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NFU Response to Consultation on the Review of Directive 94/19/EC on Deposit Guarantee Schemes (DGS)

About NFU

The Confederation of the Nordic Bank, Finance and Insurance Unions (NFU) is an organisation for co-operation between trade unions that organise employees in the banking, finance and insurance sectors in the five Nordic countries. At present, eight trade unions are affiliated to the NFU; two in Denmark, two in Finland, two in Sweden, and one in each Iceland and Norway. Through these trade unions, NFU represents 160 000 employees in the Nordic financial market.

General remark

NFU welcomes the European Commission's initiative to review the DGS Directive. NFU expects the Commission to put forward a pan-European DGS creating a level playing field between countries and products. A DGS based on MS (EU Member States) with openings for voluntary exemptions or organized on a national system are counterproductive to the overall ambition for EU to promote an integrated and harmonized financial market within the whole of EEA. Also, a mutual guarantee scheme would have been very vulnerable in the crisis we just lived through. All or many of the participating banks in a mutual guarantee system in a crisis like the present would also have the same type of problems. It is important for NFU to emphasize the need for a good DGS Directive to protect small depositors and normal costumers across Europe.

Specific remarks

Comment 1:

This is a major problem with the DGS system in the EEA: First rule – MS DGS covers deposits in the country. Second rule – MS's DGS covers deposits for branches in another MS. This creates a problem for DGS supporting a bank operating transnational. The situation is even worse if a bank is considering changing its legal status to an SE. NFU strongly urges the

Nordic Financial Unions ▪ Olof Palmes gata 17 ▪ Box 720 ▪ SE-101 34 Stockholm ▪ Sweden
Phone +46 8614 0300 ▪ www.nordicfinancialunions.org

Commission to seek a solution to this problem, and if necessary introduce a pan-European DGS.

Question 2 The coverage level

NFU supports the policy of the Swedish Bankers' Association that the most important principle should be a harmonized coverage level. This supports a level playing field between institutions and constitutes the basic value of transparency and simplicity for depositors. It's reasonable with a lower and an upper limit for covered amounts. The level of the upper limit is depending of which saving product's that's covered by the DGS.

Question 3 Minimum or fixed coverage level?

If the upper limit is set high the need for topping up arrangements is less. For member states with lower GDP per capita the absolute price for a DGS is lower and this takes away any disadvantage related to the number of wealthy depositors. On the other hand the same depositors will not find a reason to deposit their assets in a financial institution in another MS with a higher level of coverage.

Question 5 Calculation of the coverage level

It is very important that an EEA wide DGS is simple and fully harmonized. Therefore, NFU is very suspicious to all kinds of exemptions. If it's allowed to ask for coverage per brand name the creativity in the industry will cause a variety of savings products. These will have different coverage and therefore different costs and benefits. This will neither support simplicity nor transparency and it will complicate the supervision and calculation of the institutions' payments into the DGS'.

Question 6 -7 Exemptions

See our answer on question 5. But there's an interesting question that should be raised from the Danish example. Shouldn't also private assets other than savings accounts be protected if financial institutions collapse? Pension funds can loose in value but they can also be involved in a bankruptcy of an issuing bank. If that happens, the funds assets have to be regarded an asset in the bankrupted financial institution and the "depositor" or "pension saver" should be protected. This implies a much higher level of protection than the 100 000 € mentioned in the context of DGS. But if exemptions for temporary high account balances shall be allowed it must not be a sub EU-level issue. Any national exemptions might be used as a hindrance for the harmonized financial market. A solution could be to give a harmonized, significantly higher coverage specifically for pension funds. NFU will also ask the Commission to take into consideration a longer transposition period for DGSs with higher coverage levels and that has been in force prior to 1 January 2008.

Question 8 Voluntary schemes

NFU states again, we expect the Commission to put forward at DGS that creates a level playing field between countries and products. Also, a mutual guarantee scheme would have been very vulnerable in the crisis we just lived through. All or many of the participating banks in a mutual guarantee system in a crisis like the present would also have the same type of problems.

Question 9 – 17 Scope of covered products and depositors

NFU would prefer a solution which cover as many products as possible where private depositors and pension savers might get badly hurt if a financial institution falls. The level of protection and the cost for those should be the same in all EEA-countries and for all products. This will enhance the competition, transparency and simplicity.

