

# Implementation of the DGSD

## Challenges and Opportunities

Thursday 3<sup>rd</sup> September 2015

Karen Gibbons – Head of Policy and External Affairs

# Agenda

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FSCS Deposit System pre revised DGSD

Directive 2014/49/EU and implementation via FSCS and PRA rules

FSCS Internal Project and workstreams

Stress Testing and Peer Reviews

Changes to Eligibility

Temporary High Balances

Faster Payout and Interim Payments

Pre-Funding and Risk-Based Levies

Consumer Disclosure and Right to Information

Co-operation with the Union

Prepare for the unexpected

Investor Compensation Directive - revised Directive and link to DGS

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# FSCS Deposit System pre revised DGSD

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- » Limit of £50,000 which was increased to £85,000 (€100,000) 31 December 2010
- » Aim to pay the majority of deposit claims within seven days - public commitment
- » Electronic 'Single Customer View' (SCV) data requirements in place for deposit firms with over 5,000 accounts
- » Accounts which may be eligible, such as beneficiary or trust accounts to be 'marked' on deposit firm records
- » Eligibility restricted to natural persons and small firms
- » Exclusions as detailed in the Directive 94/19/EC apart from some pension plans which were eligible
- » Ex-Post funding
- » Deposit class tariff based on protected deposits and levy share based on pro-rata share of reported tariff data
- » Consumer disclosure requirements were introduced in the UK from 1 January 2010 – six monthly disclosure to consumers
- » Additionally wider FSCS Consumer Awareness programme with deposit firm branch posters and stickers



## Directive 2014/49/EU

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FSCS is a member of a working group led by Her Majesty's Treasury and including representatives from the Prudential Regulation Authority (PRA) and the Resolution Directorate, part of the Bank of England, which was formed as soon as the Commission announced the revision of DGSD 94/19/EU.



# Directive 2014/49/EU and implementation via FSCS and PRA rules (1)

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- » Implementation of the Directive via FSCS rules led to a number of PRA consultations: (CPs and Policy Statements PSs)
  - › October 2014
    - » CP20/14 – Depositor Protection
  - › January 2015
    - » CP4/15 – Depositor, dormant account and policyholder protection amendments
  - › April 2015
    - » CP15/15 – Depositor and dormant account protection – further amendments
    - » PS6/15 – Depositor and dormant account protection
    - » Depositor Protection – Supervisory Statement18/15 Updated
  - › May 2015
    - » PS9/15 – Depositor and dormant account protection – further amendments
    - » SS18/15 Updated - Depositor and dormant account protection

## Directive 2014/49/EU and implementation via FSCS and PRA rules (2)

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### › June 2014

- » CP21/15 – Depositor and policyholder protection – technical amendments

### › July 2015

- » CP23/15 – Depositor and dormant account protection consequential amendment
- » PS14/15 – Depositor and dormant account protection – the protection limit
- » PS15/15 – Depositor and policyholder protection – technical amendments
- » PS18/15 – Depositor and dormant account protection – consequential amendments
- » Depositor and dormant account protection – SS18/15 Update (03 July 2015)
- » Depositor and dormant account protection – SS18/15 Update (20 July 2015)
- » Depositor and dormant account protection – SS18/15 Update (31 July 2015)

