



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

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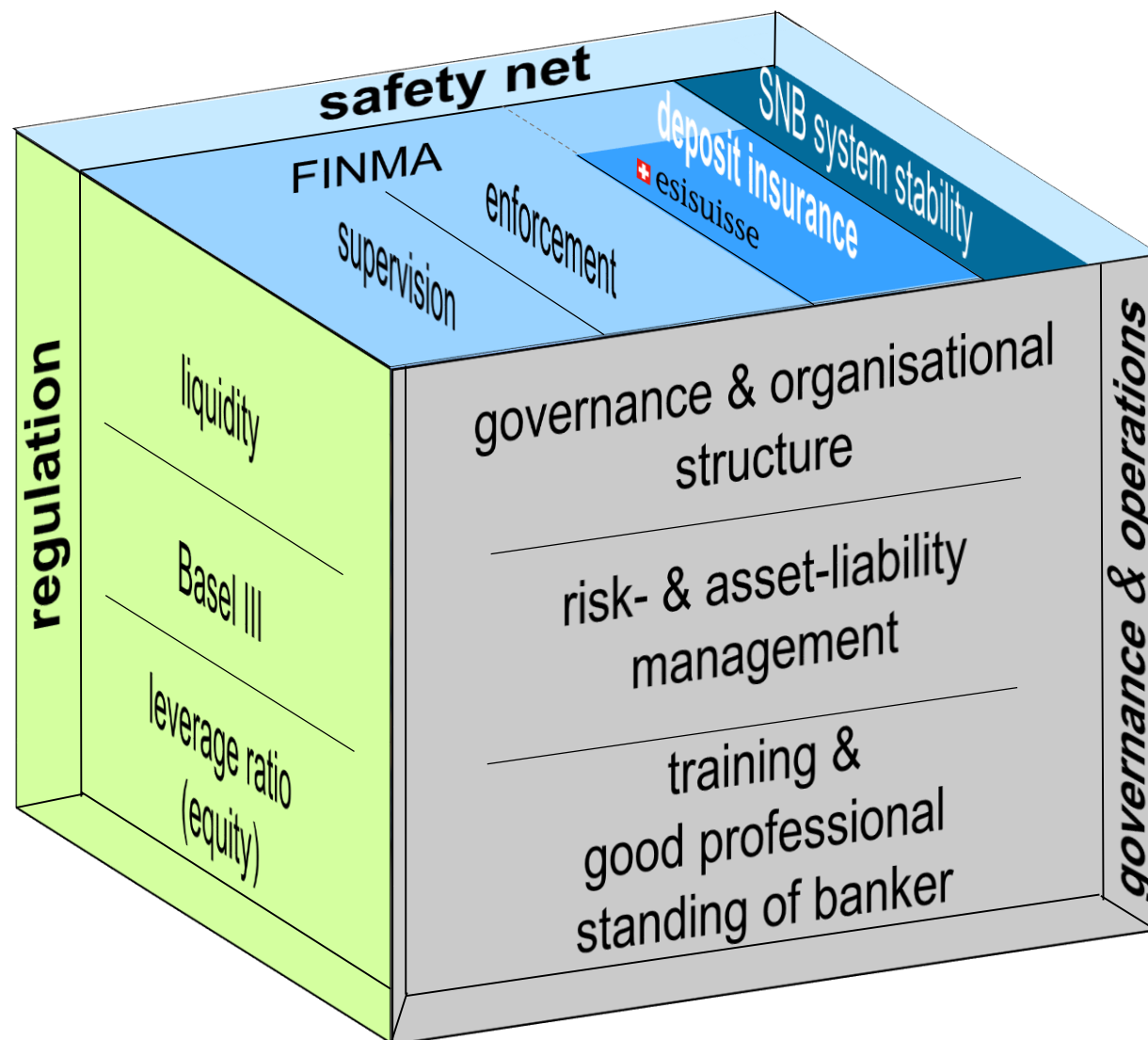
# Deposit Insurance in Switzerland - *Swiss Reform and its Benefits*

