Deposit guarantee schemes: coverage level and the payout delay

2008/0199(COD) - 15/10/2008 - Legislative proposal

PURPOSE: to amend Directive 94/19/EC on Deposit Guarantee Schemes as regards the coverage level and the payout delay.

CONTENT: the Council of the European Union agreed on 7 October 2008, that it is a priority is to restore confidence and proper functioning of the financial sector. In times of volatile markets, one of the biggest concerns for depositors is the safety of bank deposits should their bank fail.

All Member States are committed to provide deposit guarantee protection for individuals for an amount of at least EUR 50 000, acknowledging that many Member States determine to raise their minimum to at least EUR 100 000.

Ministers are committed to take all necessary measures to protect the deposits of individual savers and welcomed the intention of the Commission to bring forward urgently an appropriate proposal to promote convergence of deposit guarantee schemes.

Directive 94/19/EC of the European Parliament and of the Council on Deposit guarantee schemes provides already for a basic coverage of depositors. However, the ongoing financial turmoil necessitates an improvement of the coverage.

The Directive should be revised in four key areas:

1) Coverage level:the current minimum coverage level is set at EUR 20 000 with the option for Member States to determine a higher coverage. However, this does not reflect the current average deposits of approximately EUR 30 000 per EU citizen. In order to maintain depositors' confidence, **the coverage level should be raised to at least EUR 50 000 and, after one year, to at least EUR 100 000**. According to estimates, about 65% of eligible deposits are covered under the current regime. The new amounts would cover an estimated 80% (with coverage of EUR 50 000) and 90% (with coverage of EUR 100 000) of deposits.

Changes of the coverage level should be subject to the standard comitology procedure. However, in emergency situations, prompt action, coordinated across the Community, would be needed to increase the level of coverage to address any sudden loss of depositor confidence. Therefore, an emergency comitology measure is critical. Such emergency measures should be restricted to 18 months.

2) Reduction of payout delay:the current payout delay of three months, which can even be extended to nine months, is detrimental to the confidence of depositors and does not meet their needs. Many depositors can be expected to face significant financial difficulties already within less than one week. **Therefore, the payout delay should be reduced to three days**, without a possibility extension.

However, the deadline should commence only when either the competent authorities have determined that the credit institution appears to be unable to repay the deposit or a judicial authority has ruled that the claims of depositors are suspended. The decision of the competent authorities may take up to 21 days after first becoming satisfied that a credit institution has failed to repay deposits. In the interest of a rapid

payout, this period of 21 days should be reduced to 3 days. For the purposes of rapid payout, a scheme should cover only retail deposits. However, Member States should have the option to include other depositors provided that this inclusion does not impede rapid payouts.

3) Co-insurance:the current Directive allows an optional co-insurance of up to 10%, i.e. a certain percentage of losses that is borne by the depositor. This option should be discontinued.

4) Cross-border cooperation: a deposit guarantee scheme does not only cover depositors in the Member State where the bank is authorized (home country) but also covers depositors at the bank's branch in another Member State (host country). It is essential that 'home and host' schemes cooperate with each other to ensure rapid payout. The proposal, therefore, explicitly introduces a general obligation for schemes to cooperate with each other.