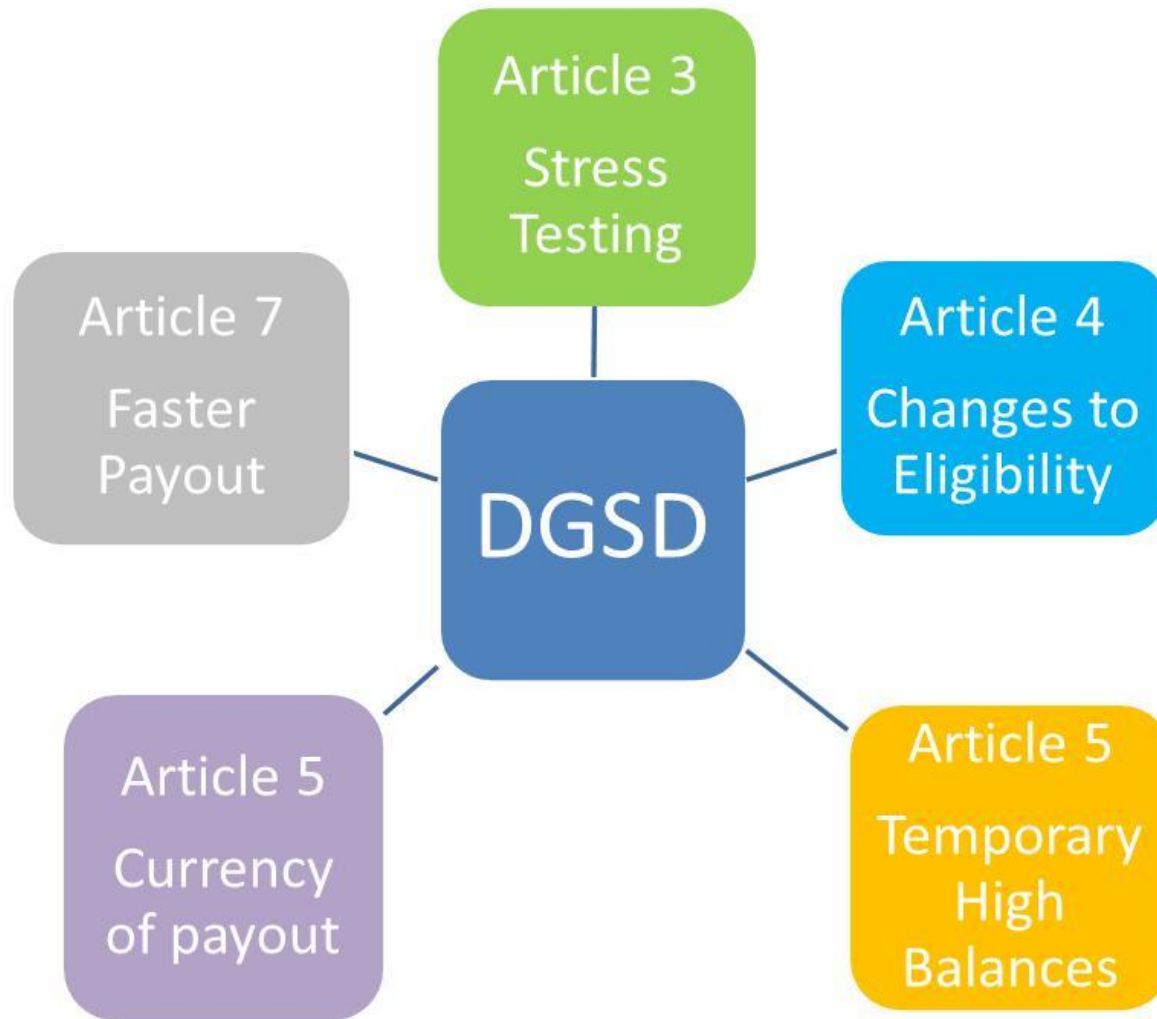
## FSCS Internal Project to implement all elements of the DGSD

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- » Planning started in late 2013/early 2014
- » Project team to manage a number of workstreams
- » System changes required – THBs, Article 14 data requirements etc
- » Process requirements – for example THB process
- » Liaison with regulators and industry bodies such as British Banking Association, Building Societies Association and Credit Union Seminars
- » Communications work – amended disclosure requirements, impact on existing consumer awareness work

