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COMPLIANCE SYSTEM SECURITY DEPOSIT WITHIN GLOBAL REGULATORY POLICIES

Abstract: *Drawing on situations with banking panics, deposit insurance has become an instrument of preserving trust to banks. Protect customer deposit is the main goal of institution who is established as the authority for deposit insurance. This paper examines the regulatory framework of deposit insurance and the action that came as an answer to the current crisis. For this purpose, it checks the hypothesis of consistency of the national deposit insurance system in the context of global regulatory policy. The aim is to study the individual deposit insurance system of Japan, the United Kingdom (UK) and countries of European Union (EU) and determine their degree of convergence. Methods of analysis and comparison are analyzed and compared to national regulations assurance system while the deductive method evaluates the level of harmonization. The research results point to a gradual convergence of the system in the field of acceptance of uniform regulations or divergence in the manner and effect of its implementation. For better alignment of global regulatory it is recommended the introduction of an explicit and multiple insurance system*

Key words: *deposit insurance system, regulatory policies*

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INTRODUCTION

Deposits are the largest source of financing activities of banks. Their withdrawal may lead to disruptions in the functioning of banks and the financial system. Preserving confidence in the banking system should therefore be accompanied by arrangements to protect the depositary. The establishment of effective deposit insurance system is one of the measures of global regulatory policy, in response to the financial crisis. Regulatory policy foresees specific regulations, restrictions and rules which tends convergence of regulations in the field of deposit insurance. Bank for International Settlements (BIS) and the International Organization for deposit insurance (IADI) in 2009 released the basic principles for effective deposit insurance systems. (Detailed on: Core principles for efective deposit insurance systems, 2009. http://www.bis.org/publ/bcbs156.pdf). The created document named "Core Principles" or "Basic principles" has been recognized as a priority for their implementation within the framework of national regulatory policies. Principles are 2011 identified as key standards for the health of the financial system by the Committee for Financial Stability (FSB, more details: FSB, Thematic review on Deposit Insurance Systems, Web site: www.financialstabilityboard.org). They also serve as a basis for monitoring changes in individual deposit insurance systems.

This paper examines the compliance of the national deposit insurance system, not their deviation from the basic principles. Regulations related to the coverage of deposits during the financial crisis, considering the limits of coverage of deposits.

However, analysis shows that in the period of crisis, the government, on several occasions, taken over the role of "saving" the banks of the institutions dealing with the insurance of deposits. Therefore, the aim of this paper to identify the characteristics of the deposit insurance system in Japan, UK and EU countries with emphasis on Germany and then to study the similarities and differences and their level of compliance. For this research were used data from secondary sources available in public publications and internet sources. The paper is structured as follows: after the introduction, processed the theoretical concept of deposit insurance system, then analyzes the security deposit in different national conditions, guidelines convergence of national deposit insurance system are presented in the fourth part.

1. THEORETICAL CONCEPT OF DEPOSIT INSURANCE SYSTEM

Deposit insurance system developed at the beginning of the Great Depression of the 30s of the last century. The need to protect customer deposits is the main goal of the body, institution, which is established as the authority for deposit insurance. The founders are state institutions, private entities or a combination. Having learned from experiences with banking panics, deposit insurance has become an instrument of preserving trust and bank failures. Explicitly or implicitly established deposit insurance system indicates the formal nature of insurance. Implicitly established systems not based on the law which guarantees the protection of clients due to deterioration of bank failure. In this case, it is assumed that the state settled depositors. In some of the leading counties “world powers”, such as China and Australia, deposit insurance does not exist. The reason for this situation is greater market discipline and the possibility and possible malfunction of the deposit protection system in explicit system. The governments of the implicit system consider it as a dull and as an incentive for investors and banks to manage risk which increases the possibility of bank failures (Mayes 2013, 14). Most countries have established explicit deposit insurance system, which is continually being updated. Explicitly established systems based on formal regulations on the functioning of the system, limits of coverage, financing and settlement system clients in the case of bankruptcy. Deposit insurance implies the rules that are not defined at the national level (“compensation scheme”) or applicable to the general level. In some countries there are more deposit insurance system but also there are a deposit insurance systems to cover more countries. Access to the deposit insurance depends on the structure of the banking system and banking business models that may or may not be based on legal unbundling of classic and Investment Banking (Mishkin 2010, 270). Insurance in multiple systems is implied cover various types of deposits banks (Iwanicz-Drozdowska 2013, 11). Otherwise, there is a unique system of insurance for all banks.

