



Deposit Insurance: How to Ensure 7-day Payout

EFDI Non-Binding Paper on Payout
in 7 Working Days

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EFDI Non-Binding Guidance Paper on PAY-OUT IN 7 WORKING DAYS

■ Purpose of the Paper

- The Deposit Guarantee Scheme Directive (DGSD) requires Deposit Guarantee Schemes to compensate depositors of a failed bank within 7 working days after deposits have become unavailable.
 - The compensation needs to be made available without a request to a DGS being necessary.
 - The EFDI note intends to support DGSs by proposing an interpretation of the regulatory content of the abovementioned requirements and providing non-binding guidance that can be applied to all types of repayment methods used by DGSs
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- Based on EFDI Pay-out Workshop held on 14 June 2017 in Berlin, Germany. It was jointly organized by De Nederlandsche Bank and the Compensation Scheme of private German Banks.
 - Approved by the EFDI EU Committee
 - Published in April 2018

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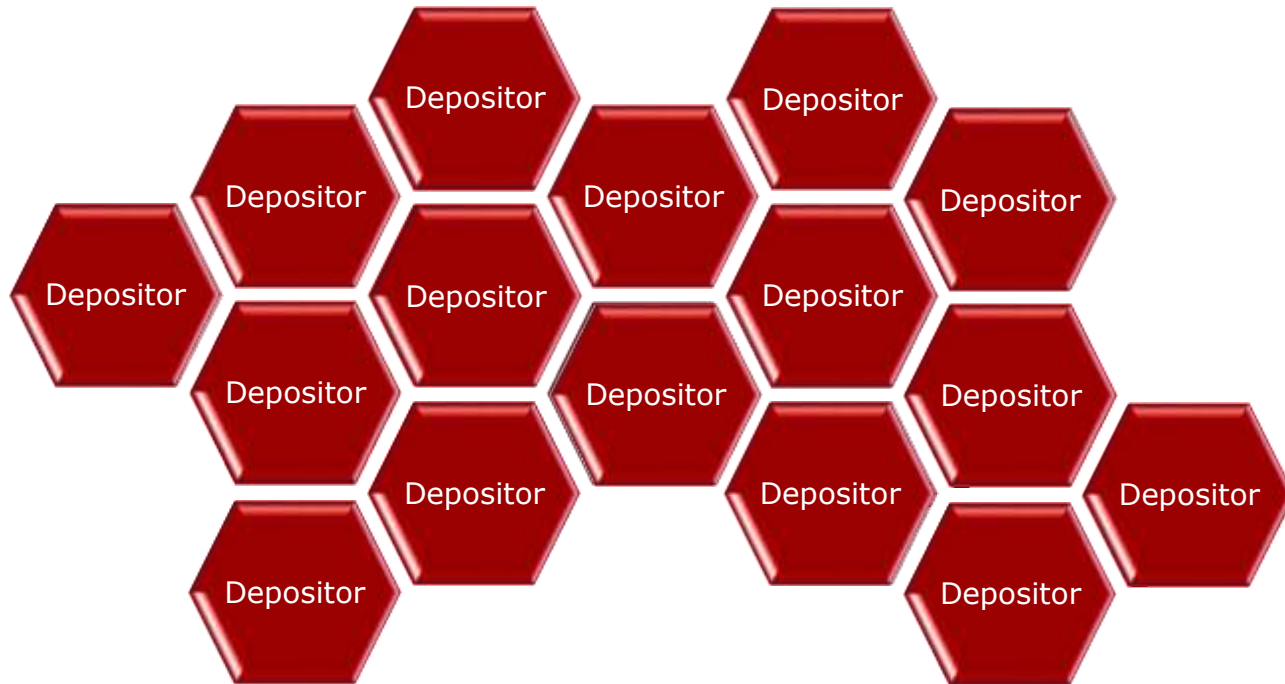
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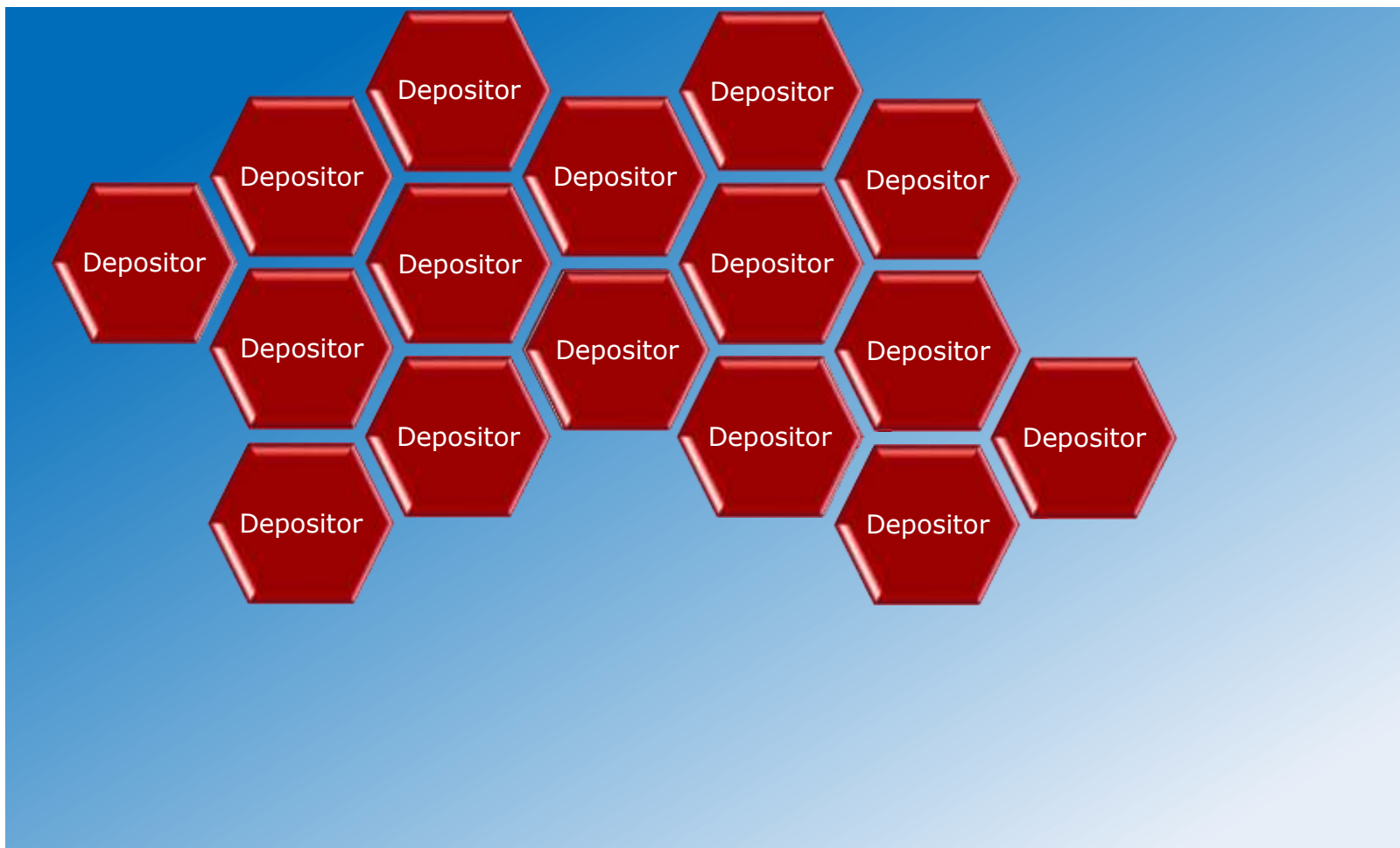
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- Effective and prompt repayment to depositors in case of a bank failure is the key function of a DGS.
- Maximum time period for repayment allowed by the DGSD being reduced from 3 months in 2009 to 7 working days in 2024.

Challenge of DGS: Provide Liquidity as fast as possible in case of a bank failure



Challenge of DGS: Provide Liquidity as fast as possible in case of a bank failure



European DGSs use a wide variety of repayment methods

Payment methods are influenced by

- size, concentration and configuration of the domestic banking sector,
- features and use of payment infrastructure and instruments,
- local banking products, and
- systems of civil registration.

Possible options to categorize repayment methods

- Means-based approach
- Procedure-based approach
- Interaction-based approach
- Client-based approach

Procedure-based approach

Three types of repayment methods

- Internet based solutions
- Pay-out agent
- Financial instruments

Obstacles

DGSs are faced with numerous obstacles when it comes to repayment within 7 working days. Most obstacles relate to

- the timely access to information about the failing bank,
- the quality of the SCV-file,
- the identification of depositors and eligible deposits and
- occasionally, the involvement of the depositor.

