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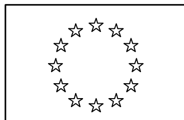

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REVIEW OF THE DEPOSIT GUARANTEE SCHEMES DIRECTIVE (94/19/EC)

Commission Services (DG Internal Market) Consultative Working Paper on Deposit Guarantee Schemes

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1. Introduction

The Deposit Guarantee Schemes Directive (94/19/EC) is due for review in 2005, with a view to assessing whether the €20,000 minimum coverage level of deposit guarantee schemes, as set out in Article 7, needs to be adjusted. Recent discussions on supervisory convergence[1] have prompted the Commission to undertake a broader review of deposit guarantee schemes, with a view to exploring whether and to what extent additional features of the schemes should be converged.

As cross border integration in the EU banking sector increases, the case for developing and improving cross-border regimes so that they deliver efficient and effective cross-border supervision becomes ever stronger. In its Green Paper on Financial Services Policy (2005-2010) the Commission argues that, to the extent that it is possible, activities of financial markets should be subject to the same supervisory requirements both on a cross-border and cross sectoral basis, and that the highest, most up-to-date standards of regulation, oversight and supervision should be maintained to ensure financial stability, market integrity and consumer protection.

The Economic and Financial Committee has also invited the Commission to look into extending adequate convergence of practices and structures to both supervision and crisis management between home and host countries and in particular to examine the interplay and functioning of deposit guarantee schemes, taking into account the identified shortcomings in the present framework.

The rationale for further harmonisation of deposit guarantee schemes, in addition to ensuring that all cross-border deposit protection risks are adequately catered for, is as follows:

1. the need to avoid possible competitive distortions in the single market, both as regards the cost of the schemes to banks and the level of protection afforded to consumers;

2. the need to avoid any possible incentives or disincentives for banks to elect to change the location of their corporate seat in order to minimise the costs of deposit insurance (which could, potentially, lead to a concentration of risk in “low cost” Member States);

3. the possibility that harmonisation of the provisions of the Directive and concomitant improvements in exchanges of information arrangements will ease crisis management procedures.

Although deposit guarantee schemes may not be determining factors in any of these three issues, recent experience with a well known Scandinavian bank’s proposed conversion to the European Company Statute suggests that guarantee schemes are a factor in the decision-making process of market participants. With the possibility of increasing integration in the EU banking sector[2], the structure and financing arrangements of deposit guarantee schemes could take on greater significance. Efforts should therefore be made to ensure that nationally-operated deposit guarantee schemes neither act as a barrier nor an incentive to the decisions of market participants to change the location of their company seat.

[1] For example in the Banking Advisory Committee, the European Banking Committee and the Economic and Financial Committee

[2] the growth of Internet banks taking deposits is one, but not the only example of a developing trend.

However in addition to the levelling of competitive conditions, it is important that any future measures should also aim at building and maintaining conditions which satisfy consumer protection needs whilst at the same time ensuring that deposit guarantee regulation rests on financially sound principles.

Much work has already been undertaken to study the existing national deposit guarantee schemes. This consultative working paper seeks to build on that work in order to:

- to take stock of the current heterogeneous situation in the Member States, drawing heavily on a recent comparison of deposit guarantee schemes which has been carried out by the Banking Supervision Committee,
- to establish whether and to what extent there is a need for further harmonisation of deposit guarantee schemes,
- to seek to identify those other aspects of deposit guarantee schemes most susceptible to further convergence.

The Commission services invite responses by a final deadline of **14th October 2005** to the following mailbox: ***markt-deposit-guarantees@cec.eu.int***

2. Description of existing Deposit Guarantee Schemes

The following description of deposit guarantee schemes draws largely on earlier work carried out by the European Central Bank's Banking Supervision Committee which paints a vivid picture of the diversity of deposit guarantee schemes across the EEA. The BSC has looked at virtually all aspects of deposit guarantee schemes in the Member States, ranging from their structure, membership and administration, to coverage levels, types of depositors, volume of deposits covered, topping up arrangements co-insurance, the manner of funding, risk based premiums as well as entry/exit and transferability of schemes.

