

# ROLE AND IMPORTANCE OF THE BANK DEPOSIT GUARANTEE FUND

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## **Abstract:**

*The regulatory framework developed by the National Bank of Romania also covers the area of bank deposit guarantees. This research aims to analyze the functioning of this unique statutory scheme for guaranteeing bank deposits within the Romanian banking system. The number and volume of placed and eligible deposits of credit institutions participating in the Bank Deposit Guarantee Fund are analyzed in structure and dynamics. The objectives, resolution tools and the method of compensation of depositors of the bankrupt banks are analyzed. Bank deposit guarantee schemes and the protection of depositors in cases of banking difficulties are a priority in the European monetary area.*

**Key words:** bank deposits, commercial banks, prudential supervision, bank resolution, bankruptcy

**JEL classification:** G 21, G 23

## **Introduction**

The National Bank of Romania has an important role in both the regulation and the prudential supervision of banking activity. In order to strengthen the prudential supervision of banks in all phases, from the authorization of a bank to the improvement of bank monitoring, the National Bank of Romania has been constantly concerned with the implementation of a coherent program to consolidate the Romanian banking system.

The regulatory framework for credit institutions developed by the National Bank of Romania refers to the following areas:

- Regulation of the conditions for granting and carrying out loans;
- Regulation in the field of deposit guarantee;
- Regulation on prudential matters and in the field of bank resolution.

In this regulatory framework, a series of guides were analyzed and taken over in 2016, which help and guide the treatment of various aspects and situations that appeared in the extremely complex and diversified banking activity.

The regulatory activity of the National Bank of Romania was oriented in 2017 towards the following three main areas, respectively:

- the field of prudential regulation;
- regulatory financial activities;
- the field of accounting regulation.

The support instruments for prudential supervision and financial stability, created and improved by the National Bank of Romania, are:

- Central Credit Register (CCR);
- Payment Incidents Register (PIR);
- Bank Deposit Guarantee Fund (BDGF).

Bank deposits are among the most important banking products for saving and mobilizing bank resources. For their efficient management, in the Romanian banking system was constituted the only statutory scheme for guaranteeing deposits in Romania, represented by the Bank Deposit Guarantee Fund. It has a very important role in the national economy, as well as within the Romanian banking system.

BDGF guarantees bank deposits in the event of the insolvency of a credit institution. If the bank where the deposits are made can no longer refund the amounts deposited to depositors, BDGF ensures the payment of compensations. The Fund may take over the position of a special administrator, temporary administrator, sole liquidator or shareholder in a bridge institution or asset management special purpose vehicle, in accordance with the legislation on the recovery and resolution of credit institutions.

The main objective of the Bank Deposit Guarantee Fund is to guarantee the deposits of the population and of the legal entities established at credit institutions authorized by the National Bank of Romania. The fund is the only statutory deposit guarantee scheme in Romania. The area of BDGF's responsibilities has expanded over the past two decades of operation, its competencies within the national system of ensuring financial stability being gradually strengthened.

In this regard, in addition to the specific tasks of a deposit guarantee scheme, BDGF has been given by law new responsibilities for administering the bank resolution fund and carrying out activities related to the application of early intervention measures, bank resolution and liquidation of credit institutions. BDGF has an extensive set of competencies and responsibilities compared to other deposit guarantee schemes. In its activities related to the application of early intervention and resolution measures for credit institutions, BDGF may also fulfill the role of:

- temporary administrator;
- special administrator for a credit institution under resolution;
- shareholder in a bridge institution;
- shareholder in an asset management special purpose vehicle.

Bank resolution is the process of restructuring a credit institution by a resolution authority. As a resolution authority, the National Bank of Romania has responsibilities in terms of planning the resolution and undertaking resolution actions. Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms, transposes into national law the provisions of Directive 2014/59/ EU (BRR directive) and designates the National Bank of Romania as the resolution authority for the banking sector. The resolution tools that can be used, individually or in any combination, are:

- Sale of business;
- Bridge institution;
- Separation of assets (only in conjunction with another resolution tool);
- Bail-in.