Non-Bindung Guidance

EFDI paper provides an overarching interpretation of the repayment requirement that can be applied to all repayment methods.

Identification of depositors (1/2)

Identification of deposits and their eligibility based on SCV file.

- It follows from Article 8(6) of the DGSD, that “the credit institution shall transmit the necessary information on deposits and depositors as soon as requested by the DGS”.
- This request should take the form of a SCV because article 5(4) of the DGSD requires that “Member States shall ensure that credit institutions mark eligible deposits in a way that allows an immediate identification of such deposits”.
- Article 7(6) of the DGSD subsequently states that “Member States shall ensure that DGSs may at any time request credit institutions to inform them about the aggregated amount of eligible deposits of every depositor”.

Identification of depositors (2/2)

A DGS should compile a repayment file, based upon the identification of depositors and the determination of the compensation for each identified depositor

- In case of repayment through an internet based solution, the repayment file needs to be accessed by the system that is used to repay depositors. In a later stage, this repayment file needs to be enriched with the bank account to which the compensation can be transferred.
- In case of pay-out through an agent bank, the repayment file needs to be transferred to the agent bank.
- In case of pay-out through the distribution of a financial instrument (e.g. cheques, cash or pre-paid cards), the repayment file needs to be used to produce the financial instrument and most likely an accompanying decision letter.

MAKING THE REPAYABLE AMOUNT AVAILABLE (1/2)

To comply with the DGSD, a DGS should make the repayable amount available to depositors within 7 working days, without a request to a DGS being necessary.

Based on these requirements, it follows that:

- a DGS should either notify the depositor that the compensation is available or should provide the financial instrument that carries the compensation,
- at the same time, the repayable amount should be made available and, if applicable, the communication channel with the depositor should be open, and
- the notification, which should contain information on how and where the depositor could access the repayable amount, is necessary in case of all repayment methods.

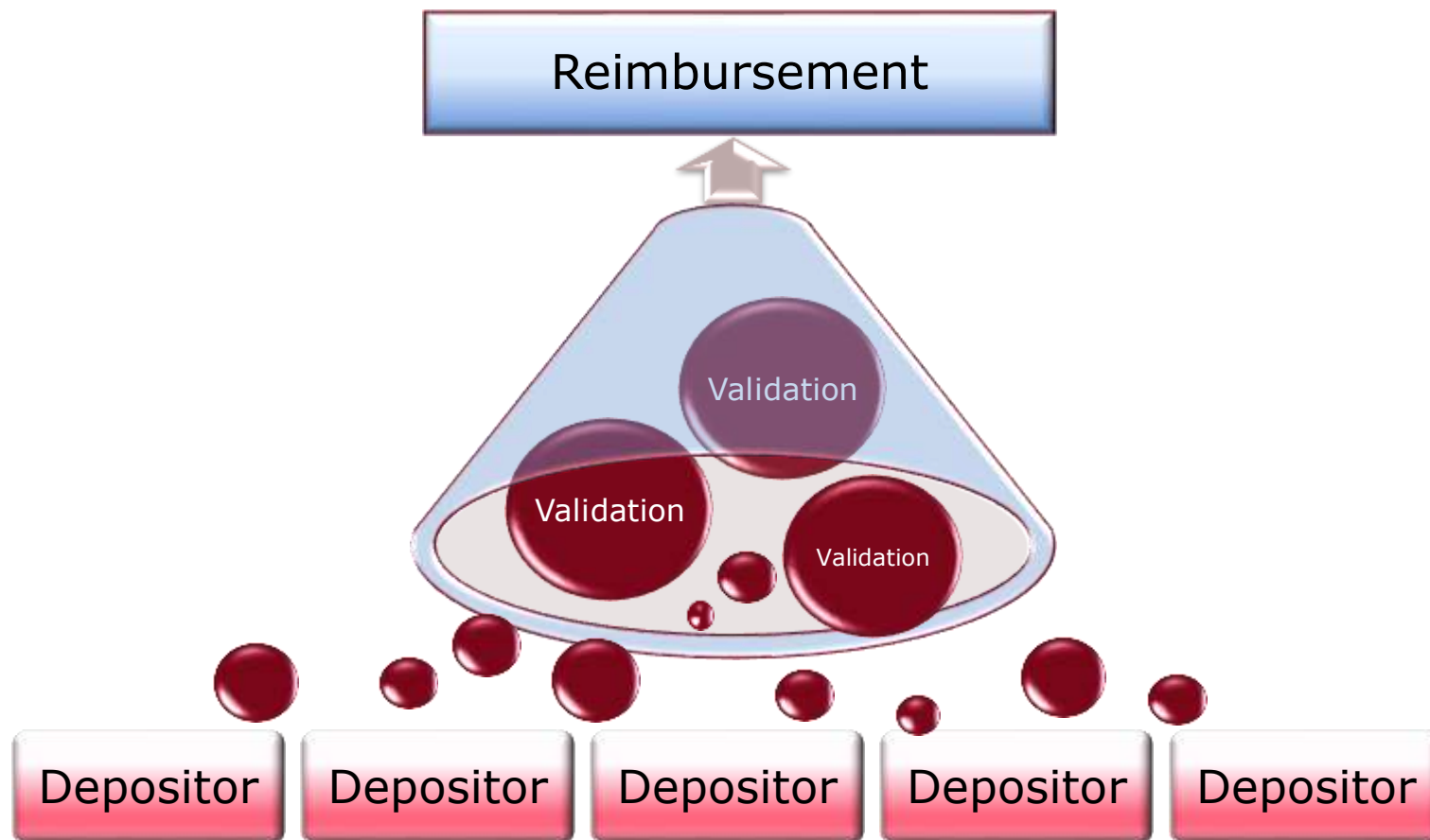
MAKING THE REPAYABLE AMOUNT AVAILABLE (2/2)

