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Swiss Banks' and Securities Dealers' Depositor Protection Association[1]

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Abstract

During the Global Financial Crisis (GFC), Swiss authorities adopted changes to their deposit-insurance system, partly in response to similar measures by neighboring countries. On November 5, 2008, the Swiss finance minister announced that Switzerland would propose legislation to increase depositor coverage from CHF 30,000 to CHF 100,000 (USD 85,400). Swiss authorities also increased the maximum amount of ex-post contributions they could levy from CHF 4 billion to CHF 6 billion. The Swiss Banks' and Securities Dealers' Depositor Protection Association (ESI), Switzerland's standing deposit-insurance body, administered its federal deposit-insurance system. The ESI was privately administered, was compulsory for nearly all deposit-taking institutions, and did not collect up-front fees from its members. On December 19, 2008, the legislature adopted the proposed changes, along with other measures requiring banks to hold 125% of their privileged deposits (guaranteed deposits plus deposits in foreign-bank branches) as realizable (i.e., easily sellable) assets booked in Switzerland and increasing the amount of immediate payments to depositors in the event of a bank failure. These changes were meant to be temporary and were set to expire on December 31, 2010. In 2009, the Swiss government drafted a proposal to build a CHF 10 billion ex-ante fund within 10 years, which was scrapped after the first public consultation. On January 1, 2011, the legislature extended the GFC-era changes until December 31, 2012. On March 18, 2011, it made the changes permanent. On October 9, 2008, one bank failed, costing CHF 30 million; another bank failure in 2011 cost CHF 8 million.

Keywords: account guarantees, esisuisse, ex-post deposit insurance, Global Financial Crisis, Swiss Banks' and Securities Dealers' Depositor Protection Association, Switzerland

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering account guarantee programs. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

During the Global Financial Crisis (GFC), the two Swiss-based international banking groups, UBS and Credit Suisse, suffered billions of dollars in losses on subprime assets (Brown, Guin, and Morkoetter 2020; IMF 2008). Depositors began shifting deposits to small banks, adding to concerns about their liquidity (IMF 2009). To address the effects of the GFC, in October 2008, Swiss authorities injected capital and liquidity into the banking system and enhanced oversight (IMF 2008; SFBC 2008).

On October 7, 2008, European Union (EU) authorities encouraged member states to increase their deposit-insurance coverage to at least EUR 50,000 (USD 67,000) (EC 2008).[3] On October 9, 2008, Kaupthing Bank, a Swiss branch of the Luxembourg subsidiary of an Icelandic bank, failed, requiring CHF 30 million (USD 26.5 million) in payouts to depositors (SFBC 2008).[4] On November 5, 2008, Swiss finance minister Hans-Rudolf Merz announced that Switzerland would take up legislation to modify its deposit-insurance system (Jucca 2008). Merz said that such changes were a response to the EU's recommendation, although Switzerland was not then, and is not now, an EU member state and were meant to reinforce confidence in the Swiss banking system (Jucca 2008).[5]

On December 19, 2008, the Swiss Federal Assembly, Switzerland's federal legislature, passed legislation to alter the deposit-insurance system (Federal

Key Terms

Purpose: To reinforce depositor confidence and to compete with international peers	
Launch Dates	Announcement: November 5, 2008 Authorization: December 19, 2008 Operational: December 20, 2008
End Dates	Originally December 31, 2010. Later extended to December 31, 2012 and eventually made permanent
Eligible Institutions	Mandatory for all FINMA-authorized institutions, with some exceptions
Eligible Account(s)	Most deposit accounts
Fees	No upfront fees
Size of Guarantee	CHF 100,000
Coverage	USD 355.4 billion in 2010
Outcomes	One failure, costing CHF 8 million
Notable Features	The ESI could only collect up to CHF 6 billion in ex-post contributions Swiss banks were required to hold 125% of their privileged deposits in realizable assets and 50% of their maximum ESI contribution as special liquidity

[3] On October 7, 2008, EUR 1 = USD 1.36, per Yahoo Finance.

[4] On October 9, 2008, USD 1 = CHF 1.13, per Yahoo Finance.

