

# **REPORT OF THE DEPOSITOR COMPENSATION SCHEME FOR 2007**

## **INTRODUCTION**

In terms of regulation 8 of LN 369 of 2003, as amended by LN 35 of 2006 (the Investor Compensation Scheme Regulations, 2003), the Compensation Schemes Management Committee of the Depositor Compensation Scheme (hereinafter referred to as “the Scheme”) is pleased to present its report on the discharge of its functions and its operations during 2006.

The Scheme’s audited financial statements for 2007 are also attached.

## **MANAGEMENT COMMITTEE**

In accordance with regulation 3 of the Regulations, the Scheme is managed and administered by a Management Committee (hereinafter referred to as “the Committee”) appointed by the Malta Financial Services Authority. By means of a publication in Government Gazette No.18,017 of 9 January 2007, the Authority in terms of article 12 of the Investment Services Act and regulations 3 and 5 of LN 368 of 2003, the Malta Financial Services Authority appointed the Compensation Schemes Management Committee for a period of three years commencing on 1 January 2007, as follows:

### *Chairman*

Dr Anton Felice

### *Members*

Prof Andrew Muscat

Mr Benny Borg Bonello

Mr George F Farrugia

Mr Kenneth Farrugia

Mr Rene Saliba

Dr Massimo Vella

Mr Geoffrey Bezzina has served as Secretary of the Committee.

The Management Committee held seven meetings during 2007.

## **FINANCIAL STATEMENTS AS AT 31 DECEMBER 2007**

The Scheme registered a surplus of Lm62,752 in 2007 compared to Lm56,027 in the previous year. Net Finance Income amounted to Lm70,404 (2006: Lm62,636). Lm7,652 have been spent in management and administration expenses (2006: Lm6,609). Accumulated capital and reserves amounted to Lm2,945,439 (2006: Lm1,777,092).

## **FUNCTIONS OF THE SCHEME**

In terms of regulation 4, the functions of the Scheme are:

- (a) To maintain a fund for the payment of claims for compensation by depositors;
- (b) To place contributions to the fund on deposit or to invest such funds;
- (c) To establish procedures and arrangements for the payment of claims for compensation by depositors;
- (d) To handle and pay claims for compensation by depositors;
- (e) To advise the Malta Financial Services Authority on matters relating to compensation of depositors.

## **PARTICIPANTS OF THE SCHEME**

The following is a list of participant banks in the Scheme:

<i>Akbank T.A.S.</i>	<i>HSBC Bank Malta plc</i>
<i>APS Bank Limited</i>	<i>Investkredit International Bank plc</i>
<i>Bank of Valletta plc</i>	<i>Izola Bank Limited</i>
<i>BAWAG Malta Bank Ltd</i>	<i>Lombard Bank Malta plc</i>
<i>CommBank Europe Limited</i>	<i>Mediterranean Bank plc</i>
<i>Erste Bank (Malta) Limited</i>	<i>Raiffeisen Malta Bank plc</i>
<i>FIMBank plc</i>	<i>Sparkasse Bank Malta plc</i>
<i>Finansbank (Malta) Limited</i>	<i>Turkiye Garanti Bankasi A S</i>
<i>Fortis Bank Malta Ltd</i>	<i>Volksbank Malta Limited</i>

## **BUILDING THE FUND**

The first function of the Scheme is to build and maintain a fund for the payment of claims to depositors.

The Regulations provide that a minimum amount of Lm1 million is to be contributed proportionately over a period not exceeding five years in accordance with each participants' share of the total eligible deposits.

As at 31 December 2007 all participating licence holders had fulfilled their obligation in respect of 2007 to pay their supplementary contribution to the Fund which, as at 31 December 2007, stood at Lm1,105,595 thus bringing the accumulated contributions fund to Lm2,784,519. Moreover there was no special commitment of the Scheme for which it was necessary to raise a Special Contribution.

Demands for payment issued in March 2007 remained unpaid by participant banks until November 2007, in breach of statutory obligations which determine that contributions are required to be paid within 21 days from being served with relative invoices by the Scheme. The Malta Bankers Association (MBA) claimed that it should dispense with the current statutory obligations to pay such contributions and that the Scheme should consider reducing such contributions and/or substitute payments by means of third party bank guarantees. The law could not allow the scheme to accede to such request.

