

Methodology for calculating risk-based contributions to deposit insurance funds

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- On May 2015, EBA published Guidelines on methods for calculating ex-ante contributions to Deposit Guarantee Schemes (DGSs) that are adjusted to the risk profile of each credit institution (EBA/GL/2015/10, Guidelines on methods for calculating contributions to deposit guarantee schemes, [22.09.2015: date of confirmation of compliance]).
- The Guidelines have been developed according to articles 10(3) and 13(3) of the Directive 2014/49/EU on deposit guarantee schemes (Deposit Guarantee Schemes Directive - DGSD).
- To ensure consistent application of DGSD across Member States, the EBA was mandated to issue Guidelines to specify methods for calculating contributions to DGSs in accordance with article 13(1) and (2) of the DGSD.

- The EBA Guidelines aim to
 - increase the harmonisation of practices of national DGSs,
 - enhance the level playing field and
 - contribute to greater comparability of risk-based contributions to DGSs across Member States.
- Pursuant to article 13(3) second subparagraph, the Guidelines are to include *‘a calculation formula, specific indicators, risk classes for members, thresholds for risk weights assigned to specific risk classes, and other necessary elements’*.
- The Guidelines have been issued pursuant to article 16 of Regulation (EU) No 1093/2010 establishing the EBA (the “EBA Regulation”).
- In accordance with article 16(3) of the EBA Regulation, competent authorities and financial institutions must make every effort to comply with the Guidelines.

Scope of the Guidelines

- The Guidelines specify core risk indicators and provide guidance for assigning weights to the risk categories and indicators, in order to strike the right balance between the need
 - for flexibility required, given the diversity of institutions on the one hand, and
 - for harmonisation and comparability within the Single Market on the other.
- Within each risk category, there are compulsory core risk indicators which should be used in order to promote comparable treatment of institutions.
- The Guidelines have been drafted with reference to internationally agreed principles, such as the BIS-IADI Core Principles for Effective Deposit Insurance Systems and the IADI General Guidance for developing differential premium systems.

The Principles

- The Guidelines specify methods for calculating contributions to DGSs.
- The Guidelines set out principles on the risk component of the calculation method in order to achieve technically sound risk methods for calculating contributions. Such methods promote risk discipline and address moral hazard.
- Principle 1: calculation methods should, as far as possible, reflect an increased liability incurred by a DGS as a result of a member's participation
- Principle 2: calculation methods should be consistent with the build-up period envisaged in DGSD
- Principle 3: incentives provided by contributions to the DGSs should be aligned with prudential requirements

The Principles (2)

- Principle 4: calculation methods should take into account specific characteristics of the banking sector, and should be compatible with the regulatory regime, and accounting and reporting practices in the Member State where the DGS is established
- Principle 5: the rules for calculating contributions should be objective and transparent
- Principle 6: the required data for the calculation of contributions should not lead to excessive additional reporting requirements
- Principle 7: confidential information should be protected
- Principle 8: calculation methods should be consistent with relevant historical data

- The Guidelines put forward the necessary elements for calculating ex-ante and ex-post contributions and contribute towards motivating credit institutions to operate under a sound risk business model.
- *Element 3. Risk categories and core risk indicators*

The calculation of the aggregate risk weight (ARWi) for an individual member institution should be based on a set of risk indicators from each of the following risk categories:

 - a. Capital
 - b. Liquidity and funding
 - c. Asset quality
 - d. Business model and management
 - e. Potential losses for the DGS

- Calculation methods include a set of compulsory core indicators pertaining to capital, liquidity and funding, asset quality (incl. asset encumbrance), business model, management and potential losses for the DGS, capturing the main dimensions of the risk profile of credit institutions
- Article 13 of DGSD lays down a number of criteria for the calculation of contributions to DGSs.
- Contributions are compulsorily based on the amount of covered deposits and the risk profile of each member institution.
- DGSs are allowed to develop and use, to a certain extent, their own calculation methods, in order to tailor contributions to market circumstances and risk profiles.

Flexibility as to risk indicators

- Respecting proportionality, the Guidelines allow authorities to take into account the diversity of institutions and business models while respecting a number of safeguards responding to harmonisation and comparability needs.
- The Guidelines allow authorities to set aside a core risk indicator that is unavailable due to the legal characteristics of specific institutions or supervisory regime in which they operate.
- The authorities may, further, introduce additional risk indicators, provided that the minimum weights specified for the remaining core indicators and risk categories are respected.

Flexibility as to risk indicators

- A minimum weight is assigned to each core indicator.
- The compulsory indicators will represent 75% of the risk assessment, thus leaving some framed flexibility to the DGSs and designated authorities to determine the remaining 25% in order to increase the importance of risk indicators which better capture differences in risk profiles.
- The weight of any additional indicator, or any increase in the weight of a core indicator, may not exceed 15%, except for qualitative risk indicators in the risk category 'Business model and management' where full flexibility is allowed in order to properly reflect the diverse characteristics of member institutions.

- In this context, towards implementation of the Guidelines in the national DGSs, the following questions are raised:
 - a) whether methodology can envisage additional risk-weighting on the basis of the systemic character of a credit institution [given that in principle systemic banks are subject to resolution and not to liquidation] and
 - b) whether the systemic character of a credit institution could be considered as a risk indicator of the category “potential losses”, related to the probability of the activation of a DGS, and therefore rightly affecting the calculation of the relevant contribution.