REGERINGSKANSLIET

SVERIGES RIKSBANK

FINANSINSPEKTIONEN

INSÄTTNINGSGARANTINÄMNDEN

Ministry of Finance

Answers to the Commissions consultative working paper on deposit guarantee schemes

Recent developments within the EU banking sector have brought to light a number of policy issues relating to the directive (94/19/EC) on deposit guarantee schemes and the functioning of the internal market. In order to achieve the original objectives of the directive member states face the challenge of developing a regulation that is compatible with these developments.

The main objective of a deposit guarantee is to provide protection for consumers of banking services. As the deposit guarantee reduces the risk of extensive withdrawals of deposits from banks in case of financial disturbances it also contributes to the institutional framework of promoting financial stability. The motive for establishing common minimum provisions on deposit guarantee at the EU-level is to contribute to the establishing of a level playing field for banking services within the common market.

As the current developments of the common market significantly alters the conditions for the existing deposit guarantee regime it becomes an important task for the EU to keep the deposit guarantee regulation up to date and to find an appropriate level of harmonisation where the interest of consumer protection, financial stability and the level playing field are all considered jointly.

The key aim of the process of reviewing the directive can be summarized as follows:

- To eliminate competitive adversities induced by differences in national deposit guarantee arrangements, and to avoid that the regulation becomes incentives/obstacles for mobility within the common market or an obstacle for company restructuring (e.g. European company).
- To maintain a satisfactory consumer protection and to the extent possible, reduce the risks of financial instability.
- To find arrangements that contributes to efficient management and resolution of crises, both at a domestic and cross-border level.

In the following the Swedish views on the issues addressed in the Commissions consultative working paper on deposit guarantee schemes are presented.

Examining the need for further harmonisation

1. Have the Directive's original objectives been achieved? If not, could you give your opinion as to why this is so?

It can be established that member states have implemented the provisions of the deposit guarantee directive in very different manners. For that reason banks and consumers face different conditions throughout the EU. Until quite recently very few banks have been conducting retail financial services on a pan-European basis. Therefore, such differences have had very little impact on the functioning of the internal market. However, applying a forward-looking perspective on the implications of increased cross-border activities in the banking sector it is fair to assume that the directive may fall short of achieving a "level playing field". To some extent this has already become evident by the European company statute. As some banks are seeking to conduct their business in branches instead of subsidiaries the heterogeneity of the national guarantee schemes becomes an important factor of competition between banks subject to different schemes. In the most extreme cases such differences can even be an obstacle – or an incentive – to mobility within the EU. Put differently, current arrangements invite banks to seek regulatory arbitrage opportunities.

In addition, differences in guarantee schemes imply practical problems to efficient management of restitutions including cross-border banking operations subject to different schemes. In its current form the directive gives only general guidelines on how to resolve such problems. Without clear arrangements and procedures the ability of the involved schemes to handle cross-border restitutions efficiently might be limited. In such cases there is an obvious risk that consumers may be suffering from prolonged administrative processes before being compensated or, even worse, receiving incorrect compensation amounts.

As cross-border activities conducted through a branching structure are facilitated by EU-regulation there may be large movements of deposits between guarantee schemes and, as a consequence, a potential concentration of risks to individual schemes. Under such circumstances questions arise as to the appropriateness of schemes where a member state bears the responsibility for compensating depositors of banks in other member states and to the efficiency of the current regime of pure home country responsibility in combination with unharmonised financing.

Furthermore, as the present directive provides no guidance on financing arrangements of the national guarantee scheme, only a few Member States/EEA-states operate schemes where premiums are charged according to the risk that the individual bank imposes on the scheme. Without such pricing mechanisms the incentives banks are given to manage their risks may diverge from incentives following capital adequacy regulation, which could have implications for financial stability and competitive conditions in the domestic and international banking market.