Relationship with investor protection schemes: from a broader financial services perspective, there is a similarity in some Member States between the schemes set up to protect depositors and those set up to protect investors - indeed some Member States have set up identical structures. In most cases, these schemes are separate legal entities and not legally "fungible" - with one exception being the case of Belgium.

Number of schemes: While in most Member States there is only a single scheme which covers all depositors, in five Member States more than one scheme exists. Germany has the greatest number of schemes at six. The multiplicity of schemes is the direct result of different institutional structures in those countries.

Membership of deposit guarantee schemes is compulsory for credit institutions established in each Member State, although membership to secure additional cover through topping up arrangements is optional for EEA branches. For branches of non EEA credit institutions, most Member States ensure that domestic depositors benefit from the same level of protection as depositors with other credit institutions, and will compel branches to join the host scheme unless the home country scheme is equivalent or superior. Germany is the only country where a voluntary complementary scheme exists.

As regards **administrative structures**, the dominant form of schemes is joint public/private. Purely private or else purely public structures make up the other half of schemes. Three

Member States have schemes administered by National Central Bank (NCB), although NCB's can also be involved in some joint public/private schemes, for example by assuming the function of secretary or Chairman, or by participating in the scheme's initial capital.

Although half of Member States have cover which is superior to the €20,000 level set by Directive 94/19/EC, **topping up arrangements** are in fact quite limited. Five host Member State schemes have made arrangements with banks from other Member States. Experience of topping up to ex post schemes has been that actual contributions to the schemes have been very low. Arbitrage opportunities might arise if credit institutions opt in or out of topping up arrangements according to their relative cost (i.e. high for ex ante, low for ex post). In the case of ex post schemes, a credit institution might decide to leave the scheme if the local banking sector were to start to face difficulties. Alternatively, a credit institution facing trouble may decide to transfer deposits from a scheme with less extensive cover to one which offers more extensive cover. The possibility of arbitrage may also have important implications for financial stability, should banks switch assets between countries to avoid a financial sector in difficulties.

As regards the **level of coverage** of the schemes, only 4 Member States have established coverage levels which are significantly superior to the minimum €20,000 level (DK, UK, FR, IT). Nevertheless the weighted average cover of schemes in EU-15 stands at €45,000. In three new Member States, the level of cover is currently below €20,000 due to transitional arrangements which last until 2008/9.

Eleven Member States have **co-insurance** schemes, where depositors are not reimbursed for the full amount, but must bear 10% of the loss. Four Member States have a double layer mechanism whereby amounts are fully reimbursed up to a specified threshold, and thereafter at 90%.

As regards which **categories of depositors** are excluded from the various schemes, most Member States have adopted the exclusions set out in annex I of the Directive. In almost all Member States, financial institutions have been excluded, although the extent to which other categories of depositors have been excluded varies quite considerably.

There is also significant variance between Member States as regards the **volume of deposits insured**, which is directly linked to the size of the local banking system. The existence of limits to refundability (e.g. the €20,000 cap) leads to only part of total amount of deposits being covered. Analysis of five Eurozone Member States where data is available reveals significant divergence between the percentage of deposits covered compared to total deposits.

There is a wide diversity of **funding mechanisms** between the different schemes. A majority of schemes are either ex ante or a mixture between ex ante and ex post schemes. Contributions payable under ex post schemes are capped, and should capped contributions not cover the cost of the intervention, public authorities may advance the difference. For mixed schemes, there may be large differences in the split between ex ante and ex post contributions. The largest ex ante schemes (i.e. in ES, FR, PT, SE) have an available amount superior to €1bln. Further analysis shows that four different categories of schemes in terms of funding and coverage can be observed:

- **High ex-ante funding**. This is the model adopted by Nordic countries, including some of the New Member States. The common feature is the high level of

available funds, which reaches of coverage ratio of 2% or more. In these countries, the fund will be able to face an important crisis and losses.

