



European Banking Industry Committee

European Banking Federation (EBF) • European Savings Banks Group (ESBG) • European Association of Cooperative Banks (EACB)
European Mortgage Federation (EMF) • European Federation of Building Societies (EFBS)
European Federation of Finance House Associations (Eurofinas)/European Federation of Leasing Company Associations (Leaseurope)
European Association of Public Banks (EAPB)

17 October 2008

EBIC RESPONSE TO THE DRAFT EFDI REPORT ON “IMPROVEMENTS OF INFORMATION ABOUT DGS COVERAGE TO CONSUMERS”

The European Banking Industry Committee brings together European banking associations with a mandate to provide advice, assure a comprehensive consultation of market participants and ensure a representative industry view throughout the process of drafting, adopting, implementing and enforcing EU-financial legislation and thereby provide input for the European institutions and their relevant sectoral committees. It is amongst the declared aims of EBIC to advise the Commission on relevant legislative banking and cross-sectoral initiatives and any developments at Community level affecting the banking and financial services activities associated with the establishment of a European Single Market for financial services.

EBIC has been established by the main banking industry federations: the European Banking Federation (FBE), the European Savings Banks Group (ESBG), the European Association of Cooperative banks (EACB), the European Mortgage Federation (EMF), the European Federation of Building Societies (EFBS), the European Federation of Finance House Associations (Eurofinas) / the European Federation of Leasing Company Associations (Leaseurope), and the European Association of Public Banks (EAPB).

Introduction

EBIC would like to welcome the opportunity to comment on the draft EFDI report on the improvement of comprehensible information about DGS coverage to consumers.

EBIC believes that the area of consumer information is an area in which self-regulatory measures can deliver a valuable contribution to achieve an enhanced level of consumer awareness. Therefore we welcome the work pursued by EFDI and its relevant working group on *“improvement of comprehensible information about DGS coverage to consumers; identification of deficiencies and agreement and promotion of best practices”*.

EBIC recognises the need for enhancements to Deposit Guarantee Schemes (DGS) across Europe to help bolster public confidence in the banking system and to strengthen financial stability. The recent market turmoil confirms that DGS is an important feature to financial stability in stressed market conditions in that they underpin consumer confidence and act as a brake on potential bank runs.

Recent events have however also shown that there are limitations to the impact DGS can have on maintaining consumer confidence and financial stability in certain circumstances. More than before is it now vital to implement targeted measures to restore consumers’ confidence to avoid that the crisis of confidence in the banking markets spreads to depositors. One such necessary targeted measure is to improve consumers’ awareness about DGS. Therefore we encourage EFDI to pursue its work in this field and underline our willingness to cooperate with it.

Detailed comments on EFDI’s conclusions

We have concentrated our comments on the draft Report’s conclusions (p. 22-23) on the basis of our Members’ experiences, including recent ones. For the sake of clarity, each conclusion has been numbered (1-19).

1. *Effective improvement in information and public awareness requires close cooperation between DGS, member institutions, the supervision authority and the banks’ associations.*

EBIC strongly supports close cooperation between the relevant actors, which is very important for effectively improving public awareness.

2. *To be effective, protection measures in the financial system depend on a clear and informed picture of all safety-net players.*

In practical terms, consumers need to know how and when to expect pay-outs.

It needs to be clarified whether this concerns:

- Information on who is responsible for what within the safety net, and / or
- Procedural steps as to which player intervenes at what moment.

3. *Deposit insurance is one of the main safety-net elements. Proper information about deposit coverage should be one of the DGS’ main concerns. Deposit insurance rules can be*

complicated, limiting the effectiveness of information. DGS should take this issue into consideration in creating the strategic model of the system.

We agree that DGS should contribute to financial stability and, therefore, are an important safety-net element. However, we believe this role of the DGS should not be overestimated, especially as a DGS primarily plays a curative role. The focus should be on improving crisis prevention to strengthen financial stability.

Against this background, we believe that the amount and nature of information needs to be balanced so as not to undermine consumer confidence in the bank. In this context we share EFDI's concerns that information about Deposit Guarantee Schemes can adversely affect confidence (see draft EFDI Report, page 12).

This issue of communication needs to be considered on two levels:

- i. In substance: *“what to communicate”*
 - What type of customer is protected;
 - What is the level of protection;
 - What is the scope of protection;
 - What is the pay-out delay;
- ii. In form: *“how to communicate”*
 - Need to review all existing communication channels (internet, websites, TV spots ...);
 - Communication tools to be adapted to normal and crisis situations;
 - Need to find a right balance between costly information campaign and customers' level of interest on DGS issues in normal times;
 - It may be more helpful to focus on efficient and timely communication, e.g. press release ready, a link to FAQ on website, on what happens when a crisis arises.

In addition, we also consider it necessary to inform consumers about the other elements of the financial “safety net”.

4. *The European Banking Federation could be considered as an institution to assist in developing a best practice code at European level.*

EBIC would support the creation of a Best Practice code to provide information on DGS in the single market. The banking industry should work together to assist developing such a code at European level.

We believe that such a code should be principles-based and designed from a bank's perspective. A cautious approach would need to be taken when developing such a code, considering that it must be clarified what this code would contain and how it would relate to the issue of pay-out delays, which the Commission intends to actively examine.

For efficiency reasons, it should be ensured that it is complementary to already existing national rules and the Directive's provisions and not an additional layer of requirements.

5. *Best practice codes should be one of the most efficient vehicles as self-regulatory measure for managing the dissemination of DGS-related information to depositors.*

We agree.

