Swiss deposit insurance: an international comparison

This information document is part of a series covering the 2020/21 revision of deposit insurance legislation (see overview at the end of this document).

General information

The International Monetary Fund (IMF) and the World Bank use the Financial Sector Assessment Program (FSAP) to examine the financial stability of countries at regular intervals. The Basel Committee On Banking Supervision (BCBS) uses the Regulatory Consistency Assessment Programme (RCAP) to examine the countries' implementation of international financial market regulation. Measured against the International Association of Deposit Insurers (IADI) Core Principles, the Swiss deposit insurance scheme is rated well. By international standards, however, the length of time it takes for protected deposits to be paid out to depositors is no longer in line with the high expectations placed on Switzerland as a first-class financial centre.

Overview

The planned revision of the law will further strengthen the Swiss deposit insurance scheme, as the international comparison shows:

	Schweizerische Eidgenossenschaft / Confédération suisse / Confederazione Svizzera / Confederaziun svizra — **Key figures of the Federal Council**	European Commission	IADI International Association of Deposit Insurers
Payout			
Payout time frame	7 working days by 2025 (with exceptions)	7 working days by 2024 (with exceptions)	7 working days (Handbook: exceptions)
In case of used up funds	No legal claim, no backup financing (and no implicit lender of last resort) but 125% rule	legal claim, backup financing (plus implicit lender of last resort)	legal claim undefined, backup financing compulsory
Financing			
Modus	1a) Payout using remaining **liquidity of the failed bank** 1b) Payout using funds of deposit insurance 2. 50% of payment commitments fully collateralised, rest ex-post financed 3. Securing of refinancing (and recovery) by 125% rule	1a) Nothing comparable 1b) Payout using funds of deposit insurance 2. Ex-ante-fund 70%, 30% fully collateralised payment commitments 3. Nothing comparable	1a) Nothing comparable 1b) Payout using funds of deposit insurance 2. Ex-ante-funding, fully collateralised payment commitments possible in conjunction with ex-ante fund 3. Nothing comparable
Target Level	**Liquidity of failed bank** plus **1.6% of insured deposits**; at least CHF 6 billion	0.8% of insured deposits	usually 0.5% up to 2%
Public Awareness			
Information of depositors	Banking client information and public information at self-regulatory level	legal obligation	comprehensive duties
Governance			
Deposit Insurance	strict governance based on self-regulation and bylaws approved and enforced by governmental supervision (FINMA)	independence and governmental supervision	independence and governmental supervision

= Switzerland falls short of international standards

= Switzerland exceeds international standards

Advantages of the Swiss model: efficient, fair and safe

- Swiss **banks must hold assets in Switzerland** whose value represents **at least 125% of the sum of their preferential deposits**:
    - These assets serve as additional collateral to ensure the payment of the protected deposits. Other jurisdictions do not have this safety net.

- In Switzerland, the **protected deposits are paid out of the bank's available liquidity**:
    - esisuisse's deposit insurance funds only need to be used if the closed bank's available funds are not sufficient to pay out the protected deposits. In this case, esisuisse advances the required money to the liquidator. There is nothing comparable in international regulation, which requires the deposit insurance institution to intervene immediately in the event of bankruptcy, which is why larger structures have to be set up.

- In Switzerland, there is **no backup financing** by the State:
    - In the EU, depositors are legally entitled to a payout of up to EUR 100,000 each, even if insufficient funds are available for deposit insurance. However, the legislator does not specify exactly how the payout is to be made or how it would be financed. Should the banks not be in a position to provide further financing, the State would have to step in. This would, however, be tantamount to an implicit state guarantee and thus violate the EU's ban on state aid.

Assessment of esisuisse

The IMF and the BCBS consider the Swiss deposit insurance scheme to be inadequate due to the lack of backup financing and the possible temporary reduction in the payout of the protected deposits. However, their argumentation fails to recognise that, in Switzerland, the remaining liquidity of the bank concerned is first used for the payout and that, in addition to esisuisse – thanks to the 125% rule – there is an additional security level with real collateral. This rule helps to ensure that the total amount of protected deposits can always be paid out, albeit with a certain delay. By international standards, the time taken to pay out protected deposits to depositors (several weeks or even months) is no longer in line with the high expectations placed on Switzerland as a first-class financial centre, which is why the proposal creates the conditions for Switzerland to have deadlines (seven working days) similar to those of other comparable financial markets (USA, European Union, United Kingdom, Singapore, Hong Kong).

Information documents on the 2020/21 revision of deposit insurance legislation

Details of the 2020/21 revision of deposit insurance legislation can be found in the following information documents:

- Swiss deposit insurance today: in brief
- Overview of the reform of the deposit insurance scheme
- Financing of the deposit insurance scheme
- Payment of protected deposits
- *Swiss deposit insurance: an international comparison (this document)*
- State guarantee and deposit insurance
- Reform of the Swiss deposit insurance scheme – key points

Further information on deposit insurance and esisuisse can be found at www.esisuisse.ch.