

Fact sheet: Contributions to the Dutch Deposit Guarantee Fund

July 2024

Since 2016, Dutch banks have paid quarterly contributions to the Dutch Deposit Guarantee Fund (DGF), which reached its target size of 0.8% of guaranteed deposits in mid-2024. Its financial means are held in liquid form, so that these can be used directly to pay out compensation under the Dutch Deposit Guarantee Scheme (DGS). Below, we explain the workings of the DGF and DGS, including how contributions are set and available financial means are managed, and what happens after a DGS payout.

How is the ex-ante fund built up?

The DGS has a fund pursuant to European regulations¹. The fund can be used for DGS payouts and to assist in the case of resolution. The European regulations provide that the available financial means, collected as contributions from banks, must be at least 0.8% of the amount of the covered deposits (“**deposit base**”).

Dutch regulations² provide for the fund to be maintained by banks paying quarterly contributions to the DGF. Following a payout, the fund will be gradually rebuilt so that it returns to the target level in good time.

The DGF consists of a collective and an individualised component. The contributions to the collective component are set on a risk-weighted basis. The individualised component comprises the total amounts of the individual balances of the participating banks. The target size of a bank’s individual balance is 0.4% of its deposit base, while the target size of the collective component is 0.4% of banks’ aggregated deposit bases, with the share per bank depending on the individual bank’s risk score.

¹ Deposit Guarantee Scheme Directive (Directive 2014/49/EU)

² Decree on Special Prudential Measures, Investor Compensation and Deposit Guarantees under the Wft (*Besluit bijzondere prudentiële maatregelen, beleggerscompensatie en depositogarantie Wft – Bbpm*).

How does DNB set banks' contributions to the fund?

DNB is responsible for calculating contributions and sends the banks a decision for each quarterly contribution. This decision states the amount of the contribution and when it will be collected on behalf of the DGF. The contributions are calculated on the basis of formulas laid down in national legislation.³

A bank's contribution is calculated based on the guaranteed deposits reported by the bank in the previous quarter. DNB examines whether a bank's Single Customer View (SCV) file can serve as a basis for calculating contributions.⁴ If that is not the case, DNB determines the deposit base on the basis of the number of accounts and account balances reported by the bank in the quarterly DGS reports.⁵

The way contributions are calculated depends on whether the fund is at the required level or is being built up. If the fund is at the target level, it should be maintained there. This applies to both the individualised component and the collective component. The fund is in an accumulation phase when the financial resources in the fund have been partially used and the fund needs to be restored to its target level.

2.1 The fund has reached its target level and needs to be maintained there.

A bank's contribution to the individualised component is based on its deposit base. The contribution to the individualised component is the amount that a bank must contribute to build up the fund to 0.4% of the deposit base, based on its deposit base at the end of the previous quarter, which is the reference date. If the balance has reached its target level, no contributions are levied.

The contribution to the collective component is based on a bank's weighted share of the deposit base of the entire banking sector. When the sector-wide deposit base grows, causing the balance of the collective component to fall below the target level, banks contribute to the collective balance. An individual bank's required contribution depends on its share of the increase in the aggregated risk-weighted guaranteed deposits. Only banks whose deposit base has increased since their previous calculated contribution are required to contribute to the collective balance. This ensures they contribute in proportion to their share in the risk-weighted deposit growth. The risk weighting is determined based on risk indicators. This methodology was drafted based on guidance from the European Banking Authority (see the Risk Methodology fact sheet). A bank with a relatively high risk profile must contribute more. If the collective component has reached the target level, no additional collective contributions are levied.

2.2 The financial resources in the fund have been used and the fund needs to be (partly) rebuilt.

A bank's contribution to the individualised component is based on its deposit base and comprises a basic contribution and a supplementary contribution:

- The **basic contribution** is the amount that a bank must contribute to build up $1/T$ of the target level (0.4%), based on its deposit base at the end of the previous quarter, which is the reference date. T is the number of quarters remaining until the fund reaches its target level.
- The **supplementary contribution** is the amount that banks must contribute additionally if the balance accumulated until then (including imputed

³ Annex B of the *Bbpm*.

⁴ On the basis of a report of the bank's internal auditing department and an assurance report of the external auditor (ISAE 3402).

⁵ Generally, the results of this calculation are a few percentage points higher, as it does not take into account the fact that account holders may have multiple accounts.

returns, see Section 4) fails to reach the target level set on the basis of the current deposit base. This may be the case if the deposit base has increased since the previous contribution amount was set. The supplementary contribution is used to correct the fact that contributions were not levied to compensate for this increase over the entire preceding period. Supplementary contributions cannot be below zero – contributions are not repaid to the banks if the deposit base has diminished.

The contribution to the collective component is based on a bank's weighted share of the deposit base of the entire banking sector and it consists of a risk-based contribution and a supplementary risk-based contribution:

- The **risk-based contribution** payable by a bank is calculated on the basis of a risk weighting percentage, which is determined using risk indicators (see the Risk Methodology fact sheet).

The risk-based contribution is the amount that banks have to contribute to build up 1/T of the target level for the collective component (0.4%), based on the deposit base at the end of the previous quarter. The amount that an individual bank must contribute depends on its share of aggregated risk-weighted guaranteed deposits. A bank with a relatively high risk profile will contribute more.