In this context it also needs to be pointed out that even if the cost of the guarantee, according to the present directive, should be borne by member banks there is a risk that those banks in the event of a major failure or systemic crisis will not be able to bear the cost. This would especially be the case in ex-post financed schemes. In ex-post schemes such risk is amplified by the fact that the remaining banks of the scheme will have strong incentives to reallocate its business operations. Under these circumstances the government, and thus the taxpayers, will stand the costs of the guarantee. In order to minimize the risk exposure to taxpayers and avoid subsidies to the banking sector deposit guarantee financing has to rely on financially sound principles. In this aspect it seems that the present EU-regulation is not working satisfactory.

2. Do the differences in existing rules create barriers or competitive distortions for cross-border/pan EU business? If so, do you have practical experience of any difficulties encountered?

Yes, the efforts of the pan-Nordic bank Nordea to transform to a European company have shown on several problematic issues that have to do with the functioning of the national deposit guarantee schemes concerned and the deposit guarantee directive. This case is however well known to the Commission and need not to be explained further in this paper.

3. Do the differences in existing rules have implications for other stakeholders (e.g. depositors)

Given that the topping up option is not exercised depositors in banks subject to different schemes will face different conditions since coverage level, definition of deposits, etc. vary significantly between member states. When it comes to disparities in guarantee premiums paid by participating banks this will also have implications for the consumer as the cost of the guarantee most likely affects the interest paid on deposits.

As differences in regulation potentially may have implications for the banks choice of location a concentration of risk may occur to certain schemes. In case of a large concentration in combination with insufficient financing arrangements the implicit cost borne by taxpayers increases significantly as the incoming risk are not priced properly. Consequently, as taxpayers, instead of the banks, bear the cost of the guarantee a subsidy is provided to the owners of those banks.

4. Do the differences in existing rules have implications in terms of cross-border supervision, in particular would the present deposit

guarantee arrangements allow for the effective handling of bank failures which involved a cross-border dimension?

In the event of a cross-border restitution case any differences between schemes have implications on the management of the case. It may be very intricate and time consuming to decide on the correct amount due for payments to consumers eligible for compensation in both schemes. The existence of co-insurance in some schemes is one such problematic aspect, set-off rules another.

For further elaboration on the issue of deposit guarantee and crises management, see question 20.

5. In your opinion, is there a need to further converge deposit guarantee schemes within the EEA? If yes, in which particular areas?

Yes, as cross-border integration of the banking sector is likely to progress, it becomes increasingly important to consider the interplay between the deposit guarantee regulation and the functioning of the internal market. Based on what is said above (in question 1-3) there are several issues that show that the current regime can be questioned and thus there is a strong case for considering further convergence of the deposit guarantee schemes within the EEA. The overriding objective for such a work is to find a level of convergence that satisfies the interest of consumer protection, financial stability and the aim to establish a level playing field. As the existing EU-regulation mainly focuses on the level of consumer protection and not on the financing arrangements the most urgent need for harmonisation action lies within the design of the financing principles. If such harmonisation is not achieved the need for harmonisation in other areas becomes of greater relevance, such for example the scope and level of the schemes. Furthermore, it is desirable to find measures to prevent the practical problems that may arise in cross-border restitution cases involving different schemes, i.e. due to differences in set-off and co-insurance mechanisms.

6. Are the definition of “deposits” in Article 1 and the exclusions in Article 2 and Annex I still valid for the purposes of the directive?

7. Is there a need to further harmonise which deposits are covered under the schemes?

The answer below covers question 6 and 7.

The overriding purpose of a deposit guarantee is to provide depositors with protection for their holdings in credit institutions. In that sense the present arrangements can be considered to be valid for the purpose of the guarantee. However, in this context it is also important to consider what other implications the regulatory measures have on the functioning of the internal market. The challenge lies in finding a balance between an appropriate level of consumer protection and at the same time ensuring efficiency and stability in the financial markets. We believe that is necessary to carefully consider how to achieve such a balance and propose that the Commission conducts a thorough analysis of how to optimally define the scope of the guarantee not only with respect to the interest of protecting depositors. In this context we would like to highlight certain aspects that might serve as guidance to the Commission in such an analysis.

