



FONDS DE GARANTIE
DES DÉPÔTS ET
DE RÉOLUTION

*French deposit insurance
and resolution fund*

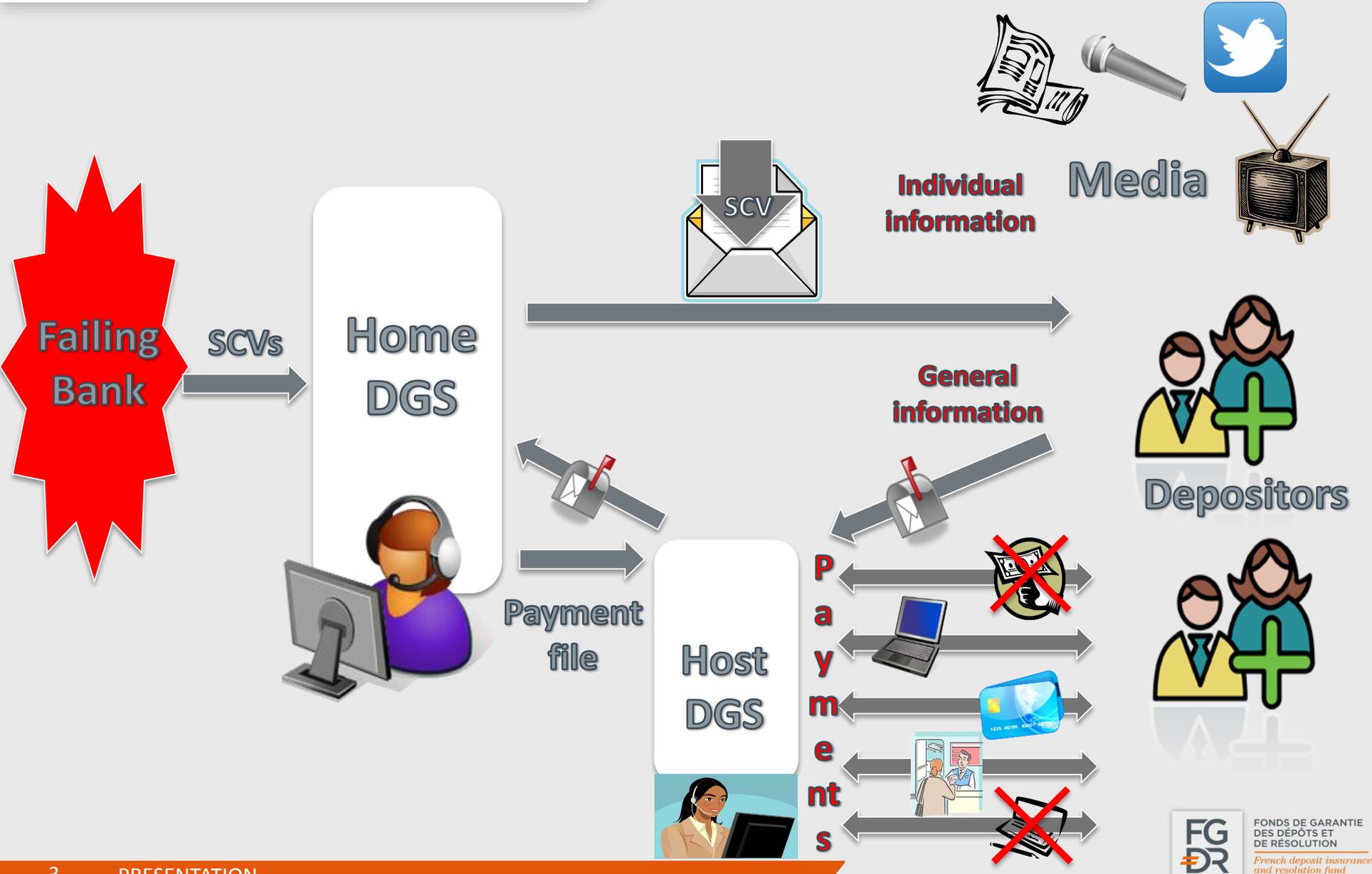
DGSD2: Home and Host DGSs cooperation

Repayment issue

(as a reminder – to be developed further by the SCV working group)