- **Medium ex-ante funding**. This model can be observed in DK, FI or HU. The level of ex ante funding is around 1%, which enables the scheme to withstand severe disturbances.
- **Low ex-ante funding**. This model has been adopted by IE or FR. The scheme is able to cope on its own with failures involving one medium-size or several small-size credit institutions.
- **Ex-post funding** (or very low ex-ante funding). This is the case of AT, IT, LU, NL, UK and several of the New Member States.

Almost 80% of depositors are covered by low or unfunded schemes. Coverage ratios (i.e. the ratio of available ex ante funds to covered deposits) range from 0% for ex post schemes to in excess of 1.5% for high ex ante funded schemes. The **costs of the schemes** are difficult to assess when no failure is observed. In this case, the cost is precisely nil in the case of ex post schemes, compared to a range of between from 0.08% – 0.4% in most other ex ante countries. In some countries, the members must pledge some collateral or maintain highly liquid or highly rated securities, in which case the costs incurred may be indirect opportunity costs.

Risk assessment of the funding mechanism: the BSC also found, based on Moody's financial strength rating, that there appeared to be no link between the financial strength of the national banking sector and the coverage ratios of the schemes. The largest diversity could be observed in the new Member States that had recently introduced schemes, whereas older schemes in the older Member States drew benefit from past contributions.

A majority of Member States (18 out of 28 schemes) have not introduced **risk based premiums**. DE, FI, FR, HU, PT, SE use several approaches to assess the institution's risk. France uses 4 risk indicators (solvency, risk diversification, operating profitability and maturity mismatch activity) for calculating premiums.

Finally **exit and entry rules** for the schemes are usually quite restrictive and as a general rule premiums paid are not reimbursed. Only the French and the voluntary German schemes have specific rules regarding the entry or exit of members when their insured deposits exceed a certain threshold of the overall deposits covered by the scheme. Under certain conditions, five schemes reimburse or transfer premiums paid. Some schemes also require an affiliation fee from new participants.

While the deposit guarantee schemes have established a minimum cover for national schemes in terms of scope and coverage, there are nonetheless discrepancies in terms of the significantly different characteristics between national schemes which have been brought to light as a result of the Scandinavian bank case. Topping up arrangements, which should enable participants to handle discrepancies, are rarely used, and the most significant differences are in areas such as the operational and funding characteristics of the schemes. There is a risk that such discrepancies could give rise to arbitrage, and the issue of entry/exit of the schemes may be a factor to be taken into account when analysing cross-border corporate restructurings. The diversity of funding mechanisms may also have competition implications (albeit limited), although it is a sensitive issue with implications for both individual banks and the resilience of individual schemes.

3. Examining the need for further harmonisation

The principal objectives of Directive 94/19/EC, as indicated in its recitals were to:

- Promote the harmonious development of the activities of credit institutions throughout the EU through the elimination of all restrictions to the right of establishment while increasing the stability of the banking systems and protection for savers;
- Ensure a harmonised minimum level of deposit protection wherever deposits are located in the Community;
- Ensure that, in the event of a closure of an insolvent credit institution, the depositors at any branches situated in a Member State other than where the head office is situated are protected by the same guarantee scheme as the institution's other depositors.

Despite the Directives' ambitions, the work carried out by the BSC provides clear evidence that the minimum harmonisation approach of Directive 94/19/EC has nonetheless led to the development of very different deposit guarantee schemes in the Member States. The difficulties encountered by a well-known Scandinavian bank as it tries to convert to a European Company have stimulated discussions about those differences and the extent to which they pose a problem to pan European integration and cross-border supervision.

Although there is still currently little evidence of cross-border deposit taking, there are prospects for this to increase, especially in light of technological innovations such as the internet as well as increased consumer mobility. Indeed, the Commission has recently made clear that one of its overall policy objectives in the area of financial services is "To consolidate progress towards an integrated, open, competitive, and economically efficient European financial market"[3].

