

Enhancing depositors' confidence

A guide to the Deposit Guarantee Scheme Directive (DGSD)



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A new era in banking



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The shock from the financial crisis has never really dissipated, and the banking sector remains focused on market integrity and improving consumer confidence. Regulatory frameworks such as Senior Managers and Certification Regime, Market Abuse Regulation and MiFID II highlight the shift in perspective across the banking sector in the intervening years. But it's not just about conduct and culture, it's about keeping the customer front and centre.

As the regulatory landscape continues to evolve, sometimes it can be difficult to keep sight of that fact. Effective regulation needs to be a combination of prescriptive measures to protect consumers, combined with broader measures to embed effective governance and accountability across the financial sector. The updated, and more prescriptive, Client Assets and Client Money (CASS) rules, protect client assets held by a third party in the course of business processes, specifically in the event of insolvency. Similarly, the Deposit Guarantee Scheme Directive aims to protect banking deposits in much the same way.

The EU wide directive standardised the approach to deposit protection across all member states. The key requirement was for all EU countries to establish a deposit guarantee scheme to repay protected deposits in the event of banks not being able to meet their obligations. But not all deposits are protected and much of the DGSD is focused on the ability to promptly establish what is, or isn't, covered. To achieve this, firms must establish a Single Customer View, Exclusions File, marking of accounts and dormant account reporting, amongst other requirements. Firms must also embed an effective control framework to ensure ongoing compliance with the regulation. These will be subject to external audit reviews, as required by the PRA, as well as being included in the European Banking Authority's compulsory stress tests.

There is also Brexit to consider. Many firms are moving their deposits to EU entities to reduce the likelihood of business disruption. It is important for firms to check how the directive has been applied in other regulatory jurisdictions and undertake a gap analysis to make sure they are compliant with local regulations.

Although the rules became effective in 2016 in the UK, most firms were eligible for a waiver under the Continuity of Access requirement and have until December 2019 to achieve compliance. As ever, time is of the essence when embedding new regulations and it's easy to underestimate the resources needed. Careful planning is critical to establishing a governance and control framework which is cost effective, but which offers the necessary assurance that depositors are protected.

Protecting customer deposits across the EU

Enhancing depositor confidence is key to the wider regulatory objectives of promoting the safety and soundness of firms operating in the banking industry. Depositors need to know their deposits are safe and the EU sought to give equal assurance to depositors across all member states.

To achieve this, the EU introduced the Deposit Guarantee Scheme Directive (DGSD) in 2014, building on the previous directive 94/19/EC. In the event of bank failures, the new directive creates equal levels of deposit protection across all EU countries. Member states were then given until 2015 to implement local schemes fulfilling requirements under the directive.

But the EU are not the only ones seeking to address this issue. In the USA, the Federal Deposit Insurance Corporation (FDIC) released the 'Record keeping for Timely Deposit Insurance Determination' rule (12 CFR Part 370 of the FDIC's Rules and Regulations). This facilitates the prompt payment of insured deposits by the FDIC when insured depository institutions fail. It closely mirrors the DGSD in terms of policy objectives, governance and technology requirements.

So what happens after Brexit?

With uncertainty surrounding the UK's Brexit plans, many firms are moving deposits to EU legal entities to reduce the risk of disruption to deposit taking businesses post-Brexit. As such, firms must be aware of their regulatory compliance obligations under the PRA's Depositor Protection Rules.



How is the DGSD applied in the UK?

DGSD was transposed into UK law and implemented via the Depositor Protection Instrument 2015. Enforced by the Prudential Regulation Authority (PRA), it applies to UK banks, building societies and credit unions. It also applies to overseas firms with deposit taking permission and UK branches of EEA credit institutions.

The Financial Services Compensation Scheme (FSCS) is the Deposit Guarantee Scheme for the UK. This means the FSCS will repay eligible customer deposits on behalf of a bank, should that bank fail.



