DEPOSIT PROTECTION SCHEMES IN THE MEMBER COUNTRIES OF THE BASLE COMMITTEE
(June 1998)

Introduction

The Basle Committee has not issued recommendations as to whether or not countries should have deposit protection arrangements or how these should be structured. This is partly because of institutional differences between its members but also because the principal focus of its work has been to create the conditions in which deposit protection is less likely to be needed. Nonetheless, for mutual information, the Committee has on occasions conducted surveys of the arrangements in force in its member countries. A synopsis of the current arrangements is provided below.

Several of the European schemes are currently under review to bring them into line with the EU's Directive on deposit guarantee schemes of May 1994. The main changes occasioned by this Directive are some standardisation in terms of the minimum amount of protection (i.e. ECU 20,000, i.e. 90% of ECU 22,222) and a requirement for deposits with branches (but not subsidiaries) of EU banks to be covered by the home country scheme. Consequently, branches of EU banks will normally be exempted from host-country arrangements, though supplementary cover may be available if the guarantee in the home country provides less cover ("topping-up"). Conversely, for competitive reasons, protection by the home country scheme is limited to the ceiling of the host country scheme if the former provides more cover.

I. Coverage of schemes

(a) Types of financial institutions

Belgium: All credit institutions governed by Belgian law and Belgian branches of non-EU incorporated banks.

Canada:	All banks, trust and loan companies (both federally and provincially-incorporated) are required to apply for membership. These applications must be submitted to and approved by the CDIC Board of Directors. In addition, provincially-incorporated institutions must receive authorisation by their province of incorporation and agree not to exercise powers substantially different from those exercisable by a federal trust or loan company.
France:	All credit institutions that accept deposits. One scheme covers banks which are affiliated to the Professional Association "Association Française des Banques" (AFB). Mutual and cooperative banks and savings banks have a mechanism of mutual help designed to guarantee the liquidity and solvency of each of the affiliated institutions and, accordingly, deemed to be equivalent to a guarantee scheme.
Germany:	With very few exceptions, all banks that accept deposits. Separate schemes exist to cover the commercial banks (private Kreditbanken), savings banks (Sparkassen), central giro institutions (Girozentralen) and credit co-operatives (Kreditgenossenschaften) with their central institutions.
Italy:	All credit institutions incorporated under Italian law are required to participate in an Italian deposit protection scheme. Two such schemes are currently in operation; one of them is specifically designed for mutual banks (banche di credito cooperativo). Both schemes cover deposits of Italian and EU branches compulsorily and depositors of non-EU branches possibly. Italian branches of EU incorporated banks may participate in an Italian scheme if they want to "top-up" the protection offered by their home country systems. Italian branches of non-EU incorporated banks participate in an Italian scheme unless their home country systems are equivalent to Italian ones.
Japan:	One scheme covers commercial banks, shinkin banks, credit co-operatives and labour credit associations. A second scheme covers agricultural and fishery co-operatives.

Luxembourg	All credit institutions incorporated under Luxembourg law and Luxembourg branches of non-EU incorporated banks are legally bound to participate in the deposit protection scheme.
Netherlands:	(i) The credit institutions which are established and have been registered in the Netherlands; (ii) The branches of credit institutions from third countries which are under an obligation to participate in the scheme if no scheme is available in the home state providing equivalent cover to the creditors in the branch; (iii) The branches of credit institutions from other Member States which have joined the Dutch scheme in order to supplement their cover.
Sweden:	All banks and investment firms authorised to receive deposits.
Switzerland:	Due to peer pressure, almost all banks take part in a voluntary scheme.
United Kingdom:	(i) Banks authorised under the Banking Act of 1987 incorporated in the UK including their branches in the European Economic Area; (ii) Certain banks incorporated in other EEA States who have joined the UK scheme to supplement the cover available from the scheme operating in their own home country in respect of deposits taken by their UK offices; (iii) Banks incorporated outside the EEA in respect of deposits taken by their UK offices unless they have been granted permission not to participate in the UK scheme (only available where deposits with their UK offices are covered by a home state scheme at least to the same level and scope of the UK scheme).
United States:	The Federal Deposit Insurance Corporation (FDIC) insures federal as well as state-chartered banks and savings associations. The National Credit Union Administration (NCUA) insures credit unions.