[5] In March 2009, EU officials increased the required limit for EU member states to EUR 100,000 (EP/EC 2009).

Assembly 2009, Article 37b). It increased the guaranteed limit from CHF 30,000 to CHF 100,000 (Federal Assembly 2009, Article 37b). That level exceeded the EU recommendation of EUR 50,000, which was about CHF 76,000 at the time. The legislation also granted depositor preference to customers with vested pension-benefit accounts and restricted pension accounts (Federal Assembly 2009, Article 37b), and it required banks to maintain 125% of their privileged deposits in realizable assets in Switzerland (Federal Assembly 2009, Article 37b; FINMA n.d.; esisuisse n.d.a). Privileged deposits included guaranteed deposits plus deposits in foreign-bank branches.[6] Realizable assets were domestically held assets that the Financial Market Supervisory Authority (FINMA) could easily access in the event of a failure (FINMA 2018).[7] The legislation also increased the total amount of contributions that could be levied from Swiss Banks' and Securities Dealers' Depositor Protection Association (ESI) member banks in the event of failure from CHF 4 billion to CHF 6 billion (Federal Assembly 2009, Article 37h).[8] In his November 2008 announcement, Merz said that the government would additionally propose an increase in the amount of guaranteed deposits that the insurance fund would immediately pay out in the event of a bank failure, then set at CHF 5,000, although he did not specify the new level (Jucca 2008). The 2008 law, as passed, allowed depositors to receive immediate payment by drawing on a failed bank's liquidity, with no limit (Federal Assembly 2009, Article 37a). Swiss authorities set an end date of December 31, 2010, for these changes (Federal Assembly 2009, Articles 37b, 37h).

Prior to the GFC, the ESI administered Switzerland's federal deposit-insurance system (esisuisse n.d.a). Several Swiss cantons, or regional governmental entities, however, fully guaranteed the liabilities of cantonal banks. Cantonal banks are banks that do not focus solely on profit maximization but also carry out social functions (FSB 2012; IMF 2007b). In Switzerland, there were 24 cantonal banks, many backed by an explicit cantonal guarantee (IMF 2014). Some cantonal banks were larger than their guarantors (IMF 2014). Cantonal

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[6] Swiss law differentiated "privileged," or "preferential," deposits from "protected" (guaranteed) deposits (esisuisse n.d.b; FINMA 2018). Protected deposits refer to those covered by the ESI (esisuisse n.d.b). Privileged deposits refer to those that have priority in bankruptcy proceedings (esisuisse n.d.b; FINMA 2018). The two categories overlapped to cover depositors for up to CHF 100,000 in FINMA-approved institutions in Switzerland (esisuisse n.d.b; FINMA 2018). Deposits that were privileged, but not protected, included deposits at foreign branches of Swiss banks. In the event of a failure, the foreign branch of a Swiss bank paid out depositors if the bank had sufficient funds; if not, these balances were paid during liquidation, with the ESI not providing any coverage (esisuisse n.d.b).

[7] The reason for this was that the bankrupt Kaupthing branch had most of its assets booked in Iceland. These could not be liquidated, given that Kaupthing's parent company was bankrupt. The 125% rule, then, was a sort of ring-fencing to ensure that Swiss authorities could sell these assets in liquidation and, if need be, repay the Swiss deposit insurer.

[8] These contributions were not fees but loans to the Swiss deposit insurer, booked as assets on the bank's balance sheet. These contributions were repaid to contributing banks in the course of the liquidation of failed banks via the deposit insurer. As the deposit insurer took over the rights of privileged deposits, it was highly likely that the Swiss deposit insurer would be fully repaid. Contributions for the failure of Kaupthing were repaid to contributing banks within a few years. Contributions for the failure of Aston Bank were repaid in early 2022.

banks held about 10% of the assets in the Swiss financial system between 2008 and 2011 (IMF 2014).

The ESI was a privately administered deposit-insurance scheme, established under Article 37h of the Swiss Banking Act (Federal Assembly 2004, Article 37h; esisuisse n.d.a). Prior to December 2008, the ESI guaranteed CHF 30,000 per depositor (Federal Assembly 2004, Article 37b). Of this, the ESI would pay out CHF 5,000 to depositors as quickly as possible (Federal Assembly 2004, Article 37a). Membership was compulsory for all Swiss banks, including some cantonal banks, and securities dealers; the postal banking system and cooperatives were exempt (esisuisse, n.d.b; FSB 2012).

