FEATURES OF THE BANKING DEPOSITS GUARANTEE FUNDS IN THE EUROPEAN COUNTRIES

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Abstract
The aim of this paper is to present a comparative approach of the deposit guarantee funds in different European countries for underlying the advantages or disadvantages for the banking systems and the features of these funds so we can conclude which one is better for the deponents and for the banking systems as a whole.

Key words: banking deposits guarantee funds, banking systems, European countries.

JEL Classification: G21, G22.

1. Introduction

The declared purpose of the Directive 19/1994 of the European Commission is the minimum harmonization of the deposit guarantee policies at EU level in order to promote financial stability and to protect depositors.

The Guarantee Schemes turned into financial stability pillars during the crisis. Because of this aspect, the European Directive, which is based on the deposit guarantee ceiling, increased in most EU countries to 100,000 euro.

At European level, the European Forum of Deposit Insurance (EFDI) and the International Association of Deposit Insurance (IADI) contribute to the organization of the deposit guarantee schemes.

The European Forum of Deposit Insurance was established in 2002 as an unincorporated association, and 5 years later in Brussels, it was established as a legal entity in the form of a non-profit international association governed by the Belgian law. Through this transformation, EFDI became an important dialogue partner in relations with the European Commission and the other international organizations and institutions. At present, 41 members from 40 European countries, 8 associates and 13 international entities with observer status are attending the EFDI [1].

Established in 2002, IADI is an international non-profit organization with headquarters in Basel, its aim being to promote international cooperation and to develop links between the deposit guarantee schemes worldwide.

In June 2009, IADI and the Basel Committee on Banking Supervision (BCBS) published a set of core principles to ensure effective deposit guarantee systems. The main objectives are represented by the increase in efficiency of deposit guarantee schemes, adaptation to the national specificity as well as the incorporation of practical experience in the field to a greater extent. Currently, IADI has 62 members from 61 countries from all the continents, 6 associates and 12 international entities with partner status. IADI member states are grouped in regional committees that reflect the regional interests and common issues of their members [15].

2. Banking Deposits Guarantee Funds in the European countries

Deposit Guarantee Scheme in England plays a leading role in the banking restructuring, alongside the Bank of England; these concluded a cooperation protocol which sets out different conditions in terms of collaboration, information exchange.

The insolvency procedure is used only if a bank represents a risk to destabilization of the banking system. The liquidator collaborates with the Financial Services Guarantee Scheme (FSCS) as
primary objective, so that each depositor to receive the compensation. When the insolvency procedure is applied, the bankruptcy procedure commences, judicially, being requested by the central bank [2].

FSCS makes payments or account transfers. It may act as majority creditor, but only after the primary objective is achieved.

Depositors’ protection allows FSCS to pay compensations to a person other than the depositor in certain circumstances [2]:
- when the representatives are entitled to receive compensation for the deceased;
- when the administrators are entitled to compensation on behalf of the beneficiaries;
- in case the donor is entitled to receive compensation;
- in case the Protection Court has the right to manage a disabled person’s business on his /her behalf;
- when a depositor dies before receiving the indemnity.

When calculating the compensation, the Fund may resort to an administrator, to a competent court or any other recognized entity in insolvency.

The German government took the decision through which it is obliged to guarantee all private deposits worth over 500 billion euro. Until then, only 90% of deposit was guaranteed. Germania is based on both mandatory and voluntary participation in deposit guarantee systems [15].

Deposit Guarantee Scheme in Ireland was established in 1995 by the Regulations of the European Communities (Deposit Guarantee Schemes). It is funded by credit institutions authorized by the Central Bank of Ireland. All eligible deposits up to a limit of € 100,000 per person, per institution are guaranteed to be reimbursed by the Deposit Guarantee System which is administered by the Central Bank of Ireland. Deposits with credit institutions authorized in another Member State of the European Economic Area are covered by the deposit guarantee system in the respective country. Usually, the Guarantee System in Ireland does not cover the deposits of large and medium companies, but those of individuals or small companies [3].

Compensation payments are made within 20 days and are denominated in euro; the foreign currency shall be converted into euro.

In accordance with the Regulations, the compensation payment process is initiated by the Central Bank of Ireland in case it is decided that a credit institution does not have the capacity to refund the deposits due to its financial status or by court decision.

Deposits do not become eligible by means of the depositor’s residence. Among the deposits which are not eligible for guaranteeing, we mention [5]:
- interbank deposits;
- negotiated deposit certificates;
- deposits made by the manager, secretary;
- deposits of the pension funds etc.