(b) Ownership and location of institutions to be covered

In Belgium, Canada, France, Luxembourg, the Netherlands, Sweden and the United Kingdom branches (where allowed) and subsidiaries of foreign banks are required in principle to participate in the deposit protection scheme. In Italy, however, participation in an Italian system is required for branches of EU or non-EU incorporated banks only if the foreign banks want to integrate the protection offered by their home country systems or, respectively, the home country systems are not equivalent to the Italian ones. In the United States, December 1991 amendments to the International Banking Act require that if a foreign bank wishes to conduct retail deposit activity (under $100,000), it must do so through a domestically-chartered insured banking subsidiary. Branches of foreign banks which were insured prior to these amendments are allowed to retain their insured status.

There are, however, exceptions to this principle, especially in the European Union where branches of institutions incorporated in other EU countries are covered by their home state scheme. In Belgium and the United Kingdom, exceptions may additionally be made for overseas institutions covered by any home-country scheme that provides equivalent coverage. In Canada, a proposal currently under review may result in membership in the Canada Deposit Insurance Corporation (CDIC) being made optional for foreign banks subsidiaries that do not accept retail deposits defined as less than C$ 150,000.

Only the German scheme for commercial banks provides for the protection of the foreign depositors of these banks operating abroad, wherever located. Membership is voluntary though usually necessary on competitive grounds.

(c) Compulsory or voluntary participation

Participation in the Belgian, French, Italian, Japanese, Luxembourg, Swedish and UK schemes is compulsory save for the exceptions already mentioned. In the case of Canada and the United States it is obligatory for federally-chartered banks to participate in the respective schemes. In Canada, credit unions and trust and loan companies incorporated in Quebec must belong to parallel plans operating at the provincial level instead. US Federal law exempts state-chartered institutions but most state-chartered institutions are required under state law to obtain insurance from the FDIC (through an application process). Dutch law provides for a voluntary agreement with the representative organisations of the banking sector, which agreement is declared legally binding for all licensed institutions by Royal Decree. If a voluntary agreement is not reached, a compulsory system can be introduced. Participation in the other two schemes (Germany and Switzerland) is in principle voluntary, although in

Germany the participation of an institution which is a member of a savings (or co-operative) banking association administering a scheme is in practice nearly automatic.

(d) Types of deposit to be covered

With the exception of deposits with institutions in the savings banks and credit co-operatives sectors in Germany, each of the schemes limits itself to protecting non-bank deposits with somewhat different definitions of precisely what that means. Several of the schemes expressly exclude connected[1] or related[2] deposits and secured deposits, deposits on abnormal conditions, deposits by fraudsters or money-launderers and deposits which form part of the capital of the institution. The Canadian scheme excludes deposits with an original maturity exceeding five years. In the Netherlands, the scope of the term "creditors" is fairly broad. Any natural person or (small) legal entity having a claim on a participating institution may, in principle, submit a request for compensation (such as a partnership or a limited partnership as well as comparable foreign entities). Whether the claim has arisen from personal or business transactions is immaterial.

(e) Currency coverage

In Germany, Italy, Luxembourg, the Netherlands, Sweden and Switzerland, deposits are protected irrespective of currency, whereas deposits in foreign currency are expressly excluded from the Belgian, Canadian, French, Japanese and British schemes. However, the EU Directive states that European Economic Area currencies, including the ECU/Euro, must be treated as domestic currencies for this purpose.

(f) Coverage according to the depositor's country of residence

In none of the G-10 countries is a distinction made between deposits of residents and non-residents.

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1 i.e. deposits by directors, controllers and managers of the insolvent institution, or their close relatives.

2 i.e. deposits by companies in the same group as the institution.

(g) Coverage of deposits by size

With the exception of Germany, each of the schemes establishes a maximum amount which currently qualifies for insurance as follows: ECU 15,000 until 31st December 1999 (when it will rise to ECU 20,000); Canada C$ 60,000 per member institution; France FF 400,000; Italy Lit. 200 million; Japan Yen 10 million; Luxembourg ECU 15,000 until 31st December 1999 (when it will rise to ECU 20,000); Netherlands ECU 20,000; Sweden SEK 250,000; Switzerland Sw.fr. 30,000 per depositor; United Kingdom £20,000 or ECU 22,222; United States US$ 100,000. In Luxembourg and the United Kingdom, compensation is limited to 90% of the insured deposit.