## Agenda

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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	<ul style="list-style-type: none"><li>– Strengthen financial stability</li><li>– Protect depositors</li></ul>
Role of esisuisse	Responsible provider for the protection of deposits <ul style="list-style-type: none"><li>– esisuisse → Financing &amp; Information</li><li>– FINMA → Payout through closed bank</li></ul>
Governance of esisuisse	Independent Association since 2005 <ul style="list-style-type: none"><li>– Board of non-executive directors (4 independent members, 9 members from banks)</li></ul>
Members of esisuisse (per October, 2019)	299 members <ul style="list-style-type: none"><li>– Active banks: 246</li><li>– Active securities dealers: 42</li><li>– In the process of winding down: 8 banks and 3 securities dealers</li></ul>
Insured Deposits (per December 31, 2018)	CHF 453 billions of covered deposits (≈ US\$ 453 bn)

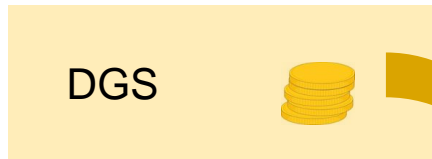
# 3. Today's Swiss Deposit Insurance

How it works

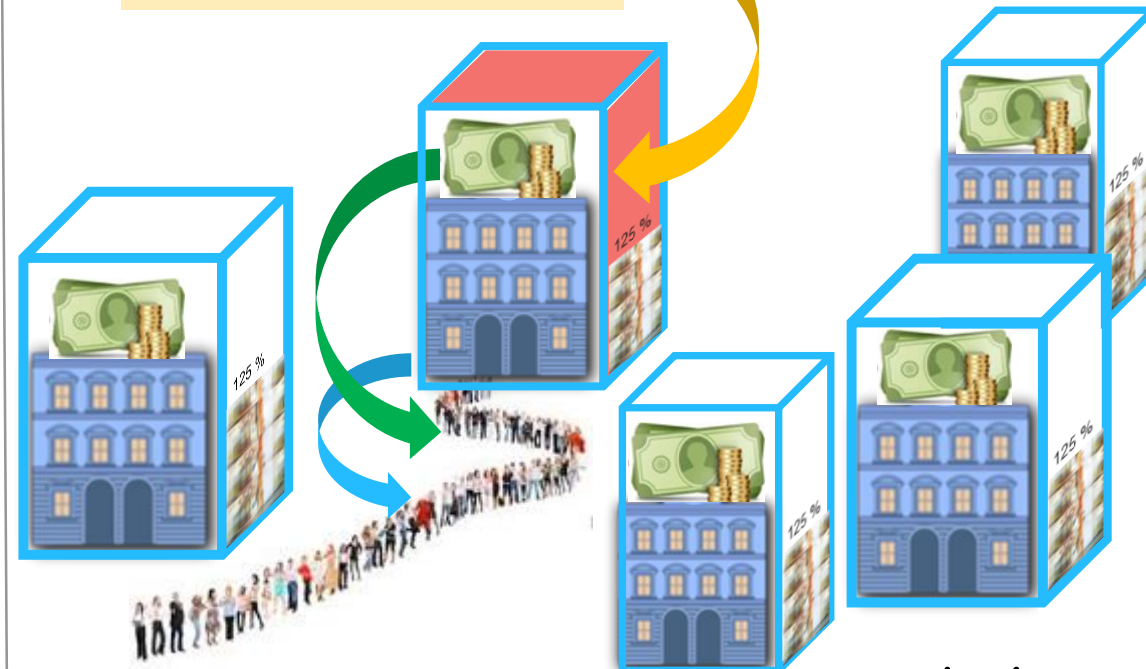
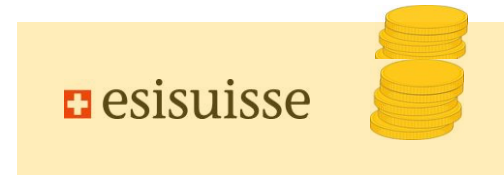
## The most common model