Where the resolution concerns a cross-border banking group, decisions shall be taken in a resolution college.

In terms of cooperation relations with deposit guarantee schemes in other Member States of the European Union, BDGF acts as a compensation paying agent on behalf of the schemes that guarantee deposits at branches of foreign banks in Romania. In this respect, the BDGF is part of the Multilateral Cooperation Agreement concluded by the European Union Deposit Guarantee Schemes. Also, in the context of cooperation between deposit guarantee schemes, in order to ensure the necessary infrastructure both for cross-border payments and for the exchange of information through a secure centralized system, EDDIES system (European DGS to DGS Information Exchange System) was developed and implemented at EU level. BDGF joined this centralized secure system during 2018.<sup>1</sup>

In the United States, in addition to traditional insurers, there are so-called publicly guaranteed insurance programs, such as the Federal Deposit Insurance Corporation (FDIC), which insures bank deposit holders against losses caused by the bankruptcy of commercial banks.<sup>2</sup>

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<sup>1</sup> Fondul de Garantare a Depozitelor Bancare, Raport Anual 2018, p. 8 (Bank Deposit Guarantee Fund, Annual Report 2018, pp. 8).

<sup>2</sup> Nagy, Cristina Mihaela, Utilizarea informației contabile în managementul asigurărilor, Editura Eurostampa Timișoara, 2013 p. 71 (The use of accounting information in insurance management, Eurostampa Publishing House Timișoara, 2013 pp. 71).

The year 2018 was also characterized by maintaining the stability of the financial-banking system in Romania and consolidating its soundness. There were no situations requiring the intervention of BDGF by paying compensation, financing resolution measures or exercising one of the qualities it may have in the case of applying early intervention measures or bank resolution.

In these circumstances, BDGF's activity continued in 2018 to be focused on consolidating the regulatory framework and reaching new standards corresponding to the three main lines of activity:

- guaranteeing deposits with participating credit institutions;
- administration of the bank resolution fund;
- judicial liquidation at bankrupt banks, in which BDGF is the liquidator.

BDGF continued to ensure all the conditions for the efficient fulfillment of its obligations towards depositors, according to the law. The protection of depositors covers two important aspects, namely the deposit coverage ceiling and the term of payment of compensations.

## **Materials and methods**

This research aims to analyze the functioning of this statutory scheme for guaranteeing bank deposits, as well as the role and importance of the Bank Deposit Guarantee Fund within the Romanian banking system. The number and volume of deposits and eligible deposits of credit institutions participating in the Bank Deposit Guarantee Fund are analyzed in structure and dynamics. It also analyzes the objectives, resolution tools and how to compensate depositors of bankrupt banks.

In the research carried out on the role and importance of the Bank Deposit Guarantee Fund within the Romanian banking system, the following methods of scientific research were used: data collection, classification, systematization, identification and collection of clear, accurate and complete information, analysis, synthesis, induction, deduction, comparison, generalization and interpretation of data.

The regulatory framework for credit institutions in the field of bank deposit guarantee, developed by the National Bank of Romania, was also analyzed.

Data and information reported by the Bank Deposit Guarantee Fund in the 2018 Annual report were used in this research. Indicators targeting the number of depositors, individuals and legal entities, and the value of

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total and eligible deposits, in lei and foreign currency, of individuals and legal entities were analyzed in dynamics and structure. The period of analysis was selected in the time horizon 31 December 2017 – 31 December 2018. Data and information on deposit guarantee schemes, addressed in the framework of the banking policies promoted in the European monetary area, have been used.

## **Results and discussion**

In case of bankruptcy of a credit institution or another situation of unavailability of deposits, BDGF compensates the guaranteed depositors within the coverage ceiling of 100.000 euros, in lei equivalent. The coverage ceiling of 100.000 euros is applicable in all member states of the European Union, in Romania being implemented since the end of 2010.