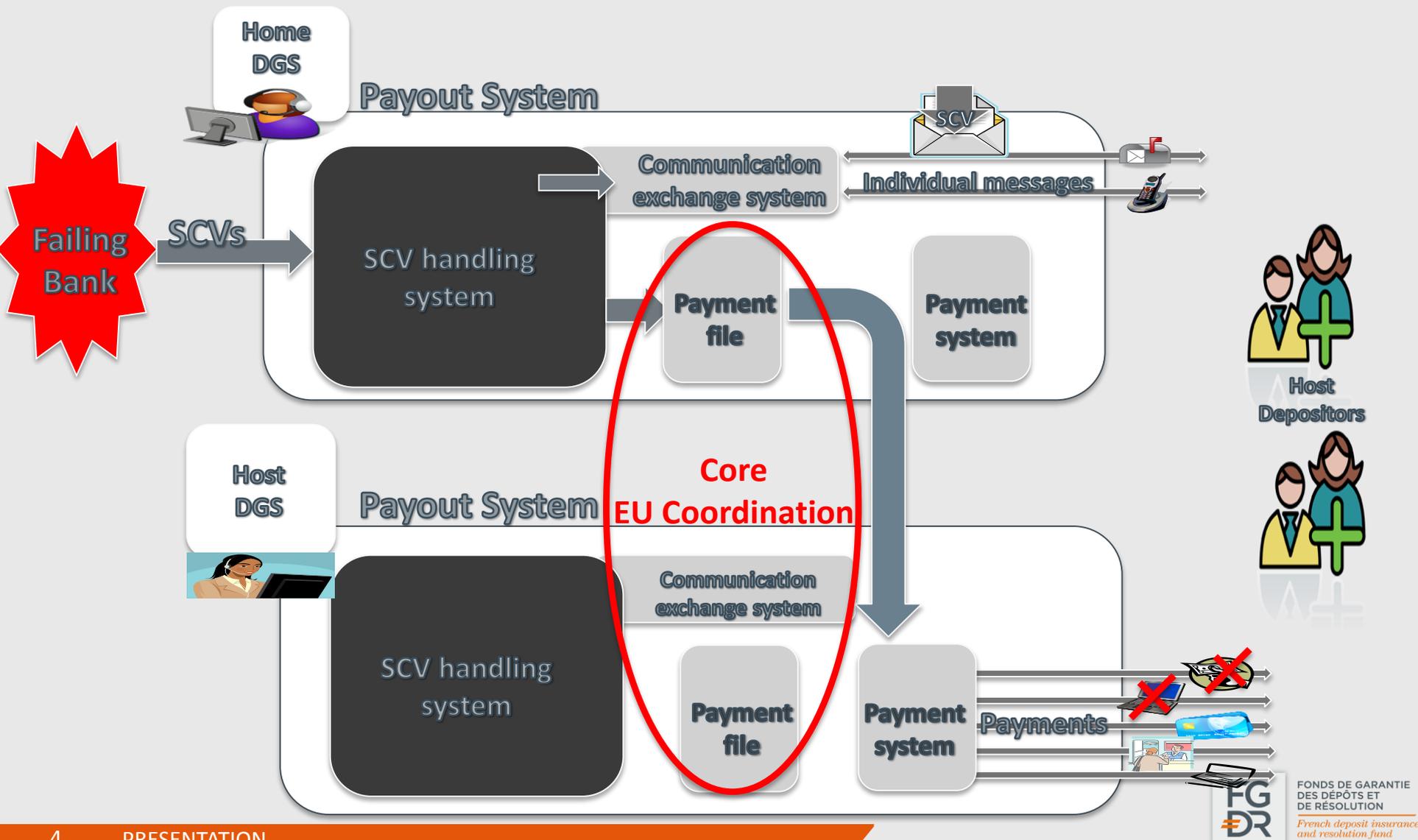


Repayment issue



Repayment issue

ALTERNATIVE PRESENTATION



Repayment issue

Except for a complete harmonisation of SCV formats at the EU level, this option leads to:

- **Role of the host DGS**
 - Proceeding to the payments towards depositors, using its own payment processes
 - Providing for general information (failure of institution X, payment delay, process)
 - Receiving depositors' mails
 - Assistance to the home DGS (language, correspondence, explanations)
- **Role of the home DGS**
 - Receiving and handling the SCVs
 - Preparing the payment file for the host DGS
 - Providing the funding
 - Providing individual information to depositors through its own processes / specialized information to media
 - Handling all specific cases with host DGS's assistance

Other home/ host DGSs cooperation areas



Home and host cooperation

EU COORDINATION FRAMEWORK post DGSD2

- **Depositors compensation** (aside the repayment itself)
 - Language issue
 - Currency for repayment
 - Information to depositors
 - Complex cases and depositors claims
- **Institutional interaction**
 - Funding
 - Cost sharing
 - Responsibility sharing
 - Exchange of information between DGSs/ stress tests
 - Written agreements
 - Mutual borrowings

Home/ host cooperation

Depositors compensation

1 - The language issue

- **According to DGSD 2 - article 8 (7):**

- Home DGSs have probably, not to say certainly, to write depositors using the host language

Then...

- Documents written in the host language are **legally binding** for the home DGS and should be drafted with care, preferably by DGS practitioners
- If home DGS prefers handling individual depositor information by itself – language issues
- If home DGS prefers letting host DGS handle individual depositor information (under home DGS responsibility) – IT/ SCV issues + legal difficulties

- **Recommendations/ suggestions**

- At this stage, could all DGSs
 - collect the data about the countries their banks have branches in and the language they use?
 - prepare an English version of their depositor information templates (if any) to be communicated to host DGSs?
- Clear basis for a home/ host EU cooperation - Let's discuss this further

Home/ host cooperation

Depositors compensation

2 - Choice of the currency for repayment

- **Decision likely to be in the hands of the home DGS, under its national law**
 - Article 13 (2): “... *The DGS of the host Member State shall make repayments in accordance with the instructions of the DGS of the home Member State.*”
- **Now...**
 - Host depositors probably expect payments in local currency
 - Host DGS not necessarily equipped to handle payments in more than one currency
 - Host payment systems might not handle payments in foreign currencies (e.g. prepaid cards)

Then...

- The home and host DGSs have to **harmonise their repayment currency rules/ or find an appropriate currency** at least for **cross border payouts** (if national laws so permit) – this could be done bilaterally or multilaterally
- **Recommendations/ suggestions**
 - Let's discuss this further
 - When transposing DGSD 2 in national law, let's avoid enforcing too strict currency rules, at least for cross-border payouts or let's keep this below the scope of national law

Home/ host cooperation

Depositors compensation

3 - Information to be sent to depositors

Several options

- **Home and host DGSs send their piece of information separately:** detailed information on the compensation (if any) on one hand, information on the payment process (if any) on the other hand
- **The home DGS sends individual information on depositors to the host DGS,** the host DGS takes the responsibility of sending itself all the information
- **The host DGS sends payment process information to the home DGS (if needed),** which provides all the information to depositors by itself

Issues raised - Examples

- Home DGS sends information in forint, host DGS compensates in zloty
- Home DGS original communication system does not differentiate language for depositor information along the branches where depositors are clients
- Host DGS IT system cannot receive/ handle depositor detailed information formatted by home DGS communication system
- Host DGSs uses an agent bank for compensations over, and prepaid cards under, 10 000€, whereas home DGS is in charge of sending payment process information

Again, need for further discussion and cooperation

Home/ host cooperation

Depositors compensation

4 – Complex cases and depositors claims (incl. high balances)

The home DGS

- masters its regulation and its implementation, especially important for those cases
- also masters the home legal environment (applicable for host claims)

The host DGS

- can handle the contact with depositors more easily
- can interact with depositors in their own language

How should they interact: examples

- A depositor has some trouble to understand his/ her compensation
- A depositor's compensation requires additional information or documents for the home process
- The letter and documents sent by a depositor are not acknowledged by the home process
- A depositor files a claim against the host DGS

Question: could all DGSs consider offering to host DGSs a web-based access to individual depositor information?

