

Deposit insurance in the European Union

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CEBS

Committee of European
Banking Supervisors

Outline

- History of deposit protection in the EU
- The political context: completing the single market
- The evolution of deposit protection in the single market
- European Commission review of the Deposit Guarantee Directive
- The role of CEBS and CEBS' work programme
- CEBS' advice to the Commission
- Personal views

History of deposit protection in the EU

- Long tradition of deposit insurance in EU Member States
- National schemes well-established at an early stage
- EU-wide action in 1994: the *Deposit Guarantee Directive*
- Not a single EU deposit guarantee scheme
- Rather: minimum harmonisation of some features of national schemes
- For example:
 - *Minimum level of coverage (€20,000)*
 - *Home country scheme to cover depositors of EU branches*
 - *Requirements regarding information to be provided to depositors*

Political context: the single market

- Deposit Guarantee Directive part of initiative to promote single market in the EU banking sector
- Freedom for banks to establish and operate throughout the EU (the “passport”)
- Broadly successful, but increasing political attention on promoting greater integration within the financial services sector
- Recent initiatives:
 - *Financial Services Action Plan (FSAP)*
 - *Lamfalussy approach*
 - *CEBS (Committee of European Banking Supervisors) established in 2004 as part of Lamfalussy*

Evolution of deposit protection in the single market

- Deposit guarantee schemes and DGD have contributed significantly to enhance consumer protection and financial stability in the EU.
- But important differences still exist between national schemes.
- For example:
 - *Level of coverage*
 - *Number of schemes in each member state*
 - *Funding mechanisms (ex ante, ex post, mixed)*
- And despite integration in wholesale banking sector, retail banking still fragmented.

European Commission review of DGD

- Maturing single market => EU efforts focus on efficiency of the system and promoting greater integration
- July 2004: European Commission review of the deposit guarantee directive
- Taking into account:
 - *Competitive distortions*
 - *Possible incentives/disincentives for banks to re-locate*
 - *Impact on crisis management procedures*
- Responses to consultation paper due by mid-October
- Policy recommendations expected Spring 2006
- Commission has requested advice from CEBS

Role of CEBS

Main tasks:

- to give advice to the Commission
- to promote consistent implementation of EU legislation
- to and enhance convergence of supervisory practices
- High level representatives from the banking supervisory authorities and central banks of the European Union, including the European Central Bank

Objectives:

- level playing field and less administrative burden for European banking groups
- to streamline information exchange and co-operation between supervisors
- Cost-effective and efficient supervision across Europe
- Common supervisory culture and approach
- Financial stability

CEBS' Work Programme

Priority areas of work

Regulatory advice to the Commission

- Cross-border mergers in banking
- Deposit guarantee schemes (DGS)
- E-money
- Own funds

Convergence of supervisory practice

- Supervisory Review Process (Pillar 2)
- Validation of IRB and AMA systems
- External Credit Assessment Institutions (ECAIs)
- Harmonisation of reporting requirements
- Supervisory disclosure

Co-operation and information exchange

- Supervision of cross-border groups (home-host)
- Crisis management (joint with the BSC)
- Information exchange

Other areas of work

- Risks to banking stability
- Outsourcing
- Internal governance
- Impact of IFRS on prudential requirements
- The role of the audit function for prudential supervision

Cross-sectoral issues:

- Supervision of financial conglomerates
- Off-shore financial centres

Delivered products

Advice: national discretions (work continues), prudential filters, cross-border mergers, e-money, DGS

Consultation papers: consultation practices, outsourcing, supervisory review process, common reporting, supervisory disclosure, financial reporting, validation, ECAIs, home host

CEBS' advice to the Commission

- CEBS provided advice in September 2005 to the European Commission on:
 - *Responsibilities of home and host supervisor, information exchange, crisis management procedures*
 - *Level of coverage / definition of deposits*
 - *“Topping-up” arrangements (for branches)*
 - *Financing*
- In conclusion: retain the current regime, but be prepared to make changes according to market developments
- See <http://www.c-ebs.org/Advice/advice.htm>

Personal views

- CEBS' advice represents the consensus of 25 different countries and has been carefully constructed
- Some personal views:
 - *Deposit guarantee arrangements important*
 - *Political perspective - difficult to achieve greater harmonisation*
 - *But need to be ambitious*
 - *A fully-functioning single market requires more harmonised arrangements*

Summary

- Deposit insurance well-established in the EU
- DGD has achieved greater harmonisation of national schemes
- But differences still exist
- These should be seen in the context of aim to achieve greater integration in EU banking sector
- European Commission review of DGD underway
- CEBS' advice: no immediate case for major reform
- Personal perspective => greater harmonisation is needed



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