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Commission Services
DG Internal Market
European Commission
B-1049
Brussels
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Our ref: Deposit Protection/KW

14th October 2005

Dear Sirs

REVIEW OF THE DEPOSIT GUARANTEE SCHEMES DIRECTIVE (94/19/EC)

The Panel is grateful for this opportunity to comment on the Review of the Deposit Guarantee Schemes Directive. Directive 94/19/EC is a very important consumer protection tool and one which the Panel believes should be reviewed on a regular basis. The Panel believes this review comes at a most appropriate time in view of the recent increase in the number of members of the EU.

The Panel does not propose to comment in great detail on all the aspects of the review highlighted in the Commission's paper. Instead this letter focuses on certain elements of a deposit protection scheme which the Panel believes are of significant importance from a consumer protection perspective.

In terms of the funding arrangements, the Panel does not have a view of what is the most appropriate funding model for the scheme. The most important issue for consumers is that funds are readily available in the event of a firm failure, in order to compensate them for any losses. Funding arrangements should be such that consumers are compensated quickly in the event of a default. The Panel does not have a view on whether an ex-ante or ex-poste funding model is the most appropriate. Indeed there may be perfectly valid reasons why each member state should be allowed to adopt the funding arrangements best suited to its banking network.

In terms of the current topping-up arrangements the Panel is disappointed that such arrangements are not used more widely to offer a greater degree of protection to EU consumers. The Panel believes the Commission should consider making such arrangements compulsory. An alternative may be to consider introducing rules covering greater transparency of the current arrangements. If a firm does not make use of topping-up facilities, the Panel believes it should be required to disclose this fact in its marketing material. This should include an obligation to fully disclose the home state arrangements which are in place that cover a consumers deposit in the

event of a collapse. This greater clarity will give consumers better information on which to base their decision about whether to place funds on deposit with any given firm offering cross border facilities.

The Panel has considered the issue of limits to compensation schemes as part of the FSA's review of the current limits which apply to the Financial Ombudsman Service, and the UK Financial Services Compensation Scheme. The Panel remains concerned that there appear to be arbitrary limits in place for compensation, and believes there is an argument for removing such limits altogether. The Panel believes the current upper limit of €20000 is in any event very low for the EU 15 member states. The Commission's paper highlights the difficulty some new accession states will face if there was to be no limit in place. The Panel feels this argument can be tempered by the fact that the level of deposits in such countries may be considerably lower than in other states, and therefore the likelihood of larger payouts having a severe impact on the banking sector in such countries may not be significant. The Panel does not agree that to remove the limit will give rise to moral hazard as it is not convinced the level of deposit protection available is, as yet, a determining factor in consumers' decision about where to place funds on deposit. Under current arrangements, the more sophisticated consumer who is aware of the upper limit to compensation is more likely to place funds on deposit with a number of firms as opposed to just one.

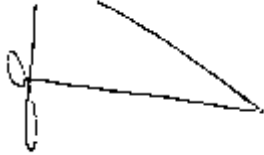
The Panel also believes the co-insurance rules are somewhat petty. The cost of removing the ability to restrict compensation to 90% of deposits up to this limit is not likely to be high for the EU 15. Consumers should not be required to meet 10% of their loss. The Panel believes consumers do not understand the complexity of the limits in place in any event, or the co-insurance arrangements that exist.

The paper suggests that some member states feel the cost of repaying only small amounts of money to consumers is disproportionately high and that a de minimis rule ought to be considered. The Panel would naturally be concerned about any such arrangement. Although the suggested €20 limit is very small, any such rule must be carefully considered in view of the potential disproportionate impact on less affluent consumers. That said, removing the co-insurance facility is likely to have a greater positive impact on consumers.

Whilst not specifically highlighted in the Commission's paper, The Panel believes the review ought to include the current advertising restrictions. Removing these restrictions would greatly assist consumer understanding of the various schemes. Whilst the Panel acknowledges the Directive's aim to avoid firms 'boasting' about the level of coverage, and the impact this will have on the banking sector, the lack of transparency of the schemes militates against consumer choice. If these controls were liberalised, and if firms were required to disclose whether they top-up, the Panel believes this will provide a greater incentive for firms to actually participate in the topping-up arrangement. Any increase in the use of these arrangements will improve consumer protection across the EU, and would greatly increase consumer understanding of the schemes generally.

Once again I would like to thank the Commission for giving the Panel the opportunity to comment on this important review. If you wish to discuss any aspect of this response then please contact the Panel again.

Yours faithfully

A handwritten signature in black ink, appearing to be 'John Howard', written in a cursive style.

John Howard
Chairman
Financial Services Consumer Panel