The ESI was an ex-post deposit-insurance scheme. In other words, it collected no up-front contributions from participating institutions (FSB 2012). If the liquidity of a bank was insufficient to compensate depositors, the ESI would levy contributions on other ESI members, with the total contributions capped first at CHF 4 billion and later, after December 2008, at CHF 6 billion (FSB 2012; Federal Assembly 2004, Article 37h). All ESI members were required to hold 50% of their share of this CHF 4 billion, then CHF 6 billion, cap as special liquidity for the deposit-insurance scheme (Federal Assembly 2004, Article 37h). The FINMA-appointed liquidator would then pay out depositors, rather than the ESI (FSB 2012).

The Swiss legislature initially extended the GFC measures to December 31, 2012 (Federal Assembly 2011a, Articles 37b, 37h). On March 18, 2011, it made all of the changes permanent (Federal Assembly 2011b, Articles 37a, 37h).

In 2009, the Federal Council, Switzerland's executive body, sought to reform the deposit-insurance system in response to criticism from the International Monetary Fund (IMF) that the system was ex-post and unfunded (IMF 2009; esisuisse n.d.a). Proposed changes included ex-ante fees, backup state financing, and a total contribution levy cap of CHF 10 billion (esisuisse 2020). The bill was ultimately abandoned owing to negative responses in public consultation, with the primary objection being that the scheme would be more costly (esisuisse 2020; esisuisse n.d.a).

In June 2011, Aston Bank failed (esisuisse 2013). In response to Aston Bank's failure, the ESI paid out CHF 8 million to depositors (esisuisse 2013).

Summary Evaluation

In its review of deposit insurance, the Financial Stability Board (FSB) noted that the ESI did not cover several nonbank deposit-taking institutions. It warned that this lack of coverage could adversely affect depositor confidence in times of stress (FSB 2012). The FSB suggested either insuring these deposits or taking steps to ensure that these institutions did not take deposits from the depositors most in need of protection (FSB 2012). Prior to the crisis, Swiss authorities had not required these institutions to apply for banking licenses, viewing the risk as negligible (IMF 2007b).

The FSB also noted that the CHF 6 billion cap on ex-post contributions could create the perception that some insured deposits would not be reimbursed in the event of a large failure (FSB 2012). While such a limit could have upsides, such as limiting the deposit-insurance scheme's exposure and mitigating moral hazard, the FSB recommended either removing the limit or implementing a funding backstop (FSB 2012).

The FSB asserted that the presence of cantonal banks, some of which were fully guaranteed by their respective cantons, could lead to market distortions (FSB 2012). The IMF also criticized cantonal banks, highlighting their lack of efficiency and contingent risk, which increased the likelihood that cantonal guarantees would be exercised (IMF 2007a).

The IMF also criticized the Swiss ESI for its lack of efficacy (IMF 2009). It noted that prior to the GFC alterations, the ESI had sufficient funds only to protect depositors at small or medium-size banks and warned that its ex-post capped system might be insufficient to maintain depositor confidence (IMF 2009). The IMF further noted that even with the GFC measures, the system remained both unfunded and incapable of covering large banks (IMF 2009).

The IMF recommended implementing an ex-ante deposit-insurance scheme that would adequately protect depositors irrespective of a bank's size and reduce the guarantee's payout time. It also recommended that the ESI increase the number of board members who were independent of the banking industry (IMF 2009; IMF 2014).

The IMF worried about Swiss authorities' ability to make prompt payouts, given that a liquidator, using the failed bank's employees and infrastructure, headed the process (IMF MCMD 2019).

In 2017, scholars found that only 25% of Swiss households were knowledgeable about the Swiss ESI (Brown, Guin, and Morkoetter 2020). These results surprised scholars, given that there was "substantial public debate about the Swiss deposit insurance system" during the GFC (Brown, Guin, and Morkoetter 2020).