<table>
<thead>
<tr>
<th>Year</th>
<th>Guaranteed limit (euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-1994</td>
<td>13,200</td>
</tr>
<tr>
<td>1995-1999</td>
<td>15,000</td>
</tr>
<tr>
<td>2000-2009</td>
<td>20,000</td>
</tr>
<tr>
<td>2010</td>
<td>100,000</td>
</tr>
</tbody>
</table>


Deposit Guarantee Scheme in Cyprus

The Guarantee Fund is a legal entity, administered by a Management Committee. The Banking Deposit Guarantee Fund is activated if it is decided that a member bank is unable to refund the deposits to its clients, such a situation is determined by the Central Bank of Cyprus or by the competent supervisory authority of the country where the bank is established, if the member bank is established in a country other than the Republic of Cyprus. At the same time, the Fund may also be activated due to a liquidation decision [4].

The maximum compensation amount per depositor per bank is EUR 100,000, and the compensations shall be paid in euro. For calculating the compensation amount paid to the depositor, the deposit amounts shall be offset against any loans or any other credit facilities granted by the bank to the depositor as well as against any other amount owed to the bank for which there is a right to compensation.
If two or more people have common rights over a deposit account, each of them shall be treated as having a separate deposit consisting of the value resulting from dividing the sum payable from the deposit account by the number of account holders, except where the deposit contract expressly specifies the amount corresponding to each joint holder [4].

The payment of compensation by the Banking Deposit Guarantee Fund shall be made within 20 working days of the date on which the deposits became unavailable (with a maximum 10-day extension granted by the National Bank of Cyprus).

**Deposit Guarantee Scheme in Belgium**: in order to restore confidence during the recent financial crisis, deposit guarantee in Belgium increased substantially from EUR 20,000 to EUR 100,000. This guarantee applies per depositor for the total accounts held by the bank.

Deposit coverage level increased within the Belgian system, leading to a substantial increase in contributions from the financial institutions; although it puts a burden on the financial sector, it does not enhance the credibility of the system. Up to present, the guarantee scheme reserves in Belgium have reached about 0.4% of total deposits held by households. It is worth noticing that a number of EU Member States do not have ex ante reserves, so that they are totally dependent on ex post resources collected for any payment. The population of Belgium is now advantaged because it has an almost full coverage, being an effect of the evolution of the guarantee ceiling from 20,000 to 100,000 euro, this coverage showing that nearly 95% of deposits are entirely guaranteed [6].

**Table 2. Development of the guaranteed limits in Belgium**

<table>
<thead>
<tr>
<th>Year</th>
<th>Guaranteed limit (euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1999</td>
<td>15,000</td>
</tr>
<tr>
<td>2000-2008</td>
<td>20,000</td>
</tr>
<tr>
<td>2009-2010</td>
<td>50,000</td>
</tr>
<tr>
<td>2011</td>
<td>100,000</td>
</tr>
</tbody>
</table>


**Deposit Guarantee Scheme in Portugal**

The Guarantee Fund in Portugal was established in 1992 by Decree No. 298. It has both financial and administrative autonomy, guaranteeing full reimbursement of credit balances corresponding to each depositor. Whether the depositor is resident or not in Portugal, the deposits are obligatorily guaranteed. It does not only guarantee certain deposits, such as those of the insurance companies, of the pension funds and others [7].

Initial and annual contributions, as well as the incomes from financial investments form the Fund resources. Initial contributions are not created from participating banks only, as for the annual ones, but from the Bank of Portugal as well.

Annual contributions are defined in accordance with the monthly average for deposits made within the previous year and the fixed contribution rate, weighted according to each institution’s solvency ratio (the lowest ratio, the highest contribution). The payment of annual contributions may be partial (up to a limit of 75%), replaced by an irrevocable contract, guaranteed, where necessary, by securities which have low credit risk and high liquidity [7].

When resources are insufficient to comply with its commitments, the Deposit Guarantee Fund may require special contributions or may resort to loans.

In an emergency situation, namely if systemic stability aspects are at stake, Banco de Portugal may, under the terms stipulated by its organic law, temporarily grant the Fund the necessary financial resources to meet immediate needs.

**Deposit Guarantee Scheme in Denmark**

The Fund is an independent, private institution providing coverage for both individual customers and investors from the institutions entrusted to provide coverage to the Fund only if the respective bank goes bankrupt, so in other words it covers both natural persons and legal entities having deposits or securities in banks within Denmark [8].

Depositors of banks in Denmark are given protection when losses occur, respectively when the bank wants to suspend payments, but this is not the only case. The loss of savings is also covered by the bank, including the loss due to the failure of the financial institution to return securities up to at a certain
amount. Banks in Denmark must operate according to the law, contributing to the Fund; it is similar for the foreign Danish bank branches operating outside the European Union [8].