2. ANALYSIS OF COMPLIANCE DEPOSIT INSURANCE SYSTEM AT THE GLOBAL LEVEL

The global financial crisis of 2007 - 2008 has prompted the national authorities to examine the framework that treats regulation of deposit insurance (Ayaidi, Lastra 2010, 210). An especially important issue is the harmonization of regulations due to the appearance of a cartel-banks in cross-border basis (Ayaidi and Lastra 2010, 212). Regulations which provides deposit insurance in Japan, UK and EU countries is summarized in Table 1.

Table 1. Specifics of regulatory policy in the field of deposit insurance (Authors)

Deposit Insurance System	**Japan**	**UK**	**Germany**
Existence of Deposit Insurance System	Yes, Deposit Insurance Corporation Japan (DICJ)	Yes, FSCS	Multiple Yes
Financing system/ Capital	State and banks	Banks	Banks and brokerage companies
Funds/Collection premium	Orderly	Ex-post	Orderly
The risk assessment approach insurance	No	No	Yes
Limit per deposit	For term deposit, JPY 10 mil., other deposits fully coverd	GBP 85 000	EUR 100 000
Coverage of foreign deposits	No	Yes	No (only deposits in EUR)

Coverage of inter-banks deposits	No	No	No
Clients are fully settled in the event of a bank problem	Yes	Yes	Yes
Participation in the system of insurance mandatory for all banks	Yes	Yes	Yes
Part of the assets that are financed by deposits	70%	68%	65%
The avegare period of settlement depository	-	3-6 months	-

Mismatch of harmonization of regulatory policies in the area of deposit insurance stems from the national conditions and the structure of the banking system. Differences regarding program financing insurance are results of their sensitivity to the risks and limits of insurance. As shown in Table. 1, deposit insurance for the analysis of national banking systems are subject to bank deposit insurance in all analyzed regions. However, there are differences in the structure of the banking system and, in accordance with national organizations, insurance excluded banks shall not engage in specific activities. In the EU, business, investment, mortgage banks and dealing with insurance and sale of securities are subject of insurance, while in Japan and the UK it is just business and rarely banks engaged in investment activities. Deposit Insurance Act are harmonized with regard to the body that acts as a guarantee of repayment of the deposit. In Japan it is Deposit Insurance Corporation (DICJ). The objective of deposit insurance in Japan is to protect investors and other parties and to try to guarantee full payment of funds deposit, if a financial institution is not able to make these payments, or to pay a deposit in his maturity. The deposit insurance system in Japan was established in 1971 when it adopted the law on deposit insurance (Deposit Insurance Law). The main institution responsible for implementing the steps of deposit insurance is DICJ which is the basis of the Government, the BoJ (National Bank of Japan), private financial institutions. It is a key institution in the management of system management of deposit insurance in Japan. DICJ segmentairane's responsibility are as follows:

- Construction of deposit insurance and public protection of deposits and deposits,
- Asset management in those financial institutions that record bankruptcy or problems,
- Capital strengthening financial institutions and so on.

UK has a special body for damages for financial services (The Financial Services Compensation Scheme, FSCS). FSCS is the compensation fund that represents the "last resort" for customers of financial companies in the UK. It is the independent non-governmental body with the role of regulation of financial services and the protection of consumer rights in the UK. This body shall pay a fee when the company is not able or likely to be able to. This is the most common situation when a company ceases to trade or when it becomes illiquid, insolvent. The body was established by the Law on the prudential regulations (The Prudential Regulation Authority, PRA) in 2000, has become operational. FSCS provides protection in the following:

- Deposits,
- Policies of insurance,
- Confirmed insurance, after 2005, including travel insurance,
- Investment business,
- Personal Finance from 31.10.2004.