For the purpose of consistency it is helpful to consider all the aspects that constitute the scope of the guarantee in a jointly manner, recognising the connection between the definition of deposits and the level of coverage. In this context it is vital to first define what kind of consumer protection the deposit guarantee is meant to provide, and following from that, what is the need of harmonisation in this area. As a result of such considerations the scope of the guarantee can be defined in accordance to the purposes of the directive.

In our way of approaching these issues, the objective of the guarantee can be viewed in two different ways, namely as on the one hand a protection of the *consumers liquid assets*[1], and as on the other hand a protection of the *consumers wealth*[2].

The rationale behind the liquid asset approach is that only those deposits that are most critical to protect, both from a consumer and financial stability perspective should be included in the scope of the deposit guarantee. This follows from the fact that the guarantee as such would induce competitive distortions on the savings market and should therefore be limited to include only the most critical deposits, i.e. those types of deposit that consumers use for their daily transactions.

The rationale behind a more extensive guarantee that aims at protecting consumer's wealth is simply to provide consumers with a safe haven in the savings market. Knowing that they are always protected by the deposit guarantee, consumers can place their assets in any type of deposits at any amount without taking any risks.

Looking at the deposit guarantee from these two perspectives some remarks needs to be made.

First, an explicit guarantee by definition implies that the risk of holding deposits is eliminated. Therefore, disregarding financing arrangement for the moment, the pure existence of a guarantee has implications on the savings-/capital market (both domestically and internationally) in the sense that protected deposits are given a competitive advantage over other types of savings (for example savings in the form of securities and mutual funds etc.). As a result, the distribution of saving funds may be skewed to deposits protected under the guarantee in a way that affects macro economic

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[1] By protection of liquid assets we mean a protection of such funds that the consumers use for their daily transactions. Such a protection would imply a low coverage level and a narrow definition of deposits.

[2] By protection of wealth we mean a protection of the consumers entire savings. Such a protection would imply a high coverage level and a broad definition of deposits.

efficiency negatively. The importance of such inefficiencies would be of greater significance the more extensive the deposit guarantee is.

Second, from a financial stability perspective a guarantee that is more extensive would be of better use than a more limited one preventing bank runs. One can however assume that even a more extensive guarantee would be of limited use in a crisis situation since a banks source of financing comes not only from depositors. On the other hand, in favour of the liquidity approach one can argue that the most liquid form of deposits, i.e. the most critical type of deposits from a financial stability point of view, is protected even under a more restricted guarantee.

Introducing the cross-border aspect to the discussion it is obvious that any differences in definition of deposits and coverage throughout the EU have an effect on the competitive conditions between credit institutions situated in different countries. In this sense, a more uniform definition would inevitably reduce differences between schemes and thereby contribute to a level playing field, i.e. there would be a case for further harmonisation. On the other hand, to what extent the deposit definition constitutes a cross-border competitive factor in practice is somewhat unclear.

Recognising not only the consumer protection provided by the deposit guarantee but also the issues discussed above, one has to consider how to optimally design the scope and level of the guarantee so that it does not have any significant negative impact on the functioning of banking market and the economy as a whole, both domestically and at the EU-level. Looking at this from the EU perspective we see two possible ways forward.

First, and most obvious, a harmonisation of the provisions that define the scope and level of the guarantee would certainly reduce the cross-border competitive aspects. Such harmonisation requires that member states can agree on a more exact definition of deposits than today. It becomes necessary to establish at the EU-level what kind of consumer protection the deposit guarantee is meant to provide; liquidity protection, wealth protection, or something in between.

A second way forward to solve the issues addressed above would instead be to focus on the financing arrangements of the guarantee. Pricing mechanisms that are based on the principles set out in question 19 (risk-based ex-ante premiums) would imply that the depositors bear the correct cost of holding guaranteed deposits, meaning that the protected deposits will not be subsidised relative to other types of saving forms. In principle, the premium corresponds to the difference between the interest paid on a risky deposit (not guaranteed) and a risk-free deposit (guaranteed). As the guaranteed deposits are priced correctly both the domestic and cross-border competitive implications would be reduced. As a consequence, the need for harmonisation of the scope and level of the deposit guarantee would also diminish. However, the problems of managing cross-border restitution cases – as put out in question 4 – would not be solved by harmonising financing principles in the manner addressed above.

