



## EUROPEAN GUARANTEE ARRANGEMENTS: LESSONS LEARNED

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- ✦ Since 1994 all EU member states have been required to have deposit insurance schemes in place
- ✦ Review in 2005/06 highlighted a number of areas in need of improvement – addressed only on a voluntary basis
- ✦ Financial crisis has exposed deficiencies in pre-existing arrangements
- ✦ European Commission announced changes to the Directive in March 2009.

### ✦ Why explicit deposit insurance?

- ➔ Most countries rely on explicit limited deposit insurance – 108 systems worldwide

### ✦ Benefits

- ➔ Reduces bank “runs” and contributes to financial stability
- ➔ Can limit government fiscal and political exposure
- ➔ Creates a formal mechanism for transferring the costs of bank failures to industry (rather than taxpayers)

### ✦ Limitations

- ➔ Cannot deal by itself with a “systemic crisis”
- ➔ Requires sound legal, supervisory and accounting regimes
- ➔ May create additional “moral hazard” if not well designed

- ◆ DIS/DGS part of a financial system safety net
- ◆ EC started discussions about a DIS in late 1980s when only a small number of member states had systems
- ◆ EU Directive 1994 required states to establish a DIS. Key features:
  - ➔ Payout must be made once authorities have decided that deposits are unavailable at a credit institution – within 3 months
  - ➔ Excludes interbank deposits and those linked to money laundering
  - ➔ Minimum coverage Euro 20,000 with coinsurance option – 10%

- ◆ Coverage provided by home state expected to cover depositors at branches set up by the credit institution in the host states
- ◆ Provides topping up arrangements
- ◆ But, allows a wide range of latitude related to administration, governance, powers, funding, public awareness...



### ◆ 2005 Review of Directive found:

- ◆ Minimum harmonization levels
- ◆ Many differences in governance, powers, financing arrangements etc creating unlevel playing field
- ◆ But, Commission concluded while a need to address shortcomings a limited political will for mandatory changes
- ◆ More research needed

	<u>Pre-crisis</u>	<u>Post-crisis target</u>
Austria	E20,000/coin	E100,000
Belgium	E20,000/coin	E100,000
Cyprus	E20,000/coin	E100,000
Czech	E20,000/coin	E50,000 /100,000
Denmark	E40,000	E50,000/100,000
Estonia	E20,000/coin	E50,000/100,000
Finland	E\$25,000	E50,000/100,000
France	E70,000	E70,000/100,000
Germany	E20,000/coin/unlim	E100,000/unlim
Greece	E20,000	E100,000
Hungary	E24,000/coin	E100,000
Ireland	E20,000/coin	E100,000
Italy	E100,000	E100,000
Latvia	E20,000	E50,000/100,000
Lithuania	E20,000/coin	E100,000
Luxembourg	E20,000/coin	E100,000
Malta	E20,000	E100,000



	<u>Pre-crisis</u>	<u>Post-crisis target</u>
Netherlands	E20,000	E100,000
Poland	E20,000/coin	E45,000/100,000
Portugal	E25,000	E100,000
Slovakia	E20,000/coin	E50,000/100,000
Slovenia	E20,000	E100,000
Spain	E20,000/coin	E100,000
Sweden	E26,000	E50,000/100,000
United Kingdom	E20,000/coin	E45,000/65,000/100,000
Albania	E5,000/coin	E5,000
Armenia	E3,800	E3,800
Boznia/Hz	E3,800	E3,800
Bulgaria	E20,000	E50,000
Croatia	E13,500	E13,500
Iceland	E22,000	E100,000
Macedonia	E20,000/coin	E50,0000
Montenegro	E5,000	E5,000
Norway	E250,000	E250,000
Romania	E20,000	E50,000
Russia	E5,600/coin	E18,000
Switzerland	E20,000	E50,000/100,000/+

- ✦ Council of the European Union proposed on 7 October 2008:
  - ➔ "...that it is a priority to restore confidence and proper functioning of the financial sector"
- ✦ October proposal stressed three areas for reform:
  - ➔ Increase in minimum coverage level to Euro 50,000 and 100,000 by 31 December 2009
  - ➔ Reduction of payout delay to a maximum of 3 days from 3 months
  - ➔ Termination of coinsurance

- ✦ 11 March Revised 2009 Directive stipulates that:
  - ➔ Increase in coverage levels to Euro 50,000 and to 100,000 by December 2010
  - ➔ Reduction in payout delay to a maximum of 20 days
  - ➔ Decision to trigger a payout reduced from 21 to 5 days
  - ➔ Coinsurance – depositors must be reimbursed up to coverage limit
  - ➔ Greater emphasis on public awareness
  - ➔ emergency payout mechanisms
  - ➔ adjust coverage levels according to price indices

- ◆ Directive promised to analyze related issues such as:
  - ➔ set offs
  - ➔ funding contributions
  - ➔ scope of coverage
  - ➔ cross-border issues
- ◆ Also emphasized:
  - ➔ need for member states to co-operate

## Questions & Comments?