Context: Switzerland 2008–2010	
GDP (SAAR, nominal GDP in LCU converted to USD)	\$572.1 billion in 2008 \$560.8 billion in 2009 \$604.9 billion in 2010
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	\$74,572 in 2008 \$72,083 in 2009 \$77,117 in 2010
Sovereign credit rating (five-year senior debt)	Data for 2008–2010: Moody's: Aaau S&P: AAA Fitch: AAA
Size of banking system	\$901.6 billion in 2008 \$933.3 billion in 2009 \$998.0 billion in 2010
Size of banking system as a percentage of GDP	157.6% in 2008 166.4% in 2009 165.0% in 2010
Size of banking system as a percentage of financial system	Data not available for 2008 Data not available for 2009 Data not available for 2010
Five-bank concentration of banking system	94.57% in 2008 93.18% in 2009 92.91% in 2010
Foreign involvement in banking system	5% in 2008 6% in 2009 5% in 2010
Government ownership of banking system	Data not available for 2008 Data not available for 2009 Data not available for 2010
Existence of deposit insurance	Yes in 2008 Yes in 2009 Yes in 2010
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.	

Key Design Decisions

1. **Purpose: Policymakers altered the Swiss deposit-insurance system to bolster depositor confidence and to compete with countries that had similarly increased depositor coverage.**

On October 7, 2008, the European Union (EU) encouraged member states to increase their deposit-insurance thresholds to EUR 50,000 (CHF 77,500) (EC 2008; Jucca 2008).[9] Two days later, Kaupthing Bank, a Swiss branch of the Luxembourg subsidiary of an Icelandic bank, failed, requiring the Swiss deposit-insurance scheme to pay CHF 30 million to its depositors (SFBC 2008). At the same time, the two largest Swiss banks, the international conglomerates UBS and Credit Suisse, were facing liquidity pressures, as depositors began moving their money to small and medium-size institutions in the country (IMF 2009).

Given these conditions, on November 5, 2008, Finance Minister Hans-Rudolf Merz announced that Switzerland would take up legislation to modify its deposit-insurance system (Jucca 2008). Notably, Merz laid out an increase of the guarantee limit to CHF 100,000 and an increase of the total amount that could be levied from institutions insured by the Swiss Banks' and Securities Dealers' Depositor Protection Association (ESI) in the event of a bank failure from CHF 4 billion to CHF 6 billion. He said both policies were meant to "reinforce client confidence in banks" (Jucca 2008). Merz stressed that such actions were needed if the Swiss system wished to remain credible (Jucca 2008). Merz further asserted that the Swiss guarantee was higher than the guarantee recommended by the EU and that Swiss deposits were safe (Jucca 2008).

2. **Part of a Package: Swiss authorities also enacted capital and liquidity injections, notably to UBS.**

During the Global Financial Crisis (GFC), UBS and Credit Suisse suffered losses on US subprime assets, requiring billions of dollars in write-downs (Brown, Guin, and Morkoetter 2020; IMF 2008). Liquidity became strained, as depositors moved their assets to smaller banks in Switzerland (IMF 2009). In response to these conditions, the Federal Council, the Swiss National Bank, and the Swiss Federal Banking Commission (SFBC) designed measures to stabilize the Swiss financial system, especially UBS (SFBC 2008). This included an ad hoc transfer of USD 60 billion (approximately CHF 68 billion) of UBS's assets to a special-purpose vehicle owned by the Swiss National Bank (SFBC 2008). The government also acquired CHF 6 billion in mandatory convertible bonds, which strengthened UBS's capital base (SFBC 2008). Tied to these measures were stricter capital requirements (SFBC 2008).

All of the measures were announced on October 16, 2008, and sent to the Federal Assembly on November 5, 2008 (SFBC 2008). The Federal Assembly approved them in December 2008 (SFBC 2008).

[9] On October 7, 2008, EUR 1 was worth CHF 1.55, per Yahoo Finance.

