

The reform of voluntary deposit protection at a glance

The Board of Directors of the Association of German Banks has proposed a reform of the voluntary Deposit Protection Fund of German private banks. This will enhance protection for retail customers, in particular. The next step is for the Delegates' Assembly of the association to approve the proposal. The reform can then take effect on 1 October 2017.

What will change for retail customers and savers?

Nothing will change for retail customers after the reform. Demand, term and savings deposits will still be fully protected up to a ceiling of 20% of the bank's own funds. This generally means protection of **at least 1 million euros per customer** per bank. At many banks, however, this ceiling is much higher. Registered savings bonds held by private individuals will also continue to be protected by the voluntary Deposit Protection Fund. Information about the protection ceiling of a specific member bank can be obtained from the einlagensicherungsfonds.de website.

The same applies to foundations which administer their own assets only. Here, too, nothing will change. Foundations will enjoy the same protection as private individuals.

What will change for the federal government, regional and local governments and bank-like clients?

From 1 October 2017, the federal government, regional and local governments and bank-like clients will no longer be protected by the voluntary Deposit Protection Fund. As professional market participants, these clients have the knowledge they need to be able to evaluate risks. In this respect, the voluntary Deposit Protection Fund follows the reasoning of Germany's statutory deposit protection scheme, which also considers that this group of market participants does not require protection. Grandfathering arrangements will protect deposits made by these clients before 1 October 2017 and remaining with the bank after 1 October 2017.

What are "bank-like" clients?

Bank-like clients are investment firms within the meaning of Article 4(1)(1) of MiFID II and financial institutions within the meaning of Article 4(1)(26) of the CRR and include, in particular, financial holding companies, payment institutions, asset management companies, and also firms engaged in lending, factoring, financial leasing, trading in financial instruments, issuing and placement, corporate finance consultancy, portfolio management or the provision of custodial services.

Insurance companies and semi-governmental agencies – such as pension schemes for certain professions – do **not** count as bank-like clients and will continue to be protected by the voluntary Deposit Protection Fund in the same way as any other company.

How will the scope of protection of the voluntary Deposit Protection Fund change?

Changes to the scope of protection will be introduced in two steps.

- 1) From 1 October 2017, promissory notes (*Schuldscheindarlehen*) and registered bonds (*Namensschuldverschreibungen*) purchased by companies, institutional investors and semi-governmental agencies will no longer be covered by the voluntary Deposit Protection Fund. Notes and bonds purchased before 1 October 2017 will be protected by grandfathering arrangements.
- 2) From 1 January 2020, deposits with a term of over 18 months held by companies, institutional investors and semi-governmental agencies will no longer be protected by the voluntary Deposit Protection Fund. Here, too, grandfathering provisions will be in place for deposits made before 1 January 2020.

N.B.: These two changes do **not** apply to natural persons and foundations. For these customers, the existing scope of protection will continue to apply in full.

Why is reform needed?

The objective is to focus above all on protecting the deposits of retail customers. The planned measures are a response by the Deposit Protection Fund, which was established in 1976, to changes in the regulatory environment. Expenditure associated with the resolution and compensation regime has risen dramatically in recent years, for example. Low interest rates are putting further cost pressure on the banks. The reform will enable the Fund to consolidate its strength and bolster the financial power of the Deposit Protection Fund for the benefit of those customers who really need protection.

Further information can be found at en.bankenverband.de.