Deposit guarantee schemes. Recast

2010/0207(COD) - 12/07/2010 - Document attached to the procedure

This report covers those issues raised by the review clauses of Directive 94/19/EC on Deposit Guarantee Schemes which are not dealt with by the proposal to amend Directive 94/19/EC.

It covers:

- appropriateness of a fixed coverage level of EUR 100 000;
- appropriateness and arrangements for providing full coverage for certain temporarily increased account balances;
- benefits and costs of introducing a pan-European Deposit Guarantee Scheme;
- harmonisation of the scope of products and depositors covered, including the specific needs of small and medium-sized enterprises and local authorities;
- the link between deposit guarantee schemes and alternative means of reimbursing depositors, such as emergency payout mechanisms. .

Appropriateness of the fixed coverage level of EUR 100 000: Directive 2009/14/EC requires Member States to ensure that by 31 December 2010 their level of coverage is fixed at EUR 100 000. The report notes that the minimum harmonisation approach taken by Directive 94/19/EC resulted in significant differences between the coverage levels in Member States. During the financial crisis in autumn 2008, some EU depositors moved their deposits from banks in Member States with a lower coverage level to those with higher deposit protection. Such differences may cause serious distortions. To avoid such distortions in the future and ensure a level playing field across the internal market, the level of coverage should in principle be the same everywhere.

The coverage levels in Member States still vary greatly, from the minimum of EUR 50 000 to EUR 103 291 in Italy and even unlimited guarantees in some Member States. Currently, 16 of out 27 Member States either already apply the coverage level of EUR 100 000 or have legislation in place to introduce it this year. Therefore, reverting to any level of coverage lower than EUR 100 000 would be confusing for depositors and, by unnecessarily aggravating the risk of runs on banks, could undermine confidence again. A fixed coverage level of EUR100 000 is the optimal solution in terms of effectiveness and cost efficiency.

It would substantially improve deposit protection without disproportionately increasing the costs for banks and depositors. In comparison with the coverage levels applicable in Member States before the financial crisis, it would increase the amount of covered deposits from 61% to 72% of eligible deposits; it would also increase the number of fully covered deposits from 89% to 95% of eligible deposits. The benefits of adopting a coverage level higher than EUR 100 000 would be very limited (for example, the level of EUR 200 000 would increase the number of fully covered deposits by less than 2% only) and higher coverage would thus not seem to justify the additional costs.

Small and medium-sized enterprises and local authorities: in order both to simplify and harmonise the system and to ensure faster payout by making it easier to verify claims, the Commission is in favour of including or excluding entire categories of depositors such as enterprises and authorities in all Member States rather than differentiating within a given category (i.e. by size of enterprise or the nature of the authority) since such distinctions would be time-consuming and costly. Having examined this issue, the Commission proposes to cover all enterprises regardless of size, but intends to exclude local authorities from the DSG.

A pan-EU DSG: in order to improve cross-border cooperation among DSGs and overcome the current fragmentation of the system (there are almost 40 schemes in the EU), the Commission services analysed the benefits and costs of introducing a pan-EU Deposit Guarantee Scheme. A single pan-EU Deposit Guarantee Scheme would be cost-efficient, since it saves administrative costs of about EUR 40 million per year. However, there are some legal issues to be further investigated. Therefore, the idea of a single pan-EU scheme should be seen as a longer-term project and be subject to further review by 2014.

A network of Deposit Guarantee Schemes with a mutual borrowing facility should be considered as the first step to establishing a single pan-EU scheme in the future. It should be noted that the introduction of a pan-EU scheme presupposes full harmonisation of Deposit Guarantee Schemes and could therefore only enter into force after the target level for their funds of 1.5% of eligible deposits has been reached.

Emergency payout: the Commission proposes to reduce the payout period to seven days. However, emergency payout has not been identified as a preferable option. Fast payment of a certain amount in advance (e.g. EUR 10 000 in three days) while retaining the current payout period (i.e. four to six weeks) for amounts above EUR 10 000 would require Deposit Guarantee Schemes to pay out twice and the costs (stemming from human and technical resources) would likely almost double as well. Fast payout without proper verification of claims (due to time pressure) could result in a higher than normal rate of erroneous payments. An 'emergency payout' could also be detrimental to depositor confidence, as it would send a very negative market signal to depositors. Depositors who only receive part of their deposits on short notice may believe that the Deposit Guarantee Scheme does not have sufficient funds to pay the whole amount and may thereby cause a run on banks by trying to withdraw all their deposits. If a Deposit Guarantee Scheme can pay out EUR 10 000 after three days, it should also be able to pay out EUR 100 000 within a short deadline if it is soundly financed.

Deposit guarantee and bank resolution (alternatives to payout): the alternative to triggering Deposit Guarantee Schemes and liquidating the bank would be bank resolution (i.e. organising an orderly failure) that entails continuity of banking services, so that depositors have continuous access to their funds. In particular, deposits may be transferred to another bank. However, the proposal on DSGs should not anticipate the ongoing work on bank resolution, nor on the other hand should progress on Deposit Guarantee Schemes be delayed by further developments in this field. A good solution would be to ensure that the Directive on Deposit Guarantee Schemes remains adaptable to changes arising from further work on bank resolution. Consequently, the Commission proposes that the cost to Deposit Guarantee Schemes of transferring deposits as a resolution measure should not exceed the cost of reimbursing depositors.