If an institution goes bankrupt, within one month it shall send an account summary to each depositor. The depositor must submit an application with the respective institution to the Fund, and if approved, it shall be transferred to the depositor’s new bank within three months following the bankruptcy.

**Deposit Guarantee Scheme in the Netherlands**

The Dutch Guarantee System provides coverage for individuals and small companies. The institutions which issue electronic money do not have coverage. For other countries different rules are applied.

The following people are excluded from coverage by the Fund [9]:

- managers of the insolvent financial institutions;
- people participating with at least 5% in the capital of the insolvent financial companies;
- families of the people mentioned above.

Usually the products covered by the Fund are the total of the accounts, either current or savings, deposits, but there are also exceptions, meaning that shares and bonds are not covered by the Fund.

The Deposit Guarantee Scheme in the Netherlands has a maximum coverage of 100,000 euro per depositor, but if the account is in the name of two people or more, they shall each be eligible for coverage in the Deposit Guarantee System, subject to certain conditions.

**Deposit Guarantee Scheme in Finland**

Deposit Guarantee System in Finland is organized by authorized bodies, whose functions are performed by the Ministry of Finances. The aim of this institution is to protect depositors, with a maximum coverage of 100,000 US Dollars per depositor. This does not compensate repayable funds received from institutions which are not banks. In this case the Deposit Guarantee Fund provides the depositor with information on the way to collect compensation [10].

Usually the compensation must be paid to the depositor within a month. Otherwise the depositor may file a complaint with the supervisory authority and within maximum 5 days following the filing, it decides whether the compensation shall be paid from the Fund’s assets.

The funds deposited in a bank account (as well as the depositors’ receivables in terms of payments) are offset from the Deposit Guarantee Fund assets, but only up to a maximum value of EUR 100,000.

**Deposit Guarantee Scheme in Austria**

Deposit Guarantee Scheme in Austria is based on three pillars:

- the first is the Single Supervisory Mechanism;
- the second is the Single Solution Mechanism;
- the third is represented by a Harmonization System of the Banking Deposit Guarantee Schemes.

The Single Supervisory Mechanism aims to increase the efficiency of the banking supervision. By means of this mechanism, cross-border cooperation as well as a better coordination between participating countries is supported. The Single Supervisory Mechanism allows the authorities to intervene to settle a banking bankruptcy. In January 2016 it shall enter into force [11].

The Austrian Guarantee Scheme is based on the first two pillars and on a single set of rules stipulated in Basel III, in order to ensure its liquidity, particularly. The participation of banks in the Fund is mandatory [11].

**Table 3. Development of the guaranteed limits in Austria**

<table>
<thead>
<tr>
<th>Year</th>
<th>Guaranteed limit (euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>14,535</td>
</tr>
<tr>
<td>1995-1998</td>
<td>18,895</td>
</tr>
<tr>
<td>1999-2010</td>
<td>20,000</td>
</tr>
<tr>
<td>2011</td>
<td>100,000</td>
</tr>
</tbody>
</table>


**Deposit Guarantee Scheme in Greece**

Deposit Guarantee Fund in Greece is a private legal entity, being supervised by the Ministry of National Economy. It is also called the “Hellenic Deposit Guarantee Fund” especially when there is
cooperation with foreign institutions. The Fund’s role is to pay compensations to the depositors. It also covers the deposits of various institutions’ branches that are not located in the European Union.

Fund resources come from annual contributions (taxes on deposits, the balance of deposits), additional contributions that are paid only if the Board of Directors take this decision, from donations or incomes related to the liquidation of Fund’s receivables. If resources are insufficient, the Fund may apply for loans (exempted from taxes and duties) from participating institutions [12].

<table>
<thead>
<tr>
<th>Average deposits volume</th>
<th>Yearly contribution rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-50</td>
<td>1.25</td>
</tr>
<tr>
<td>51-250</td>
<td>1.20</td>
</tr>
<tr>
<td>251-750</td>
<td>1.175</td>
</tr>
<tr>
<td>751-1750</td>
<td>0.205</td>
</tr>
<tr>
<td>over 1750</td>
<td>0.025</td>
</tr>
</tbody>
</table>

Table 4. Yearly contributions


The annual contribution is paid 2 times per year, in October and April the next year. Also, calculated contribution per day is paid if the institution is liquidated.