DGSD developments in the UK

- October 2014:** Depositor Protection; Consultation Paper 20/14
- March 2015:** PRA Rulebook; CRR Firms; Non CRR Firms; Non Authorised Persons; Depositor Protection Instrument 2015
- April 2015:** Depositor and dormant account protection; Policy Statement 6/15
- May 2015:** Depositor and dormant account protection; Supervisory Statement 18/15 Update
- May 2015:** Depositor and dormant account protection – further amendments; Consultation Paper 15/15
- June 2015:** Depositor, Dormant Account and Policyholder Protection amendments; Consultation Paper 4/15
- July 2015:** Depositor and dormant account protection – consequential amendments; Consultation Paper 23/15
- July 2015:** Depositor and policyholder protection – technical amendments; Consultation Paper 21/15
- July 2015:** Depositor and dormant account protection: the protection limit; Policy Statement 14/15
- July 2015:** Depositor and dormant account protection; Supervisory Statement 18/15
- July 2015:** Depositor and dormant account protection; Supervisory Statement 18/15 Update
- January 2017:** Deposit protection limit; Consultation Paper 41/16
- September 2017:** Depositor and dormant account protection; Supervisory Statement 18/15 Update

Understanding the DGSD

The deadline for compliance with the requirements below was December 2016, but many UK firms were eligible for an extension under the Continuity of Access requirement. With the December 2019 Continuity of Access deadline looming, firms are implementing the necessary changes.

Single Customer View and marking data governance

The Single Customer View (SCV) provides an aggregated picture of each individual customer's relationship with an organisation.

Firms must check the accuracy of data on their SCV and marking systems, to help the FSCS to reliably compensate depositors in the event of a default.

Exclusions Files

The Exclusions File details information of accounts which should be eligible under the DGSD, but where the depositor is not absolutely entitled or that are not active.

Ensure the ability to produce the Exclusions File within 24 hours of a request being made by the PRA or FSCS.

Marking of accounts

Accounts must be clearly marked as eligible or ineligible for the scheme, to allow immediate identification.

Firms must be able to produce an account eligibility file within 12 hours of a request being made by the PRA or FSCS.

Bank Recovery Resolution Directive (BRRD) customer marking

The BRRD prioritises certain types of accounts in line with BRRD solvency requirements.

Institutions must mark EEA and non-EEA customers as 'natural persons/micro, small and medium sized enterprises (SMEs)' to allow for immediate identification.

Firms must be able to produce a report of marked customers within 24 hours of a request being made by the PRA or FSCS.

Continuity of access

Customers must have uninterrupted access to their deposits in the case of insolvency.

Firms' systems must be able to operationally freeze all ineligible deposits and exclusions file accounts within five hours of a resolution, or of a request from the PRA.

Banks should have systems that, within 48 hours, allow them to separate uncovered and covered deposit balances, and place the uncovered balances and overdrafts into a separate suspense or shadow account at the point of resolution or on the request of the PRA.

Dormant account reporting

Dormant accounts are not protected under the DGSD, so it is important that they can be identified immediately.

Firms must be able to report dormant accounts that have been transferred to dormant account fund operators such as the Reclaim Fund Ltd, following a request by the PRA or FSCS.



What should firms do now?

Achieving compliance in an efficient and cost effective manner is a key challenge for every firm. As a minimum, firms subject to DGSD requirements should have an overall control and assurance framework to ensure ongoing compliance with the requirements set out in the Depositor Protection Rules. It is important to embed this framework as part of business as usual, including factoring it into internal audit plans.

To achieve and maintain DGSD compliance, firms must undertake the following.



Create and maintain SCV and Marking Effectiveness Reports, confirming that DGSD requirements are met. Updated annually, these reports should document ongoing SCV and marking practices, in addition to recording findings from external audit review.



Preparation for the SCV and marking systems assurance reviews, in readiness for the ongoing European Banking Authority mandated FSCS formal stress test programme. This includes SCV transmission times test, qualitative and quantitative tests of firms' SCV and exclusions files by the FSCS.



