The 2019 Swiss Deposit Insurance Reform: Operational Considerations

Rastko Vrbaski, Senior Advisor, Financial Stability Institute
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Disclaimer

The views expressed are my own and do not necessarily reflect those of the BIS, its Financial Stability Institute or any of the Basel-based committees.
Recap (1/2): Depositor Protection – Components and Coverage

Privilege of 2nd class:
Each customer up to CHF 100’000
(separate for liquid deposits and deposited pensions)

Creditor Hierarchy:
1st Class: Qualifying employee and social security claims
2nd Class: Deposits and certain social security claims
3rd Class: All other claims / “ordinary” class

Deposited Pension Funds
Liquid Booked Abroad
Liquid Booked in CH

Insured:
Each customer up to CHF 100’000

Immediate Payout:
Each customer up to CHF 100’000
Recap (2/2): 3 Layers of Depositor Protection

Privilege in Proceedings (2\textsuperscript{nd} Class)
All deposits up to CHF 100’000

Insurance by esisuisse
Not subject to proceeding
Deposits booked in CH, excluding deposited pension funds
Capped at 1.6\% of systemwide insured deposits (SID), \textbf{floor of CHF 6bn}

Immediate payout \textbf{within 7 days}, using failed bank’s COLA* 
Not subject to proceeding
Deposits booked in CH and abroad, excluding deposited pension funds

* COLA = cash and other liquid assets
Reimbursement Process: Major Milestones and Timelines

**Point of Bankruptcy**

- **Runway**
  - **Immediately:** Request client information
  - **Preparation!**
- **Proceeding**
  - **If needed:** Call for esisuisse funds
  - **Within 7 days:** Funds available to administrator
  - **Preparing!**
  - **Within 7 days:** Client info received
  - **Preparing!**
  - **Within 7 days:** Administrator pays out to clients
  - **Collocation of claims**
  - **Remainder paid out in proceeding**
Pay out 100% up to threshold, anything above afterwards – *if funds sufficient*
Pay out pro rata, in one or more steps – *if funds insufficient*

KCHF 140
KCHF 120
KCHF 100
KCHF 50
KCHF 20
KCHF 5
KCHF 5

66% (of KCHF100)
66% (of KCHF100)
66%
66%
66%
66%
66%
Funding needs are fixed – resources must/can be organized to match them

2. Class Insured Deposits: ID
1. Class: 1C
Cost: fees, staff, IT, ...

Deposits Booked Abroad: BA
Other, eg pensions: O2

ESA: ESI capped at lower of ID and 1.6% SID!
COLA
ERA:
Easily realizable assets
ONA:
Other, non-liquid assets

Uncertainties!
A process for matching funding needs with available resources

\[
\text{Cost} + 1\text{C} + O2 + BA + ID = \begin{cases} \text{COLA?} & \text{N} \\
\text{COLA + ERA?} & \text{N} \\
\text{COLA + ERA + ONA?} & \text{N} \\
\text{COLA + ERA + ONA + ESI?} & \text{N} \end{cases}
\]

Subject to 100% coverage of 1C and O2:
- Cap COLA and distribute pro rata to ID and BA
- Distribute ESI to remaining ID
- Threshold approach (ATM...) not possible

- Fully reimburse ID + BA
- Define threshold
- ATM etc possible!
Preparatory Work – during runway to bankruptcy

- **Devise payout strategy**
  - Check SCV-file
  - Calculate variables prior to PoB, including FINMA guidance
  - Prepare “reimbursement plan”

- **Conclude as to prorated or full reimbursement**
  - Consider operational enhancements of threshold
  - Decide if threshold approach possible and useful

- **Consider means of payment**
  - ATM, online banking, bank transfer, etc
  - Define client instruction to be requested after PoB
Preparatory Work – in Business as Usual Times

- "Masterfile" – what specifications?
  - Single customer view (SCV)...
  - Differences between level 1 and 2
    - Swiss pensioner living abroad with deposits in CH and foreign branch
  - Differences between level 1 and 3
    - Client with liquid deposits and deposited pension funds
- Multiple ownership accounts (legislative clarification useful?)
- Allow comparison to resolution funding (legislative clarification useful?)
- Regularly reviewed or subject to regulatory audit?
Conclusions

- Establish common understanding of process and critical decision points
- Consider options other than payout during runway
- Design payout strategy during runway
- Determine variables, needs and available resources during runway
- Realize significant upside by optimizing operational preparedness
- Consider allowing uninterrupted cash provision, including via ATM
- Consider regular regulatory audit of state of preparedness, including SCV-file
- Hold simulation exercises to test operational capabilities
Thank you!