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VERKET FÖR FINANSIELL STABILITET
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Survey: More than half are aware of deposit protection – clear majority would withdraw their money from a crisis bank, regardless

The results of the first survey by the Financial Stability Authority (FFSA) reveal what Finns know about deposit protection: almost 60% expect the payment of deposit guarantee compensations to last for half a year or longer. The survey and its results are highly topical, since the payout period for deposit guarantee compensations is reduced to seven working days by a legislative amendment taking effect at the beginning of next year. The FFSA has completed an extensive IT development project creating the foundation for the fast payment of the compensations.

More than half (56%) of Finns are aware that Finland has a statutory deposit guarantee scheme ensuring that depositors get their money back in the event that their bank goes bankrupt. Almost as many are also able to identify the correct maximum level of the deposit guarantee (€100,000). However, seven Finns out of ten would withdraw their deposits if they heard that their bank was in major financial trouble.

According to a survey commissioned by the FFSA, people believe it takes a long time to get their deposits back: 76% estimate it would take at least a month, and 58% believe it would take more than half a year. These impressions are a reflection of the past, when banking crises were first subject to long-lasting scrutiny. At present, deposit guarantee compensations can be paid out to depositors in just over one week.

- Awareness of the deposit guarantee scheme in Finland is at a solid European average level, and confidence in authorities is at a good level. However, this is not enough as long as the citizens do not have a clear understanding of the present system and of the availability of their own funds in a crisis situation, says **Tuija Taos**, Director General of the Financial Stability Authority.

According to the survey, the maximum compensation of a hundred thousand euro seems to cover the majority of Finnish depositors. A third (29%) of bank account holders have no more than EUR 1,000 on the account. A fifth (19%) of the respondents have more than EUR 20,000 and three percent over EUR 100,000.

- Automatic payment of the deposit guarantee within seven working days to the depositor is today's consumer protection at its very best, argues Taos.

Deposit guarantee provides protection even when one's bank is healthy

A little more than half (56%) of the respondents replied they had heard of a protection applying to bank deposits. A more closer assessment reveals that confidence in the system was clearly higher among these respondents as opposed to respondents unfamiliar with the deposit guarantee scheme. Only eight percent of respondents familiar with the deposit guarantee scheme believe they would lose their entire deposit in a crisis situation, compared to one in three (33%) among other respondents.

This is a significant finding, when the deposit guarantee is viewed as a factor stabilising the financial system as a whole. In a crisis situation, the major concern for authorities is a bank run, which could destabilise the financial system. Deposit guarantee also protects everyone else, in addition to the depositors of the crisis bank.

- The deposit guarantee does not just protect individual depositors but also the whole financial system, for example by reducing the risk of a severe bank run. In addition, the deposit guarantee supports and protects bank resolution by reducing general uncertainty in crisis circumstances, notes Taos.

According to the survey, information on the deposit guarantee was most frequently heard or received through the media (print 45%, TV 40%), whereas information disseminated by one's own bank failed to reach depositors as well as the media did.

- We must communicate more clearly to the depositors how effective and versatile the present system is at protecting depositors and tax-payers from the costs of banking crises. In this regard, not just authorities like us, but banks in particular, have a lot of work to do, argues Taos.

Investor liability changed the way of dealing with banking crises

Almost half (44%) of Finns believe that it is the depositors who take the largest blow from losses incurred by a bank facing financial difficulties. Only a quarter believe that the investors bear the financial liability for a bank in crisis.

- The purpose of the resolution proceedings is to make sure that investor liability becomes a reality. Then the citizens’ deposits or government funds will not be needed, as the main responsibility for a bank’s financial losses is borne by its shareholders and investors, says Taos.

Investor liability and protection of tax-payers are among the key principles underlying the European resolution mechanism. According to Taos, joint resources at the level of the euro area to solve common problems are much stronger compared to individual EU member states, both in issues concerning the resolution mechanism and deposit protection.

- Banking crises are no longer dealt with like they used to be, states Taos.

The survey, conducted in July 2019 by TNS Kantar and commissioned by the Financial Stability Authority, was responded to by a total of 1,032 people from the age of 18 to 79 years in continental Finland with a bank account.

Chart 1: This is how deposit protection works
Chart 2: Results of the FFSA's Confidence Survey 2019

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The Financial Stability Authority is Finland's national resolution authority. The Authority is responsible for resolution planning concerning credit institutions and investment firms, and for decision-making relating to the reorganisation of institutions experiencing financial difficulties. In addition, the Authority maintains the Finnish deposit guarantee scheme. It manages the Financial Stability Fund, consisting of the Deposit Guarantee Fund and the Resolution Fund. The Financial Stability Authority operates as part of the EU's Single Resolution Mechanism. www.rvv.fi