CONSIDERATIONS CONCERNING GUARANTEE SCHEMES

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Abstract:
When a large withdrawal from banks occurs, customers withdraw their deposits, so banks are likely to go bankrupt because of liquidity problems. There are several mechanisms that allow the banking system to avoid the phenomenon of massive withdrawals from banks. The most effective one is the deposit insurance. The deposit insurance is seen primarily as a means of protecting depositors of credit institutions, and secondly as a means of ensuring the stability of the banking system. This article described deposit guarantee scheme in Romania and other country.

Keywords: *deposit guarantee scheme, deposits, banking system*

JEL classification: G01, G21, G22

The main purposes of deposit insurance are to provide a safety net for smaller depositors and to enhance financial stability (Veron, 2011; Schoenmaker, 2012; and ECB, 2012) and her organization is a precondition for putting the supervisory framework on a European footing.

If in the past, the guarantee schemes have played a rather discreet role for social stability through the function of pay box following a bank failure (the role of compensating the loss incurred to customers by the insolvency of banks), in the present, the recent crisis put them in a new light, once the guarantee ceiling for eligible deposits grew in order to make for the accumulation of wealth worldwide and the increased risk incurred by the leverage of banking operations. Hence, the new role was atribuite to the guarantee schemes: pre-emptive actions aimed to avoid bankruptcies via special administration and purchase of assets and assumption of liabilities and all of this give guarantee schemes a role in the mechanism of financial safety-net, along the supervisors of the market.

1. Presentation of the deposit guarantee scheme in European Union

The structure and objectives of deposit guarantee schemes depend on several factors. In addition to factors related to the structure and the stability of the banking system at the time of its creation, there are the assignment of various roles and objectives according to the authority that decides the creation of the guarantee scheme. The deposit guarantee scheme may be established by law, by decision of the central bank, of the supervisory bodies, the Ministry of Finance, or even decisions made by associations of credit institutions.

The management of the guarantee scheme by the State can be achieved by assigning this task to a department created under central bank or finance ministry, or by setting up an independent institution that has as main objective to guarantee bank deposits (a method recommended by most specialists).

The main problem to be solved by a deposit guarantee scheme is to choose the best means of financing the scheme. There are several financing methods, and a clear distinction can be made between the ex-ante financing methods – establishing the funds necessary for payments by offsets before a bank bankruptcy and ex-post - the constitution of the necessary funds only when compensations are to be paid. Both methods have advantages and disadvantages.

For a guarantee scheme to be perceived as providing an adequate level of protection for depositors it is necessary that the coverage be adequate, to provide the necessary framework for making the compensation payments for guaranteed deposits in a time as short as possible from the occurrence of the unavailability of deposits and also to achieve adequate information of depositors on the conditions under which their deposits are guaranteed.

Table 1. Legal references of the establishment of the BDGF

Act	Date of coming into force	Deadline for the transposition into the national law of the Member States	The Official Journal
Directive 94/19/EC	31.5.1994	1.7.1995	JO L 135 of 31.05.1994
Amending Act(s)	Date of coming into force	Deadline for the transposition into the national law of the Member States	The Official Journal
Directive 2005/1/EC [COD/2003/0263]	13.04.2005	13.05.2005	JO L 79 of 24.03.2005
Directive 2009/14/EC	16.03.2009	30.06.2009	JO L 68 of 13.03.2009

Source: www.europa.eu.com

The global financial and economic crisis of the recent years has shown that the role of deposit guarantee schemes becomes increasingly important for the financial stability of different economic systems.

In this context the European Commission, through a series of its own regulations - Directive no. 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive no. 94/19/EC on Deposit Guarantee Schemes as regards the coverage level and the payout delay, published in the Official Journal of the European Union no. L68/13.03.2009 – aims to create a more robust and secure financial system, preventing future crises and restoring consumer confidence.

In August 2011, 111 countries with explicit deposit guarantee scheme and 41 states in which the implementation of a deposit guarantee scheme is considered.