Firms should evaluate their DGSD implementation in relation to Brexit. This includes examining SCV systems and migration activities, and undertaking a comparative analysis against local deposit guarantee schemes in relevant EU jurisdictions.



The DGSD framework should continue to be checked against evolving regulation and industry best practices to identify potential gaps. This should be used to enhance the DGSD control and governance environment.



Firms should engage in periodic external audit reviews on SCV and marking systems, as required by the PRA's SCV Effectiveness and Marking Effectiveness Reports.



Firms should undertake DGSD material change notifications and board attestation submissions, where necessary.



Conducting DGSD Brexit plans and transfer of deposit implementation.



Plan resourcing to fulfil ongoing DGSD control and reporting requirements.



Continuity of Access scoping and programme implementation.



Firms with a presence in the US should undertake FDIC Part 370 scoping, conduct an enterprise-wide gap analysis and implement relevant programmes.

We can help you meet your DGSD requirements

We have worked with financial services organisations in the UK and EEA to implement changes introduced by DGSD, and to provide assurance on their ongoing compliance with the regulations, as demonstrated below.

Technical compliance knowledge as it relates to the DGSD requirements

Our in-house experts have detailed knowledge of the EU Directive, PRA's Depositor Protection Rules, Supervisory Statement 18/15 and BBA/PRA SCV consultation outputs. Their experience of authoring DGSD Rulebooks on behalf of global banking firms can be applied to support your firm and identify best practice.

Our experts' SCV system implementation experience also provides knowledge into the SCV file and tables, customer matching, customer/account eligibility and regulatory reporting architecture. Their system and technical knowledge covers the decision tools for classifying main SCV reference data elements such as products, industry classification codes, sort codes and Local Authorities.

Our specialists also have experience of identifying and defining the key processes, procedures and risk points that underpin an effective and efficient DGSD control framework.

Single Customer View, Exclusions View and Account Marking assurance service

Due to our extensive experience of DGSD, we undertake periodic assurance reviews for clients to provide management with independent comfort over compliance with the rules and regulations.

For example, for one retail bank we have performed two reviews during the PRA Depositor Protection Rules transitional period, to provide independent assurance over compliance with regulations and benchmark against good practice.

Implementation and validation of our recommendations following the first review has helped management design a 'gold standard' control framework, which was further refined as a result of our second review.

Ongoing advisory services and health check assessments

Following the 2016 regulatory effective date of SCV changes, we have performed ongoing advisory services and health check assessments over first and second line of defence functions, in order to help ensure that SCV control frameworks are operating efficiently.

We were asked by a private bank to review the implementation of a newly introduced automated SCV control process (and following adverse regulatory comment) to provide assurance over immediate compliance requirements. Drawing on our extensive experience of the DGSD scope and eligibility rules, we were able to identify a critical gap in the automated control process. We also identified several key areas for improvement in the control design, which could have led to a regulatory compliance breach if they were not addressed.



Contact us

Embedding any kind of regulatory change can be a challenge. It can be easy to underestimate the resources required to implement an efficient control framework in a cost effective way, within a given deadline. But our experts have significant experience of working in industry and genuinely understand the issues you face. We recognise that every organisation is different and we will work with you to implement a control framework that meets the needs of your business.

Our specialists offer best in class regulatory expertise, supported through extensive work across the financial services sector and with UK regulators. This wide ranging capability is supported by proactive horizon scanning, expert DGSD knowledge and experience of implementing a variety of other regulatory frameworks. We can provide assurance over the design and effectiveness of your control framework, in addition to specialist support in the following areas:

- checking SCV and Marking Effectiveness Reports for compliance against DGSD compliance
- reviewing your DGSD Brexit planning, including checking SCV systems and migration, and local regulation
- assisting with Continuity of Access scoping and implementation
- reviewing SCV and marking systems in preparation for stress testing programmes
- advising on best practice to enhance the DGSD control framework
- providing resource augmentation to support ongoing DGSD requirements.



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