The following categories of deposits are excluded from coverage by the Deposit Guarantee System in Greece [12]:
1. Deposits held by other credit institutions in their own name and account;
2. Liabilities from the credit institutions’ “own funds”
3. Deposits resulted from transactions associated with criminal conviction for money laundry or other illegal activities;
4. Deposits of the financial institutions,
5. Deposits of the central public administration;
6. Deposits of the managers of a credit institution, members of the Board of Directors, holders of at least 5 percent of the credit institution’s capital, people responsible for auditing the credit institution’s accounting documents and people with similar status within other companies that have direct or indirect control over the credit institution;
7. Deposits created by close relatives (spouses and children) or the third parties who act on behalf of the depositors;
8. Deposits created by companies in the same group;
9. Negotiable certificates of deposit (CDs);
10. Bonds issued by credit institutions and liabilities arising from promissory notes;
11. Liabilities arising from repurchase agreements (repo).

**Interbank Deposit Guarantee Fund in Italy** was established in 1987 through voluntary agreement concluded between banks. The fund is now a private institution recognized by the Bank of Italy; the activities it carries out are regulated by statute and laws (Directive 94/19 / EC).

The principle of compulsory membership in a deposit guarantee system was introduced in Italy in 1993. All the Italian banks (almost 300) are members of the Fund, except for the mutual banks (Cooperative Credit Banks) which are members of the deposit guarantee system within mutual banks (Guarantee of Depositors within the Credit Cooperative).

Branches of EU banks operating in Italy may join the Fund to supplement the protection offered by the guarantee system of the state they belong to. Non-EU banks authorized to operate in Italy are obliged to become members, except for the case when the deposit guarantee schemes in their countries of origin are equivalent [13].

Bank of Italy has full control over the supervision and coordination of the activities carried out by the Interbank Deposit Guarantee Fund.

Legislative Decree No. 49 of 24 March 2011 provides the application of a maximum guarantee level equal to EUR 100,000 and a payment deadline of 20 working days which may be extended by the Bank of Italy only in exceptional circumstances, for another 10 days.

Interbank Deposit Guarantee Fund also compensates -to the extent permitted by the law- the depositors of the members of foreign branches in Italy of EU banks and outside the EU, provided that they are members of the Fund [13].
The Fund stipulates that the protection offered with regard to joint accounts has to be understood per depositor; the maximum coverage level is EUR 103,291.38 per depositor, as stipulated in Article 27 of the Fund Law.

From the legal point of view, the certificates of deposit are identified as legal documents and are entitled to an agreed remuneration.

The reimbursement is made by the Liquidator by Decree of the Ministry of Treasury, in accordance with the proposal of the Bank of Italy in maximum 4.5 months.

The Fund does not guarantee:

- deposits and other bearer repayable funds;
- liabilities and claims arising from acceptances, promissory notes and security transactions;
- social capital, reserves and other assets of the bank;
- deposits administered by the state, deposits created by the local, regional, and municipal authorities;
- deposits created by banks in their own name and account;
- deposits of financial companies, of insurance companies and other companies within the same banking group of the institutions issuing electronic money;
- deposits made by means of power of attorney, by members of corporate bodies and by the bank management or the parent company of the banking group;
- deposits made by the investment holders by means of a power of attorney;
- deposits for which the depositor obtained from the bank on an individual basis, the tariffs and conditions that contributed to the bank’s financial deterioration, according to the findings of the liquidators.

The maximum amount reimbursed to each depositor is 100,000 euro. The Bank of Italy maintains this limit in order to adapt to any changes made by the European Commission regarding the inflation rate. On February 13, 2014, a number of 225 banks in Italy were members of the Fund. Although it is declining, the trend is not noticeable.

On 30 June 2013 the total volume of reimbursable funds of the Interbank Deposit Guarantee Fund increased by 5.2% compared to June previous year, representing the highest level achieved in the past 10 years.

Deposit and Resolution Guarantee Fund of France was established by Law No. 99 of June 1999. This law lays down provisions regarding the deposit guarantee, Fund management; it obliges all licensed banks to join the Fund, it defines its resources and sets out the main legal provisions governing the Fund. The Fund is a private organization. The Fund is managed by the Board of Directors acting under the control of a supervisory committee composed of representatives of banking institutions in France. The Fund contributes to the financial stability and security of the French banking system; it compensates depositors and investors; it carries out preventive intervention; it participates in resolving banking crises; it acts together with the Bank of France in order to provide the security of the banking system.

All the credit institutions and investment companies that receive operating license from the Prudential Supervisory and Resolution Authority (ACPR) become adhered to the Deposit and Resolution Guarantee Fund (FGDR) and contribute to it mandatorily.