However any further harmonisation of deposit guarantee schemes may entail considerable costs for scheme members and ultimately for depositors as well. The differences between deposit guarantee schemes may, on the other hand, entail a different set of costs which, in the absence of major bank failures, is more difficult to evaluate, but which may have implications both for depositors as well as from a broader systemic perspective. The costs to business of adhering to a fragmented pan EU regime also need to be considered. These aspects would need to be thoroughly evaluated before any decision about possible harmonisation could be taken.

Questions:

1. ***Have the Directive's original objectives been achieved? If not, could you give your opinion as to why this is so?***
2. ***Do the differences in existing rules create barriers or competitive distortions for cross-border/pan EU business? If so, do you have practical experience of any difficulties encountered?***
3. ***Do the differences in existing rules have implications for other stakeholders (e.g. depositors)***
4. ***Do the differences in existing rules have implications in terms of cross-border supervision, in particular would the present deposit guarantee arrangements allow for the effective handling of bank failures which involved a cross-border dimension?***
5. ***In your opinion, is there a need to further converge deposit guarantee schemes within the EEA? If yes, in which particular areas?***

[3] GREEN PAPER ON FINANCIAL SERVICES POLICY (2005-2010)

4. Exploring those aspects of deposit guarantee schemes which would be most susceptible to further convergence

a) Impact Assessment on the €20,000 minimum level of coverage

Article 7.5 of the Directive requires the Commission to review the level of coverage offered by deposit guarantee schemes on a periodic basis. Currently the minimum level is set at €20,000.

The Commission is currently conducting an **impact assessment** that concentrates on several issues. First, it analyses the current situation. Second, it compares the present situation with the situation that existed in 1994 – notably the effect of the rise in prices, income levels and average balances on deposits. Third, it develops preliminary considerations of what a theoretically optimal level of deposit protection might be.

A specific consultation document on this issue is in the process of being prepared and will shortly be available at the following website address:

http://europa.eu.int/comm/internal_market/bank/guarantee/index_en.htm

b) Should the definition of deposits be clarified?

Guaranteed deposits are defined in Article 1 as credit balances resulting from "*funds left in accounts*" or from "*temporary situations deriving from normal banking transactions*" or as "*any debt evidenced by a certificate issued by a credit institution*". "Unavailable deposits" are broadly defined as deposits that are not available to be paid under normal legal and contractual conditions due either to a decision by the supervisor declaring a bank insolvent or to a court declaring a bank bankrupt (see Annex).

The Commission understands that Member States may have implemented these provisions in varying ways. This could lead to **differential treatment between depositors** in different Member States, and affect the volume of deposits covered under each scheme, which in turn might have implications as regards the manner in which schemes are funded and their cost.

Questions:

6. ***Are the definition of "deposits" in Article 1 and the exclusions in Article 2 and Annex I still valid for the purposes of the directive?***
7. ***Is there a need to further harmonise which deposits are covered under the schemes?***

c) Should a de minimis rule below which depositors will not be reimbursed be possible?

A number of deposit guarantee schemes have indicated that the administrative costs associated with repaying very small sums are disproportionate. Some would therefore like to be able to include a de minimis clause in the Directive, setting a threshold below which repayments would not necessarily be honoured, although the existing Directive does not allow for this possibility. On the other hand, a smaller number of Member States have doubts as to whether a *de minimis* clause would be in line with the equal treatment of depositors and the primary objective of the Directive to protect less financially sophisticated depositors.

Questions:

8. ***Would a capped voluntary de minimis clause (of e.g. €20) be justifiable on the basis that it would improve the efficiency of the scheme?***

d) Should co-insurance rules be aligned?

There are a number of differences in the way in which Member States define and calculate repayable deposits. One of the most obvious causes of the differential in the calculation of repayable deposits is the application of a co-insurance premium, whereby depositors in some Member States are not reimbursed for the full amount.

