

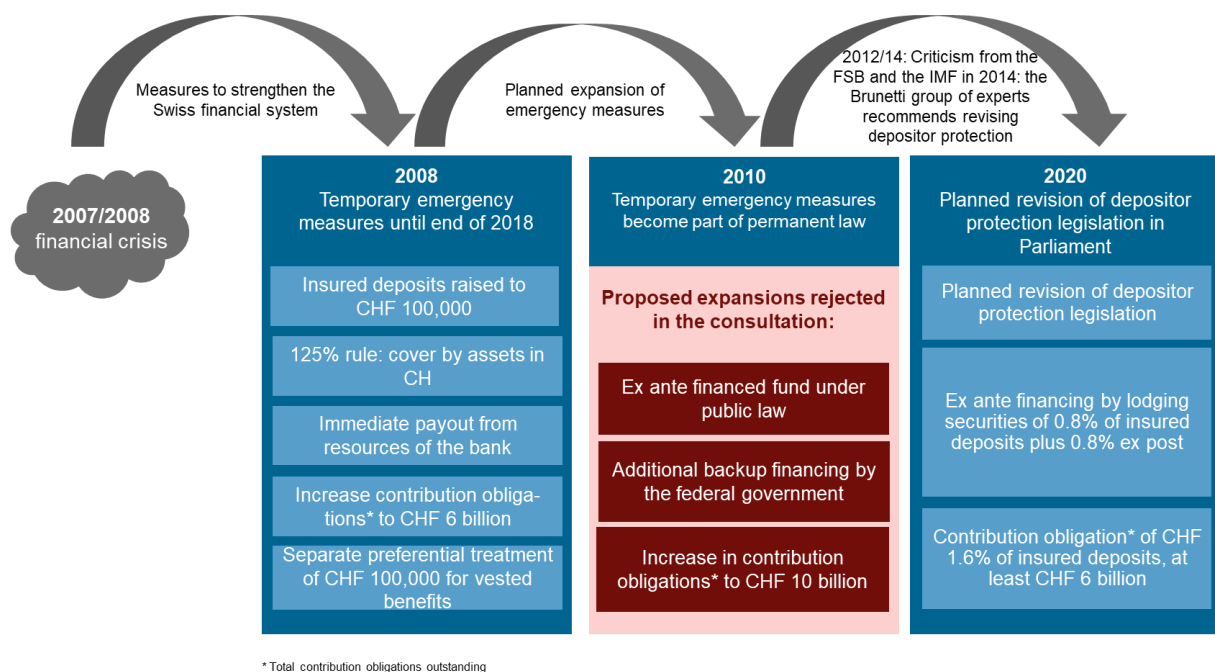
Overview of the reform of the deposit insurance scheme

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).

Background

In **2008**, following the financial crisis, the federal government introduced **five emergency measures** to strengthen depositor protection. The aim was to prevent runs on banks and at the same time boost confidence in the stability of financial markets.

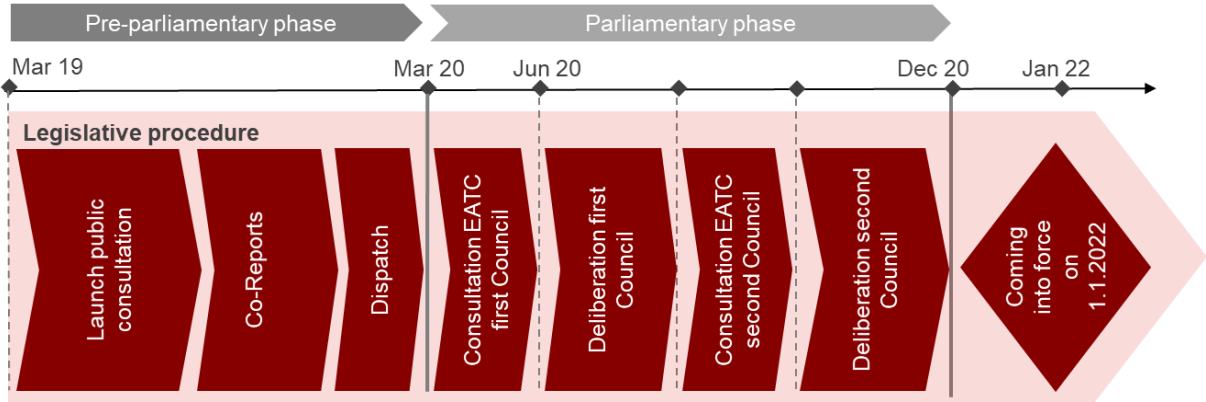
In **2010**, these measures became part of **permanent law**. Additional measures that would have strengthened depositor protection even more were abandoned following predominantly negative responses in the 2009 public consultation. The principal objection was significantly higher costs that banks and their clients would have incurred from a pre-financed (ex-ante) fund and the fact that lending would have become more expensive, especially to SMEs.



