Do you get your money back?

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René Smits
During the financial crisis, banks have fallen into disrepute. Whether one's account at a bank was still safe, suddenly became a topical issue.

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René Smits

The long queues in front of British mortgage bank Northern Rock in 2007 were not replicated at other banks but, during the worst of the crisis, a lot of money was withdrawn from bank accounts. In the 'periphery',savers feared their euros would one day be converted into drachmas or escudos. In other euro area Member States, as well, concerns about the security of money entrusted to banks was widespread.

Just before the summer recess, European politicians have agreed a number of measures that are important for an answer to the question "Will I get my money back?" These measures concern 'bail-in' at banks: the bleeding of creditors and shareholders of a bank in a rescue operation. 'Bail-in' is the opposite of 'bail-out': a rescue from outside, i.e. with taxpayers' money.

Since the rescue operation for Cyprus last spring, it was unclear whether account holders of banks would have to contribute, as such was initially contemplated regarding the Cypriot banks, even for the 'small' saver of up to €100,000. Examination of the recently agreed texts shows that deposits of up to €100,000 entrusted to banks will remain untouched when a bank's creditors have to contribute to the rescue of that bank.

This concerns three political texts that do not yet have the force of law: an agreement between the European finance ministers on the Directive for recovery and resolution of banks, an agreement on how the European Stability Mechanism (ESM) will in the future be able to directly infuse capital into banks and a proposal from the European Commission for a European mechanism for the resolution of banks.

All three have yet to be transposed into European law: the political agreement on the Directive is the ECOFIN Council's contribution in discussions with the European Parliament on the Directive; the agreement on the ESM has yet to be translated into a formal decision; and the Commission proposal is only the first step towards a European resolution mechanism for banks. All documents assume that deposits up to €100,000 remain untouched when claims of a bank's creditors are to be written down.

A fourth document, the European Commission's new rules on state aid to banks, in force since 1 August, confirms the inviolability of funds covered by deposit guarantee schemes. Individuals who, and SMEs which, entrust their money to banks may therefore count on seeing their money back.

Of course, apart from the law, it is above all the soundness of deposit guarantee schemes that is important. Is the scheme sufficiently robust to absorb the costs of a bankruptcy of a bank? In the Icesave affair, this showed not to be the case in Iceland. The EFTA Court later even held that, under the EU Deposit Guarantee Directive, the Icelandic government did not have to come to the rescue of the depositors in the crisis.

Pending proposals for strengthening the Deposit Guarantee Directive make improvements to the soundness of the guarantee schemes. A European deposit guarantee system has been announced in the context of 'banking union', although the Commission has yet to submit its proposal.

After the turmoil of the last spring when, following the original plans for Cyprus, Finance Minister and Eurogroup Chairman Jeroen Dijsselbloem indicated that writing down creditors would become the new approach in bank rescues, these latest documents are reassuring for accountholders at banks with a deposit of up to €100,000. Assuming the robustness of the deposit guarantee scheme, you will get your money back.

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