For certain special cases of deposits, BDGF provides temporary additional coverage for a period of 12 months.

The special cases of deposits for which additional temporary coverage is provided shall apply to deposits resulting from:<sup>3</sup>

- real estate transactions relating to immovable property with a residential purpose;
- the event of retirement, dismissal, disability or death of the depositor;
- collection of insurance indemnities or compensation for damages resulting from criminal offenses or wrongful convictions.

BDGF makes available to the guaranteed depositors the amounts due within a maximum of 7 working days from the date on which the deposits become unavailable. This is the shortest payment deadline set by the Community Directive at EU level. All Member States are required to comply with this 7 working day deadline by 2024.

Upon compensating the depositors of the bankrupt banks, according to the law, BDGF subrogated itself to the rights of the guaranteed depositors for the amounts related to the compensations, subscribing to the credit table of each of the bankrupt banks.

The level of contributions of credit institutions is established by BDGF, with the approval of the Board of Directors of the National Bank of Romania. Credit institutions participating in BDGF shall contribute to the

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<sup>3</sup> Fondul de Garantare a Depozitelor Bancare, Raport Anual 2018, p. 9 (Bank Deposit Guarantee Fund, Annual Report 2018, pp. 9)

Deposit Guarantee Fund with amounts determined differentiated depending on the degree of risk involved, in accordance with BDGF Regulation no. 2/2016 on the determination and payment of contributions to the Bank Deposit Guarantee Fund depending by risk rating, with subsequent amendments and completions. This Regulation has been developed in accordance with the provisions of the European Banking Authority's Guide on methods for calculating contributions to deposit guarantee schemes.

The National Bank of Romania, as the resolution authority, decides on the use of the resources accumulated in this fund in case of the implementation of a resolution measure, according to the particularities of each resolution instrument. At the same time, the National Bank of Romania has responsibilities regarding the establishment of both the methodology and the level of contributions to be paid by credit institutions to the bank resolution fund. These contributions are determined individually, depending on the risk profile of credit institutions.

BDGF guarantees deposits made with all credit institutions authorized by the National Bank of Romania. The 27 credit institutions listed in the table below contribute to this deposit guarantee scheme:

Table 1. List of BDGF-Member Credit Institutions  
at 31 December 2018

<b>Item no.</b>	<b>Name of Credit Institution</b>	<b>Item no.</b>	<b>Name of Credit Institution</b>
1.	Alpha Bank Romania S.A.	15.	Credit Europe Bank (Romania) S.A.
2.	Banca Centrala Cooperatista CREDITCOOP (CREDITCOOP Cooperative Central Bank)	16.	First Bank S.A.
3.	Banca Comerciala Feroviara S.A. (Commercial Bank Rail S.A.)	17.	Garanti Bank S.A.
4.	B. C. Intesa Sanpaolo Romania S.A.	18.	Idea Bank S.A.
5.	Banca Comerciala Romana S.A. (Romanian Commercial Bank S.A.)	19.	Libra Internet Bank S.A.

6.	Banca de Export Import a Romaniei EXIMBANK S.A. (Export Import Bank of Romania EXIMBANK S.A.)	20.	OTP Bank Romania S.A.
7.	Banca Romana de Credite si Investitii S.A. (Romanian Bank for Loans and Investments S.A.)	21.	Patria Bank S.A.
8.	Banca Romaneasca S.A., membra a Grupului National Bank of Greece (Romanian Bank S.A., member of the National Bank of Greece Group)	22.	Porsche Bank Romania S.A.
9.	Banca Transilvania S.A. (Transilvania Bank S.A.)	23.	ProCredit Bank S.A.
10.	Bank Leumi Romania S.A.	24.	Raiffeisen Banca pentru Locuinte S.A. (Raiffeisen Bank for Housing S.A.)
11.	BCR Banca pentru Locuinte S.A. (BCR Bank for Housing S.A.)	25.	Raiffeisen Bank S.A.
12.	BRD - Groupe Société Générale S.A.	26.	UniCredit Bank S.A.
13.	CEC Bank S.A.	27.	Vista Bank (Romania) S.A.
14.	Crédit Agricole Bank Romania S.A.		