- The **supplementary contribution** is the amount that banks must contribute additionally if the balance accumulated until then (including imputed returns, see Section 4) fails to reach the target level set on the basis of the current deposit base. Only those banks whose deposit base has increased since the previous contribution amount was set must pay a supplementary risk-based contribution. This ensures they contribute in proportion to their share in the risk-weighted deposit growth.

What happens to the accumulated balances in the event of bank changes?

Mergers, conversions of subsidiaries into branches or similar changes may affect DGS coverage and fund balance:

- If a bank moves to **another Member State**, the relevant guaranteed deposits are no longer covered by the Dutch DGS but by a DGS in another EU Member State. The contributions to the Dutch DGF made 12 months prior to the change will be transferred to the DGS in the other Member State.⁶ Any remaining balance will be credited to the collective component of the DGF. In the case of a transfer of part of the guaranteed deposits, the contribution transfer takes place proportionally. The amount to be transferred is then charged to the individual balance of the bank concerned. If this should prove insufficient, the excess is provided

from the collective component of the fund.

- A **new bank** with registered offices in the Netherlands automatically joins the DGS and must then contribute to the fund. The same applies when a Dutch branch office of a foreign bank is converted into a subsidiary. In the case of a bank in the EU, the Dutch DGF will receive all or part of the contributions the bank paid to the foreign DGS in the previous 12 months. The transferred amount will be added partly to the collective component and partly to the individualised component of the bank that is joining the DGS.
- When two banks participating in the Dutch DGS **merge** or when a bank **joins a group of banks**, the accumulated individualised components are added together. If **a bank leaves a group of banks**, the

⁶ In accordance with Article 14(3) of the DGS Directive (see Section 29.20(1) of the *Bbpm*).

group's accumulated individualised component is distributed between the outgoing bank and the rest of the group pro rata to their deposit bases as at the most recent reference date.⁷

- When **guaranteed deposits are transferred** (in whole or in part) between two banks participating in the Dutch DGS, the individualised component is transferred (in whole or in part). This transfer is possible up to a maximum of 0.4% of the amount

of the guaranteed deposits transferred. If any funds remain, the excess is not transferred but is credited to the collective component of the DGF.

- The banks' obligations and the depositors' rights in the event of changes are set out in the Fact sheet on DGS liabilities in the event of bank changes..

The list above is not exhaustive.

How does the DGF invest the available financial means, and how do returns affect the contributions levied?

The DGF's management board is responsible for managing the fund's available financial means.

It adopts the investment policy within the limits set by the government. Funds must be held in liquid form pursuant to the European DGS Directive.

In 2018, the Minister of Finance designated the DGF, as a public law entity, for participation in treasury banking. Accordingly, the DGF has held its available financial means in a current account with the National Treasury since late 2018. The Dutch State Treasury Agency publishes interest rates for

this account daily. Procedural arrangements are in place with the Dutch State Treasury Agency to ensure that the DGF's available financial means are readily available should the DGS be activated.

If a positive (or negative⁸) return is achieved, the DGF uses it to increase (or reduce) the collective component and the individual balances in the fund's individualised component. This is done in proportion to the size of the respective components at the time of the increase or reduction.

⁷ See section 29.18(2) of the *Bbpm*.

⁸ The same applies to costs charged to the fund's available financial means, such as costs involved in the credit line.

How are funds used for a DGS payout?

If the DGF makes financial means available from the fund to pay compensation under the DGS, they will be charged successively to:

- a. the individual balance of the failing bank;
- b. the collective component;
- c. the individual balances of the other banks in the individualised component in proportion to these individual balances.

DNB will levy extraordinary contributions on an ex-post basis if the available financial means should prove insufficient. See the Fact sheet on extraordinary contributions.

Following a DGS payout, the DGF has a claim against the assets of the failed bank. When the DGF pays compensation under the DGS to a depositor, it takes over the depositor's rights in respect of the latter's corresponding claim on the bank (subrogation).⁹ The DGF then submits a claim to the liquidator. Due to the preferential status of guaranteed deposits in the creditor hierarchy, including the DGF's claims as a result of subrogation¹⁰, the claim is likely to be

paid through liquidation proceeds. However, it may take several years before the claim is paid. New contributions will be calculated in the meantime to restore the DGF to its required level.

The rules lay down how the amounts paid to the DGF out of the estate are to be distributed.

First, the DGF refunds the banks that have paid extraordinary contributions (see the Fact sheet on extraordinary contributions). If a bank has outstanding payment obligations for extraordinary contributions, then this may be offset. Subsequently, any remaining income accrues to the fund, first to the individual balances of the banks that have been charged, and finally to the collective component. In principle, extraordinary contributions are used to repay any third-party credit taken out, for example with a commercial credit facility.

Disclaimer

No rights may be derived from this fact sheet. Legislation and regulations are leading.

⁹ Section 3:261(5) of the Financial Supervision Act (*Wet op het financieel toezicht - Wft*).

¹⁰ Section 212ra(1) of the Bankruptcy Act (*Faillissementswet*).