In the meantime, the Management Committee, the MBA, the Central Bank of Malta (CBM) and the MFSA intensified discussions on a number of proposals for the restructuring of contributions from participants.

For this purpose, the Management Committee prepared a report titled *Proposals for strengthening the funding base of the Depositor Compensation Scheme* in which it sets out a number of measures to strengthen the financial resources of the scheme over a period of years. A series of discussions between the Ministry of Finance, the Malta Financial Services Authority, the Scheme and the MBA were held on the basis of the report's recommendations. The Ministry of Finance has instructed that:

- target cumulative ex-ante and ex-post coverage ratio should reach the EU-2004 average of 0.55% of eligible deposits by 2012;
- as from 2008 onwards, banks shall give as security a pledge over investments in lieu of future contributions in excess of the supplementary contributions (0.1% of eligible deposits); and
- the Scheme continues on this basis for three years (up to 2010) and the position will then be reviewed.

In line with international practice, the Scheme's financing needs shall be funded by the market.

Work on revising the regulations was due to commence during the first quarter of 2008.

## **PROTECTION OF FUNDS**

The Committee is required to deposit or invest the contributions that are made to the fund, until such time as they are required for the payment of claims for compensation by depositors.

In the performance of this task and in accordance with regulation 7, the Committee appointed the Central Bank of Malta to provide investment management services including financial, accounting and other related support services. This appointment has been effected in terms of an agreement (which was signed in 2003), which established the parameters for the investment of funds of the Scheme.

These parameters apply prudent investment criteria that take account of both the short and long term liquidity requirements of the Scheme.

## **PROCEDURES FOR THE PAYMENT OF CLAIMS**

The third function of the Scheme is to establish procedures for the payment of claims for compensation by depositors.

In this connection, the Committee is required to inform the general public about the procedures and arrangements for claiming against the Scheme. For this purpose it has set up a website ([www.compensationschemes.org.mt](http://www.compensationschemes.org.mt)), from where users can obtain information about the scheme.

Regulation 11 and 34 require the Committee to consult the relevant compensation schemes in other countries for the purpose of facilitating the procedures by which depositors may claim against the respective Schemes. Claims against foreign schemes may follow defaults by branches of a credit institution, which are situated overseas. The EU Directive 94/19/EC sets out different procedures according to whether the defaulting institution is incorporated in a EU country or a third party state.

During the year, there were no participants with branches outside Malta.

## **DEPOSITORS' CLAIMS**

The fourth function of the Scheme is to handle and pay claims to depositors.

The Committee is pleased to report that during 2007 there have been no defaults of payments by participating credit institutions, which give rise to a claim against the Scheme.

## **BANK REPORTING SCHEDULES**

The Scheme, in conjunction with the MFSA and the CBM, has drawn up a schedule which banks would be required to compile annually for the purposes of collecting data in respect of all eligible deposits, the number of deposit accounts and their aggregate liability to depositors who hold such deposits, whether held in Maltese Lira, Euro or other EEA currency.

All banks started compiling this schedule as from 2007.

## **EUROPEAN FORUM OF DEPOSIT INSURERS (EFDI)**

The Scheme is a full member of the European Forum of Deposit Insurers. EFDI ([www.efdi.net](http://www.efdi.net)) was launched in Vienna in October 2002 and has over 40 members representing 32 European countries. It was established with the aim of contributing to the stability of financial systems by promoting European co-operation in the field of deposit insurance. In furtherance of this aim, EFDI members facilitate discussion and exchange of expertise and information on issues that are of mutual interest and concern (e.g. protection of cross-border services, financial customers' protection in the single market etc.).

During 2007, the Secretary attended an EFDI meeting in Istanbul, Turkey on behalf of the Management Committee.



**Dr Anton Felice**  
**Chairman – Depositor Compensation Scheme Management Committee**

26 June 2008

*Attachment: Audited Financial Statements of the Depositor Compensation Scheme for 2007*