6. *Banks providing services under different brands in the single market can confuse customers.*

While we agree this is an issue, we fear that solving it will not be straight-forward. A solution should be found which would not affect the current flexibility to operate under different brands in the markets concerned nor interfere with current customer market structures, current group organisation and company law.

7. *The same information requirements should be followed by all banks operating in the single market. Customers should have access to the comparable information from all entities.*

This conclusion should be coupled with n° 4 and 5. A Best Practice code would be an efficient means to ensure that a minimum level of comparable information is provided to consumers, in complement to national requirements. Developing one single set of information requirements at EU level would however be too prescriptive as national specificities need to be accommodated (see our comment on n°4).

8. *“Comprehensible information” should be understandable, clear, and neutral.*

EBIC fully supports this interpretation.

9. *An adequate budget for public information costs is important for DGS on an on-going basis, but especially in times of turmoil in financial markets.*

While improved information provision is important, this should not mean devoting more budget to it. Furthermore the way information is provided depends a lot on the role of DGS in times of crisis, which varies greatly across Member States, and on the structure of the respective financial markets.

More importantly, banks have a heavy duty to communicate in stress times and to ensure on-going communication in normal times. Focusing on the media strategy is, in our view, more essential than setting what budget should be allocated to public information.

10. *In the event of crisis or bank failures, information is one of the most important factors. DGS should share practices in the light of recent experience.*

EBIC agrees.

11. *Only in a few cases is there data about the levels of public awareness based on the results of public surveys. It could be good practice for DGS to survey public awareness periodically. It could be valuable to have comparable data for all member states. This could be achieved by the public surveys done as an initiative of European Commission through national authorities.*

Amongst the surveys referred to in the EFDI draft report we note an important one is missing, namely the survey carried out in January 2008 by the UK FSA on customers' awareness, which

revealed that despite the amount of information in the press on DGS given the Northern Rock case, only 1% of consumers were aware of the exact compensation limit of £35,000. This result is particularly striking due to the unprecedented media coverage on the subject and the uncertain financial environment which should have raised consumer interest.

We are supportive of the idea of conducting public surveys to get more data to inform policy thinking but would like to see more consultation on the scope, scale, frequency, procedure, cost and benefit of the survey before proceeding. We recognize that comparable data about all Member States would be useful. Nevertheless this proposal can be fully assessed only once more detailed practical information will be put forward.

The survey should preferably be financed by independent, public authorities. Against this background, we wish to propose that the Commission's Joint Research Centre (JRC) could be asked to carry out such surveys.

Accordingly, this draft recommendation is supported, provided it is amended as follows:
“(...). It could be good practice for DGS to survey public awareness periodically (...).”

- 12. European Commission [and EFDI] could participate in any program prepared at the European level of increasing of public education of financial services.*

EBIC certainly considers financial education as a very important issue to be tackled urgently in order to ensure consumers' confidence which is indispensable for the growth of the internal market. Any initiative should remain voluntary and result in non-binding measures.

We stand ready to contribute to work on financial literacy with respect to DGS possibly.

- 13. The level of public awareness could be raised by improved knowledge of those employees of member institutions who deal with depositors directly, as well as enhancing financial literacy in general.*

EBIC agrees in principle. However, it is unclear how DGSs would benefit from improved knowledge of member institution employees.

- 14. It would be appropriate to include a role for banking supervisors to report to DGS whether the depositors are being adequately informed about the scope of deposit insurance (and whether employees of banks are properly trained in this regard).*

Close cooperation between supervisors and DGS is very important. Banking supervisors should be involved in appropriate dialogue with banks regarding adequate information and training. Public awareness surveys (conclusion 11) could be used to inform supervisors. Yet, it is not clear what DGS would do with such information from supervisors or what value it would have.

The part into brackets is, in our view, too specific and should be deleted.

- 15. Banks should use all possible channels of interaction with depositors to provide them with the information about the deposit insurance rules, especially the internet and other developing technologies.*

EBiC agrees.

- 16. Banks could provide information about DGS with all documents and other paper-based information distributed to customers.*

EBiC would agree with this recommendation provided it were amended as follows: “Banks could provide relevant information about DGS (...); and pending further examination as regards “all documents and other paper-based information distributed to customers”.

We believe that the information requirements should be proportionate in terms of the impact on consumers and cost for the industry.

- 17. Information should be routinely published and made available by both the DGS and member banks. Largely that information will not be absorbed by consumers but, in case of need, must be readily available.*

EBiC agrees in principle. Nevertheless, before committing to submitting data it would be helpful to define what information and what level of detail is needed and how it will be published.

- 18. For all DGSs, it is important to have contingency plans for communication to depositors in times of crisis. It is important to deliver clear, understandable information to consumers at short notice by a variety of media (including website updates).*

While we agree that DGS should have communication strategies in place and should be involved at an early stage, we would like to caution, as highlighted above, that giving a higher public profile to DGS could undermine public confidence. The DGS should play a subtle role in an emerging bank crisis without exacerbating an eminent failure.

- 19. Finally, increased awareness of (and engagement with) DGSs should be displayed or encouraged by central banks and national regulators, and their European counterparts, when discussing and carrying out contingency planning and/or crisis management. By further involving DGS in such activity, DGSs profile would be raised, and be likely to increase understanding generally, including amongst consumers.*

We wonder whether this recommendation merely refers to increasing awareness of DGS by Finance Ministries and Central Banks. Any proposal would need to be clarified before we can make a more detailed comment on it.