

Deposit protection and the reform of esisuisse

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Switzerland protects bank deposits through a system that combines a statutory privilege in bankruptcy with the self-regulation of the banks. Deposits of up to one hundred thousand francs per client and bank are privileged in the bankruptcy of a bank and are paid out with priority. The Banking Act requires the banks to organise a system that guarantees the rapid payout of these protected deposits. The banks have entrusted this task to esisuisse, an association of the banks and securities firms that has its seat in Basel.¹

The system works in two stages. When FINMA orders protective measures or opens bankruptcy proceedings against a bank, the protected deposits are paid out first from the liquid assets of the failed bank. If these are insufficient, esisuisse calls on the other member banks, which must contribute their share within a short period. The system is therefore largely financed after the event, since the banks commit to pay only when a bank fails. This model differs from the deposit guarantee schemes of the European Union, which must build up a fund in advance up to a target level of the covered deposits.²

The weaknesses of this system were discussed long before 2023. In the financial crisis of 2008, the limit of the system, then four billion francs, appeared small compared with the deposits of the larger banks. Parliament adopted a reform of the Banking Act in December 2021, which entered into force on 1 January 2023. It shortened the period within which depositors receive their money and raised the system limit to a percentage of the total protected deposits, subject to a minimum amount in billions of francs. It also obliged the banks to secure half of their contribution obligation by depositing securities or cash with a custodian.³

Even in its reformed form, the system is designed for the failure of small and medium-sized banks. The protected deposits of a large bank would exceed its capacity, which is one of the reasons why the authorities and the

Swiss National Bank had to intervene with liquidity in the case of Credit Suisse. For the clients of Basel's two cantonal banks, a further layer of protection exists. The cantons of Basel-Stadt and Basel-Landschaft guarantee the liabilities of their cantonal banks, although this guarantee depends on cantonal law and has been restricted for some cantonal banks elsewhere in Switzerland.⁴ The question of whether deposit protection should be extended or prefinanced was raised again in the Federal Council's report on banking stability of April 2024.

1 Notes

1. On the protection of deposits up to CHF 100,000 per client and bank (Art. 37a and 37h ff. Banking Act) and the self-regulatory deposit protection scheme esisuisse, with its seat in Basel, see the Banking Act and the publications of esisuisse. To be verified. ↩
2. On the functioning of esisuisse (payout from the liquid assets of the failed bank and contributions of the member banks) and the comparison with the ex ante funded deposit guarantee schemes under Directive 2014/49/EU, see the publications of esisuisse and the Federal Department of Finance. To be verified. ↩
3. On the amendment of the Banking Act of 17 December 2021 on insolvency and deposit protection, in force since 1 January 2023 (shortened payout deadline, system limit of 1.6 per cent of protected deposits with a minimum of CHF 6 billion, partial collateralisation of the contribution obligations), see the dispatch of the Federal Council and the publications of esisuisse. To be verified. ↩
4. On the state guarantee of the canton of Basel-Stadt for the Basler Kantonalbank and of the canton of Basel-Landschaft for the Basellandschaftliche Kantonalbank under the respective cantonal laws, see the cantonal bank laws and the publications of the banks. To be verified. ↩

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