

History

esisuisse was founded in Basel in August 2005 under the name Swiss Banks' and Securities Dealers' Depositor Protection Association.

The beginnings from 1984

^ **Beginnings in May 1984**

On 1 May 1984 depositor protection in the form of self regulation under the Banking Act by the Swiss Bankers Association (SBA) came into being. To avoid having state depositor protection as called for in the banking initiative put forward in 1983 by the Social Democratic Party of Switzerland (SP), the SBA decided to strengthen investor protection under Convention XVIII «Payment of savings deposits and current account balances in compulsory liquidation of banks», which applied to all banks.

^ **Increasing the privileged amount**

The SBA put this self regulation in place prior to amendments to the Banking Act. The amount of savings that were privileged was raised from CHF 10 000 to CHF 30 000 and privilege was assigned to the second creditor class. This meant that in the event of a bank going into compulsory liquidation the SBA would pay out up to CHF 30 000 per account to depositors within three months. Small deposits of less than CHF 5 000 were to be paid immediately from the closed bank.

^ **Bankruptcy of Spar- und Leihkasse Thun**

Depositor protection first came into play on a large scale on 3 October 1991, when Spar- und Leihkasse Thun, a Swiss regional savings and loan bank, was shut down. One week after the closure, depositors received CHF 500 for each savings and current account. However, the remaining secured deposits only started to be paid after 1 January 1993, as the legal conditions (compulsory liquidation) were not met before then. As a result of the negative experiences in this case, Convention XVIII was revised with effect from 1 July 1993. From now on, compulsory liquidation or any other type of bank closure was deemed to trigger application of the convention. Coverage had previously been restricted to savings and current accounts held by private customers, but was now extended to all deposits and set at CHF 30 000 per customer (rather than per account). Contributions to be made were capped at CHF one billion.

Developments between 2000 and 2008

^ **Weaknesses in restructuring and liquidating banks and depositor protection**

A report by an expert commission of the Federal Department of Finance in October 2000 found weaknesses in the law governing the restructuring and liquidation of banks and depositor protection. The Banking Act and its associated ordinances were therefore revised over the period 2001-2003. As a result of the new legislation the SBA transferred self-regulation to a separate legal entity: the depositor protection scheme.

^ **Depositor protection**

The depositor protection scheme was set up as an association on 24 August 2005. From that date on, all banks and securities dealers had to join the scheme and sign the «Agreement by Swiss Banks and Securities Dealers on Depositor Protection» as a condition of being licensed. Protection was left at CHF 30 000 per customer, but the cap was lifted to CHF four billion. Members were now obliged to hold half of this amount in the form of additional liquidity. A deadline of three months was set for making payments to customers.

^ **The financial crisis, UBS and Kaupthing**

As a result of the emergency rescue package for UBS on 16 October 2008, the urgent Depositor Protection Reinforcement Act came into force on 20 December 2008. Protection was increased to CHF 100 000 per customer and the total cap to CHF six billion. In a new feature, all protected deposits were now to be paid directly from liquidity held by the closed bank (this had previously been limited to a maximum of

CHF 5 000). Additional privilege was granted to the amount of CHF 100 000 per customer for vested pension benefit accounts and restricted pension accounts. The closure of Iceland's Kaupthing Bank in Geneva on 29 October 2008 led to a further change in the depositor protection system. From 20 December 2008, the so-called «125% rule» prevents banks' assets from flowing abroad. The rule states that all members must hold 125% of protected deposits in readily realisable assets in Switzerland at all times.

Consequences of the 2008 financial crisis

^ Call for state depositor protection

Based on the experience of the financial crisis, in 2009 the Federal Council tabled a draft bill on the protection of bank deposits that proposed a state depositor protection scheme. This involved creating a pre-funded scheme with CHF ten billion of assets within ten years. As this bill failed at the first consultation, from 1 September 2011 only the emergency measures of 20 December 2008 became part of permanent law through amendments to the Banking Act.

^ International regulations and standards

Supranational regulation of banks has been proceeding apace abroad. International standards have been drawn up from 2009 onwards by the International Association of Deposit Insurers (IADI), and in the EU the Deposit Guarantee Schemes Directive has been revised. At the end of 2013 the International Monetary Fund (IMF) carried out a Financial Sector Assessment Program (FSAP) in Switzerland. One of the things this looked at was depositor protection, as a key element of the financial centre. The IMF found that in some areas Swiss depositor protection did not meet international standards.

^ «Brunetti report»

The results of the FSAP fed into the work of the Brunetti Group, which was appointed by the Federal Council to examine the framework conditions of the financial centre and come up with suggestions for improving the financial market strategy. The Brunetti report was published in late 2014 and included five proposals to improve the depositor protection system.

^ Implementation of the recommendations 2015-2016

The Board of Directors of esisuisse considered these suggestions in great depth in 2015. In February 2016 it submitted its position to the government working party drafting proposals for the Federal Council on implementing the Brunetti report. esisuisse already put some improvements into action in 2015. These included strengthening governance and separating from the SBA.

esisuisse today

^ Operational independence of esisuisse

On 2 August 2015 esisuisse moved into its own offices, increased its headcount and acquired its own infrastructure, independent of the SBA.

^ Revision of the law of the deposit insurance

Faster repayments and financing made even more robust.

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