implicit government backup funding

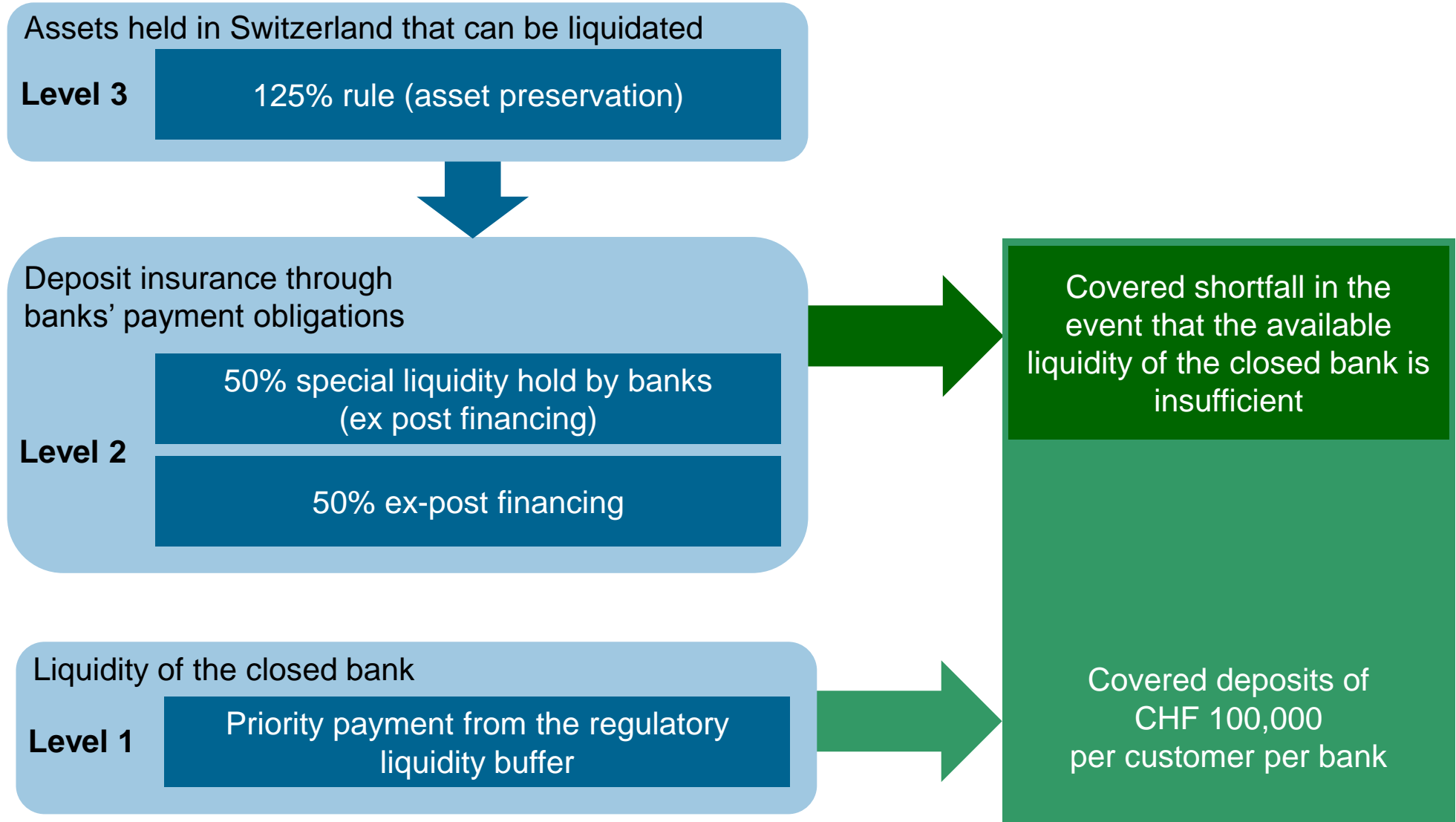


## The integrated Swiss model



# 3. Today's Swiss Deposit Insurance

Integrated triple protection model



### 3. Today's Swiss Deposit Insurance

A proven system - overview

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

# 4. Reform of Swiss Deposit Insurance

## Why to reform

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### 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