3. Legal Authority: The Swiss Federal Assembly amended the Banking Act to alter the deposit-insurance system.

The Swiss Banking Act, as amended in 2004, created the mandatory deposit-insurance system that became the ESI (esisuisse n.d.a; Federal Assembly 2004, Article 37h). Article 37h of the Banking Act allowed the Swiss banking system to form a self-regulated deposit-insurance system subject to government controls (Federal Assembly 2004, Article 37h). The ESI was required to pay out depositors in three months, contributing up to the contribution levy. Normally, each member bank was required to hold 50% of its maximum potential contribution obligation as special liquidity, which was earmarked for the depositor-protection scheme (Federal Assembly 2004, Article 37h; Federal Assembly 2009, Article 37h). If the ESI did not comply, the Swiss Federal Council retained the power to guarantee deposits by ordinance, designating the deposit-insurance body and the amount of banks' contributions (Federal Assembly 2004, Article 37h; Federal Assembly 2009, Article 37h).

The 2004 law set the deposit-insurance cap at CHF 30,000 and capped the total amount of potential contributions at CHF 4 billion (Federal Assembly 2004, Articles 37b, 37h).

On November 5, 2008, Finance Minister Merz said that the Swiss government would submit legislation as soon as possible to alter the Swiss deposit-insurance system, emphasizing that such changes would be valid until December 31, 2010 (Jucca 2008). On December 19, 2008, the Swiss Federal Assembly amended the Banking Act (Federal Assembly 2009, Articles 37b, 37h). Changes to the deposit-insurance system included the following:

(a) an increased guarantee limit of CHF 100,000;

(b) a new contribution cap of CHF 6 billion;

(c) a requirement that all ESI institutions maintain 125% of their privileged deposits as realizable assets in Switzerland;

(d) preferential treatment for vested benefits, like pensions, up to CHF 100,000;

(e) immediate payout from a failed bank's liquidity (esisuisse 2020; Federal Assembly 2009, Articles 37a, 37b, 37h).

The amendments to the Banking Act had a sunset date of December 31, 2010 (Federal Assembly 2009, Articles 37a, 37b, 37h).

The Swiss legislature extended the GFC amendments until December 31, 2012 (Federal Assembly 2011a, Articles 37b, 37h). Later, on March 18, 2011, the Swiss legislature adopted the GFC changes as permanent by amending the Banking Act (Federal Assembly 2011b, Articles 37a, 37h).

In 2009, the Swiss government proposed reforming the deposit-insurance system by funding it with ex-ante fees, adding a government-funding backstop, and increasing the contribution-levy cap to CHF 10 billion (esisuisse 2020). The legislature rejected these reforms because of their high costs (esisuisse 2020).

4. Administration: The ESI administered Switzerland's deposit guarantee.

Pursuant to the Banking Act of 2004, Swiss banks could form a self-regulated deposit-insurance system (Federal Assembly 2004, Article 37h). Accordingly, in 2005, they formed the ESI, which was privately administered (FSB 2012; esisuisse n.d.a; Federal Assembly 2004, Article 37h).

The ESI had staff that looked after the ESI's business and projects and coordinated meetings and preparations for the board of directors (esisuisse 2013). This included a chief executive officer, a deputy CEO, and a project manager and head of administration (esisuisse 2013). This staff also executed the board of directors' decisions and managed the ESI's assets, communicating with bank clients, the public, and ESI members (esisuisse 2013). Furthermore, it worked in preparing ordinances and laws and cooperated with international organizations (esisuisse 2013).

5. Governance: A board of directors governed the ESI. The ESI was subject to regulatory bodies, such as the Swiss Federal Banking Commission, and then to the Financial Market Supervisory Authority.

A 12-member board of directors governed the ESI (esisuisse 2013). The board members included 10 members of the Swiss Bankers Association's Commission for Swiss Client Business, elected by the Commission's Committee of the Board of Directors (esisuisse 2013). The Swiss Private Bankers Association and the Swiss Association of Independent Securities Dealers each nominated one board member (esisuisse 2013). Members severed three-year terms and were eligible for reelection (esisuisse 2013).

The board of directors was subject to contracts that aimed to prevent conflicts of interest (IMF MCMD 2019). In a potential depositor-payout event, the name of the bank that would be liquidated was shared only with the ESI's executive board, consisting of its CEO and chief operations officer (COO) (IMF MCMD 2019). The board of directors was alerted only to the existence of a potential payout case and the size of the expected contributions, not the bank's name (IMF MCMD 2019). The IMF criticized the ESI for its private-sector governance and recommended the addition of more independent board members (IMF 2014).