At present, according to Article 7(4) of Directive 94/19/EC, Member States may limit repayments by up to 10% up to the €20,000 threshold, and by a greater percentage thereafter. The rationale for such schemes is based on "moral hazard", whereby the consumer will be more sensitive to where he deposits his funds if there is a risk that he will not recuperate all his deposited funds.

Questions:

9. ***Does the existence of co-insurance in some Member States but not in others have implications from a cross-border perspective?***
10. ***If so, would it make sense to limit the use of the co-insurance provision to above the €20,000 threshold?***
11. ***Would there be arguments to either abolish the co-insurance mechanism altogether or alternatively to introduce harmonised co-insurance rules in all Member States?***

e) Is there a need to change the topping up arrangements?

When the Commission adopted the original proposal for a directive it concluded that the home country principle (under which the guarantee of the parent institution for deposits is also valid for its branches in other Member States) needed to be tempered by a provision that enabled branch depositors to enjoy the advantages of the host country's guarantee scheme in cases where the level of coverage provided by the host country was higher. The Commission argued in favour of such an option to supplement ("top-up") a lower home country guarantee up to the level of the coverage offered in the host country ***in order to prevent distortions of competition between institutions*** and differences in protection levels, which, it was felt, depositors would find difficult to accept. "Topping-up" arrangements are therefore relevant only in countries where the national scheme has a level or a scope of cover superior to the minimum set by the Directive.

"Topping-up" agreements raise the issue of arbitrage opportunities for credit institutions, which may decide to opt in or out of topping-up agreements according to the present or future foreseeable cost of such arrangements. For instance, credit institutions may conclude topping-up agreements only with those schemes that ask for a very limited or even nil contribution (*i.e.* typically ex-post schemes). Such behaviour may have important implications for financial stability as risks could concentrate in certain countries offering cost-

free or cheaper cover. This question is particularly relevant for low-funded or ex-post based schemes.

In October 2001, the Commission adopted a report on the operation of the "topping-up" provision in Article 4[4]. Even though at the time of the 2001 report the Commission was aware that the option most consistent with the home country control principle was to abolish the clause in question, it concluded that the provision neither needed to be abolished nor amended, citing the following reasons:

- the "topping-up" option was only used in a limited way[5] and Member States had never made any pay-outs under such an agreement;
- new Member States might in future wish to establish branches in EU countries that offered a higher level of coverage; and
- there was no clear evidence that the application of a home-based system (i.e. where a bank's home country would provide a supplementary guarantee for a branch in another Member State) would be more attractive for credit institutions than the current host-based "topping-up" system.

Questions:

12. Given the existing host country topping up rules, is there any need to update current arrangements which stem from topping up (i.e. exchange of information, need for conclusion of binding agreements on cross-border restitution, etc..)?
13. In the interests of coherence with the overall supervisory regime, could "topping-up" arrangements be successfully managed by the home country scheme?
14. If so, what specific arrangements might need to be introduced (e.g. exchange of information, need for conclusion of binding agreements on cross-border restitution, etc.)?
15. Are "topping-up" arrangements still relevant, or would there be any merit in abolishing them altogether? If so, would their abolition be feasible only in the case of a fully harmonised coverage level?
16. Do you agree with the principle set out in paragraph 4 of Article 4 of Directive 94/19/EC whereby deposits with a branch which has not complied with the obligations incumbent on it as a member of a deposit guarantee scheme and which has therefore been excluded from voluntary membership in a host deposit guarantee scheme should be protected until the day on which they fall due? If not, would you prefer to abolish this principle and/or replace it by another measure (for example, a duty of the branch to allow all depositors to withdraw their deposits without any sanction)?

f) Should funding mechanisms be harmonised?

The Directive sets out the principle, in the recitals, that the cost of financing deposit guarantee schemes must be borne, in principle, by credit institutions themselves. The implication here is

4 *18.10.2001, COM (2001) 595 final*

5 *The Commission services understand that 15 of the EU-25 schemes have still not concluded any "topping-up" agreements.*

that the deposit guarantee should be priced in accordance with the risk that the banking system imposes on the guarantee.