*Source:* Fondul de Garantare a Depozitelor Bancare, Raport Anual 2018, Anexa 3, p. 95 (Bank Deposit Guarantee Fund, Annual Report 2018, Annex 3, pp. 95)

All 27 credit institutions mentioned in the table above benefit from the guarantee of deposits made by their depositing customers. These banks, authorized by the National Bank of Romania, have the obligation to protect depositors. The protection of depositors covers two important aspects, namely the deposit coverage ceiling and the term of payment of compensations.

The situation of deposits with credit institutions participating in the Bank Deposit Guarantee Fund mainly refers to the following indicators:

- Number of depositors, individuals and legal entities;

- The total value of deposits, in lei and foreign currency;
- The total value of eligible deposits of individuals and legal entities.

The evolution of these indicators is presented in dynamics, in the time horizon December 31, 2017 - December 31, 2018.

The evolution in dynamics and structure of the deposits set up at the 27 credit institutions authorized by the NBR and participating in BDGF, is presented as in the table below:

Table 2. The situation of deposits with credit institutions participating in BDGF on December 31, 2018

<b>Indicators</b>	<b>December 31, 2017</b>	<b>December 31, 2018</b>
1. Number of depositors - total, of which:	15.057.982	15.183.071
• individuals	14.065.406	14.155.095
• legal entities	992.576	1.027.976
2. Total deposits (million lei), of which:	330.530,7	345.855,1
• in lei	205.379,6	209.891,3
• in foreign currency (in lei equivalent)	125.151,1	135.963,8
3. Total eligible deposits (million lei), of which:	267.811,5	290.619,5
Eligible deposits of individuals (million lei)	159.562,4	176.635,8
Eligible deposits of legal entities (million lei)	108.249,1	113.983,7

*Source:* Fondul de Garantare a Depozitelor Bancare, Raport Anual 2018, Anexa 4, p. 96. (Bank Deposit Guarantee Fund, Annual Report 2018, Annex 4, pp. 96)

From the above table it is noted that the number of bank deposit holders increased in 2018 compared to 2017 by 125.089 persons, respectively by 0,83%. The highest increase is recorded in the number of individuals, respectively 89.689 people. Regarding the total value of deposits, they registered an increase of 15.324,4 million lei, that is by 4,64%. This increase is located both on deposits in lei and in foreign currency. The total eligible deposits increased in 2018 compared to 2017 by 22.808 million lei, respectively by 8,52%.



These increases in the number and value of bank deposits mark an increase in depositors' confidence and security in banking institutions and guarantee schemes.

## **Conclusions**

Bank deposit guarantee schemes are a priority in the European monetary area.

One of the objectives of creating the banking union is to improve the existing European Union rules on the protection of depositors in cases of banking difficulties. The improvements unify the protection of depositors across the European Union and are intended to prevent panic-induced withdrawal operations (or banking panics) in cases where banks become unviable. This is necessary for overall financial stability in the single market.

Guarantee schemes are also able to finance banks' resolution (in accordance with the European Union rules on recovery and bank resolution) and, under strict conditions, to prevent a bank from going into difficulty. According to the law, the total amount of money that a depositor holds in a bank is covered up to the limit of 100.000 euros, in lei equivalent, regardless of the situation in which a credit institution might find itself (for example, in a state of difficulty or insolvency).

The increase in the number of depositors and the value of bank deposits lead to the conclusion that these guarantee schemes offer security and protection to depositors. These enhancements also mark an increase of in the confidence and security of depositors in banking institutions.

The Bank Deposit Guarantee Fund has a particularly important role, both within the national economy and within the Romanian banking system.

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