



Deposit guarantee schemes

EU legislation protects banks deposits in case of bank failure

Overview

Deposit guarantee schemes (DGS) reimburse a limited amount to compensate depositors whose bank has failed. A fundamental principle underlying DGS is that they are funded entirely by banks, and that no taxpayer funds are used.

Under EU rules, deposit guarantee schemes

- protect depositors' savings by guaranteeing deposits of up to €100,000
- help prevent the mass withdrawal of deposits in the case of bank failure, which can create financial instability

The EU has gradually increased the level of deposit protection since the first directive for DGS was introduced in 1994.

Directive on deposit guarantee schemes

The original deposit guarantee schemes directive of 1994 only required a minimum level of harmonisation between domestic deposit guarantee schemes in the EU. It proved disruptive for financial stability and the internal market, especially during the financial crisis of 2007-2009.

An amending directive in 2009 required EU countries to increase their protection of deposits firstly to a minimum of €50,000, and then to a uniform level of €100,000 by the end of 2010.

In 2014, the EU adopted [Directive 2014/49/EU](#). It requires EU countries to introduce laws setting up at least 1 DGS that all banks must join. EU countries must

- ensure a harmonised level of protection for depositors
- produce lists of the types of deposits that are protected

DGSs set up and officially recognised in 1 EU country must cover the depositors at branches of their members in other EU countries.

The directive maintains the deposit protection of €100,000, and includes a gradual reduction of the repayment times of deposit guarantees.

It also restates the principle of resolving bank failures with the use of funds provided by financial institutions, and not by taxpayers

Related links

[Review of the bank crisis management and deposit insurance framework \(DGSD review\)](#)

[European Banking Authority \(EBA\) on bank recovery and resolution and deposit guarantee scheme](#)