In our opinion, the primary objective in this review process is to find common ground for a further harmonisation of the financing principles in accordance to the answer given to question 19. With such principles established the need for measures is reduced to finding ways to efficiently manage cross-border restitutions. From a competitive perspective, the choice of defining the consumer protection (liquidity or wealth protection) could under the proposed financing principles be left to the discretion of the Member States. In the case where the financing is not harmonised according to such principles the case for harmonisation will be much stronger.

8. Would a capped voluntary de minimis clause (of e.g. €20) be justifiable on the basis that it would improve the efficiency of the scheme?

For the reason of providing a good consumer protection the rationale for a de minimis clause can be questioned. However, for practical reasons it might be unreasonable to pay out very small amounts of deposits. Therefore, a de minimis clause could be considered. It is however important that the limit for such a clause is not set too high.

9. Does the existence of co-insurance in some Member States but not in others have implications from a cross-border perspective?

See question 4.

10. If so, would it make sense to limit the use of the co-insurance provision to above the €20,000 threshold?

Certainly, as the de facto coverage level otherwise would be € 18,000.

11. Would there be arguments to either abolish the co-insurance mechanism altogether or alternatively to introduce harmonised co-insurance rules in all Member States?

The primary purpose of the deposit guarantee directive is to provide consumer protection. By definition, a coinsurance mechanism makes that protection less extensive. The rationale behind a coinsurance is to reduce moral hazard problems by making consumers careful in their choice of bank. Even though depositors, by the coinsurance mechanism, are given an incentive to evaluate the financial strength of banks it might be difficult for the individual consumer to make such an evaluation. Therefore, it can be questioned if a coinsurance mechanism has the desired effect of preventing moral hazard problems. The aim to avoid that consumers becomes ignorant towards the risks taken by the bank should rather be accomplished by setting premiums based on the risks that the individual bank imposes on the deposit guarantee scheme.

Furthermore, since a coinsurance mechanism in fact implies a loss to the consumer it is likely that consumers will withdraw their funds as soon as there are signs of a potential crisis. The contribution of the deposit guarantee scheme to prevent bank runs and thus helping to promote financial stability is therefore seriously reduced. This has been one of the critical arguments not to introduce a coinsurance mechanism into the Swedish deposit guarantee scheme. In our opinion it could be considered to abolish the coinsurance mechanism or, at least, not to make coinsurance a mandatory prerequisite in the directive.

12. Given the existing host country topping up rules, is there any need to update current arrangements which stem from topping up (i.e. exchange of information, need for conclusion of binding agreements on cross-border restitution, etc.)?

As put out in the answer to question 4 the differences between guarantee schemes may lead to practical difficulties when managing cross-border restitution where depositors are eligible for compensation from two different schemes. Thus, it is important to carefully explore the need for an update of the current arrangement. However, at this stage we do not have any concrete policy recommendations to provide to the Commission.

13. In the interests of coherence with the overall supervisory regime, could "topping-up" arrangements be successfully managed by the home country scheme?

In principle, a home country management of topping up has several attractive features. For example, as home country management of topping up gives full responsibility to the home country full consistency between supervision and deposit guarantee is achieved. Home country topping-up would also entail a simplification for both institutes and depositors as they are treated within the same scheme paying premiums or applying for compensation. However, an introduction of home country topping up would under present circumstances amplify the competitive imbalances for banks subject to schemes with different financing arrangements. From our horizon the elimination of such competitive imbalances is one of the most important objectives for reviewing the directive, and therefore, we cannot support a home country topping up mechanism unless we see a far-reaching harmonisation of financing principles.

14. If so, what specific arrangements might need to be introduced (e.g. exchange of information, need for conclusion of binding agreements on cross-border restitution, etc.)?

As home country topping up implies that the full responsibility is within the home country the need for specific arrangements would probably be different compared to the arrangements needed under the present host country principle. As far as we can see such arrangements would be limited to the exchange of information.