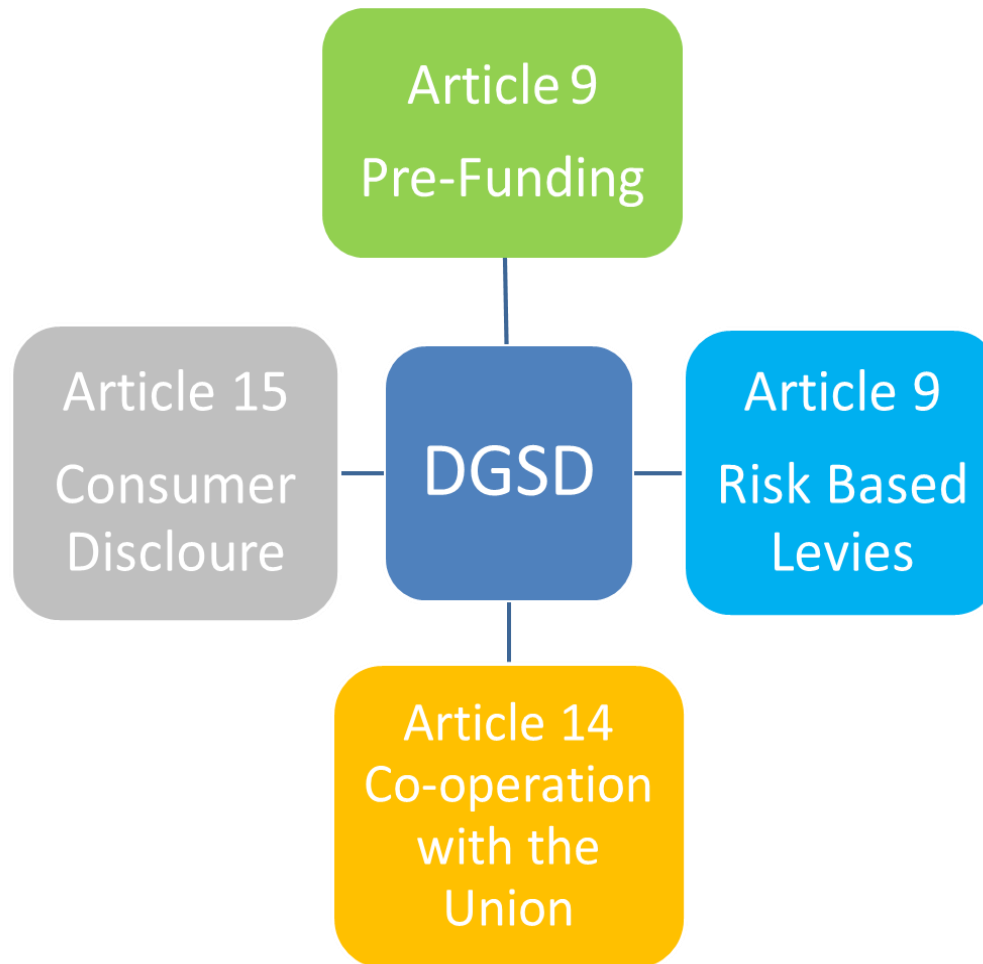


# FSCS DGSD Implementation Project - Workstreams



# FSCS DGSD Implementation Project - Workstreams

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## Stress Testing and Peer Reviews

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- » Article 3 says that Deposit Guarantee Schemes must perform tests of their systems and that they are informed as soon as possible in the event that the competent authorities detect problems in a credit institution that are likely to give rise to the intervention of DGS
- » Such tests shall take place at least every three years and more frequently where appropriate. The first test shall take place three years after entry into force of this Directive at the latest (which will mean the first test is in 2017 at the latest). Based on the results of the stress tests, the European Banking Authority shall, at least every five years, conduct peer reviews in order to examine the resilience of DGSs
- » FSCS led the EFDI WG developing a format for stress testing – output of the WG shared with European Banking Authority (EBA) – awaiting EBA guidance
- » FSCS already has internal business resilience function which will lead the work in this area

## Changes to Eligibility

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- » Article 4 states that medium and large businesses are no longer amongst the list of those who are excluded for eligibility purposes
- » There are still some exclusions, including deposits held by financial institutions and public authorities
- » Changes introduced to the Single Customer View (SCV) data requirements to include newly eligible depositors
- » All UK regulated firms, regardless of size and number of accounts held, must now produce an electronic SCV file
- » SCV changes will be for wholesale only firms under the protection of the FSCS
- » Existing SCV files will require amendment by those firms who hold accounts held by medium and large firms
- » These changes coincided with FSCS decision to bring SCV verification in-house
- » Transition period allowed for firms, who have until 1 December 2016 to include all eligible accounts into their SCV file
- » By 1 December 2016 firms must be able to produce the SCV file within 12 hours

# Temporary High Balances

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- » Article 5 states that certain deposits, known as Temporary High Balances, are protected above £75,000 for at least 3 months and no longer than 12 months. The UK has decided to protect these deposits up to £1 million for a period of 6 months
  - › deposits resulting from real estate transactions relating to private residential properties;
  - › deposits that serve social purposes defined in national law and are linked to particular life events such as marriage, divorce, retirement, dismissal, redundancy, invalidity or death of a depositor;
  - › deposits that serve purposes defined in national law and are based on the payment of insurance benefits or compensation for criminal injuries or wrongful conviction
- » The project is implementing a manual process where potentially eligible depositors submit claims to FSCS for their additional Temporary High Balance after they have received their initial compensation of £75,000
- » The evidence provided by the depositor will be assessed to determine eligibility
- » These claims will be outsourced to ensure scalability and value for money
- » Changes required to internal processes, outsource processes and FSCS IT system changes

