IMPROVEMENT OF DEPOSIT GUARANTEE SCHEMES IN BANKING SYSTEMS

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Abstract:
An important instrument in the monitoring activity is represented by the guaranty system of the banking deposits. Improving this system will allow the attraction of financial means of the individuals and legal units towards the banking system, which will maximize the stability and liquidity of the banking system, on one side, and will contribute to the ever growing crediting opportunities of the banks, on the other side.

Key words: deposits, banking system, guarantee system, the National Bank.

JEL Classification: G24

An important tool in supervision activities is bank deposit guarantee schemes. In all the countries the deposit guarantee scheme is based on the following principles:
- mandatory participation of commercial banks;
- transparency of deposit guarantee scheme functioning;
- restrictive nature of compensations (deposits are reimbursed in the amount of 100% but do not exceed a certain coverage level);
- the government participation in the deposit guarantee scheme;
- accumulative nature of bank reserves formation;
- providing information to depositors about the deposit guarantee scheme parameters.

After introducing a single currency in the European Union according to EU directive of 30 May 1994 on Deposit Guarantee Schemes in Credit Institutions (94/19/UE) the requirements and parameters of deposit guarantee schemes were unified. But despite the unified requirements for deposit guarantee schemes in EU countries, Agencies for deposit insurance in different countries have applied different ones. For instance, in Austria, Slovenia and Norway the Agency for deposit insurance can interfere in bank policy, but in Belgium, Hungary, Spain, Canada and France it has the right to apply sanctions against commercial banks.

Following the increase in financial transactions and in the risk level the bank policies in the mid-2000s revealed that the deposit guarantee scheme needed to be modified: when calculating contributions in many countries (Belgium, Italy, Finland and France) the amount of risk was not taken into account, which lead in 2005 to the adjustment of the legal framework in the field of deposit insurance (guarantee).

In the period before the current financial crisis discrepancies in the elements of deposit guarantee schemes in different countries (including the
guaranteed amount and the guarantee mechanism) were essential, which lead to the decreasing confidence in the banking sector. The following discrepancies should be mentioned:

1) **interpretation of the term “deposit”**. EU countries have used for a long time different deposit definitions, which actually resulted in EU directive introducing the following:

- total deposits – all the accounts of clients and obligations issued by the bank;
- guaranteed deposits – deposits that fall under guarantee scheme.

The directive emphasizes that interbank deposits are not included in this definition. In some countries the deposits of the bank management and their relations are not guaranteed.

2) **coverage level establishment**. In most countries the amount ranged from 25 to 40 thousand US dollars. But in some countries the coverage level was much higher: in Italy – approximately 131 thousand US dollars, in the USA – up to 100 thousand USD, in Canada – over 92 thousand USD. Besides the coverage level was continuously increasing. In 2008 the developed countries increased the level of deposit insurance coverage as an anti-crisis measure: in most countries of Europe from 20 to 50 thousand euros or from 27 to 68 thousand USD, in Austria, Spain and Lithuania – up to 100 thousand euros, in France – up to 70 thousand euros.

Moreover, the government of Ireland in order to avoid the transference of depositors’ funds to other EU countries decided to introduce within 2 years the 100% insurance of deposits, obligations and debts in the six largest banks and building societies. After some time the same decision was taken by the government of Germany allocating for this purpose around 1 trillion euros. These decisions have provided advantages to the financial organizations of Ireland and Germany. The level of deposit insurance coverage in some EU countries is presented below in Table 1.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Amount in thousand euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>100</td>
</tr>
<tr>
<td>Belgium</td>
<td>50</td>
</tr>
<tr>
<td>Great Britain, thousand pound sterling</td>
<td>50</td>
</tr>
<tr>
<td>Germany</td>
<td>100%</td>
</tr>
<tr>
<td>Greece</td>
<td>50</td>
</tr>
<tr>
<td>Spain</td>
<td>100</td>
</tr>
<tr>
<td>France</td>
<td>70</td>
</tr>
<tr>
<td>Romania</td>
<td>50*</td>
</tr>
</tbody>
</table>

* as per December 30, 2010 the coverage level increased from the equivalent in lei of the amount of 50,000 euros to 100,000 euros [3].

3) **deposit currency**. Almost in all EU countries the deposit guarantee scheme is extended to deposits in national and foreign currency. But in some countries (e.g. Great Britain, Germany, France, Japan) the deposit guarantee scheme is extended only to deposits in national currency.

4) **payout period for guaranteed deposits**. In most countries the guaranteed deposits are paid out to depositors within 6 months (in Austria, Hungary, Spain and the Netherlands – within 3 months).