However the Directive left the organisational and legal structure of deposit guarantee schemes, as well as any funding arrangements (including provisions on the possibility to exit the schemes), to the Member States. Partly as a result of this, guarantee schemes in the EU are largely heterogeneous.

One of the key elements of diversity is whether or not guarantee schemes are pre-funded. In pre-funded (*ex-ante*[6]) schemes, credit institutions will make payments to a fund on a regular basis. Contributions to a funded scheme may include the payment of a fixed initial fee, and are either based on the assets of the credit institution, the volume of deposits insured, or on other parameters. In *ex-post* schemes, credit institutions will usually be required to make funds available after a crisis event or insolvency of another domestic bank. In some Member States, a mix of *ex-ante* and *ex-post* financing has been adopted. According to unofficial ECB data, the schemes in 5 countries are ex-post funded, 13 ex-ante and 7 are mixed schemes.

Ex-ante systems have the merit of ensuring that money is available in a fund in the jurisdiction to pay out on claims in the event of insolvency, and the guarantee scheme can therefore usually pay quickly and without risk to other banks. Of course, if the crisis is system-wide, taxpayers may also be required to supplement the funds of the guarantee scheme. On the other hand, regular payments to an *ex-ante* fund may slightly increase the costs of deposits to banks and may potentially make them less competitive in relation to credit institutions that are covered by an *ex-post* system with whom they compete in their domestic market or elsewhere. Differences in the cost of schemes due to the funding mechanism could constitute an element of competitive distortion and if those cost differences are significant enough they might produce opportunities for arbitrage. A further issue for consideration is the use of funds gathered in *ex-ante* schemes: where they are held, in which form, and how they are employed.

Questions:

17. What are/could be the consequences of having differences between funding systems?
18. Is there a case for harmonising the way in which schemes are funded?

[6] It is useful to clarify the notions of ex ante and ex post schemes. The Commission services understand these notions as follows :

Ex ante financing refers to schemes where fees are collected up-front and are calculated so as to be sufficient to cover the expected losses (future reimbursements) of the guarantee scheme over a specified time horizon (similar to ordinary non-life insurance). In an ex-ante scheme fees can be set independently of whether there have been any reimbursements via the scheme. Thus the fees may vary over time due to changes in the level of expected losses but not due to other circumstances, such as the occurrence of actual reimbursements or the size of accumulated fees. For this reason, even if the ex-ante system may require from time to time temporary funds provided by loans, it should not be regarded as having ex-post features.

Ex post financing refers to a scheme were the up-front collection of fees (before a reimbursement has occurred) are insufficient to cover the expected losses (future reimbursements) of that particular scheme. As this is the case, an increased level of fees is required after the reimbursement has occurred. Such an increase must take place even if the expected losses of the guarantee remain unchanged. The most obvious type of ex-post financing is a scheme where no fees are charged until reimbursements occur.

19. If so, what would be the optimal funding system in order to achieve an appropriate balance between the cost of the system and establishing the necessary level of financial stability and confidence?
20. Should use made of funds held in ex ante schemes be harmonised?
21. Would it be worth considering the creation of a European deposit insurance scheme, in particular for "systemically significant" banks?
22. Alternatively, would it be worth considering a region specific deposit insurance scheme for "systemically significant" banks, taking account of the considerably higher level of banking market integration and concentrations in certain EU regions?

g) Is there a need to clarify the entry and exit and transferability rules of schemes?

Exit and entry rules for the schemes are usually quite restrictive and as a general rule premiums paid are not reimbursed. Some schemes do have specific rules regarding the entry or exit of members when their insured deposits exceed a certain threshold of the overall deposits covered by the scheme while others reimburse or transfer premiums paid. Some schemes also require an affiliation fee from new participants.

The question of transferability of contributions has been raised recently in the context of the Scandinavian bank case. The extent to which transferability would be possible would depend on both schemes operating on similar ex-ante models.