Germany has multiple deposit insurance system, which are segmented into legal and voluntary. The two legal systems cover public or private banks, and the supervision over them perform federal authority for financial supervision (Germ. Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin, more details on: www.financialstabilityboard.org,). Voluntary insurance of deposits banks are organizations that mainly cover deposits above the limits provided for legal insurance. Organization for deposit insurance in the EU Member States are funds, the corporation formed by private banks, public banks, brokerage companies and the state. In some systems, such as Slovenia and Ireland, central banks assume the role of the deposit insurance system. Authorities, upon request, settled depositary but do not have the authority to take action against the bank, or control its activities.

Looking regulations in analyzed region, it is noted that differences exist in the domain of capital. While DICJ established by the government of the Central Bank of Japan and the banks, the UK and other European countries, they are independent institutions, mainly private banks. Banks that have their branches abroad and branches of foreign banks in Japan are not covered by the deposit insurance system. The EU and UK foreign deposits are covered. The banking system in Japan its assets mainly financed by deposits. Over 60% of the assets of Japanese banks were financed by deposits. Balance position is partly a result of complete coverage of all deposits that are used in the system of payment and settlement systems and available deposits. Since 2003, full coverage for term deposits was abolished after a crisis strikes that hit Japan 90s (Demirgüç-Kunt 2005, 21). Term and other deposits with corresponding interest are insured up to the amount of 10 million yen (EUR 71,585) per customer and per institution. Great limits may be associated with susceptibility to risks.

The premium charged by DICJ does not use the approach of risk exposure. DICJ no insight into the management of liabilities and given the state share of deposits, limits of coverage remained unchanged in crisis and post crisis period. On the other hand, after the bank Norden Rock, suffered a “run of the banks”, the UK and the EU have changed the legal limit of deposit insurance. EU after the individual actions of national insurance systems of its members, the border with EUR 20.000 to EUR 100,000 has shifted, and the UK with GBP 35.000 (EUR 43,120 to GBP 50.000 (EUR 61.600), and then to GBP 85.000 (EUR 104.720). Changes border deposit insurance did not increase the total amount of insured deposits in the UK which is GBP 4,03 billion (Leonard 2013, 52). This explains the reduction in the amount of deposits and the degradation of some banks and interventions FSCS. According to the FSB 2012, Japan, Germany and the UK fall into the high limits of coverage of deposits which reduces the need for investors to withdraw deposits from these banks in these regions. Displacement limit of insured deposits in the UK followed the regulations in the EU and show greater sensitivity to risk insurance system than in Japan. After Ireland in 2008 due to the deterioration of the largest banks, abolished limits and guarantee complete coverage of deposits, their limits increased and the UK because of fears that the crisis could be transferred from Ireland to the UK.

Japan, on the other hand, in response to the crisis has not implemented special measures in the deposit insurance system, in addition to the limit of coverage measures included and type of deposits and improve powers in the event of bank failures. Overview implemented crisis measures is presented in Tabele 2.

Table 2. Crisis measures in national deposit insurance schemes (Authors)

Country	Without crisis measures	Increasing limit cover	Expanding coverage	Full cover	Extending the powers of the DIS
Franch		X		X	X
Germany		X		X	X
Italiy					X
Japan	X				
Spain		X			X
Switzerland		X	X		X
Great Britain		X			X

Increased compliance regulations in the EU and the UK in relation to the regulations in Japan is a result of sources of financing institutions deposit insurance. Insurance systems in the EU and UK that banks pay, based sun and the amount of capital banks, while borrowing from private companies is not possible. DSCI can borrow from private businesses and other than banks, financed through the state. However, the FSCS is ongoing global economic crisis means BoE to settle the deposits of failed banks.

Saving only deposit Loydsa greater than the available funding which has FSCS (Leonard 2013, 23). UK regulation differs from the other two by the method of collecting premiums. FSCS used “ex-post” system of financing where the funds are withdrawn from banks in case of deterioration. In the EU countries and Japan, it is the accumulation of funds (“ex-ante”) in funds to be used for reaction before bank failures. Method of financing associated with the theory of protection rating. The activities of the analyzed system in situations where banks face a “run of the banks” problems, show a modification in the terms and border security with rare interventions in practice. Research regulations in countries around the world have shown that the regulations adapted to national conditions. However, deregulation and globalization of banking suggest the need for greater compliance assurance system. This is especially became evident in adapting national systems of the EU when due to reduced cost of money transfers, deposits kept in favorable conditions of insurance. Directive 94/19 / EC is the basis for the establishment of deposit insurance system in the EU with decentralized access security in member states. Compliance exists in the field of insurance (excluding Interbank deposits and corporate deposits). Time of acceptance and implementation of a single insurance program prescribed Directive and the time of settlement clients of receipt of the application form the core of the difference in the EU member states. Period of settlement clients on a global level and varies on an average of 6 months. For this reason the 2014 Directive was amended.