The ESI did not begin publishing annual reports until 2012 (esisuisse 2013).

According to its Articles of Association, the ESI was audited annually (esisuisse 2013). Pursuant to Swiss law and the ESI's Articles of Association, the board was required to prepare the ESI's financial statements (esisuisse 2013; Federal Assembly 2014, Article 957, 957a). This entailed designing, implementing, and maintaining an internal controls system to prepare these statements (esisuisse 2013).

The ESI was overseen at first by the Swiss Federal Banking Commission (SFBC) and later by the Financial Market Supervisory Authority (FINMA) (Federal Assembly 2004, Article 37h;

Federal Assembly 2009, Article 37h). Starting in 2009, various Swiss supervisory agencies, including the SFBC, merged into FINMA (FINMA 2010).

The self-regulatory deposit-insurance system was subject to FINMA's approval (Federal Assembly 2009, Article 37h). If the ESI's performance was unsatisfactory, the Swiss legislature could regulate and guarantee deposits by means of an ordinance (Federal Assembly 2009, Article 37h).

The SFBC and later FINMA had the power to wind up a bank and initiate the exercise of deposit insurance (Federal Assembly 2004, Article 26; Federal Assembly 2009, Article 26). The legislature could alter the guarantee limit, and FINMA was responsible for ensuring that banks maintained adequate assets, in case a bank failed and contributions had to be levied (Federal Assembly 2009, Articles 37b, 37c). FINMA held the final decision on bankruptcy decisions made abroad (Federal Assembly 2009, Article 37g). It was required to approve the ESI's Articles of Association and its self-regulations (IMF MCMD 2019).

6. Communication: Swiss authorities communicated that the changes to the deposit-insurance system were meant to bolster depositor confidence and avoid losing deposits to other countries that had increased their depositor coverage.

On November 5, 2008, Finance Minister Merz announced that Swiss authorities would submit legislation to alter the deposit-insurance system (Jucca 2008). Merz said that the changes were aimed at bolstering depositor confidence to ensure that the Swiss banking system remained credible (Jucca 2008). To that end, Merz said, the Swiss government would act as soon as possible to increase individual depositor coverage to CHF 100,000 and to increase the amount of contributions that could potentially be levied to pay depositors in a failed bank to CHF 6 billion (Jucca 2008). Swiss authorities also communicated plans to increase the amount of immediate payments available to depositors, up from CHF 5,000, though they did not specify what the new amount would be. Swiss authorities noted that the revised Swiss guarantee was higher than the EUR 100,000 deposit-insurance limit the EU had recommended that October (Jucca 2008).

Scholars found that during the GFC, Swiss households were poorly informed about the ESI; only 25% of respondents were knowledgeable about the scheme (Brown, Guin, and Morkoetter 2020). The scholars stated that these results were surprising, given the substantial media coverage of the ESI during this period (Brown, Guin, and Morkoetter 2020). They highlighted the vast amount of media attention received by the failure of Kaupthing Bank in October 2008 (Brown, Guin, and Morkoetter 2020). Moreover, scholars maintained that various media outlets questioned the ESI's ability to cover all the insured deposits at large banks and noted that that the scheme was unfunded (Brown, Guin, and Morkoetter 2020).

7. Size of Guarantees: Switzerland guaranteed CHF 100,000 per depositor per bank, up from it previous limit of CHF 30,000 per depositor per bank.

Per the 2004 Swiss Banking Act, Swiss authorities guaranteed a maximum of CHF 30,000 per depositor per bank (Federal Assembly 2004, Article 37b). Following an amendment in

December 2008, Swiss authorities guaranteed CHF 100,000 per depositor per bank (Federal Assembly 2009, Article 37b).

In 2010, scholars reported that the Swiss deposit-insurance system covered USD 355.4 billion in 2010 (approximately CHF 369.6 billion) (Demirgüç-Kunt, Kane, and Laeven 2014).[10] As an ex-post scheme, the ESI did not have a standing fund to back this guarantee (Demirgüç-Kunt, Kane, and Laeven 2014).