Characteristics of deposit guarantee scheme in European Union (IMF, 2013):

- Deposit insurance in the EU is provided by a variety of national deposit guarantee schemes (DGS), different in terms of coverage, contributions, fund sizes, and organizational setup (some states, such as Austria, Germany, Cyprus, Italy, Spain, have more than one scheme. The German private scheme for commercial banks, with coverage of 30 percent of bank capital per depositor, offers essentially unlimited coverage for most depositors) – table 2. The role of the deposit insurance agency varies widely, both within the EU and worldwide:

a. broad responsibility to monitor the banking system and participate in the insolvency proceedings

b. depositor payout and asset resolution

c. merely depositor payout

- Most schemes have access to limited prepaid funds in relation to the total amount of deposits covered, reflecting the current lack of common EU funding standards (Austria, Italy, and the United Kingdom rely exclusively on ex post funding;

in 2011, the Netherlands adopted a regulation to transform its ex-post DGS into an ex-ante funded scheme with risk-based contributions and it will come into effect on July 1, 2013) – figure 1.

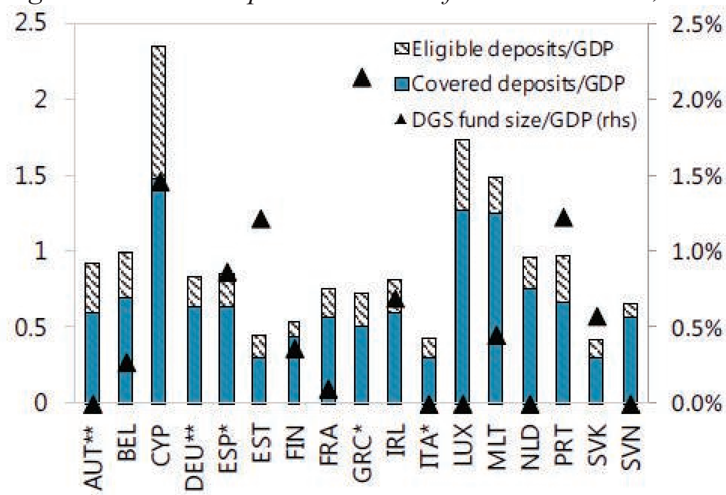
Table 2. List of Deposit Protection Schemes in the EU Member States, 2009

	Name
Austria	Deposit Protection Company of the Austrian Commercial Banks Ltd.
	Österreichische Raiffeisen-Einlagensicherung reg.Gen.m.b.H. (ÖRE)
	Sparkassen-Haftungs Aktiengesellschaft
	Schulze-Delitzsch Haftungsgenossenschaft reg.Gen.m.b.H.
	Hypo-Haftungs-Gesellschaft m.b.H.
Belgium	Deposit and Financial Instrument Protection Fund
Bulgaria	Bulgarian Deposit Insurance Fund (BDIF)
Cyprus	Deposit Protection Scheme
	Deposit Protection Scheme for Co-operative Societies
Czech Republic	Deposit Insurance Fund
Denmark	Guarantee Fund for Depositors and Investors
Estonia	Deposit Guarantee Sectoral Fund
Finland	Deposit Guarantee Fund
France	Deposit Guarantee Fund
Germany	Compensatory Fund of the Association of German Public Sector Banks
	German Private Commercial Banks Compensation Scheme for Depositors and Investors
	Protection Scheme of National Association of German Cooperative Banks
	Haftungsverbund der Sparkassen-Finanzgruppe
Greece	Hellenic Deposit Guarantee Fund
Hungary	National Deposit Insurance Fund of Hungary
Ireland	Irish Deposit Protection Scheme
Italy	Interbank Deposit Protection Fund
	Deposit Guarantee Fund of Cooperative Credit Banks
Latvia	Deposit Guarantee Fund
Lithuania	Deposit and Investment Insurance
Luxembourg	Luxembourg Deposit Guarantee Association
Malta	Depositor Compensation Scheme
Netherlands	Collective Guarantee Scheme of Credit Institutions for Repayable Funds and Portfolio Investments
Poland	Bank Guarantee Fund
Portugal	Deposit Guarantee Fund
	Guarantee Fund of Mutual Agricultural Credit Institutions
Romania	Deposit Guarantee Fund in the Banking System
Slovak Republic	Deposit Protection Fund
Slovenia	Deposit Guarantee Scheme
Spain	Deposit Guarantee Funds for Banks Institutions
	Deposit Guarantee Funds for Credit Cooperative Banks
	Deposit Guarantee Funds for Saving Banks
Sweden	Swedish Deposit Guarantee Board
United Kingdom	Financial Services Compensation Scheme

Source: Cariboni et al, Promtness of European DPSs to face banking failures, Journal of Banking Regulation, Vol.11, 3, p.195.