Note: these exchanges between host and home on complex cases have to be sustained along the lifespan of the payout

Home and host cooperation

EU COORDINATION FRAMEWORK post DGSD2

- **Depositors compensation**
 - Language issue
 - Currency for repayment
 - Information to depositors
 - Complex cases and depositors claims
- **Institutional interaction**
 - Funding
 - Cost sharing
 - Responsibility sharing
 - Exchange of information between DGSs/ stress tests
 - Written agreements
 - Mutual borrowings

Home/ host cooperation

Institutional interaction

1 - Funding

▪ Requirements

- **Total prefunding** of the host DGS by the home DGS, net of any transfer costs (article 14 (2): “*The DGS of the home Member State shall provide the necessary funding prior to payout...*”)
- **Choice of the funding currency(ies)**: probably better to use the payment currency(ies)
 - See first “choice of repayment currency”: home and host DGSs have to select a currency (or various currencies) in accordance with the directive, the host payment system capabilities, the wish of the home DGS and depositors’ expectations
 - When done, the home DGS could send the money to as many accounts as needed, and opened by the host DGSs so as to handle the various currencies
- **More difficult**: host and home DGSs should have set up a **bank reconciliation process** for the follow up of the compensation: necessary per se, also needed for adjusting the prefunding (e.g. high balances, claims) and for a possible reimbursement of the home DGS (e.g. compensations sent, not withdrawn)

▪ What could DGSs do?

- Have pre-opened accounts to receive funding from all other European DGSs in the various currencies they might have to handle according to the requirements above
- Regularly test their money transfer systems with DGSs abroad to check their functioning and delays
- Define a bilateral or multilateral simplified way/ format for the follow up of the compensation, depositor per depositor

Home/ host cooperation

Institutional interaction

2 – Cost sharing

■ Requirements

- **Reimbursing the costs of the compensation process** - article 14 (2): *“The DGS of the home Member State... shall compensate the DGS of the host Member State for the costs incurred.”*
- Those associated costs might vary along the payment system used, the currencies used etc.
- **Warning: potential interaction with article 8 (9):** *“No repayment shall be made where there has been no transaction relating to the deposit within the last 24 months and the value of the deposit is lower than the administrative costs that would be incurred by the DGS in making such a repayment.”*
- Therefore, the home DGS is supposed to take into account a way or another the cost of the host DGS’s compensation process

■ What could DGSs do?

- For the compensation itself, could they work with a lump sum system (tbd) on the sole basis of the number of depositors/ payments to be made? Other options?
- Could they predefine this so as to facilitate the implementation of article 8 (9)?
- Going forward, and along the choices made for the other areas of cooperation (e.g. handling depositors’ calls, handling their claims), could they predefine the resources to be put in place for the possible payouts (given the size of the branches) and the corresponding billing?

Home/ host cooperation

Institutional interaction

3 – Responsibility sharing

▪ Requirements

- **Principle** - article 14 (2): *“The DGS of the host Member State shall not bear any liability with regard to acts done in accordance with the instructions given by DGS of the home Member State.”*
- Now , **a liability sharing is still required**. The host DGS should be:
 - responsible for mismanaging its part of the process
 - interested in offering the best possible services, especially in the field of “after-compensation services”, if any, e.g. translations, claims handling, legal advice...

▪ What could DGSs do?

- Might define a (multilateral) SLA?
- A multiple step approach for this SLA?
 - Compensation handling as a basic, including payout and call management
 - Additional services “à la carte”

Home/ host cooperation

Institutional interaction

4 – Exchange of information between DGSs/ Stress tests

- **(Likely) requirements - article 14(4):**
 - Home DGSs should **communicate to host DGS some information about deposits/** depositors in branches abroad so host DGSs could be prepared to handle their part of the process
 - Home DGS should **inform host DGS of a possible payout** as soon as possible
 - Home and host DGSs should (?) perform **joint stress-testing** of their systems, simulating a payout for depositors in branches abroad
- **What could DGSs do?**
 - More precisely define (multilaterally?):
 - which information host DGS needs from home DGS, ahead of any failure event, if any
 - with which regularity
 - which delay
 - which process
 - Set up a **simple emergency process** with names and contact details to communicate on any possible failure event as quickly as possible
 - More precisely define (multilaterally?) the content of a cross border payout stress test

