insurance in Switzerland - *Swiss Reform and its Benefits*

**Agenda**

1. What makes Swiss banks safe?
2. Swiss DIS – facts & figures
3. Today’s Swiss Deposit Insurance
   - how it works
   - Integrated triple protection model
   - A proven system - overview
4. Reform of Swiss Deposit Insurance
   - Why to reform
   - Topics of the revision
   - Process of the revision of the law
5. New Swiss DIS in international comparison
6. Appraisal of the proposed revision
1. What makes Swiss banks safe?
2. Swiss deposit insurance
Facts & figures

| Objectives of deposit insurance | – Strengthen financial stability  
|                               | – Protect depositors |
| Role of esisuisse              | Responsible provider for the protection of deposits  
|                               | – esisuisse → Financing & Information  
|                               | – FINMA → Payout through closed bank |
| Governance of esisuisse        | Independent Association since 2005  
|                               | – Board of non-executive directors  
|                               | (4 independent members, 9 members from banks) |
| Members of esisuisse (per October, 2019) | 299 members  
|                               | – Active banks: 246  
|                               | – Active securities dealers: 42  
|                               | – In the process of winding down: 8 banks and 3 securities dealers |
| Insured Deposits (per December 31, 2018) | CHF 453 billions of covered deposits  
|                               | (≈ US$ 453 bn) |
3. Today’s Swiss Deposit Insurance
How it works

The most common model

- implicit government backup funding

DGS

The integrated Swiss model

- esisuisse
3. Today’s Swiss Deposit Insurance

Integrated triple protection model

Level 1

- Priority payment from the regulatory liquidity buffer

Level 2

- 50% special liquidity hold by banks (ex post financing)
- 50% ex-post financing

Level 3

- Assets held in Switzerland that can be liquidated
- 125% rule (asset preservation)

Covered shortfall in the event that the available liquidity of the closed bank is insufficient

Covered deposits of CHF 100,000 per customer per bank
### 3. Today’s Swiss Deposit Insurance
A proven system - overview

<table>
<thead>
<tr>
<th>Financing</th>
<th>Recovery</th>
<th>Settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity</strong></td>
<td><strong>125% rule</strong></td>
<td><strong>Payout</strong></td>
</tr>
<tr>
<td>1. Remaining liquidity of closed bank</td>
<td>Domestic assets of 125% of covered deposits</td>
<td>Use of existing infrastructure of closed bank</td>
</tr>
<tr>
<td>2. <em>Only if not sufficient liquidity</em>, ex-post-financing by esisuisse (today CHF 6 bn ≈ 1.3%)</td>
<td>Covered deposits in 2nd creditor class</td>
<td></td>
</tr>
<tr>
<td>Depositor preference</td>
<td>Taxes and all other creditors in 3rd class claims</td>
<td></td>
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</table>

- **Settlement**
  - Use of existing infrastructure of closed bank

- **Recovery**
  - Domestic assets of 125% of covered deposits
  - Covered deposits in 2nd creditor class
  - Taxes and all other creditors in 3rd class claims

- **Financing**
  - Remaining liquidity of closed bank
  - *Only if not sufficient liquidity*, ex-post-financing by esisuisse (today CHF 6 bn ≈ 1.3%)
4. Reform of Swiss Deposit Insurance

Why to reform

Objectives of the revision

- Optimisation of a strong deposit insurance system
- Increase credibility of the overall deposit insurance
  - Strengthen financial stability
  - Avoid bank runs

Drivers of the revision

- Continue improvement
- Increasing international competitive position
### 4. Reform of Swiss Deposit Insurance