Interpretation of 7 working days:

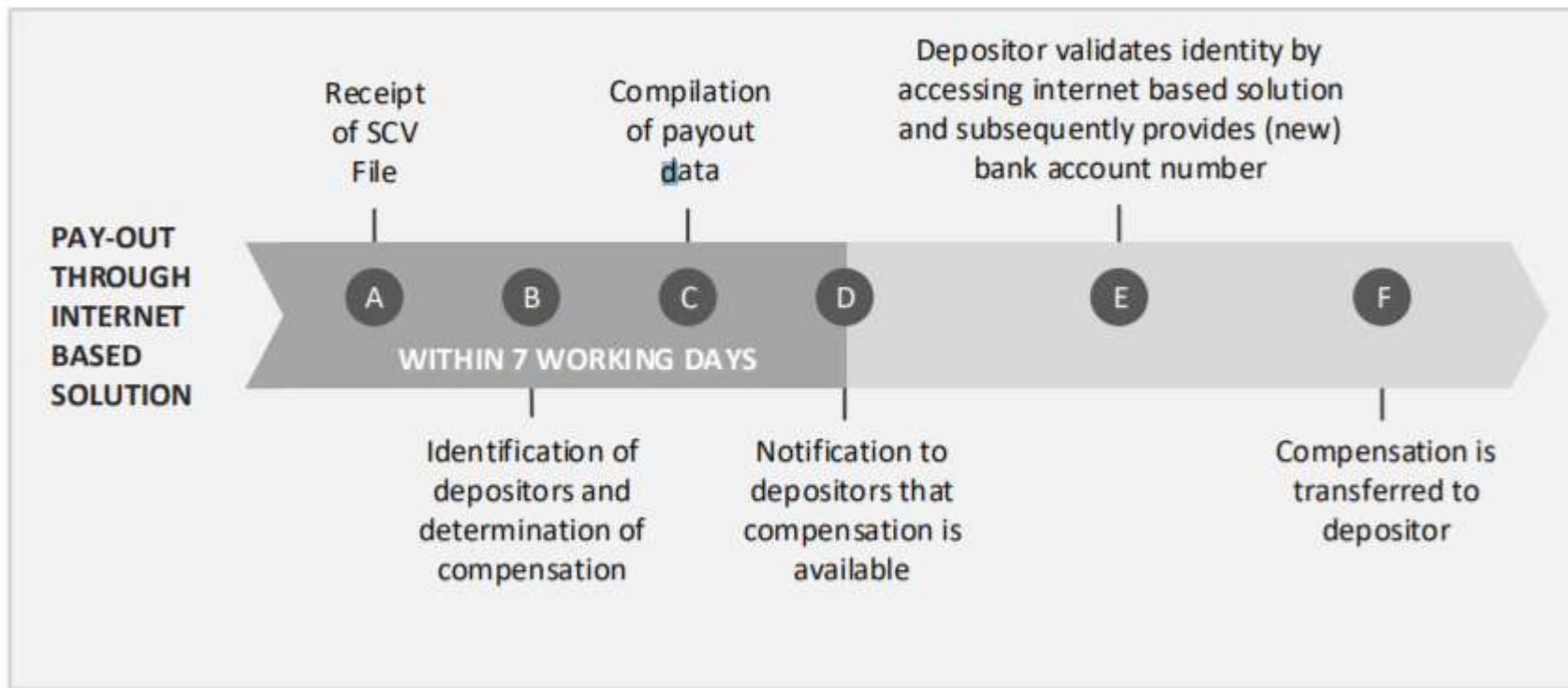
“A DGS complies with the requirement to make available the repayable amount within 7 working days if, without any previous action to be taken by the depositor and within 7 working days,