Question 18 – 20 A pan-European DGS

Yes NFU would prefer a pan-EU DGS! When this will be introduced it will have to be mandatory. Otherwise will the positive effects with this idea be lost. There is a lot of money involved and it is very technically complicated. Therefore one has to accept a relatively long period of transition. To be able to gain the benefits of a pan-EEA DGS it has to be a single DGS. To prevent a distorted domestic competition all banks should contribute to a pan-European DGS. The money paid to the ex-ante systems should be transferred and regarded a contribution for financial institutions covered by the national DGS.

Question 21 Mandate of DGS

In the bail outs during the current crisis it has been obvious that banks are not allowed to go bankrupt. Will therefore the DGS never come in use? If this is the case it would be better to regard the DGS as the financial sector re-insurance system. The money should be wisely used to reorganize banks, provide liquidity and to wind up a badly hurt bank. But all these actions must be guided by the principle that excessive risk takers should not be covered. A pan-European DGS used for these purposes must support and promote institutions that operate under a responsible regime with good and sound risk control.

Question 22 – 25 Information to depositors

Information is very difficult. It has to be adjusted to its receivers and they differ in so many ways. This is an additional argument for a single pan-European DGS. With such a DGS the content of the basic information will be stated in the very directive. NFU believes countersigning is overdoing it. Especially, since it's very unlikely that financial institutions will be allowed to actually go bankrupt. The information shall be given where it's asked for, in relation to information about the account, i.e. both in marketing the savings instrument as well in account statements, and of course from the European DGS when the banks are in trouble. Most depositors lucky enough to breach an eventual top-limit will understand this by themselves. But if not or if the depositor doesn't notice this she will be very annoyed if she will ever be in such a bad luck to make use of the DGS.

Question 26 Set-off arrangements

Since NFU's fundamental principle is a pan-European regime to promote simplicity, transparency and a level playing field we find set-off arrangements counterproductive to this. It's also counterproductive to the purpose of a DGS to offer financial stability, also pointed out in the consultation paper.

Question 27 – 34 Procedures for payout

A short payout period is important to support the fundamental aim of financial stability. Most bills are due in a month and therefore the payout time cannot be longer than that. To be able to provide depositors with as short payout time as possible, with high security to avoid as many claims as possible, at lowest administrative costs NFU believes it's important to 1) have a simple pan-European structure without any exemptions and voluntary openings for MS to make their own regimes, 2) automatize the dissemination of information between financial institutions and the European DGS and between the DGS and the depositor as much as possible, as well as having a automatized pay out system to electronic bank accounts in competing banks or organized at the European DGS.

Question 35 Cross-border cooperation

NFU urges the commission to put forward a pan-European DGS without any possibilities to topping-up arrangements. It will be counter productive to simplicity, transparency, neutral and fair competition between actors, administrative costs and the possibility to offer depositors a quick payout. With a pan-European system the existing national DGS might be part of the administrative structure of the DGS. For practical and transparent reasons it must be possible to communicate with the DGS in any of the official languages in EU. We are seeing before us that the present national DGS transforms to de-concentrated branches of the pan-European DGS.

Question 37 – 39 Financing of DGS

We are in favour of a harmonized ex-ante funding for European DGS. The main argument is that this will create a level playing field for competition and support commitment from the European finance industry. There should be a target level for the fund. The financing of the European DGS must also propose a fair system to move assets already paid in to the national ex-ante systems and to make it possible for financial institutions who's not participating in such an ex-ante system today to in a reasonable time fill up their fair share of such a pan-European system. The maximum level of for the fund has to be set to actually provide the aimed financial stability.

Question 40 Any other issue

Finally NFU would like to come back to the indirect effect all safe guard systems have on risk taking industries. Any DGS must promote a sound business, with conscious and careful risk management and counter act on risk takers with bad due diligence ambitions and a competitive ambition for market shares that hamper the long term interest of the institution. High-risk takers should not be allowed to lean on a DGS to push away from their responsibility.

Yours faithfully

NORDISKA FINANSANSTÄLLDAS UNION (NFU)

The Confederation of Nordic Bank, Finance and Insurance trade unions

Allan Bang	Christina J. Colclough
President	General Secretary