The institutions members of the Fund are as follows:

- all the banks and other credit institutions, including branch banks of foreign companies with offices in France and overseas departments (Guadeloupe, French Guyana, Martinique, Mayotte, Réunion), from the entire network in France and Monaco, as well as branch banks located in countries within the European Economic Area;
- all the banks and other credit institutions, including branch banks of foreign companies with offices in an overseas community (Polynesia, New Caledonia, Wallis and Futuna, Saint-Barthelemy and Saint-Martin, Saint Pierre and Miquelon), or in Monaco (in accordance with the Principality regulations);
- subsidiaries located in France and Monaco of the banks and credit institutions with the registered office outside the European Economic Area; these subsidiaries have a special agreement to operate in France.

On 1 January 2013, a number of 699 institutions were members of the Fund.
When a bank is unable to reimburse the deposits to its clients, the Deposit and Resolution Guarantee Fund (FGDR) compensates the bank’s clients up to the limit of 100,000 euro (even in joint or linked accounts) within 20 working days, under certain conditions (since 2009).

The Fund guarantees: current accounts that are used for collection (salaries, social benefits, incomes, etc.) and for payment (checks, credit cards, etc.); sight accounts; savings accounts that may register receipts or withdrawals, without payments; cash accounts associated with an account of financial instruments; deposits created as guarantee, for example lending operations or transactions in the financial markets.

The fund guarantees deposits created in euro or in the currencies of European Union countries outside the euro area (for example, the British pound, Danish krone, Polish zloty, Icelandic krone and Norwegian krone).

Also, the Fund guarantees securities valuing up to 70,000 euro. When a service, business, investment provider or an investment bank is unable to reimburse securities or financial instruments to its clients, the Fund compensates the clients under certain conditions and limitations. In addition, FGDR identifies all unavailable species associated with the customer security accounts. This amount is also compensated up to € 70,000 if the applicant is not a bank and up to € 100,000 with total deposits when the provider is a bank [14].

The fund also guarantees financial instruments such as:
- securities: shares, regardless of form, claims in the form of a guarantee issued by the state or a local authority, a mutual security corporation or fund, negotiable debt instruments (including trade certificates of deposit); units or shares of collective investment bodies;
- financial contracts also called term financial instruments;
- bonds issued by banks going bankrupt.

Since the autumn of 2010, the Government has decided to increase the Fund’s resources to comply with the new compensation ceiling. This amount was financed entirely through the contributions of the credit institutions.

3. Conclusions

Most European Union countries increased their deposit guarantee ceiling to 100,000 euro per depositor, due to the economic crisis experienced by the respective states. Those which have not increased the ceiling to this value are France and Germany, and the only country with mandatory and voluntary participation depending on the situation is Germany, the rest of the countries are characterized by mandatory participation in the deposit guarantee scheme. If we analyze the reasons for which the countries increase their guarantee ceiling, we notice that all of them relate to the economic situation of the countries or with issues regarding the population’s confidence in the banking system. The most advantageous deposit guarantee scheme for individuals or for small enterprises is in the Netherlands, because the others participate in the scheme with a large percentage of the insolvent company’s capital, but they do not guarantee securities.

Analyzing the guarantee schemes in turn, we notice that each of them has certain peculiarities, such as the deposit guarantee scheme in England which allows payment of compensation under certain conditions to a person other than the depositor. If we analyze the Deposit Guarantee Scheme in Ireland, we notice that it does not guarantee the deposits of large or medium enterprises, which is the opposite of the scheme in the Netherlands. There are countries which failed to achieve their objectives through the guarantee ceiling to 100,000 euro, respectively Belgium, and apart from this aspect, it also put a burden on the banking system. In Portugal, deposits are fully guaranteed, mandatorily, regardless the depositor is resident or not, and the payment of annual contributions may be partial. Payment of compensation in Finland is made within one month following the decision of the supervisory authority, and in Italy the whole process takes up to four months and a half. Deposit Guarantee Scheme in Austria is based on three pillars, each of them having different but closely interlinked tasks, so as to provide the liquidity of the Fund. In Greece there are many types of deposits that are excluded from coverage and the annual contribution is paid in two installments; in France all deposits and similar debt securities are included. In France and Italy as well, banks’ participation in guarantee funds is mandatory, and in Italy, it provides security for deposits within foreign banks located on the Italian territory.
Participation of EU countries in EFDI contributed to the promotion of international cooperation and to a relative uniformity in terms of operating conditions of the guarantee funds. Deposit guarantee schemes represent an important factor in the banking system, a component of the financial security devices along with the operations of the banking supervisory authorities, of the issue bank and input and output policies in the banking system.

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