**Topics of the revision: Comparison today – tomorrow**

<table>
<thead>
<tr>
<th>Status quo</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time limit for payout</strong></td>
<td></td>
</tr>
<tr>
<td>– No legal time limit for payout</td>
<td>– Payout within 7 wd</td>
</tr>
<tr>
<td>– Financing within 20 working days (wd)</td>
<td>– Instant information to clients</td>
</tr>
<tr>
<td><strong>Masterfile</strong> (Single Customer View)</td>
<td></td>
</tr>
<tr>
<td>– Minimal definition</td>
<td>– Standardized determination</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td></td>
</tr>
<tr>
<td>– Banks hold special liquidity: 50% of payment obligation</td>
<td>– Collateralised payment commitments: 50% of payment obligation</td>
</tr>
<tr>
<td>– 50% financed ex post</td>
<td>– 50% financed ex post</td>
</tr>
<tr>
<td><strong>Payment obligation</strong></td>
<td></td>
</tr>
<tr>
<td>– Up to CHF 6 bn</td>
<td>– Up to 1.6% (today ≈ CHF 7.2 bn)</td>
</tr>
<tr>
<td></td>
<td>– At least CHF 6 bn</td>
</tr>
</tbody>
</table>
4. Reform of Swiss Deposit Insurance
Topics of the revision 2019 – Securisation of Bank’s Payment Commitment

1. Two custody accounts per bank at leading Swiss central securities depository SIX
   - All assets (securities) in both custody accounts
     - in bank’s ownership and
     - on bank’s balance sheet

2. Bank owes contributions to esisuisse:
   - To secure bank’s payment commitment:
     - bank’s assets in one custody account are collateralised to esisuisse (pledged account)
   - Assets in pool account are unpledged

3. SIX manages that pledged account
   - is always well-stocked and transfers assets from/to pool account

4. By simple notice to SIX: esisuisse realises\(^1\) the assets in the pledged account, but only
   - if bank is overdue with it’s contribution to esisuisse, or
   - if bank fails itself

5. Benefits of realisation are transferred to esisuisse and are set-off with bank’s obligation

\(^1\) Art. 31 Federal Intermediated Securities Act (Bucheffektengesetz)
4. Reform of Swiss Deposit Insurance
Process of the revision of the law

Legislative procedure
- Preparations of the consultation
  - WG «Processes»
  - WG «Costs»
  - WG «Norms & Self-regulation»
- Launch public consultation
- Co-Reports
- Dispatch
- First Council
- Second Council
- Coming into force on 1.1.2022

Communication activities by esisuisse
- Contacts with key stakeholders
- Background explanations to political parties, associations as experts
- Background explanations and discussions with media and opinion leaders
- Issue Monitoring & Management
- Prep. info campaign
- Info campaign

Political Lobbying
Swiss Bankers Association (SBA)
5. New Swiss DIS in international comparison
Integrated and solid system

<table>
<thead>
<tr>
<th>Financing</th>
<th>Liquidity</th>
<th>1. Available liquidity in bank</th>
<th>1. missing</th>
<th>2. Only if not sufficient liquidity in closed bank, ex-post-financing by esisuisse (1.6%)</th>
<th>2. Payment just from limited deposit insurance fund (usually 0.5% – 2%; EU 0.8 %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery</td>
<td>125% rule</td>
<td>Domestic assets of 125% of covered deposits</td>
<td>Public Backstop (implicit or explicit)</td>
<td>Covered deposits in 2nd class claims</td>
<td>Partially no depositor preference in bankruptcy</td>
</tr>
<tr>
<td>Settlement</td>
<td>Depositor preference</td>
<td>Taxes in 3rd class claims</td>
<td></td>
<td></td>
<td>Taxes often in 1st class claims</td>
</tr>
<tr>
<td>Settlement</td>
<td>Payout</td>
<td>Use of existing infrastructure of closed bank</td>
<td>Constant readiness of expensive infrastructure, which works quickly if properly done</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Characteristics**
- Integrated & practical
- Compliant with IADI CP

**Challenges**
- Speed
- Functional capability if seldom used
6. Appraisal of the proposed revision

Favorable conditions for a Swiss DGS model

- Robust financial market
- Solution oriented and proven in crisis management
- Stable political system and institutions
- Well functioning government and infrastructure
6. Appraisal of proposed revision
Optimization of a strong deposit insurance system

**Integrated Swiss DGS model**
- Triple protection model
  - Secure and robust system
- Payout through closed bank
  - Bank closures are seldom and minor ones in Switzerland
  - Proven and quick payout channel
- Highly efficient
  - Reasonable cost/benefit ratio

**Shortening the payout deadlines**
- Quicker payout and therefore increasing trust on client side

**Proven financing of the deposit insurance scheme**
- Strengthened by the combination of *ex ante* and *ex post* financing (no ex ante fund)

**Continue as private DGS** with close co-operation with FINMA
- Strong acceptance of Swiss DGS within the financial market
- Allows quick solutions