Home/ host cooperation

Institutional interaction

5 – Written agreements

▪ Requirements

- Article 14 (5): “ *In order to facilitate an effective cooperation between DGSs, with particular regard to this Article and to Article 12 [i.e. mutual borrowings], the DGSs, or, where appropriate, the designated authorities, shall have written cooperation agreements in place. Such agreements shall take into account the requirements laid down in Article 4(8) [i.e. DGS can receive at any time all information necessary to prepare for a repayment of depositors].*

*The designated authority shall **notify EBA of the existence and the content of such agreements and EBA may issue opinions** in accordance with Article 34 of Regulation (EU) No 1093/2010. If designated authorities or DGSs cannot reach an agreement or if there is a dispute about the interpretation of an agreement, either party may refer the matter to EBA in accordance with Article 19 of Regulation (EU) No 1093/2010 and EBA shall act in accordance with that article.”*

▪ What could DGSs do?

- **Possible scope** of these agreements: all above...
- Much preferable to work on a **multilateral basis** (with a range of options) than to negotiate separate bilateral agreements (depending of course on the number of countries/ branches aboard)
- Probably better to adopt a **progressive approach**:
 - first a multilateral agreement template for basic features (e.g.: early information in case of a failure, choice of repayment currency...)
 - then successive more and more elaborated versions (e.g. legal assistance etc.)

Home/ host cooperation

Institutional interaction

6 – Mutual borrowing among DGSs

- **Article 12**
- **Optional – to be addressed later**

Home and host cooperation

WHAT SHOULD WE DO?

- **SCV coordination - payment files**
- **Depositors compensation**
 - Handling the language issue
 - Selecting the repayment currency(ies)
 - Articulating all information sent to depositors
 - Handling complex cases, high balances, claims
- **Institutional interaction**
 - Ensuring cross border funding
 - Agreeing on services and costs
 - Setting and efficient responsibility sharing system
 - Exchanging information between DGSs
 - Stress testing cross border payouts

SUMMARY

**WRITTEN
AGREEMENTS**

Home and host cooperation

WHAT SHOULD WE DO?

HOW?

WITH AN APPROACH THAT WOULD BE...

- **MULTILATERAL** Better building common solutions/ platforms than working on multiple bilateral non harmonised solutions
- **PROGRESSIVE** Cashing in quick wins first instead of trying building the ultimate solution at once
- **PRAGMATIC** Focusing on simple industrialised solutions for the main stream rather than trying to handle all cases at first
- **EFFICIENT** Aiming at easy to build and non expensive solutions
- **COORDINATED** Among the various dimensions of the project

Home and host cooperation

WHAT SHOULD WE DO?

HOW?

RECOMMENDATION (1/2)

- **A NEW WORKING GROUP WITHIN THE EU COMMITTEE**
(THE “HOME/ HOST COOPERATION WORKING GROUP” – “H2C”?)
- **SUB GROUPS WITHIN THE “H2C” FOR HANDLING EACH TOPIC IDENTIFIED ABOVE WITH A “3D APPROACH” (OPERATIONAL, TECHNICAL AND LEGAL ASPECTS)**
- **ARTICULATION WITH THE SCV GROUP TO BE DEFINED**

Home and host cooperation

WHAT SHOULD WE DO?

HOW?

RECOMMENDATION (2/2)

- **A WELL STRUCTURED PROCESS, A PROFESSIONAL MANAGEMENT OF THIS PROCESS**
- **AIMING AT CONSENSUAL SOLUTIONS**
- **A STRONG COMMITMENT AND INVOLVEMENT OF THE EU DGS COMMUNITY TO ADDRESS THIS NEW CHALLENGE**



FONDS DE GARANTIE
DES DÉPÔTS ET
DE RÉOLUTION

*French deposit insurance
and resolution fund*