- (i) the DGS informs the depositor that the compensation has been made available or mails the financial instrument containing the compensation to the depositor and
- (ii) the depositor has the immediate opportunity to finalize the repayment process upon receiving the notification or the mailing containing the financial instrument.”

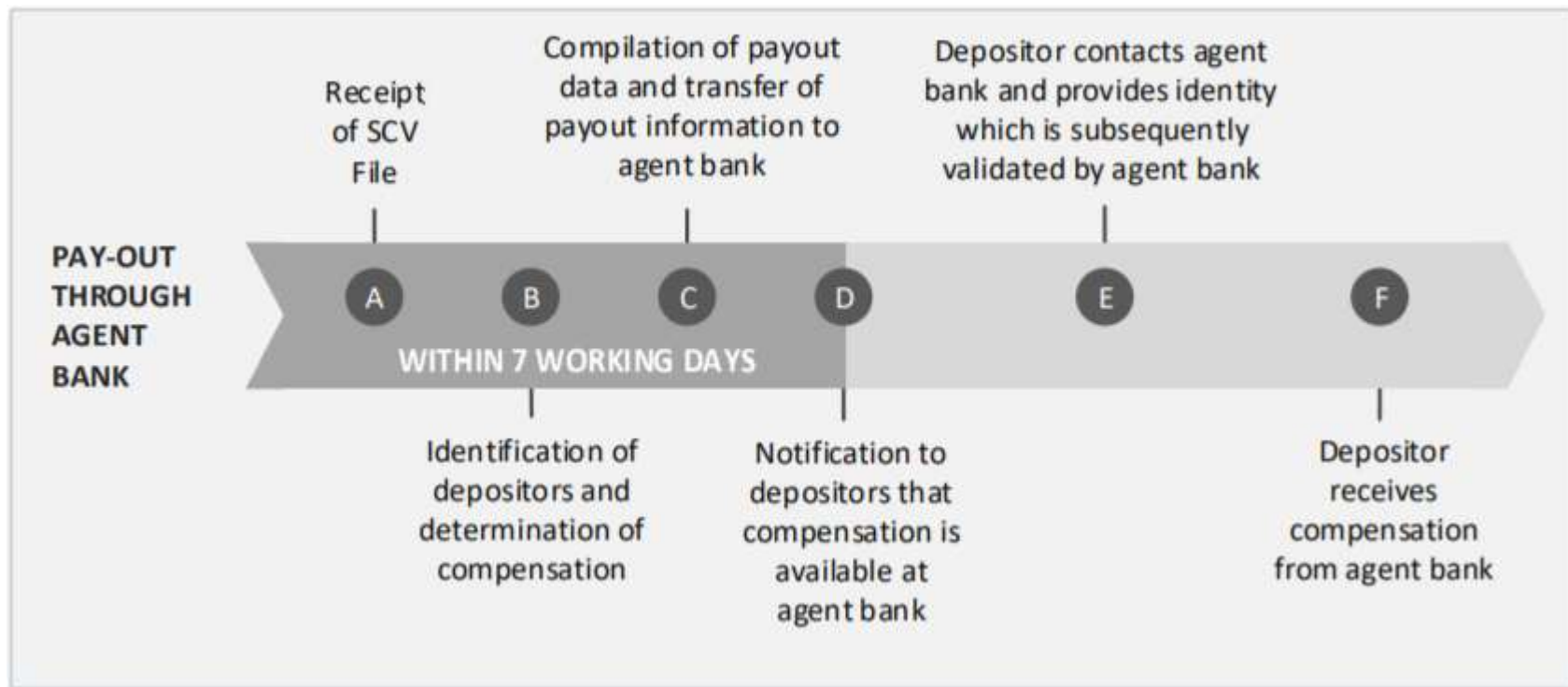
Not covered by 7 working days: Validation of the identity of depositors



