Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Consumer Panel response to the Review of Directive 94/19/EC on Deposit guarantee schemes

The Financial Services Consumer Panel was established under the Financial Services and Markets Act 2000 by the Financial Services Authority to represent the interests of consumers. The Panel is independent of the FSA. The main function of the Panel is to provide advice to the FSA, but it also looks at the impact on consumers of activities outside the FSA's remit. The Panel represents the interests of all groups of consumers.

This is the panel's response to the EU consultation paper 'Review of Directive 94/19/EC on Deposit Guarantee Schemes'. Overall we do not believe that there should be a limit on compensation. We believe that in the absence of a limit, there would be no incentive to withdraw money and consequently no run on a bank. We recognise that there is moral hazard in a compensation scheme guarantee for all deposits, in that there would be no accountability for poor business decisions. However we have seen that in practice, there are some banks which are 'too big to fail' and the consumer as taxpayer is meeting the cost. With this in mind we continue to call for compensation to cover 100% of deposits

Nonetheless we recognise that the proposal to increase the minimum level of compensation will lead to more protection for consumers across all member states and we therefore welcome this review of the directive and many of the proposals therein. The revision will also see an increase in the minimum compensation limit from 20000 EUROS to 50000 Euros but we note that a number of countries are raising their compensation limit to 100,000 euros. A limit of £100000 Euros would ensure that 90% of deposits would be protected, as opposed to 80% which will be protected by the 50,000 limit. Clearly we welcome any action which will strengthen the protection afforded to customers. We therefore encourage the Commission to seek as high compensation limits as possible.

The Consumer Panel has long maintained the need for fast payout by the compensation scheme when a bank defaults. The review of the directive specifies that compensation should be paid within 20 days of a default. The FSA is currently consulting on proposals to ensure payout within 7 days. We believe it is important that consumers across Europe have access to liquid funds in the event of a bank failure. We therefore encourage the Commission to impose the most stringent time constraints possible.

The Paper states that availability of compensation across the EU will strengthen the single market as it will enable consumers to look beyond their national market for better rates or higher levels of security for large sum deposits. The directive also requires firms to inform depositors if they are not covered by the relevant home state deposit scheme. At present sole responsibility to reimburse depositors rests with the Deposit guarantee scheme of the country where the bank is registered. Consequently some account holders may find themselves holding accounts which are protected by guarantees held by another member state. It must be made most explicit to account holders just what their compensation arrangements are so that consumers must fully understand the degree to which their savings are protected.

It is suggested that some consumers will choose their bank on the basis of the Deposit Guarantee scheme that covers it, and that this will distort competition. We remain concerned that where banks are operating across borders the provisions for compensation are complex and simply not understood in many cases. For example in the UK we are not confident that people with savings at the Post office understand that they are covered by the Irish scheme. Moreover, consumers will need to take a view on the sustainability of the scheme on which they are reliant in the event of default. We are not confident that consumers generally have access to information to make such a judgment. We would therefore encourage co-operation between the deposit schemes across members states in order to ensure that individual consumers are not left disadvantaged. The Icelandic banking crisis has particularly highlighted weaknesses in the current approach to a single market in retail banking, but the Panel believes that there are weaknesses in the passporting arrangements as a whole. We urge the Commission to review passporting arrangements more widely as part of its review of financial supervision.

We have a particular concern about those consumers who hold short term high balances which would not be covered by a guarantee scheme. We believe that coverage should be extended to cover pension deposits, compensation, inheritance, property transactions, divorce settlements, redundancy payouts; proceeds of life policies; proceeds of buildings insurance and payments awarded by employment tribunals.

We welcome the Commission's suggestion of a process which would allow guarantees to be given to each separate brand. This is not the case in the UK where protection is given to each authorised entity. Whilst customers might be encouraged to split their deposits across a number of institutions, but there are difficulties in the UK given the amount of consolidation there has been as a consequence of the financial crisis, it is not always going to be clear to the consumer whether they have funds held by only one institution. We would therefore like to see protection on the basis of brand. We therefore agree with the proposal in question 5 that banks should have the option to ask for protection by brand

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Financial Services Consumer Panel

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