

Deposit Guarantee Schemes Directive (94/19/EC)

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Screening process
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Objectives of the Directive 94/19/EC

Twin objectives:

- Protection of Depositors through the introduction of a €20,000 minimum threshold
- Maintenance of confidence in the EU banking system through protection of stability

One Key element of EU Supervisory arrangements...

Key provisions in the Directive (I)

- Obligation on MS to ensure one or more officially recognised DGS
- Obligation on deposit-taking credit institutions to join DGS
- Minimum coverage level set at €20,000 – although higher levels of coverage are allowed
- Branches in another MS are covered by the home DGS, but may join host DGS to « top up » the coverage level to match host state level

Key provisions in the Directive (II)

- Obligation on Credit institutions to make available information about DGS arrangements
- Obligation on DGS to pay claims within three month time-limit (six months in « wholly exceptional circumstances)
- Guiding principles for branches applying to join host state schemes - bilateral rules and procedures (Annex II)
 - Application of host schemes' rules
 - Host scheme to meet supplementary compensation
 - Obligation on home & host schemes to cooperate to ensure prompt compensation
 - Charges on branches on basis of liability (which is limited to excess of home scheme guarantee)

What needs to be covered? (I)

Deposits – meaning any credit balance which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a credit institution must repay under legal and contractual conditions applicable, and any debt evidenced by a certificate issued by a credit institution – Article 1.1

What needs to be covered? (II)

Annex I contains a list of discretionary exclusions for deposits of:

- financial institutions, insurance undertakings,**
- public authorities,**
- collective investment undertakings**
- Pension and retirement funds**
- Own staff (& close relatives) of the credit institution**
- Other companies in same group**
- Etc. (see list in annex I)**

What needs to be covered? (III)

- **Co-insurance: possibility for MS to limit the guarantee – up to 10% of the loss can be borne by the depositor**

Key considerations for the future

- **Minimum harmonisation Directive – so significant discretion for MS**
- **Result is systems which function very differently**
- **Most fundamental difference is the way schemes are funded**
- **Commission is reviewing the Directive in order to evaluate whether changes might be necessary in the future...**