

# Unveiling Bank Run Behavior: The Impact of Deposit Insurance Knowledge and Credibility on Withdrawals - Evidence from Swiss Survey Data\*

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## Abstract

Clients withdrawing funds from banks may cause banks to face serious liquidity constraints. One of the mechanisms implemented to limit the likelihood of a bank run is deposit insurance. Nevertheless, bank runs continue to occur in spite of the availability of deposit insurance. One reason for this might be the lack of familiarity with and credibility of deposit insurance systems. Survey evidence, covering 952 respondents, is used to report the level of deposit insurance knowledge in Switzerland. The paper finds that 45% of respondents are aware of deposit insurance. 24% know the coverage limit. Deposit insurance knowledge is low among people with a low level of financial literacy, poor education, lower income and deposits, low risk tolerance, women, and residents in non-German-speaking regions. Further, the paper explores the relationship between deposit insurance knowledge, credibility and hypothetical withdrawal behavior in two scenarios: a bank failure during a financial crisis and an idiosyncratic banking shock. During a financial crisis, individuals are less likely to withdraw any deposits. Credibility appears to be more important than knowledge. Withdrawals are more likely to be affected by deposit insurance knowledge during an idiosyncratic banking shock: It has been found that knowledge about the coverage limit reduces withdrawal risk even for individuals with deposits above the coverage limit. The results indicate that awareness of deposit insurance reduces withdrawal risk but only to a limited extent. Further, financial literacy has a positive effect on market discipline because individuals who have higher levels of financial literacy are more likely to withdraw money during an idiosyncratic banking shock.

**Keywords:** Financial knowledge, Bank runs, Market discipline, Liquidity risk

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