Deposit guarantee schemes: coverage level and the payout delay

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OPIONION OF THE EUROPEAN CENTRAL BANK at the request of the Council of the European Union on a proposal for a Directive of the European Parliament and of the Council amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay.

On 24 October 2008, the European Central Bank (ECB) received a request from the Council of the European Union for an opinion on a proposal for a Directive of the European Parliament and of the Council amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay.

The ECB's competence to deliver an opinion on the proposed directive is based on Article 105(4) of the Treaty establishing the European Community. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

General observations: the ECB notes that the current financial market crisis has confirmed that deposit-guarantee schemes are vital for maintaining depositors' confidence and therefore safeguarding financial stability. The ECB supports the underlying aim of enhancing depositors' confidence and understands that for urgency reasons the proposed directive focuses on increasing the coverage level of national deposit-guarantee schemes in line with the Ecofin Council's conclusions of 7 October 2008, reducing payout delay and discontinuing the current option for co-insurance.

At the same time, the ECB supports the Commission's intention to continue work on convergence of the national schemes, with particular regard to harmonising their funding mechanisms, and to submit a report on the matter to the European Parliament and to the Council by 31 December 2009. In view of the importance of the funding arrangements of the national schemes for the effectiveness of the financial safety net and for safeguarding financial stability, the ECB looks forward to contributing to the Commission's future work in this field and encourages timely completion of the Commission's report.

In this context, the ECB underlines that national schemes' funding arrangements must, inter alia, comply with the monetary financing prohibition laid down in the Treaty, and in particular with the prohibition on national central banks providing overdraft facilities or any other type of facility within the meaning of Article 101 of the Treaty, as more specifically considered in past ECB opinions concerning draft national legislation and in the ECB's Convergence Reports.

Specific observations: the ECB makes the following specific observations:

- **Coverage level of the guarantee**: the ECB welcomes the increase in the minimum amount of guaranteed deposits to EUR 50 000 by the end of 2008 and the further increase to EUR 100 000, as mentioned in the Council's conclusions of 7 October 2008. At the same time, the ECB emphasises that any increase in the coverage exceeding the latter of the above mentioned amounts should be preceded by close coordination at the EU level, as substantial differences between national measures may have a counter-productive effect and create distortions in the single market;
- **Reduction of payout delay**: the ECB welcomes the intention to reduce delays in payouts of guaranteed deposits significantly and thereby strengthen depositors' confidence. In this context, the ECB would emphasise that recent analysis at international level has highlighted that a prompt

payout of depositors' claims is of key importance for effective deposit protection. At the same time, a pragmatic approach should be taken to introducing the necessary reduction in payout delays, thereby preserving credibility of the deposit-guarantee schemes. This implies establishing efficient operational processes for verifying claims and paying depositors, as well as ensuring that sufficient funding is available. In particular, procedures need to be put in place so that if a bank that operates on a cross-border basis fails, depositors receive payouts as efficiently as they would if the failed bank were operating in a single Member State . Moreover, the ECB suggests that the Commission's plan to assess whether it would be possible to harmonise further the funding arrangements used by the national schemes should be accompanied by a review of the effectiveness of payout procedures. Finally, in addition to shortening the payout period, the ECB suggests that public confidence in deposit-guarantee schemes could be enhanced by improving depositors' awareness of the terms and conditions of deposit protection, inter alia through appropriate disclosure of the terms and conditions by credit institutions.