

Conference on Core Principles for
Effective Deposit Insurance Systems
Basel, 23-24 September 2009

The Review of the EU Directive on Deposit Guarantee Schemes and the IADI/BCBS Core Principles from a EU Perspective

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Overview

- Background
- The Current Review of the EU Directive on Deposit Guarantee Schemes
- Main Challenges and Next Steps in the EU
- EU framework vis-à-vis Core Principles
- Concluding Remarks

Background (1)

- Directive 94/19/EC on deposit guarantee schemes (DGS) was adopted on 30 May 1994
- The review of the Directive in 2005-2006: no need for the revision of the Directive
- The aggravation of the financial crisis in autumn 2008 prompted the revision of the Directive
- Commission legislative proposal of 15 October 2008: (raising coverage level, abandoning co-insurance, reducing payout delay)
- Final agreement on amendments: mid-December 2008

Background (2)

- Directive 2009/14/EC was adopted on 11 March 2009 and amended Directive 94/19/EC:
 - raised coverage level from € 20,000 to € 50,000 and € 100,000
 - abandoned 10% co-insurance
 - reduced payout delay from 3-9 months to 4-6 weeks
- Directive 2009/14/EC made significant progress, but it was only an immediate response to the crisis ('quick-fix') and a comprehensive review is still needed
- The Commission obliged to prepare a review report (and, if necessary, legislative proposals) by end-2009

Public Consultation – Spring/Summer 2009

- The Commission conducted the 2-month public consultation (29 May – 27 July 2009)
- 104 contributions received – from banks and bank associations, other associations, public entities, citizens, European and international entities (CEBS, ECB, IMF)
- Summary of contributions published on 27 August 2009 at the Commission website
- An overwhelming majority (93%) agreed that the Directive should be reviewed

Level and Scope of Coverage

- A majority in favour of setting the coverage level at € 100,000 (as the single level for all Member States)
- A large majority against coverage per brand
- Mixed views on whether or not mutual and voluntary guarantee schemes should be subject to fixed coverage
- A majority against exemptions from the single coverage level (+ rather low interest in temporary high balances)
- General support for harmonisation of eligibility criteria (e.g. maintaining coverage for individuals and SMEs, but excluding financial institutions, authorities, anonymous depositors, etc.)

Payout Delay and Modalities

- A majority against further reducing the payout delay (4-6 weeks), but quite many in favour of shortening it to 1 week
- Mixed views on other solutions (such as transfer of deposits to another bank or emergency payout, e.g. € 10,000 within 3 days)
- A majority in favour of abandoning or limiting set-off, but quite many support retaining it
- General support for 'tagging' eligible depositors
- Mixed views on the application for reimbursement (automatic or only after receiving applications from depositors)
- Need to involve DGS at an early stage (when a bank failure becomes likely)

Financing of DGS

- A large majority in favour of *ex-ante* funding as a basis (some believe it should be mandatory)
- A majority in favour of setting a target level for *ex-ante* funds, but quite many against it
- A majority in favour of setting a max contribution level
- A large majority in favour of risk-based contributions to DGS (but no single view on how to calculate them, whether they should be harmonised or not, mandatory or optional, etc.)
- All agree that additional financing sources (short- and longer-term) should be allowed if needed by DGS

Depositor Information

- A majority in favour of developing a template for standardised information
- Mixed views on when/how depositors should be informed (support for making reference to DGS on bank account statements, but not in advertisements, especially if mandatory)
- Need to keep information brief and clear as well as to strike balance between raising depositor awareness and costs for industry
- No support for advising depositors to split deposits up
- Information on a bank failure – by home or host DGS?

Cross-border Cooperation

- A clear majority in favour of abandoning topping up arrangements
 - Problems related to topping up would be overcome if the single coverage level adopted in the EU
- A large majority in favour of the suggestion that a host country DGS would act as a single point of contact for depositors at branches in the host country, but...
 - to limit its role mainly to post-box services and advice in the host country's language? or
 - to extend it to acting as a paying agent for the home country DGS?

Mandate and Structure

- A slight majority in favour of maintaining DGS as mere pay-boxes than extending their mandates to bank resolution activities (like e.g. FDIC)
 - Decision on DGS mandates should be left to the discretion of Member States, since they have different setups of crisis mgmt
- Mixed views on establishing a pan-EU DGS
 - Most believe it is premature (at first, pan-EU banking supervision would have to be established and clear burden-sharing rules set between Member States)
 - International institutions/organisations (ECB, IMF) in favour (pan-EU DGS needed for cross-border banking groups)

Main Challenges for the EU

- Introduction of the single coverage level in the EU (and setting its appropriate level)
- Harmonisation of the scope of coverage
- Further reducing the payout delay
- Ensuring adequate financing of DGS
- Strengthening cross-border cooperation of DGS
- Further work on pan-EU DGS

Next Steps in the EU

- Autumn 2009 – Impact Assessment (based on public consultation and the JRC reports)
- End-2009 or early 2010 – Report on the review of the DGS Directive (accompanied, if necessary, by appropriate legislative proposals)
- In the course of 2010 – Legislative process of amending the DGS Directive, including negotiations with Member States (if the Commission submits the relevant proposal)

EU framework vis-à-vis Core Principles (1)

- In general, the European Commission supports the efforts to develop an internationally agreed set of core principles for deposit insurance
- Core Principles can be useful for countries implementing or reforming a deposit insurance system
- EU is currently reforming its DGS and our review will address many areas covered by the Core Principles
- However, not all Core Principles reflect EU practices, needs, and competences applicable to the EU framework

EU framework vis-à-vis Core Principles (2)

- Some principles are in line with current EU legislation and may underpin current arrangements and planned changes
- Other principles are very detailed and deal with issues that go beyond the competence of the EU
- Some principles go beyond the role of DGS as a pure pay-box and still appear to reflect a US FDIC-type approach (DGS also as a crisis resolution agency)

EU framework vis-à-vis Core Principles (3)

- The further use of the Core Principles and their relation with the Basel core principles on banking supervision is unclear (in our view, both sets of principles should be separate)
- FSB proposed that national arrangements be reviewed against the Core Principles either by countries themselves or by an international body (e.g. IMF under FSAP)
- If so, there is a risk that EU Member States be assessed by the IMF on the basis of a non-EU approach to DGS
- Therefore, the Core Principles should only represent a voluntary orientation – not a binding set of standards

EU framework vis-à-vis Core Principles (4)

- The Core Principles need to be truly internationally recognised – by all key international players
- In this context, the European Commission has not been invited to participate in the work of the joint CBRG-IADI working group (which produced the Core Principles)
- Among 52 IADI Members, only 8 EU Member States are represented (Bulgaria, Czech Republic, France, Hungary, Poland, Romania, Sweden, UK)

Concluding Remarks

- Currently, the top priority for the EU is the review of the DGS Directive
- Although the review remains independent from the Core Principles, quite many (but not all) areas are in common
- The Core Principles should be voluntary and non-binding
- The future use of the Core Principles needs to be clarified
- Perhaps, after gaining some experience (e.g. two years from adoption), the Core Principles could be reviewed (by all key players) and, if necessary, revised

Thank you for your attention

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