- In some cases, mandatory schemes are supplemented by voluntary schemes, and some schemes provide more than deposit protection. For example, the complex voluntary DGS for commercial banks in Germany provides insurance of up to 30 percent of bank capital per depositor, essentially offering unlimited coverage for most depositors. The system linking German savings banks (and similarly that for cooperative banks) provides an "institutional guarantee," which implies mutualization of liabilities among participating banks. Under current arrangements, resources from the private DGSs and mutual protection schemes of various categories of banks could be committed to finance the restructuring of banks on a going-concern basis.

Figure 1. Insured deposits and DGS fund size to GDP, 2011



2. Presentation of the Bank Deposit Guarantee Fund (BDGF) in Romania

The deposit guaranteeing activity is performed in Romania by the Deposit Guarantee Fund in the Banking System, an institution which was established in 1996, which is the only deposit guarantee scheme operating in Romania and under the law.

All credit institutions in Romania, Romanian legal entities authorized by the National Bank of Romania to receive deposits from the public, and the branches of the foreign banks from outside the European Union, have the obligation to participate in the Deposit Guarantee Fund in the Banking System. The deposits made at branches of credit institutions based in other EU Member States operating in Romania are guaranteed by institutions similar to the Fund in the state of origin, in compliance with the laws of that state. At the beginning of January 2011, the deposit guarantee scheme in Romania included 33 credit institutions, Romanian legal entities, of which 32 banks and the Central Cooperative Bank CREDITCOOP (the headquarters and the affiliated credit cooperatives).

The activity of BDGF takes place on two levels: ca as a deposit guarantee scheme (core activity) (Ungureanu P., 2001) and as special administrator, interim administrator and liquidator of credit institutions (as a secondary activity).

The main financing resources of BDGF are the contributions of the credit institutions, incomes from investing financial resources and debt recoveries from bankrupt credit institutions.

In addition, according to the law, BDGF also has the opportunity to increase its resources through loans from credit institutions, through loans from credit institutions and other institutions with the exception of the National Bank of Romania, including bonds issues (bond issues of the Fund). In exceptional circumstances, when those resources are insufficient to cover the payment of the compensations, the Government provides BDGF, as loan, with the required amounts within 5 working days from the request of the Fund.

The investments of BDGF are made according to an annual investment strategy set by the Board of Directors of the Fund and subject to the approval of the Board of the

National Bank of Romania. The main objectives are to minimize risk and the liquidity of investments, their performance being a complementarily objective. In tactical terms, the BDGF investments are decided by a Standing Committee of Management of the Fund, including the executive management of BDGF and representatives of the Treasury and Risk Management compartments. All the operations are performed based on a procedure that is audited internally and externally.

Within the limits and conditions prescribed by law on its operation, BDGF guarantees deposits in any currency at the credit institutions who participate to the Fund. The deposits falling into non-guaranteed categories as presented in the list of non-guaranteed deposits in the annex to Ordinance 39/1996 are exceptions. For example, for a natural person or a legal entity the money deposed: nominative certificate of deposit, current account, deposit account, savings account, card account, joint account, as well as similar products are covered.

If the deposits with a credit institution participating into the Fund become unavailable, BDGF will provide the payment of the compensations, within the limit of the coverage level. The payment of the compensations is made in RON only. Each depositor can only be compensated within the limit of the coverage level, no matter how many deposits the respective credit institution has and what how big they are.