The new directive of the European Parliament 2014/49 / EU includes the harmonization of funds funding, the treatment of risk and areas of product and coverage of depositors. Variations determined by analysis shows that national systems equate border security. However, regulations are interpreted in different ways. This confirms the hypothesis on the essential difference between regulations. The analyzes show that the greatest degree of convergence of regulatory mechanisms in case their function bailouts and settlement depository take other bodies, which is the paradox purposes of deposit insurance.

3. ASPECTS OF ADJUSTMENT DEPOSITS INSURANCE SYSTEM AT THE GLOBAL LEVEL

To synchronize the system of deposit insurance it is recommended to all countries to satisfy the basic principles defined and accepted by the FSB. The recommendations can be summarized as follows:

- The primary aim of the FSB is to establish an explicit deposit insurance system in countries with high and low or low income.
- Because countries use different models of banking, that some institutions are not subject to the insurance system. The inclusion of all financial institutions that accept deposits is rational guidelines for harmonization on a global level.
- Unlimited coverage of deposits is not recommended. Namely, not the existence of the insurance limit is contrary to market discipline and increases the risk of financial instability. Insurance scheme should provide for the deposit type and therefore determine the level of coverage. Limit the amount of covered deposits protects client. In the case where there is unlimited coverage, banks have at their disposal more freedom in investment, lending and interbank borrowing.
- Availability of resources in case of need for settlement is a precondition of financial stability. Regular or ex-ante collecting premiums recommended at the global level.
- Regular collection of premiums can help harmonization and the definition of time of settlement of depositors and institutions since the authorities have to ensure in advance available funds financing.
- For different types of financial institutions recommended to use approach to assessing risks to the deposit insurance. This is especially true of agricultural banks and banks related to a specific geographical area which can increase vulnerability to risks.
- Establishing multiple deposit insurance system is recommended for strengthening the capacity of the insurance system. Complex financial systems require differentiated approaches in the types of deposits and

therefore insurance. This in turn is not acceptable for a small banking systems or those with a small proportion of deposits in the balance because of the cost of the insurance system.

CONCLUSION

Consideration of harmonization of deposit insurance on a global level requires insight into the regulatory practices in national systems of insurance. Differences in regulations provide answers to three important questions.

First, they point to the way in which regulations are changing in response to the financial crisis.

Second, indicate the compliance of various regulations in the area of deposit insurance.

Thirdly, they help to establish best practices with the aim of establishing a common regulatory policy. Comparison regulations in deposit insurance in Japan, UK and EU countries shows the variations in the regulations. Greater alignment of multiple systems in Germany and unique in the UK is the result of regulatory crisis measures and amendment of the application of the existing directive on deposit insurance.

Withdrawal of deposits in Europe is a key factor changes in regulatory policies and their greater compliance. Although regulatory requirements derived from the model of banking operations, which is the same in Japan and the UK, Japan failed to amend the insurance limit, expansion of coverage and other measures in response to the crisis. The crisis has not exhausted the capacity of Japanese banks. Due to the unchanged level of deposits, the deposit insurance system in Japan showed less sensitivity to the risks from the global level.

Globalization of banking has the aim of application best practices in deposit insurance. Large differences are evident in the type of insurance, financing, collecting premiums, sensitivity to risks and time of settlement clients. The effects of regulatory changes also do not show a balance in the regulations. The gradual convergence of deposit insurance system is the result of only accepting applications for a single regulation. More important, there is a divergence in opinion, the method and the application of regulatory requirements. The highest compliance regulations applying in the deposit insurance system in Japan, the UK and the EU is evident in the part of bank rescues.

Generally, at the global level, this function was taken over by the state or other body which is contrary to the purpose of the existence of deposit insurance. Rational harmonization measures analyzed deposit insurance system is based on the complexity of the banking system. The establishment of multiple and assurance system for the different institutions and deposits, limitations in coverage and regular collection of insurance premiums.

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