

Contributions to the Dutch Deposit Guarantee Fund

October 2021

Since 2016, Dutch banks contribute quarterly contributions to the Dutch Deposit Guarantee Fund (DGF), which should reach a target level of 0.8% of covered deposits over time. Its financial means are held in a liquid form, so that these can be used directly to pay out compensation under the Dutch Deposit Guarantee Scheme (DGS). In this factsheet, 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.

1

How is the ex-ante fund being built up?

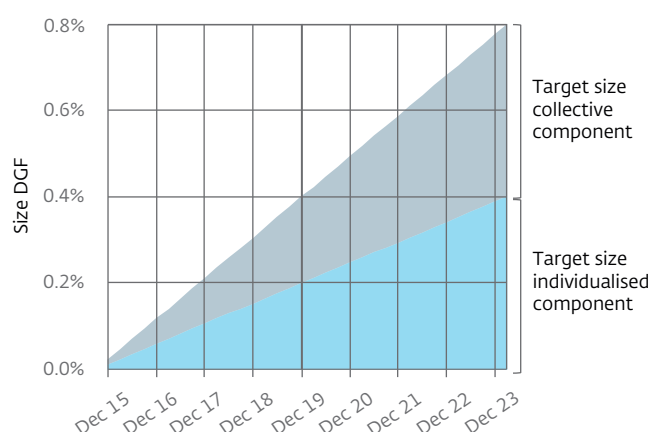
In line with European regulations, a Deposit Guarantee Fund has been built up since 2016, from which DGS payouts can be financed. The Deposit Guarantee Schemes Directive ("DGS Directive") provides that the available financial means, collected as contributions from banks, must at least reach a target level of 0.8 % of the amount of the covered deposits ("**deposit base**") by 3 July 2024.

This has been implemented in the Dutch legislation¹, and banks pay quarterly contributions to the DGF. This means that the fund will be built up in 34 quarters. After the target level has been reached, DNB will continue to levy contributions to keep the DGF's balance in line with the size of the covered deposits.

The contributions to the fund are partly set on a risk-weighted basis. For this purpose, the DGF has a collective and an individualised component. The individualised component comprises the total amounts of the individual balances of the participating banks. The components have separate target levels. The target size of a bank's individual balance is 0.4% of its deposit base, while that of the collective component is 0.4% of the banks' aggregated deposit bases.

As a rule, the contributions that banks must make to the DGF are set in such a way that the fund is built up in equal steps (see Figure 1). In principle, the accumulation rate is 2.35 basis points per quarter, or 80 basis points over 34 quarters. However, the rules give the option of applying a correction factor in connection to the economic outlook and the expected macroprudential impact of contributions within a certain range. This means that DNB may accelerate or decelerate the fund's accumulation on a temporary basis. To date, DNB has not used this option.

Figure 1 Accumulation of the DGF



¹ 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 the banks' contributions to the fund?

DNB is responsible for setting the contributions, and each quarter DNB sends the banks decisions, containing the amount of the contribution and when the contributions are collected on behalf of the DGF. The contributions are calculated on the basis of formulas laid down in national legislation.²

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

- The **basic contribution** is the amount that banks must contribute to build up 1/34th of the target level (0.4%), based on its deposit base at the end of the previous quarter, which is the reference date.
- The **supplementary contribution** is the amount that banks must contribute in addition if the balance accumulated until then (including imputed returns, see paragraph 4) falls short to what should have been built up on the basis of the current deposit base. This may be the case where the deposit base has increased since the previous contribution amount was set. The supplementary contribution is used to correct for the fact that contributions were not built up to reflect this increase over the entire previous period. Supplementary contributions cannot be below zero – contributions are not repaid if the deposit base has decreases.

A bank's contribution to the collective component is based on the deposit base of all banks taken together. Banks contribute to this on the basis of their individual risk profile, also in relation to those of the other banks.

To this end, risk weighting percentages are established using risk indicators (see the [Deposit Guarantee Fund levies \(dnb.nl\)](#)).

The contribution to the collective component consists of a risk-based contribution and a risk-based supplementation:

- the **risk-based contribution** payable by a bank is determined by first calculating the amount that banks have to contribute to build up 1/34th of the target level for the collective component (0.4%), based on the deposit base at the end of the previous quarter. An individual bank's contribution depends on its share in the aggregate weighted covered deposits. A bank with a relatively high risk profile must contribute more.
- The **risk-based supplementation** is the amount that the bank has to pay extra in order to correct for the fact that the balance of the collective component accumulated so far is insufficient. Only those banks whose deposit base has increased since the previous contribution amount was set must pay a supplementary risk-based contribution. They contribute in proportion to their share in the risk-weighted deposit growth.

Banks will be charged contributions to the DGF as long as the target levels of the individualised and collective components have not been reached. This applies to the components separately, which means a bank may have reached the individualised component's target level while still having to pay a contribution for the collective component.

DNB sets the contributions based on the covered deposits reported by the banks in the previous quarter. First of all, DNB examines whether a bank's Single Customer View (SCV) file can serve as a basis for calculating contributions.³ 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. Generally, this calculation results in contributions that are a few percentage points higher, because this approach does not take into account that an account holder may have multiple accounts.