In October 2008, prior to the authorization of the changes to the ESI's deposit coverage, Kaupthing Bank failed, requiring CHF 30 million in payouts, based on the cap per depositor of CHF 30,000 (SFBC 2008). In 2011, Aston Bank failed, requiring CHF 8 million in payouts, with each depositor guaranteed up to CHF 100,000 (esisuisse 2013).

8. Source(s) and Size of Funding: The ESI imposed no up-front fees. It raised the cap on total ex-post contributions it could collect following a bank failure from CHF 4 billion to CHF 6 billion. Eligible institutions were required to maintain 125% of their privileged deposits in realizable assets in Switzerland and 50% of their potential contributions as special liquidity.

As an ex-post deposit-insurance scheme, the ESI did not charge any up-front fees (FSB 2012). Contributions would only be levied in the event that a bank failed and its liquidity did not suffice to meet redemptions on guaranteed deposits (FSB 2012). Prior to the GFC, Swiss legislation limited the amount of contributions that the ESI could collect from its members to CHF 4 billion (Federal Assembly 2004, Article 37h). The 2008 legislation raised that limit to CHF 6 billion (Federal Assembly 2009, Article 37h). The Federal Council could raise it still higher in exigent circumstances (Federal Assembly 2009, Article 37h). Proposals to increase it to CHF 10 billion and to introduce ex-ante funding were rejected by the legislature in 2009 (esisuisse 2020).

During normal times, ESI-insured institutions were required to maintain 125% of their privileged deposits in realizable assets in Switzerland for use in a potential payout event (Federal Assembly 2009, Article 37b; FINMA n.d.; esisuisse n.d.a). Each member bank was also required to maintain 50% of its maximum potential contribution obligation as special liquidity (Federal Assembly 2009, Article 37h).

The ESI could not receive backup financing from the federal government (esisuisse 2020). However, it could borrow from the market (FSB 2012).

9. Eligible Institutions: Membership in the ESI was mandatory for deposit-taking institutions with the exceptions of the Swiss postal bank and cooperatives.

Membership in the ESI was mandatory for all FINMA-approved deposit-taking institutions in Switzerland (esisuisse, n.d.b; FSB 2012). Foreign-bank branches operating in Switzerland that were FINMA-approved also received coverage (esisuisse, n.d.b; FSB 2012). Several nonbank deposit-taking institutions were exempted from the ESI's mandatory coverage,

[10] 1 USD was worth CHF 1.04, as a yearly average in 2010.

including the postal bank and cooperatives (FSB 2012). Foreign branches of Swiss banks were not guaranteed by the ESI, though their deposit accounts were privileged, meaning they were senior to other creditors in bankruptcy proceedings (esisuisse n.d.b). The FSB stated that for the system to be effective in times of crisis, it was crucial to either insure these institutions or ensure that they did not take deposits from those most in need of protection (FSB 2012).

10. Eligible Accounts: The ESI covered most types of deposit accounts, although several such types were excluded from its coverage.

Pursuant to the GFC-era Swiss Banking Act, depositors were guaranteed for up to CHF 100,000 (Federal Assembly 2009, Article 37b). The Federal Law on the Prosecution of Debts and Bankruptcy defined these deposits as claims or credit balances held in banks (Federal Assembly 2008, Article 219). This meant that accounts such as checking accounts, savings accounts, investment accounts, and certain medium-term notes received coverage (esisuisse n.d.b). The GFC-era changes also expanded the scope of depositor preference to include previously unprotected accounts like special time deposits, foreign-currency deposits, and the deposits held by some pension schemes (FSB 2012).

The ESI did not cover certain deposit types, including certain vested benefits, bonds, securities, and those of financial institutions (esisuisse n.d.b). Accounts held in foreign branches of Swiss banks were also excluded, though they received seniority in bankruptcy proceedings (esisuisse n.d.b).

11. Fees: There were no up-front fees associated with the ESI. During the GFC, Swiss authorities increased the cap on contributions in the event of a payout. They also required Swiss banks to hold specific assets.

