



Procedure file

Basic information		
INI - Own-initiative procedure	2007/2199(INI)	Procedure completed
Deposit guarantee schemes		
Subject		
2.50.02 Savings		
2.50.03 Securities and financial markets, stock exchange, CIUTS, investments		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		12/12/2006
		PPE-DE EHLER Christian	
	Committee for opinion	Rapporteur for opinion	Appointed
	IMCO Internal Market and Consumer Protection	The committee decided not to give an opinion.	
	JURI Legal Affairs	The committee decided not to give an opinion.	
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	2822	09/10/2007
European Commission	Commission DG	Commissioner	
	Financial Stability, Financial Services and Capital Markets Union	MCCREEVY Charlie	

Key events			
27/11/2006	Non-legislative basic document published	COM(2006)0729	Summary
27/09/2007	Committee referral announced in Parliament		
09/10/2007	Resolution/conclusions adopted by Council		
05/11/2007	Vote in committee		Summary
16/11/2007	Committee report tabled for plenary	A6-0448/2007	
12/12/2007	Debate in Parliament		
13/12/2007	Results of vote in Parliament		
13/12/2007	Decision by Parliament	T6-0626/2007	Summary
13/12/2007	End of procedure in Parliament		

Technical information	
Procedure reference	2007/2199(INI)
Procedure type	INI - Own-initiative procedure

Procedure subtype	Initiative
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Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/46975

Documentation gateway

Non-legislative basic document	COM(2006)0729	27/11/2006	EC	Summary
Committee draft report	PE393.855	27/08/2007	EP	
Amendments tabled in committee	PE394.041	17/09/2007	EP	
Committee report tabled for plenary, single reading	A6-0448/2007	16/11/2007	EP	
Text adopted by Parliament, single reading	T6-0626/2007	13/12/2007	EP	Summary
Commission response to text adopted in plenary	SP(2008)0411	23/01/2008	EC	
Commission response to text adopted in plenary	SP(2008)0532	25/02/2008	EC	

Deposit guarantee schemes

PURPOSE: to propose self-regulatory improvements to deposit guarantee schemes.

CONTENT: the Deposit Guarantee Schemes (DGS) Directive (94/19/EC) obliges all Member States to set up compensation schemes for depositors. However, some Member States have introduced guarantee thresholds higher than the minimum EUR 20 000, and how the schemes function in practice is also not uniform across the EU. The Communication examines how this situation, combined with increased competition and integration in the EU banking market, affects the functioning of the current rules. These schemes are crucial to the EU's financial stability. But the different ways they work at national level can make fast and efficient crisis management difficult.

The objective of this Communication is to draw conclusions from the consultation process, to respond to the concerns expressed by stakeholders, to identify short-term and non-legislative ways of improving the functioning of the directive and to set out the Commission's policy towards deposit guarantee schemes in the coming years.

The consultation process has revealed differing opinions about whether the existing deposit guarantee arrangements are in need of change. Some stakeholders have argued that the existing framework should be changed because of: a) substantial differences between the guarantee level afforded to depositors (ranging from just EUR 14 481 in Latvia to EUR 103 291 in Italy); b) substantial differences in the manner by which schemes fund pay-outs to depositors.

Other stakeholders have argued against changes at the present stage, primarily due to the high costs entailed. They argue that the system functions relatively smoothly in the current environment, it is adequate for supervisory purposes and they do not agree that the existing arrangements create competitive distortions between markets.

The Commission therefore proposes to respond to results of the review process in two different ways. Firstly it will seek to develop pragmatic and achievable approaches to identified problems which do not require changes to the existing regulatory framework. As a second step, it will examine more fundamental changes which might require an overhaul of the current EU legislation on DGS.

Based on the results of a consultation launched in 2005, the Communication proposes a number of improvements that the EU banking industry could introduce by 'self-regulatory' means, including: fine tuning "topping up" arrangements (where a bank branch in another Member State voluntarily joins the host country's deposit guarantee system); shortening the time it takes for schemes to pay out to depositors after a bank failure; and improving exchange of information between schemes. The Commission does not consider it appropriate at this stage to consider introducing a de minimis clause since both co-insurance and de minimis rules are linked to the limitation of depositor protection and therefore should not be dealt with separately.