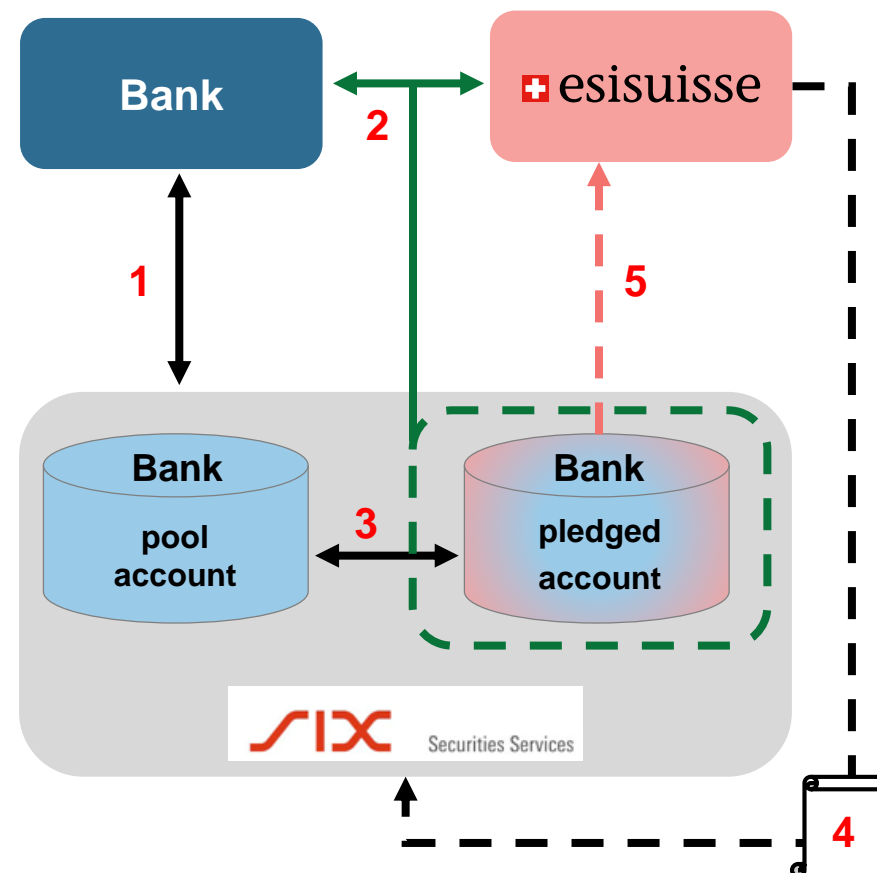
Topics of the revision: Comparison today – tomorrow

	Status quo	New
Time limit for payout	<ul style="list-style-type: none"><li>– No legal time limit for payout</li><li>– Financing within 20 working days (wd)</li></ul>	<ul style="list-style-type: none"><li>– Payout within 7 wd</li><li>– Instant information to clients</li><li>– Financing within 7 wd (esi)</li></ul>
Masterfile (Single Customer View)	<ul style="list-style-type: none"><li>– Minimal definition</li></ul>	<ul style="list-style-type: none"><li>– Standardized determination</li><li>– New procedures for each bank as preparation</li></ul>
Financing	<ul style="list-style-type: none"><li>– Banks hold special liquidity: 50% of payment obligation</li><li>– 50% financed ex post</li></ul>	<ul style="list-style-type: none"><li>– Collateralised payment commitments: 50% of payment obligation</li><li>– 50% financed ex post</li></ul>
Payment obligation	<ul style="list-style-type: none"><li>– Up to CHF 6 bn</li></ul>	<ul style="list-style-type: none"><li>– Up to 1.6% (today ≈ CHF 7.2 bn)</li><li>– At least CHF 6 bn</li></ul>