According to art. 2 paragraph (3) letter a) of Government Ordinance no. 39/1996, republished, deposit means "any sold creditor, in credit balance, including interest due, resulting from funds held in an account or in transitional situations arising from current banking operations and that the credit institution must repay in compliance with the applicable legal and contractual conditions, as well as any obligation of the credit institution proved by a debt instrument issued by it, except the bonds provided in paragraph (6) of art. 159 of Regulation no.15/2004 of the Romanian National Securities Commission."

The guaranteed deposit means any deposit found in the records of the credit institution, which does not fall within the categories set out in the List of non-guaranteed deposits and for which BDGF ensures the payment of the compensation. The payment of the compensation is made in RON only.

In compliance with the law, the compensation means: the amount of money paid by BDGF if deposits become unavailable. The compensation is the total amount payable to any guaranteed depositor for all deposits held by the respective depositor at a credit institution, regardless of the number of deposits, but only within the limit of the coverage level, in compliance with Government Ordinance no. 39/1996 (republished in 2010).

The level of compensation is calculated as follows: from the sum of all guaranteed deposits held by a person to that credit institution (when they became unavailable) we deduct the total amount of outstanding debt towards the credit institution of the depositor until the respective date. The remaining amount represents the compensation, which compensation, however, starting with 1 January 2011, may not exceed 100,000 euro in RON equivalent currently applicable under Government Ordinance no. 39/1996 (republished in 2010, with the subsequent amendments and completions).

BDGF paid compensations amounting to 512.24 million RON to 327,465 depositors. Out of the 797,818 depositors in the compensation payment lists, 59%, representing 470,353 depositors did not request the amounts they were entitled to, though the Fund sent notices and made repeated announcements through mass media and on its website concerning the payment of compensations and their deadlines.

The development and maintenance of cooperative relationships with deposit guarantee schemes worldwide, as well as with other international entities, the promotion of the exchange of experience and the identification of best practices in the area are constants of the international activity of BDGF.

Currently, the deposit guarantee schemes are organized on a voluntary basis, in two professional associations: TheEuropean Forum of Deposit Insurers - EFDI and the International Association of Deposit Insurers - IADI. BDGF adhered to both associations, being a EFDI member since 2003, and a IADI member since 2005.

Table 3. Value of compensation payments

Bankrupt bank	Guaranteed depositors	Depositors who requested compensations	Value of guaranteed deposits (mil. lei)	Value of compensation payments (mil. lei)
"Albina" Bank	33,528	24,461	36.1	36.0
Bankcoop	467,993	197,252	275.5	273.2
International Bank of Religions	284,121	102,787	187.7	186.1
Romanian Discount Bank	1,871	229	1.0	0.9
Turkish-Romanian Bank	10,026	2,724	18.0	15.9
"Columna" Bank	171	2	0.1	0.01
Nova Bank	108	10	0.2	0.03
Total:	**797,818**	**327,465**	**518.6**	**512.24**

Source: www.BDGF.ro

In relation to the banking system as a whole, the value of the deposits made with the 33 credit institutions participating in the Fund accounts for 91.6% on 31 March 2012, 0.9 percentage points lower than the one at the end of the previous year. The decrease of this percentage was determined by the dynamics of the value of deposits recorded in the category of credit institutions participating in the Fund and by that of the branches of foreign banks in Romania. However, the annual variation of the deposits with the credit institutions participating in the Fund was +8% in nominal terms (+5.5% in real terms), faster than in the similar previous period.

Figure 2. Structure of the deposits with the credit institutions participating in the Fund, on 31 March 2012, on categories of depositors and on currencies

