

## **Robert Ophèle: Diversity and harmonisation of deposit insurance**

Closing speech by Mr Robert Ophèle, Deputy Governor of the Bank of France, at the International Association of Deposit Insurers (IADI) International ERC Conference, Paris, 26 May 2016.

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I wish to thank the IADI and the FGDR for inviting me to deliver this closing speech. Bruno Bezard opened the conference for the French Treasury, and a central banker will close it. This is a perfect arrangement.

Deposit insurance or deposit guaranty is a fascinating tool. History and geography have demonstrated the variety of schemes and how they are a powerful force for the better, or perhaps for the worse.

I can't indeed refrain from quoting the American Bankers Association, in 1933, i.e. more than 100 years after the introduction in the US of the first deposit insurance scheme, by the State of New York in 1829: "these historical experiences show that the guaranty plan is inherently fallacious and based on erroneous premises and assumptions. It has proved to be one of those plausible, but deceptive, human plans that in actual application only serve to render worse the very evils they seek to cure."

Today 113 Deposit Insurance Funds are in place, but I should stress that the jury is still out as to their effectiveness. Indeed, recent history shows how tricky deposit insurance can be. Just remember a few years ago, when schemes avoiding moral hazard by not providing a 100 percent coverage of even the smallest deposits were favoured. Along this perfectly understandable line of reasoning, avoiding moral hazard, the UK Financial Services Compensation Scheme, in accordance with the European directive then in force, covered in full the first £2,000 deposit but only 90pc of the next £33,000. The Northern Rock crisis showed in a dramatic way that such a scheme was totally ineffective in preventing a bank run.

Almost at the other end of the spectrum of possibilities, the Irish decision, in September 2008, to increase its deposit insurance to an unlimited amount, triggered a transfer of savings from other countries, especially from the UK, and from branches of non-Irish banks operating in Ireland to Irish banks. It contributed to Ireland's financial debacle and illustrated the need for an international cooperative stance with regard to deposit insurance.

Since then we have introduced in Europe a resolution scheme that changes dramatically the hierarchy of creditors and modifies profoundly the risks for small depositors and the purpose of a deposit insurance regime.

There is no crisis-proof deposit insurance scheme and this conference has been a very welcome opportunity to discuss the various models, share experiences, compare principles, governance and operating methods. Thank you all for your useful testimonies today. We all share ambitious objectives: to address crisis situations, manage the multicultural framework in times of crisis, handle cross-border resolution cases, and structure Deposit Insurance Schemes to deal with such events and ensure payouts. To achieve these objectives, international cooperation, even though it may sometimes be difficult to implement, can be highly beneficial.

International cooperation is indeed of great importance to supervisory and resolution authorities and deposit insurance systems (DISs). Globalisation has prompted us to decide and act jointly to address the financial crisis and to prevent new ones. We now know that a financial crisis cannot be resolved by countries and/or authorities acting independently.

It is not only a matter for DISs but also for all other bodies involved in financial stability: central banks, supervisors, capital markets authorities, accounting standards setters, etc. The FSB

has taken the lead in initiating reforms and in helping to implementing common principles at the local level.

As regards deposit insurance, the International Association of Deposit Insurers was created in 2002 as a direct result of the early understanding of the importance of international discussion and practice-sharing between DISs. Progress made in this field has been tremendous.

### **The momentum created by international authorities and standards-setters has actually been crucial**

International common standards are key because they embody common understanding and analysis. They are safeguards of the level playing field and of orderly problem solving. The Core Principles for Effective Deposit Insurance Systems drawn up by the IADI in cooperation with the BCBS, regularly updated and supplemented for instance by the guidance on ex-ante funding, are a perfect example in this respect.

In Europe, we have gone further with our second Directive on DGS (Directive 2014/49/EU) that harmonises the reimbursement of covered deposits within 7 working days and with the ongoing negotiations for the establishment of a Single DGS for European Member States participating in the Banking Union. Is a single DGS a prerequisite for a genuine Banking Union or is it the final stage to be implemented when everything else has been harmonised? In all events, the European stance will be prudent, favouring the establishment a European Scheme based on a re-insurance approach.

### **It is not only standards that matter but practices too**

Common standards alone are not sufficient because day-to-day work on financial stability requires practical solutions that cannot be implemented in isolation by a single jurisdiction.

This does not mean that everything must be unified but bridges must be built between stakeholders, in accordance with their legal remits and constraints.

At the European level, we pushed forward this approach through European agencies such as the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) to help implement the standards consistently and ultimately by the creation of the Banking Union. The latter is wholly dedicated to the practical exercise of supervision, resolution and, at a later stage, deposit insurance.

More specifically, we welcome the completion of the cooperation agreement guidelines prepared by the EBA and mentioned in the last panel today. I stress their importance because they promote a multilateral cooperation framework agreement and set minimum requirements for achieving the rapid and consistent conclusion of the cooperation agreements between deposit guarantee schemes (DGS). These cooperation agreements will address operational cross-border challenges,<sup>1</sup> such as ensuring that depositors in EU branches of institutions headquartered in other Member States are treated similarly to depositors in the home Member State.

The H2C (home-host cooperation) project, which has just been extensively presented is also a remarkable new step towards finding and experimenting with solutions to shared problems, and this must be encouraged. It is an example of the constructive cooperation between DIS operators or authorities despite their diverse regulatory or operational approaches.

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<sup>1</sup> These guidelines concern (i) the modalities for repaying depositors by local DGS at branches of banks established in other European Member states, (ii) the modalities for the transfer of contributions from one DGS to another in the event of a credit institution ceasing to be a member of a DGS and joining another DGS, and (iii) modalities for mutual lending between DGSs

From a regulatory perspective, there is the example of the FSB Key Attributes that have been applied through the Crisis Management Groups, with relevant authorities holding discussions to find ways to tackle the recovery and resolution of GSIBs.

### **Practice and model diversity is a challenge, but not an obstacle for implementing efficient resolution strategies**

We have heard today that DGSs may still be very diverse in terms of their status, functions, design, size, etc.

This is also the case for supervisory and resolution regimes even though the international standards-setters have made considerable progress in terms of harmonisation.

Let me take the example of banking resolution: one of the (many) remaining challenges is to make sure that the adopted resolution strategies will be recognised and applied cross-border. Under the aegis of the FSB, several initiatives have been taken (e.g. ISDA protocol for financial contracts) but this is not the end of the story and many further discussions will be necessary to remove all the obstacles to implementing, *inter alia*, a single point of entry resolution of a GSIB.

In the EU we have now a common legal resolution regime and even a common resolution authority for the Banking Union but resolution measures continue to be implemented at the national level because insolvency regimes within Europe are not unified. Being optimistic, I would say that these difficulties are not an impediment to resolution, because the most important thing is to be mindful of such a difficulty and to deal with it.

### **Each of us constitute a vital link for building the proper international regulatory framework**

The presence of so many different institutions at this conference demonstrates the need and interest to talk and work together because we share a lot of similar concerns and goals concerning depositor protection and financial stability.

We are united by a common goal: to strongly mitigate contagion and make liquidation operationally possible. Depositors must perceive the DIS as a well-funded and reliable partner able to satisfy their claims in a timely manner.

But continuous efforts are required. I know for instance in France the permanent working relationship between the ACPR, the FGDR and the Treasury to make the French DIS ever more effective with regard to these goals.

I am wholeheartedly convinced that working together, especially at the international level, is a key factor of success.