# 4. Reform of Swiss Deposit Insurance

## Topics of the revision 2019 – Securisation of Bank's Payment Commitment

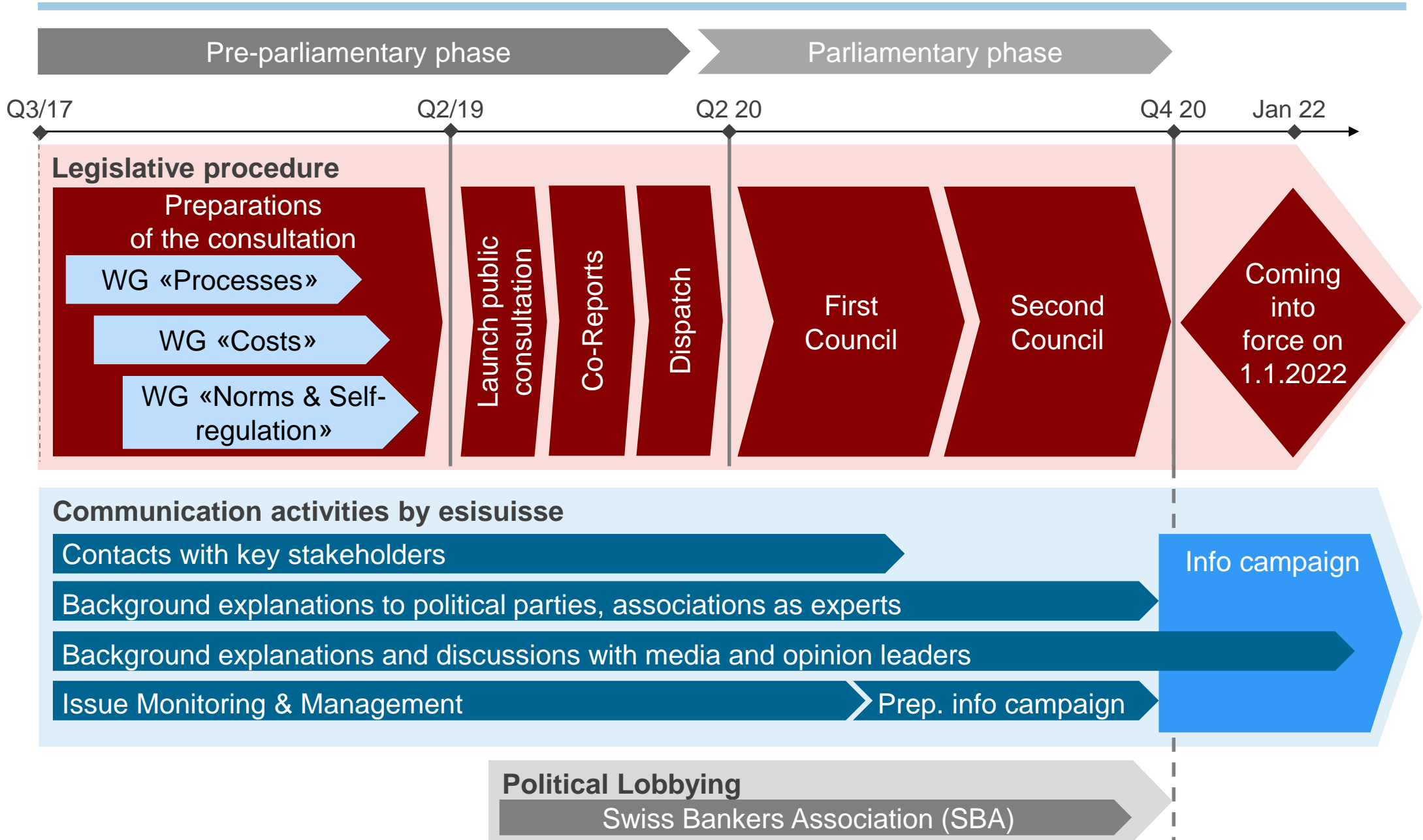
1. Two custody accounts per bank at leading Swiss central securities depository SIX
  - **All assets (securities)** in both custody accounts
    - **in bank's ownership** and
    - **on bank's balance sheet**
2. Bank owes contributions to esisuisse:
  - To secure bank's payment commitment:
    - bank's 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<sup>1</sup> the assets in the *pledged account*, but only
  - if bank is overdue with its contribution to esisuisse, or
  - if bank fails itself
5. Benefits of realisation are transferred to esisuisse and are set-off with bank's obligation



<sup>1</sup> Art. 31 Federal Intermediated Securities Act (Bucheffectengesetz)

# 4. Reform of Swiss Deposit Insurance

Process of the revision of the law



# 5. New Swiss DIS in international comparison

Integrated and solid system



<b>Financing</b>	<b>Liquidity</b>	<ol style="list-style-type: none"> <li>1. Available liquidity in bank</li> <li>2. <i>Only if not sufficient liquidity in closed bank, ex-post-financing by esisuisse (1.6%)</i></li> </ol>	<ol style="list-style-type: none"> <li>1. missing</li> <li>2. Payment just from limited deposit insurance fund (usually 0.5% – 2%; EU 0.8 %)</li> </ol>
	<b>125% rule</b>	Domestic assets of 125% of covered deposits	Public Backstop (implicit or explicit)
<b>Recovery</b>	<b>Depositor preference</b>	Covered deposits in 2nd class claims	Partially no depositor preference in bankruptcy
		Taxes in 3 <sup>rd</sup> class claims	Taxes often in 1 <sup>st</sup> class claims
<b>Settlement</b>	<b>Payout</b>	Use of existing infrastructure of closed bank	Constant readiness of expensive infrastructure, which works quickly if properly done