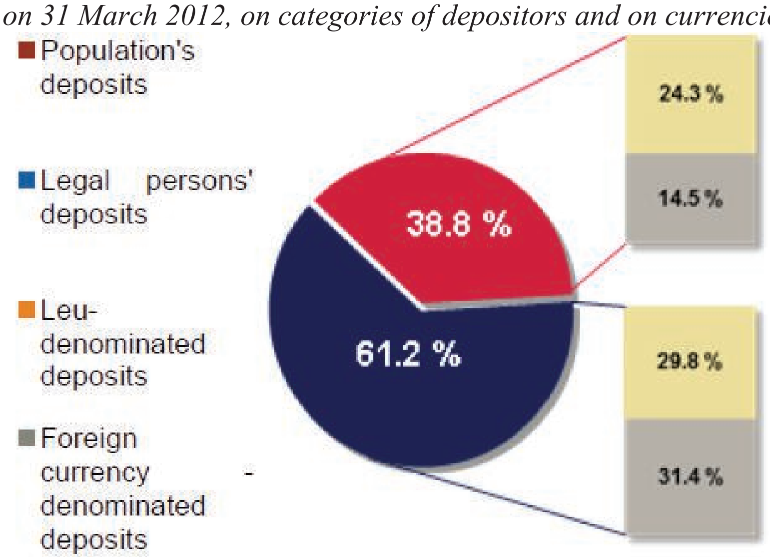
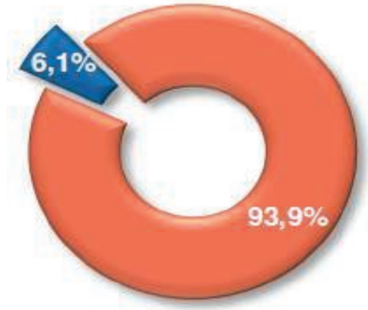


Figure 3. Structure of the depositors with the credit institutions participating in the Fund, on 31 March 2012



At the end of the first quarter of 2012, the value of the guaranteed deposits was 143 billion RON, remaining, in nominal terms, to approximately the same level at the end of 2011 (a quarterly variation of -0.1%). This relative stagnation was possible due to the counterbalance of the absolute changes in the deposits of the guaranteed population and legal entities, which recorded opposite dynamics with an absolute value of approximately 3.7 billion RON in the first three months of 2012.

Compared to the end of the first quarter of 2011, the value of the guaranteed deposits increased by 9.6% in nominal terms (7% in real terms), faster than in the period 31 March 2010-31 March 2011, when the annual variation in nominal terms was +3.9%.

The value of household deposits with credit institutions operating in Romania remained on an upward trend, advancing by 3.2% in the first three months of 2012 (+1.8% in real terms), the positive dynamics of the deposits made by natural persons with credit institutions participating in the Fund having a decisive influence, mainly concerning the deposits in RON with values below 100,000 euro.

On 31 March 2012, the deposits of the population on the whole banking system amounted to 118.3 billion RON, recording an annual variation of +11.5% (+8.9% in real terms). From the total value of the deposits of the population at the credit institutions in Romania, a percentage of 62.4% corresponds to the deposits in the national currency, in the amount of 73.9 billion RON on 31 March 2012.

Compared to the end of the previous year, the value of deposits in RON of the population increased by 4.1% (+2.6% in real terms), the annual variation being +14.8% (+12.1% in real terms). The population's deposits in a foreign currency also recorded a positive dynamics, slower however that that of the deposits in the natural currency, with a quarterly variation of +2.1% (+0.7% in real terms), while at the level of the year the increase was 6.7% (+4.2% in real terms).

The value of the deposits of natural persons at the branches of foreign banks in Romania a stagnated in the first quarter of 2012, due to opposite developments with the same amplitude (0.1 billion RON) recorded by deposits in RON and by those in a foreign currency.

In relation to the total value of the deposits of natural persons in the whole banking system, the value of the deposits with credit institutions participating in the Fund, i.e. 110,4 billion RON, was 93.3% on 31 March 2012.

In the first quarter of 2012, the deposits of legal entities at credit institutions in Romania had a downward trend due to withdrawals made primarily, by the category of depositors guaranteed by the Fund, i.e. small and medium enterprises and other similar categories. On 31 March 2012, the deposits of natural persons amounted to 192,1 billion RON in the whole banking system (a quarterly variation of -1.3% in real nominal, or -2.7% in real terms). As compared to the end of the first quarter of the previous year, the evolution is positive, the deposits of the legal entities increasing by 8.1% (+5.6% in real terms).

According to some studies (Schoenmaker, 2011), policymakers have to choose 2 out of 3 objectives: 1) financial stability, 2) cross-border banking or 3) national policies. The European Commission and the EU Council are still seeking solutions at the national level, with improved deposit insurance and resolution mechanisms based on the home country principle.

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