Given that the ESI was an ex-post deposit-insurance system, there were no fees associated with it (FSB 2012). The ESI would collect contributions from member institutions in the event a bank failed and its liquidity was insufficient to pay out guarantee deposits (FSB 2012). In 2004, the Swiss legislature set a CHF 4 billion cap on the total amount of contributions that the ESI could levy (Federal Assembly 2004, Article 37h). During the GFC, legislators increased this limit to CHF 6 billion (Federal Assembly 2009, Article 37h). A proposal to increase this limit to CHF 10 billion was rejected in 2009 (esisuisse 2020). The Federal Council could increase this limit in exigent circumstances (Federal Assembly 2009, Article 37h).

Swiss banks were required to hold 50% of their maximum potential contribution to the ESI as special liquidity earmarked for the deposit-insurance scheme (Federal Assembly 2009, Article 37h).

12. Process for Exercising Guarantee: The supervisor would activate the guarantee. A liquidator would receive a list of depositors and pay them out using the failed bank's liquidity. If that was insufficient, the ESI was required to furnish the

liquidator with the requisite funds in 20 days. The payout could take up to three months.

If FINMA took protective action against a bank—closing it or suspending its ability to take deposits—or ordered the bank's liquidation, the deposit guarantee would activate (Federal Assembly 2009, Articles 26, 33, 37h). FINMA, or the FINMA-appointed liquidator, would be responsible for beginning depositor payouts immediately (IMF MCMD 2019). The liquidator would first pay out deposits from the bank's liquid assets up to CHF 100,000 (FINMA n.d.). Prior to December 2008, only CHF 5,000 could be paid from a bank's liquid assets (Federal Assembly 2004, Article 37a). Following December 2008, banks were required to hold 125% of their privileged assets as realizable assets in Switzerland that the government could sell to reimburse depositors (Federal Assembly 2009, Article 37a-b).

If these assets were insufficient to fund depositor payouts, the ESI was required to pay the liquidator the difference within 20 days of the issuance of a decree by FINMA. Following an amendment in 2008, Swiss law stipulated that the ESI could collect a maximum of CHF 6 billion from its member banks (Federal Assembly 2009, Article 37h). The Federal Council could increase this limit in exigent circumstances (Federal Assembly 2009, Article 37h).

Moreover, all ESI-insured institutions were required to hold 50% of their maximum potential contribution as special liquidity for payout events (Federal Assembly 2009, Article 37h).

13. Other Restrictions on Eligible Institutions/Accounts: Swiss banks were required to hold 125% of privileged deposits in realizable assets in Switzerland and to hold 50% of their maximum contribution to the ESI as special liquidity.

Following amendments to the Banking Act in 2008, participating institutions were legally mandated to hold 125% of their privileged deposits in realizable assets (Federal Assembly 2009, Article 37b). Realizable assets were domestically held assets that FINMA could easily access in the event of a failure (FINMA 2018). Revenue from the sale of these assets would be used to pay out depositors in the event of a bank failure (Federal Assembly 2009, Article 37b; FINMA n.d.; esisuisse n.d.a). Additionally, all members of the ESI were required to hold 50% of their maximum mandatory contributions as special liquidity earmarked for the depositor-protection scheme (Federal Assembly 2009, Article 37h).

14. Duration: The alterations to the Swiss deposit-insurance system were originally scheduled to end on December 31, 2010. They were initially extended until December 31, 2012, and ultimately became permanent in 2011.

When Swiss officials announced the alterations to the deposit-insurance scheme, they set a sunset date of December 31, 2010, which was later transposed into law (Jucca 2008; Federal Assembly 2009, Articles 37b, 37h). The Federal Council, in 2009, proposed reforms to the deposit-insurance system, including ex-ante funding, state backup financing, and a higher total ex-post contribution cap of CHF 10 billion (esisuisse 2020). The Federal Council abandoned this proposal following negative responses in its first public consultation (esisuisse 2020; esisuisse n.d.a). The GFC changes were extended past their sunset date until

December 31, 2012 (Federal Assembly 2011a, Articles 37b, 37h). On March 18, 2011, Swiss authorities adopted the GFC-era changes as permanent (Federal Assembly 2011b, Articles 37a, 37h).

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