In **2014**, following the issues raised by the Financial Stability Board (FSB) and the International Monetary Fund (IMF), the **Brunetti group of experts** proposed considering ex-ante financing, increasing the total amount of outstanding contribution obligations, shortening the deadline for payouts to clients and improving public awareness of deposit insurance.

In **2017**, the Federal Council published **guidelines for a revision of the law**. It instructed the State Secretariat for International Finance (SIF) to work with FINMA to produce a draft bill in collaboration with experts from the banks and esisuisse.

The **consultation** took place in the **summer of 2019**. The dispatch was sent to parliament in June 2020. For the parliamentary phase, the following timetable is expected in the best-case scenario:



Objectives of the planned revision of the law

	Current situation	New
Deadline for payout	<ul style="list-style-type: none"> – Money from esisuisse to liquidator within 20 working days (WD) – No legal deadline for payout to clients 	<ul style="list-style-type: none"> – Money to liquidator within 7 WD – Clients to be informed immediately – Payout to clients within 7 WD upon receipt of payment instruction
Master file and new processes	<ul style="list-style-type: none"> – Minimal definition of content of single customer view reporting, SFBC Circular no. 47 (2008) – No legal requirement for processes (payout takes weeks to months) 	<ul style="list-style-type: none"> – Determine insured deposits per client – standardised depositor list – New processes for each bank as preparation to close them down
Financing	<ul style="list-style-type: none"> – No coverage 	<ul style="list-style-type: none"> – 50% of contribution obligation secured by collateralized securities or loans
Contribution obligation	<ul style="list-style-type: none"> – Up to CHF 6 billion 	<ul style="list-style-type: none"> – Amount equivalent to 1.6% of insured deposits – at least CHF 6 billion (currently: CHF 7.2 billion)
Awareness (not part of the revision)	<ul style="list-style-type: none"> – Until the end of 2017 based on recommendations of the SBVg / esisuisse – New self-regulation in 2017 (via customer information until 31.12.2018) 	

The amount of preparatory work required to **shorten the payout deadline** varies, depending on the size and complexity of the bank. So far, no legal deadline has been set for making payouts to clients. 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).

The **financing** by collateralised **securities pledged to esisuisse** is a much more cost-effective solution than creating an ex-ante fund, but it is just as secure.

The **total of all outstanding contribution obligations** (which to date has been CHF 6 billion) is to be increased to 1.6% of all protected deposits (currently equivalent to CHF 7.4 billion as at 31 December 2019), with a fixed minimum amount of CHF 6 billion.

Analysis of additional costs

The **additional costs of the planned revision** compared to the current situation have been estimated as follows by a working party of the SBA with the assistance of esisuisse, the State Secretariat for International Finance (SIF) and FINMA:

One-off implementation costs	CHF 85 - 95 million (+/- 20%) <ul style="list-style-type: none">– There are variations because of the very different business models and IT strategies pursued by the individual institutions– Costs are expected to trend downwards between 2020 and 2025 due to industrialization / digitalisation– A transitional period will allow costs to be spread over five years
Annual ongoing costs	CHF 22 million (+/- 20%) <ul style="list-style-type: none">– There are variations due to the size of the client base– For smaller banks the costs tend towards zero
Annual financing costs for pledging securities	CHF 1.6 - 20 million <ul style="list-style-type: none">– At current interest rate, costs are minimal (1.6 Mio.)– CHF 20 million under normal conditions

By comparison, the **cost of fully financing an ex-ante fund** (based on the EU model) would be CHF 259 million per year for ten years.

Conclusion

Compared with the expensive alternative of an ex-ante fund, the planned revision is moderate, balanced and contributes to the stability of the financial markets and Switzerland's reputation as a banking centre:

- ✓ **Shorter payout deadlines**
- ✓ **Tried-and-tested financing of deposit insurance scheme strengthened**
- ✓ **Reasonable cost/benefit ratio**

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: in brief
- *Overview of the reform of the deposit insurance scheme (this document)*
- Financing of the deposit insurance scheme
- Payment of protected deposits
- Swiss deposit insurance: an international comparison
- 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.