Questions:

23. Does the potential for increased cross-border consolidation in the European banking market necessitate harmonisation of provisions on entry/exit of schemes and transferability of funds? If so, what implications might this have for the design of the rest of the Directive?
24. Should provision be made in directive 94/19 for the partial transferability of contributions between like (i.e. ex-ante funded) schemes? If so, to what extent should transferability of funds be restricted?

h) Should schemes be funded on the basis of risk based premiums?

At present, comparatively few schemes base their premiums on the level of risk associated with the scheme member's activities, although in recent discussions most Member States agreed that such a development would be desirable in principle. The challenge in terms of further convergence of schemes is to develop the best basis for the application of risk based premiums.

Questions:

25. Do you agree that deposit guarantee schemes should be financed according to risk-based principles?
26. If so, what should those principles be, should they be harmonised and how could this be achieved?

i) Should home country responsibilities be extended?

The Commission's initial proposal for a Directive on deposit guarantee schemes, adopted in May 1992, was based on the home country principle. The Commission's decision was strongly influenced by the opinion of the Banking Advisory Committee (BAC), which felt that the home country principle would be consistent with the general approach of mutual recognition adopted for the banking sector and more generally for the Single Market after 1992. The BAC argued in 1992 that *"the breach of the home country approach in an area so closely linked to banking supervision as deposit guarantee schemes would set a potentially dangerous precedent in the creation of the Single Market in banking services"*.

The home country principle is the logical result of supervision of branches by the Member State where the head office is located. Since credit institutions and their branches are considered as a single unit, both from a legal and banking point of view, it is logical for an institution to take part in the solidarity scheme for credit institutions in the country where its head office is established.

On the other hand, some have argued that there may be a case for making the host Member State scheme entirely responsible for the guarantee of deposits held by cross-border branches in its jurisdiction due to the link with consumer protection issues, in which case banks and branches would pay the same costs and compete on the same market. Moving in this direction would, however, require a reversal of a fundamental principle of the Internal Market in general and of the Internal Market for financial services in particular.

The current trend towards increasing cross border integration in the EU banking sector places the division of responsibility between home and host guarantee schemes into a new perspective. As cross-border activities conducted through a branching structure are facilitated by EU regulation, we may see large movements of guaranteed deposits between guarantee schemes and as a consequence a potential concentration of deposits to individual schemes. This not only raises the question of whether it is appropriate that a Member State scheme bears the responsibility for compensating foreign depositors, but also of whether the current regime of pure home country responsibility is the most efficient instrument to manage the deposit guarantee.

Questions:

27. ***Does the current mix of home/host responsibilities as regards deposit guarantee schemes pose any problems from a business or regulatory perspective?***
28. ***Given the link with crisis management procedures and day-to-day supervision of branch operations by the home Member State authorities, should all responsibility for deposit guarantees be concentrated on the home country scheme? If so, what would be the consequences?***
29. ***Alternatively, are there reasons that could justify a change from home to host country management of deposit guarantee schemes?***
30. ***Besides a change to a host country responsibility, do you see any alternative arrangements that might ensure the efficient management of deposit guarantee for cross-border operations (such as for example voluntary arrangements including responsibility for both home and host countries)?***
31. ***Could exchange of information arrangements between deposit guarantee schemes themselves, between home and host supervisory authorities, and between the schemes and supervisors in other Member States be improved? If so, how?***

j) Does the relationship between the State, the National Central Bank and the Deposit Guarantee Schemes have any cross-border implications?

The implication of the state and national central banks in the administration, funding and potential bail out of schemes in the event of a crisis varies significantly across the Member States. The ECB study found that the dominant form of schemes was joint public/private while purely private or else purely public structures made up the other half of schemes. Three Member States had schemes administered by the NCB.

Questions:

32. Does the relationship between the State, the National Central Bank and the Deposit Guarantee Schemes have any cross-border implications, for depositors, for credit institutions and or from a supervisory perspective?