In light of the difficulties experienced in practice by one banking group to consolidate funds paid into different schemes into a single DGS, stakeholders' views were split on whether to amend the Directive and introduce rules about the transferability or refundability of paid-in DGS contributions. The Commission recommends that any new rules permitting transfer or refund of DGS contributions should neither weaken the fund in a way which would endanger its functioning nor lead to an inappropriate accumulation of risks. Even if it is currently not required by Community law, it would appear useful if credit institutions were properly informed whether or not national law foresees a partial or complete refund.

The Commission encourages Member States to make further efforts in the area of consumer information and advertising. As regards the definition of deposits and the scope of coverage, the Commission proposes to carry out a survey of savings products which are currently covered and the impact of any exclusion.

The Communication concludes that there is currently no case for changing the current minimum guarantee level of EUR 20 000. Research carried out by the Commission's Joint Research Centre (JRC) has provided evidence that the differences in deposit levels held by depositors across EU Member States remain too large - especially since the 2004 EU enlargement.

In addition, discussions are currently underway in a number of different forums about the efficiency of current supervisory arrangements. As

DGS constitute an important component of the supervisory safety net intended to mitigate the effect of cross-border banking crises, further clarity is needed in particular on the question of the overall division of supervisory responsibilities and financial liabilities in crisis situations, before it can be decided whether more fundamental changes to the existing DGS arrangements might prove necessary

Only once burden sharing arrangements have been clarified, can the longer term issues be addressed:

- DGS objectives: clarification is needed about the role DGS are expected to play and on the balance that should be struck between pure consumer protection objectives and the extent to which DGS should be expected to contribute to the stability of the financial system;
- DGS funding mechanisms: an interim report produced by the JRC on this subject has shown that further harmonisation of funding mechanisms would imply a financial burden of EUR 2.5 billion to EUR 4.3 billion cumulatively over a period of 10 years for the banking sector in the six Member States that currently operate ex post DGS;
- Risk-based contributions: the Commission is in favour of risk based methods. If progress were made on funding mechanisms, then harmonising the method for contributions could follow;
- Minimum coverage level: the impact work in this area shows that, given the disparities in average deposits in Member States, the pursuit of truly harmonised conditions for the protection of deposits may not be achieved by simply fixing a common guarantee level for all countries given the wide economic disparities. Possible changes to the minimum level should only be contemplated in the much longer term;
- Use of DGS funds: the possibility to use the funds in a DGS to provide liquidity assistance to banks is worth further consideration, but depends on progress in the broader work on crisis management;
- Cooperation between DGS, supervisors, central banks and governments: legislative requirements setting out the need for enhanced cooperation could follow from the broader work on financial stability and evolution of supervision;
- Reorganisation and winding up of credit institutions: Directive 2001/24/EC will soon be reviewed by the Commission services. At least two issues are of importance for failures affecting DGS in more than one Member State and will be taken into account during the review process: ? DGS should ? after the failure ? enjoy the same access to information as supervisory authorities in order to be in a position to recover their claims; and ? equal treatment of DGS should be ensured, in particular with regard to the priority of claims.

Deposit guarantee schemes

The Committee on Economic and Monetary Affairs adopted the own-initiative report by Christian EHLER (EPP-ED, DE) on deposit-guarantee schemes. The committee was responding to a Commission paper reviewing the existing EU directive which was adopted in 1994, and under which Member States had to put in place deposit protection schemes for bank customers.

MEPs recognise the importance of deposit-guarantee schemes and the benefits of the directive

for users and the stability of the financial market. They agree with Commission that legislative amendments to Directive 94/19/EC should be undertaken only after the results of further research, particularly in the field of cross-border risk and crisis management, have become available. The committee is of the opinion that, in the long run, the question of harmonisation of deposit-guarantee schemes as regards their financing and competence and the role of the supervisory authority needs to be addressed if the requested analyses show distortions of competition, unequal treatment of customers or negative consequences on cross-border risk management.

Committee members support the assessment of the Commission that the operation of deposit-guarantee schemes might be improved through self-regulatory, particularly cross-border, measures. They welcome the cooperation with the European Forum of Deposit Insurers (EFDI) and the Joint Research Centre (JRC) which was initiated by the Commission, and the wide-ranging dialogue aimed at drawing up self-regulatory measures which was instigated by the Commission.