We can observe some comparative analyses of the deposit guarantee schemes in some countries on the basis of data from Table 2.
Table 2

<table>
<thead>
<tr>
<th>Parameters</th>
<th>USA</th>
<th>Japan</th>
<th>Great Britain</th>
<th>Russia</th>
<th>Romania</th>
<th>Republic of Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants in the deposit guarantee scheme</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>- banks</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>- branches of foreign banks</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>- credit unions or cooperatives</td>
<td>-</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>- other financial institutions</td>
<td>-</td>
<td>+</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Categories of guaranteed deposits</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- deposits in foreign currency</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>- deposits of natural persons (non-entrepreneurs)</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>- deposits of corporations</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- deposits of financial institutions</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>


From the data presented in the table and the legislation of Romania and Moldova we can make some conclusions and recommendations on the improvement of deposit guarantee schemes in these countries.

Some differences between deposit guarantee schemes in Romania and Moldova compared to other developed countries cause some problems in the banking system, for example, the categories of guaranteed deposits. In the Republic of Moldova the deposits of natural persons and even of the individuals who perform entrepreneurial activity are guaranteed. At the same time the following deposits are not guaranteed:

a) deposits of the bank management;

b) deposits of natural persons - shareholders of the bank that hold minimum 5% of its capital;

c) deposits of spouses and first- and second-grade relatives of the persons recorded in points a) and b);

d) deposits of third natural persons who act on behalf of the persons recorded in points a) and b);

e) deposits of natural persons that hold in affiliated and dependent companies the positions similar to those enumerated in points a) and b);

f) deposits of natural persons who obtained from the same bank interest or other financial benefits on preferential terms;

g) deposits declared illegal by the court;

h) bearer debt securities;

i) all tools that fall within the definition of the bank regulatory capital [1].

In Romania more categories of deposits are guaranteed but there also deposits that are not guaranteed:

1. tools that fall within the definition of equity funds according to the regulations of the National Bank of Romania regarding the equity funds of credit institutions;

2. deposits of financial institutions excluding the non-banking financial institutions from the category of trade unions.

3. deposits of insurers and reinsurers and of middlemen in insurance;

4. deposits of central, local and regional public authorities;

5. deposits of pension funds;

6. deposits with credit institutions belonging, as the case may be, to their managers, directors, supervisory board members, auditors, majority shareholders;

7. deposits of depositors with the status similar to those mentioned in point 6 within other companies from credit institutions group;

8. deposits of family members of natural persons mentioned in points 6 and 7, respectively, spouses and first-grade relatives and affinity, as well as third parties who act on behalf of depositors mentioned in points 6 and 7;
9. deposits with credit institution of the companies from the group of which the credit institution is part;
10. non-nominative deposits;
11. debt securities issued by the credit institution, as well as liabilities arising from your own accord and promissory notes;
12. deposits of enterprises, legal persons that do not fall under the category of microenterprises, small and medium-sized enterprises according to the provisions of Law nr. 346/2004 on stimulation of formation and development of small and medium-sized enterprises [2].

Despite the fact that both in Romania and Moldova the deposits in foreign currency are guaranteed, they are guaranteed by paying out their equivalent in MDL or RON at the official exchange rate of MDL or RON to the appropriate foreign currency, after finding the unavailability of deposits. But compensation is given only after several days (in the Republic of Moldova the payout of guaranteed deposits begins within 7 days of receiving the information on unavailable deposits, but in Romania the payout of compensations is to begin within 20 business days from the date when deposits become unavailable.)

If during this period there are big changes in the exchange rate, this aspect may become disadvantageous for deposits in foreign currency.

For the Republic of Moldova the stringent issue is the level of deposit insurance coverage, which is very small (at the moment it is 6 thousand MDL or approximately 370 euros or 500 USD).

Under the conditions of financial crisis it is necessary to increase the efficiency of deposit guarantee schemes functioning and thus to regain the trust in the banking system. For this, in our opinion, it is necessary to take following actions:

1) to increase the level of deposit insurance coverage in the Republic of Moldova and set it in euro. For this process not to be very complicated there can be introduced the system of gradual increase, over several years;
2) for deposits in foreign currency there can be introduced the system of payout in the deposit currency (at least for currencies, such as EUR and USD);
3) for the Moldovan banking system the opportune measure would be the extending of the deposit guarantee scheme to the individuals performing entrepreneurial activity and legal persons – small enterprises, as practiced in many countries and in Romania.

The improvement of deposit guarantee schemes will enable the banking system to attract financial resources from natural and legal persons, which would increase the banking system stability and liquidity, as well as would contribute to the increased opportunities for bank lending.

**BIBLIOGRAPHY**