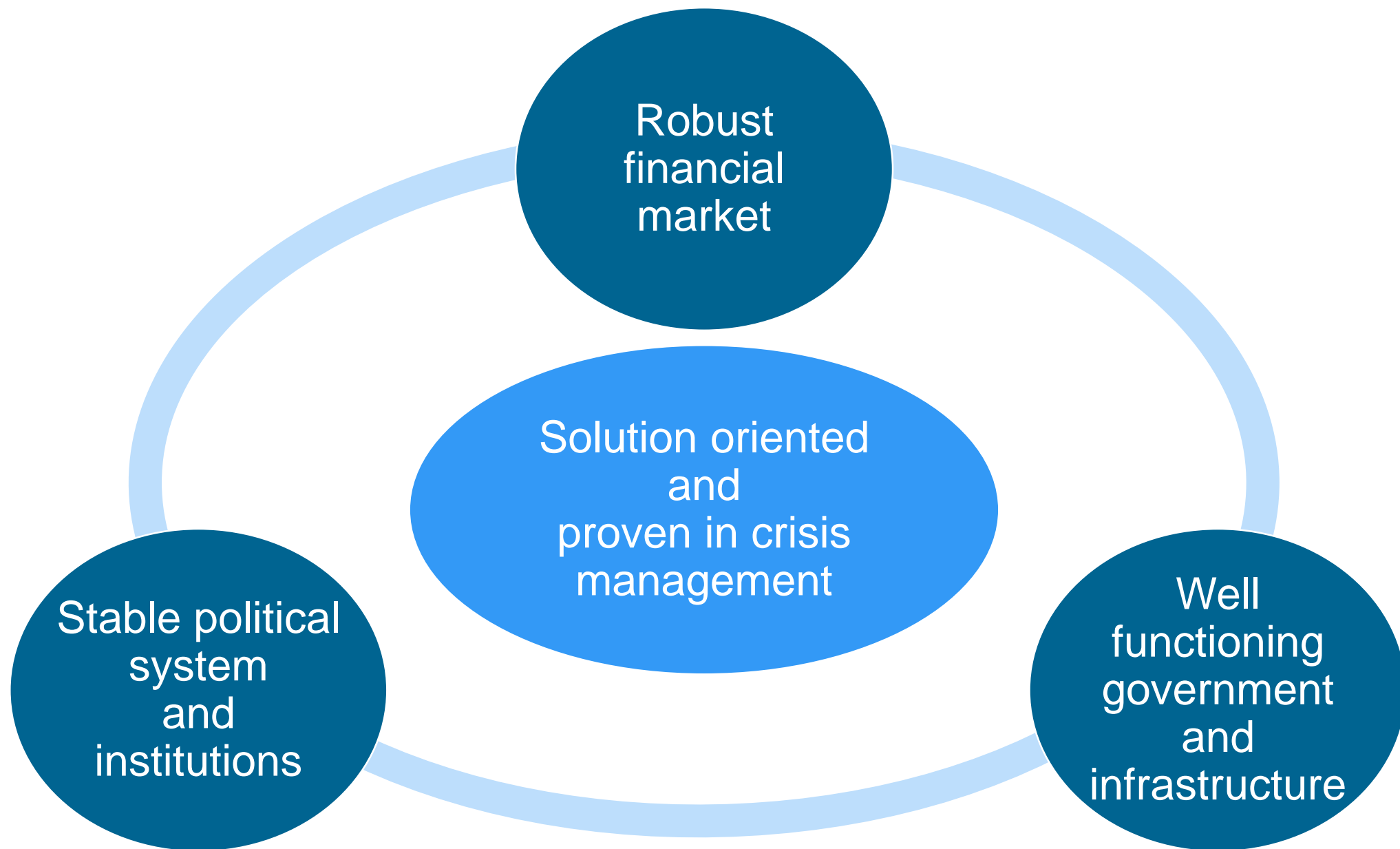


<b>Characteristics</b>	<b>Integrated &amp; practical</b>	<b>Compliant with IADI CP</b>
<b>Challenges</b>	<b>Speed</b>	<b>Functional capability if seldom used</b>

## 6. Appraisal of the proposed revision

Favorable conditions for a Swiss DGS model

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## 6. Appraisal of proposed revision

### Optimization of a strong deposit insurance system

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#### 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



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