# Faster Payout and Interim Payments

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## Faster Payout

- › Article 7 of the Directive states that FSCS shall ensure that the repayable amount is available within seven working days from the date of default. FSCS already pays the majority of claims within 7 days. However, we need to do more work with the PRA and the industry to ensure that fewer depositors fall out of the SCV due to poor data quality
- › We also need to ensure that our internal processes are as efficient as possible
- › Deposit Guarantee Schemes have until 2023 to implement 7 day payout, on a sliding scale from 2018
- › FSCS processing SCV files internally and liaison with PRA will help to drive up data quality

## Interim Payments

- › Article 7 also states that where FSCS can't make a payment within 7 days, it must ensure that depositors, upon request, have access to an appropriate amount of money to cover their cost of living. This requirement needs to be implemented by 1 June 2016
- › Currently considering system and process changes required

# Pre-Funding and Risk Based Levies

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## Pre-Funding

- » Article 9 of the Directive states that in a period of no longer than 10 years after the entry into force of the Directive a pre fund of 0.8% should be raised
- » In the UK the DGS fund will be raised and held by HM Treasury via the existing Bank Levy.
- » FSCS and HM Treasury are in discussions around appropriate protocols to enable FSCS to access the DGS fund in the event of need.

## Risk Based Levies

- » Currently deposit takers are levied based on the level of their covered deposits (those deposits protected by FSCS).
- » Article 11 requires that contributions to DGS shall be based on the amount of covered deposits and the degree of risk incurred by the respective member.
- » This adds a risk factor to the levy calculation to take account of risk of failure, capital adequacy and quality of governance.
- » EBA Guidelines published May 2015.
- » FSCS is working with the PRA and FCA to determine how the model will work in the UK.
- » PRA will consult in the near future on the risk based levy model for deposit firms.
- » First risk based levy likely to be 2017.

### » **Consumer Disclosure**

- » The Directive also requires amendments to the disclosure messages deposit takers give depositors about the protection provided by FSCS
- » There is a template which must be sent to consumers by their deposit firm at least annually and whenever a bank account is opened.
- » The template proposed by DGSD is slightly different to that already in use in the UK and to be amended from October 2015.
- » Changes to FSCS posters and stickers to be in place from October 2015



# Artwork for Web Banner

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Poster for branch window or door

Sticker for cashier window or desk



## Co-operation with the Union

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- » Scale of international business in London
  - › 125 UK authorised firms passported out into 21 EEA states
  - › 98 branches passported into the UK from 17 EEA states
- » Changes to SCV system for both deposit firms and FSCS
- » Involvement in EFDI H2C project
  - › Andy Gan and John King – Data WG
  - › Casey McGrath – Legal WG
  - › Mark Oakes – Communications WG
  - › Karen Gibbons – Finance and Risk WG
- » Much more complex than originally envisaged

## Prepare for the unexpected

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- » Eurozone economic concerns impacting on the £/€ rate
- » Became clear that as at 3 July 2015 €100,000 would no longer equate to £85,000
- » Project team formed between HM Treasury, PRA and FSCS to prepare for change
- » PRA consultation published 3 July 2015:
  - › Newly eligible depositors under DGSD subject to revised £75,000 limit
  - › Existing eligible depositors covered to £85,000 limit until 31 December 2015
  - › Depositors allowed to break fixed term deals with incurring loss or penalty
- » FSCS needs to be able to identify and process dual limit SCV files for six months from 3 July 2015
- » 1 January 2016 all depositors subject to £75,000 limit per depositor per authorised institution.

# Investor Compensation - revised Directive and link to DGS

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- » FSCS complies with ICD but in addition provides compensation for negligence and/or mis-selling claims
- » Limit currently £50,000 per investor per authorised firm – limits review likely 2015/16
- » Introduction of Special Administration Regime (SAR) for investment firms - 2011
  - › Review of SAR by Peter Bloxham looks at ways to speed up payment to investors - 2013
  - › HM Treasury reviewing recommendations
  - › Data requirements for investment firms?
- » Financial Conduct Authority (FCA) review of client assets regime (CASS)
- » Funding – FSCS Funding Review due 2015/2016 and likely to consider pre-funding and risk based levies for non deposit funding classes.
- » Eligibility – unlikely to be extended to medium/large firms
- » Consumer Disclosure – FSCS working with the industry on how this may work for investments
- » Cooperation with the Union – increasingly globalised market
  - › Alpari (UK) Limited mainly dealt with Forex investments
  - › Nearly all investors based outside the UK
  - › Payments for compensation made in US\$
- » Stress testing – FSCS Business Resilience team as part of cyclical resilience testing programme.



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