² Annex B of the *Bbpm*.

³ On the basis of a report of the bank's internal auditing department and an assurance report of the external auditor (ISAE 3402)

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

Transfers of registered offices or other changes such as a transfer of deposits or conversions of foreign branches into subsidiaries may affect DGS coverage and the balance accumulated with the fund:

- When covered deposits are no longer covered by the Dutch DGS due to the **transfer of registered offices** to another EU Member State, they are covered by a DGS in that other Member State. In that case, the contributions paid to the Dutch DGF in the 12 months preceding the transfer will be transferred to the foreign DGS.⁴ If part of the covered deposits are transferred, for example in the event of subsidiarisation of a foreign branch, contributions are transferred on a pro rata basis. The amount transferred is then charged to the individualised component of the bank concerned. If this should prove insufficient, the excess is provided from the collective component of the fund.
- A **new bank** established in the Netherlands automatically joins the DGS and must then contribute to the fund. The same applies when a Dutch branch of a foreign bank is converted into a subsidiary. In the case of an EU bank, the Dutch DGF will receive a part of the contributions the bank paid to the foreign DGS in the previous 12 months. This will then be taken into account in calculating the contributions. The amount transferred is added in part to the collective component and in part to the individualised component.
- 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 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 date⁵.
- In accordance with current regulations, **when covered deposits are transferred** between two banks participating in the Dutch DGS, the individualised component is not transferred.
- The banks' obligations and the depositors' rights in the event of changes are set out in the Factsheet on DGS obligations in the event of bank mutations (forthcoming).

⁴ In accordance with Article 14(3) of the DGS Directive (see Section 29.20(1) of the *Bbpm*).

⁵ Article 29.18 (2) of the *Bbpm*.

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 financial means. It adopts the investment policy within the limits set by the government. The funds must be held in liquid form, to qualify as "available financial means" as referred to in the DGS Directive, which should reach a minimum target level of 0.8% of covered deposits by mid-2024 as required by the Directive.

In 2018, the Minister of Finance designated the DGF, established as a legal entity under public law, for participation in treasury banking. Accordingly, the DGF

has held its available financial means in a current account with the Treasury since late 2018. Procedural arrangements were made with the Dutch State Treasury Agency to ensure that the DGF's available financial means are readily available when the DGS would be activated.

If a positive (or negative⁶) 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.

How are the contributions set following a DGS payout?

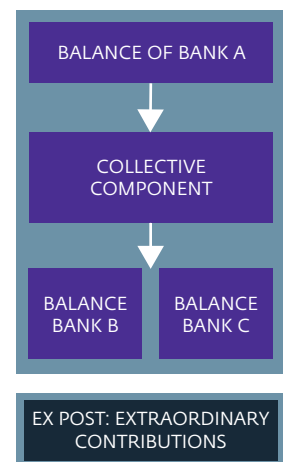
If the DGF makes financial means available from the fund to pay compensation under the DGS, they will be charged successively to:

- the individual balance of the failing bank;
- the collective component;
- the individual balances of the other banks in the individualised component.

Please note that extraordinary contributions will be raised on an ex-post basis if the available financial means should prove insufficient. See the [Deposit Guarantee Fund levies \(dnb.nl\)](#).

Example

- The DGS is activated for bank A
- First the amount employed is charged to Bank A's individual balance
- Then it is charged to the collective balance of all participating banks
- The rest is charged to the individual balances of the participating banks
- Extraordinary contributions are raised if the fund's available financial means should prove insufficient



⁶ This also applies to the expenses of the DGF (such as the expenses related tot a credit facility agreement which was concluded with a banking consortium for prefinancing DGS pay-outs).

After the compensation by the fund, the quarterly contributions will be set in order to reach the target level within the period set in EU legislation. In that case, the following applies in accordance with the DGS Directive: (1) if the minimum target level has not been reached while cumulative payouts by the DGF exceed 0.8% of the covered deposit base, the accumulation period is extended by four years; (2) if the minimum target level has been reached – which will be in the second half of 2024 in the Netherlands – but the fund's level falls below 2/3rd of its target level, the target level must again be reached within six years.⁷ Depending on the situation, DNB will determine the number of reference dates until the target level must be reached.⁸

Following a DGS payout, the DGF has a claim against the estate 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 insolvency practitioner. Due to the preferential status of covered deposits in the creditor hierarchy, including the DGF's claims as a result of subrogation¹⁰, part of the claim is likely to be paid through liquidation proceeds. However, it may take several years before the claim is paid. DNB will collect contributions in the meantime to restore the DGF to its required level.

in the legislation is laid down how the amounts paid out of the estate are distributed to the DGF. When the DGF receives a payment from the failed bank's assets, these proceeds are redistributed to banks, but only and to the extent that they have paid extraordinary contributions (see the [Factsheet on setting and collecting extraordinary contributions or advance payments for the deposit guarantee scheme](#)). To the extent any income remains following redistribution, this accrues to the fund, firstly to the individual balances of the banks to the extent any amount had been charged to them, and secondly to the collective component.

DISCLAIMER

No rights can be derived from the content of this document.

⁷ Article 10(2) of the DGS Directive.

⁸ In accordance with Annex B, sub 2, of the Bbpm.

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*).