They suggest that more information needs to be provided to customers to enable them to make informed choices regarding the intermediaries to whom they are to entrust their savings, and that the approach should seek constantly to enhance the ability of intermediaries to operate on a cross-border basis and to promote market integration. They consider that the waiting period for depositors to be reimbursed in a crisis situation could be substantially reduced. The report also considers it necessary where reimbursement emanates from two deposit guarantee schemes that the waiting period for the depositor to be reimbursed must not be longer for the reimbursement from the home country schemes than from the host country schemes.

The committee believes it necessary for the Commission, together with the finance ministers of Member States, the central banks and the EFDI, to analyse the potential advantages and disadvantages of burden sharing before and after potential crisis situations arise. The Commission is called upon to draw up standards to improve early- risk detection by the deposit-guarantee systems.

Lastly, the committee considers it necessary to develop principles for cross-border risk and crisis management in order to reduce the free rider problem and the risk of moral hazard.

Deposit guarantee schemes

The European Parliament adopted a resolution based on the own-initiative report drawn up by Christian EHLER (EPP-ED, DE) in response to the Commission communication concerning the review of Directive 94/19/EC on Deposit Guarantee Schemes

MEPs appreciate the importance of deposit-guarantee schemes and the benefits of Directive 94/19/EC for users and the stability of the financial market. They stress, at the same time, the importance of eliminating possible market distortions if these are verified by analysis. They agree with the Commission that legislative amendments to Directive 94/19/EC should be undertaken only after the results of further research. Parliament made the following points :

- the minimum stipulated protection should be harmonised at a higher level, but any increase should be closely linked to corresponding economic development, particularly as some countries still remain below the minimum level of protection provided in Directive 94/19/EC. However, a further decrease in guarantee protection, which is due to inflation, should be stopped no later than when the directive is next amended ;

- more information needs to be provided to customers to enable them to make informed choices regarding the intermediaries to whom they are to entrust their savings, and the approach should seek constantly to enhance the ability of intermediaries to operate on a cross-border basis and to promote market integration. Self-regulation and, in particular, the potential contribution of the EFDI could have an important role to play in this connection;

- the various existing ways in which the deposit-guarantee schemes are financed should be examined in the context of possible distortions of competition, including equal treatment of customers and the ensuing costs, and, in particular, of the effects on operation in the event of a cross-border crisis;

- the separation of supervision and deposit-guarantee scheme between countries creates regulatory problems, and the Commission is asked to analyse the possible adverse effects of such a situation;

- the waiting period before depositors are reimbursed in a crisis situation could be substantially reduced because of the considerable innovations in communication technologies which have taken place since the adoption of Directive 94/19/EC. Improvements should primarily be achieved through non-legislative means such as agreements, best practices, improvements in data quality, and a clear allocation of responsibility for data processing and commitment on the part of banks;

- where reimbursement emanates from two deposit guarantee schemes, the waiting period before depositors are reimbursed must be no longer for home country schemes than for host country schemes;

- the approach whereby the decision relating to any refund or transfer of contributions made to the guarantee schemes by a credit institution should, in the event of a member leaving a deposit-guarantee scheme, be made by Member States is endorsed by Parliament;

- in the long run, the question of harmonisation of deposit-guarantee schemes as regards their financing and competence and the role of the supervisory authority needs to be addressed through a common proactive approach if the requested analyses show distortions of competition, unequal treatment of customers or negative consequences for cross-border risk management;

- the trend towards replacing subsidiaries with branch structures in the banking sector is also linked to new requirements for cooperation between the authorities in the Member States concerned in crisis situations;

- it is necessary for the Commission, together with the finance ministers of Member States, the central banks, and the EFDI, to analyse the potential advantages and disadvantages of burden sharing before and after potential crisis situations arise, and to inform Parliament of the results;

- it is also necessary for the procedures and interaction between all parties concerned in a potential cross-border crisis situation to be determined in advance, and for the Commission together with stakeholders, to plan and determine procedures and cooperation and to inform Parliament accordingly.

Parliament calls on the Commission to draw up standards to improve early-risk detection by the deposit-guarantee systems. It sees an opportunity to use the early detection system to set risk-based contributions. It considers it advisable to embark on a more exhaustive study necessary in order to determine a common risk assessment method. Parliament clearly states that the principal responsibility for risk limitation lies with the banks. Lastly, it considers it necessary to develop principles for cross-border risk and crisis management in order to reduce the free rider problem and the risk of moral hazard.