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Deposit Guarantee Funds in the context of challenges posed by the integration of financial markets in the EU

The EU has a **system of guaranteeing mother country deposits**, which implies:

- possibilities **for differentiating the level of guarantees** on the territory of a member country,
- the possibility of **increasing the scope of guarantees**:
 - ✓ the low probability of a supplementary guarantee in the Bank Guarantee Fund of the credit institutions' branch in Poland,
 - ✓ the probability of the existence of a supplementary guarantee – agreed with the BGF - of a in-country bank branch operating in the host country (e.g. France, UK or Italy).

The challenge for a deposits guarantee systems is, among other things, the formation of ever larger banks (*too big to save*) operating on a global scale, as well as banks' cross-border operations. **Cross-border banking** can be understood both in the broad (colloquial) sense and in the narrow (legislative) sense, i.e.:

- colloquially – providing banking services on the territory of other countries by **either creating a new branch or without a new branch**,
- according to Polish banking law (article 4 section 1 item 21) – performing, by the credit institution located in Poland or in the host country, all or some of the activities resulting from permission granted, **without the participation of the branch** of the institution or bank.

The scope of trans-border operations and those performed by branches in Poland has been increasing systematically since Poland joined the EU and as of 20 June 2007 has:

- 167 credit institutions that have declared their intention to conduct trans-border operations,
- 17 credit institutions from the EU intending to operate through their branches.

The trans-border activity of banks creates new challenges for monitoring and guaranteeing deposits, including:

- **Monitoring risk transfer** in the territory of the host country:
 - ✓ The host country has limited means of limiting it,
 - ✓ The source of knowledge of trans-border operations is notifications, which do not indicate the scope of such activity,
- **The division of system load** among partners from different countries.

Proposals for resolving some of the problems in guaranteeing deposits – to be discussed
– are presented below.

1. **Increasing the significance of cooperation:**

- **Exchange of information** between security network institutions from different countries is desirable, but:
 - ✓ Informal exchange – has low effectiveness when problems appear,
 - ✓ Formal (agreements) – denotes various subject scopes for agreements,
 - ✓ **Standardisation** – is a solution to aim for and results in the necessity of standardising the scope of agreements on the EU level (following the model of agreement on cooperation among central banks and bank supervising institutions from different member countries) and it ensures security of transferred data.

2. Appointing **regional deposit guarantee systems** – the idea was proposed by Scandinavian countries –it is possible at the current stage of EU legislation.

3. Implementation of **European System of Deposits Guarantee / Financial Institutions**, which means:

- resolving the problem of bank guarantees in transborder institutions operating on EU territory,
- diversifying risk resulting from the overlapping of one system on to a large number of banks.

However, the above proposals do not solve deposit guarantees on a global scale. The problems to be tackled are among others:

- exchange of information between credit institutions operating within and outside the EU,

- guaranteeing deposits / financial investments in institutions conducting trans-border operations outside the EU,
- the need to establish comparable principles of security network functioning on a global scale.