The scheme applied by the German commercial banks comes close to providing full protection to non-bank deposits, with the maximum per client being defined generally as 30% of the liable funds of an individual bank, and the scheme for the German central giro institutions principally protects in the same way. The scheme applied by the associations of the German savings banks and credit co-operatives sectors primarily protects the solvency of their members and thus indirectly fully safeguards the deposits as well.

II. Administration and mode of operation

As far as the supervisory powers and responsibilities of the bodies administering existing schemes are concerned, the Deposit Insurance Corporations in Canada and Japan leave most of the regulation and inspection functions to separate authorities, whereas the FDIC in the United States has broad powers of inspection, regulation and, if necessary, expulsion from the scheme. In Germany, the banking federations administering the various schemes have auditing powers. Belgium's Rediscount and Guarantee Institute and Sweden's Deposit Guarantee Board, which manage the funds, collaborate with the bank supervisory body in exchanges of information. In each of these countries the various bodies are also prepared to collaborate actively with the main supervisory authorities to prevent banks going into liquidation. There is, moreover, provision for the various Deposit Insurance Funds to acquire assets from or make loans to member institutions in order to facilitate mergers or merely to reduce the risk of a bank closure and subsequent losses to themselves.

The scheme in the Netherlands is administered by the central bank, although the participating institutions are represented on an Advisory Board. The administration of the UK system is undertaken by the Deposit Protection Board, which includes Bank of England representatives and representatives of contributory institutions. The schemes in France and

Switzerland are administered by the banks' professional associations and in Luxembourg by a non-profit association, "Association pour la Garantie des Dépôts, Luxembourg" (AGDL), whose board is elected by the participating credit institutions. In Italy, deposit protection schemes are private-law undertakings but the Banking Law empowers the Bank of Italy to approve the by-laws, to regulate the reimbursement procedures and to authorise the schemes' interventions, etc.

III. Financing

(a) Resources

In six of the countries (Belgium, Canada, Germany, Japan, Sweden and the United States), a fund is built up by regular subscription. Except in Canada, where changes in the rate of premium require a Governor-in-Council decision, and in Japan, where changes in the premium rate require the Minister of Finance's approval or amendment of the government ordinance, contributions can be reduced or supplemented in accordance with requirements. In Belgium, following a merger between the two previous funds in 1995, the State has provided a guarantee of B.fr. 3 billion to cover the possible default of a public credit institution or a privatised institution, before drawing on the resources of the fund.

In the other six schemes (France, Italy, Luxembourg, the Netherlands, Switzerland and the United Kingdom), finance is provided by the participating banks as and when required. In the case of the Netherlands, the central bank provides bridging finance if the sum required in any one calendar year exceeds a certain proportion of the resources of the banking system or of an individual bank. In Switzerland, the Swiss Bankers Association can pre-finance the claims of depositors in order to speed up the settlement of claims. In the United Kingdom, a basic fund of £5-6 million was established in 1982 by an initial call on all contributory institutions. Thereafter any institution authorised by the Bank of England that is required to contribute to the fund must pay an initial contribution.

In eight countries there is provision for further finance to be obtained, if necessary, from the central bank, from another official authority or by borrowing. The exceptions are France, Germany, Italy and Switzerland, where the overall philosophy of the system is intended to be that of self-help.

(b) Basis for assessment of contributions

In ten countries (Switzerland and Germany in part excepted) the calculation of the premium or other contribution a bank is required to make is based broadly on the outstanding amount of insured deposits, although in certain cases (Canada, Switzerland and the United Kingdom, for instance) minimum and/or maximum rates are established. In Canada, all member institutions are currently assessed premiums at the same rate, but legislation has recently been amended to enable the CDIC to develop a system of differential premiums for members according to their classifications, a principle which also applies to a certain extent in Sweden and the United States.

In Germany, subscriptions of credit co-operatives and savings banks are assessed on the basis of claims on customers and those of the commercial banks (private Kreditbanken) are based on insured deposits. In Switzerland premiums are calculated largely in relation to balance-sheet totals but partially in relation to before tax income.