15. Are "topping-up" arrangements still relevant, or would there be any merit in abolishing them altogether? If so, would their abolition be feasible only in the case of a fully harmonised coverage level?

As cross-border consolidation is likely to increase the competitiveness rationale behind topping up arrangements is still valid. The topping up option is to be seen as a consequence of minimum harmonisation. If further harmonisation is taking place the rationale for topping up is reduced.

However, under the circumstance that the present situation with highly differentiated definitions of deposits and coverage levels remains the topping up option should not be abolished.

16. Do you agree with the principle set out in paragraph 4 of Article 4 of Directive 94/19/EC whereby deposits with a branch which has not complied with the obligations incumbent on it as a member of a deposit guarantee scheme and which has therefore been excluded from voluntary membership in a host deposit guarantee scheme should be protected until the day on which they fall due? If not, would you prefer to abolish this principle and/or replace it by another measure (for example, a duty of the branch to allow all depositors to withdraw their deposits without any sanction)?

The present rule seems adequate. The consumers should not be penalized by the fact that their bank is not complying with the obligations set out by the host scheme.

17. What are/could be the consequences of having differences between funding systems?'

As we have pointed out in the answers to question 1 the diversity of the deposit guarantee schemes within the EU causes several adverse implications. In particular, this applies to the different arrangements on financing. First of all, such differences may lead to competitive imbalances between banks belonging to different schemes. It should also be noticed that even if all schemes were ex-post financed competitive imbalances would remain, since the value of the implicit subsidies that are provided to banks in ex-post schemes would vary with risk in the banking system.

Second of all, differences may affect the mobility of banks (either as an incentive or as an barrier to restructuring). This may lead to a concentration of risk to certain schemes, which in turn, if having insufficient financing capability, may impose a large burden on taxpayers of the country at hand, when dealing with a restitution case.

18. Is there a case for harmonising the way in which schemes are funded?

Yes, based on the issues explained in the answers to question 1 and 17.

19. If so, what would be the optimal funding system in order to achieve an appropriate balance between the cost of the system and establishing the necessary level of financial stability and confidence?

- Deposit guarantee schemes should be priced so that the premiums correspond to the expected losses within the scheme. Such premiums should be paid by the banks whether or not there have been any restitutions from the scheme and disregarding any previous premiums paid. In this way, the premiums collected and the cost of restitutions will be balanced over time.
- Risk-based premiums should be an integrated part of the funding arrangements so that moral hazard problems can be avoided and that "unfair" pricing does not influence the competitive conditions between banks within the same scheme.
- Premiums should be collected ex-ante, preventing moral hazard problems and that the schemes by themselves aggravate financial instability.

By establishing such principles on a community level competitive adversities between banks are eliminated. At the same time the ability of schemes to manage their commitments (without putting financial stress on taxpayers) are improved and, in addition, banks are given the correct incentives to manage their risks. In addition, a funding scheme with premiums based on the above principles would clarify the burden sharing and thus facilitate crisis management of cross-border active banks.

Altogether, introducing sound financing principles would certainly help to achieve a better regulation both with respect to financial stability and the level playing field. Furthermore, a development in this direction would be consistent to the current developments of seeking to stimulate institutes to improve risk management by giving legal incentives (e.g. CAD III).

20. Should use made of funds held in ex ante schemes be harmonised?

According to the consultation document this issue contains three different aspects; where the funds are held, in which form and how they are employed.

According to the principles proposed above (question 19) guarantee premiums should be collected regularly to cover the expected losses of the scheme. This approach is comparable to ordinary insurance meaning that the premiums belong to the insurer/guarantor and are not repaid to the insurance holder in case he/she wishes to leave the company. In such a scheme the insurers/guarantors task is to collect premiums that over time correspond to the expected loss and in exchange stand the risk of restitution case at any given point in time. Where and in which form funds are held in such a scheme is less relevant as long as the guarantor is able to fulfil its commitments.