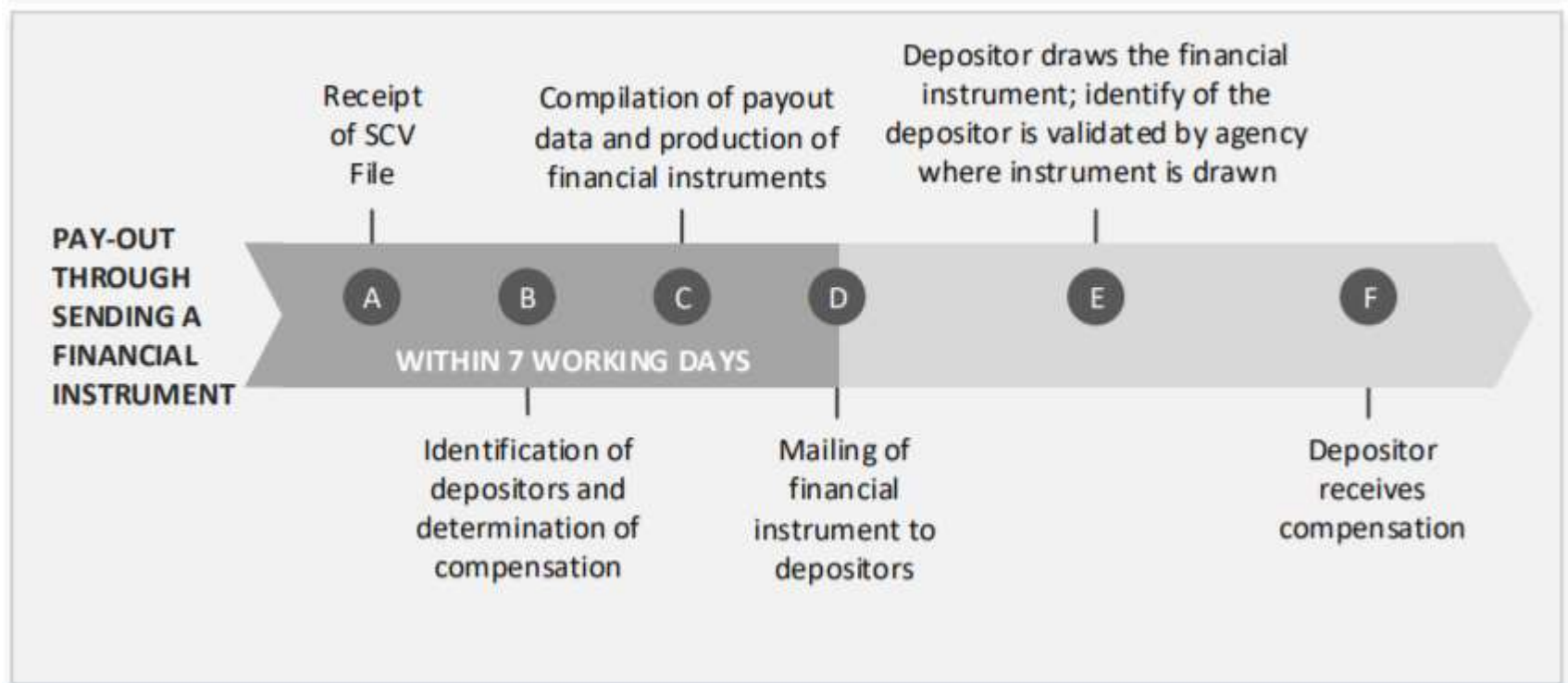
Straight-through process for three general repayment methods (procedure-based approach)



Straight-through process for three general repayment methods (procedure-based approach)



Straight-through process for three general repayment methods (procedure-based approach)



Thank you for your attention!

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