On the question on how funds are employed it is important that the directive does not pose any obstacles to an efficient crisis management of banks with financial problems. A common perception seems to be that for systemically important banks it may not be possible to close the bank in the event of financial distress. Hence, for the deposit guarantee not only to be applicable to small and medium size banks, it may be important that the funds also can be used to compensate depositors in the event of a reconstruction or similar arrangements. We welcome that the deposit insurance guarantee fund should be possible to use for such measures. However, in a pure ex ante scheme, the important issue is to define the responsibility of the guarantor and to avoid subsidies to the banking sector by mispriced guarantees, not which funds the guarantor uses. An alternative approach could be to compensate depositors in the event of a reconstruction with government funds if the cost of doing so is less than the cost would have been exercising the deposit guarantee. This does however require that the deposit guarantee is administrated by the state and that a risk-based ex-ante premium model is applied.

21. Would it be worth considering the creation of a European deposit insurance scheme, in particular for "systemically significant" banks?

The idea of a common European deposit guarantee has attractive features. For example, the issue of entry/exit of schemes is eliminated. Furthermore, a common European scheme would probably also contribute to an enhanced risk management as the financial commitments of the individual schemes are pooled into one. However, we also recognize several complicated issues that need to be debated before going further in the discussion of a single deposit guarantee scheme, such as for example the implications for crisis-management procedures and supervision.

22. Alternatively, would it be worth considering a region specific deposit insurance scheme for "systemically significant" banks, taking account of the considerably higher level of banking market integration and concentrations in certain EU regions?

A region specific deposit guarantee scheme would have the same benefits as a common European scheme, but only within that region. The issues of different regulation would remain between the stakeholders within the regional scheme and stakeholders subject to other European schemes.

We believe that Member States should not be prohibited to establish regional schemes. However, the possible emergence of regional schemes does not eliminate the problems addressed in question 1 and 17 and do not therefore reduce the need of further harmonisation of the directive. Hence, regional schemes are not to be seen as a substitute for a harmonisation process.

23. Does the potential for increased cross-border consolidation in the European banking market necessitate harmonisation of provisions on entry/exit of schemes and transferability of funds? If so, what implications might this have for the design of the rest of the Directive?

See answer to question 24.

24. Should provision be made in directive 94/19 for the partial transferability of contributions between like (i.e. ex-ante funded) schemes? If so, to what extent should transferability of funds be restricted?

Under the financing arrangements that we propose (question 19) entry and exit of schemes would be greatly facilitated and no transferability mechanism would be necessary.

Nevertheless, if a transferability mechanism is to be considered one has to be aware of the adverse consequences that will occur under the present situation with highly differentiated financing mechanisms in the European schemes. For a transferability mechanism to work satisfactory a complete harmonisation of financing arrangements is required.

25. Do you agree that deposit guarantee schemes should be financed according to risk-based principles?

Yes. See question 19.

26. If so, what should those principles be, should they be harmonised and how could this be achieved?

Credit risk modelling or similar methods could be used for such calculation. Alternatively, the new capital adequacy framework might serve as guidance on how to set risk-based fees.

27. Does the current mix of home/host responsibilities as regards deposit guarantee schemes pose any problems from a business or regulatory perspective?

Due to the topping up option the responsibility of deposit guarantee is split between home and host member states. However, the supervision is concentrated to the home state. This split of responsibility implies a problem to the host state since it partly bears the responsibility of compensating depositors in a bank that it have no supervisory authority over.

From a supervisory perspective the management of a failure or insolvency situation in a bank depends on the size and importance of operations in that bank, and what costs, explicit and implicit, a failure would result in to the country. Since member states may have different incentives to act on a potential crisis, depending on the nature of the bank in the countries concerned, conflicts of interests may occur in the situation of failure. To illustrate, one can consider a bank that has limited operations in the home state but is systemically important in the host state. The home states only concern in an insolvency situation in the bank would be the bill for compensating depositors. For the host state however, it possibly would be appropriate to take other measures to handle the situation rather than to let the bank fail. In this case it is however the home state that has the ultimate powers on deciding on the measures taken.

See also question 29 for further comments on the home-host issues.

28. Given the link with crisis management procedures and day-to-day supervision of branch operations by the home Member State authorities, should all responsibility for deposit guarantees be concentrated on the home country scheme? If so, what would be the consequences?

The question proposes a full home country responsibility for the deposit guarantee. In relation to current arrangements that implies a transition of the topping up responsibility to the home. This question has already been treated in question 13.

See also question 29 for further comments on the home-host issues.

29. Alternatively, are there reasons that could justify a change from home to host country management of deposit guarantee schemes?

One important aspect of an increased cross-border consolidation in the EU banking sector is that the division of responsibility between home-host guarantee schemes is put in a new perspective. It is likely to expect that guarantee schemes to a larger extent than before will be responsible for depositors of banks in other member states. It is also likely to assume that large movements of deposits between guarantee schemes may occur. As a consequence large quantities of deposits may be concentrated to certain individual schemes. However, even as these issues are brought into light there is no simple answer on how to divide responsibility between the home and host schemes.

Within EC legislation regarding supervision, crisis management and winding-up of financial institutions, home-country responsibility has developed as the guiding principle. This is essentially also an outflow of the single authorization for banks in the Member States. It seems natural that the country that supervises the solvency of a bank and handles crisis management and winding-up also is responsible for the deposit guarantee. The country providing the guarantee thus pays the price for inadequate supervision.

On the other hand, the basis for the directive is to ensure a consistent level of consumer protection in the Member States. Consumer protection is generally a matter for the host country and it could be argued that it is inappropriate for a country to be responsible for protecting the consumers in another Member State. In addition, host-country responsibility would remove the need for a topping-up system, which has proven difficult to regulate and scarcely used. Furthermore, banks competing in the same market would also be subject to the same level of fees under a host-country arrangement.

Considering these issues there are some important elements connected to home-country responsibility that needs to be emphasized. Deposit guarantee and prudential supervision are closely linked, and the thinking here cannot be separated. There are important arguments for retaining home-country responsibility as the basic principle in supervision as well as in deposit protection. This is important in order to ensure consistency between the responsibility for prudential supervision and the responsibility for the deposit protection. A split between the two might cause serious conflicts of interests between Member States when handling a common crisis. If the country that has primary responsibility for handling the crisis is not paying for consumer protection, the incentives may be skewed.

Even if the case for retaining the home country principle seems strong there are situations where such a principle cannot function on a stand-alone basis. For example, it is conceivable that there could be cases where the cross-border banking operation is of such a nature that the home country authority is unable to take the full responsibility. Arrangements that enable burden sharing between home and host countries might in such cases be developed. The same could apply when the responsibility for topping-up coverage is very large for the host country.

30. Besides a change to a host country responsibility, do you see any alternative arrangements that might ensure the efficient management of deposit guarantee for cross-border operations (such as for example voluntary arrangements including responsibility for both home and host countries)?

The most important step towards an efficient management of the deposit guarantee both from a national and cross-border perspective would be to establish financing arrangements in accordance to the principle set out in question 19.

31. Could exchange of information arrangements between deposit guarantee schemes themselves, between home and host supervisory authorities, and between the schemes and supervisors in other Member States be improved? If so, how?

See question 12 and 14.

32. Does the relationship between the State, the National Central Bank and the Deposit Guarantee Schemes have any cross-border implications, for depositors, for credit institutions and or from a supervisory perspective?

Yes, crisis in a major cross-border bank would naturally involve the Ministries of Finance, the Central Banks, the supervisory authorities and the deposit guarantee schemes in the relevant countries. Ensuring cooperation and information sharing between these different bodies is therefore necessary to achieve an efficient handling of the crisis, to protect the depositors involved and to ensure financial stability.

Furthermore, if the guarantee is constructed in a manner that the guarantee in the long run will be insufficiently funded and therefore will need government support the deposit guarantee would most certainly have cross-border implications in form of skewed competition between banks domiciled in different member states.

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The Swedish Supervisory Authority

The Swedish Deposit Guarantee Board