Austria's deposit guarantee scheme – resilient in uncertain times

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Austria's deposit guarantee scheme (DGS) is multilayered, consisting of three separate schemes. Between 2020 and 2022, Austria's DGS faced four payout events. Although its setup is rather complex and the payout events occurred in periods of exceptional macroeconomic uncertainty, Austria's DGS has proved resilient, and depositors have remained confident. We identify three key aspects that helped maintain the credibility of Austria's DGS: (1) a well-functioning setup and funding structure, (2) the efficient operational management of the payouts and (3) the superiority of the DGS in the creditor hierarchy and sound insolvency procedures.

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Deposit guarantee schemes (DGSs) play a special role within the banking system and with regard to financial stability. They ensure that fundamentally risky deposits can be regarded as assets that are safe for depositors. This is necessary because banks' balance sheets are intrinsically risky: Short-term, nominally fixed deposits on the liability side face long-term, risk-bearing assets on the asset side. If a bank fails, a DGS steps in, paying out the covered deposits to affected depositors within seven working days.[2] Guaranteeing deposits should prevent bank runs and safeguard financial stability (Diamond and Dybvig 1983).

Austria's deposit guarantee scheme is made up of three different DGSs that managed four payout events between March 2020 and March 2022 – in two years of exceptional macroeconomic uncertainty, characterized by the COVID-19 pandemic, the war in Ukraine and the energy crisis. This paper examines the impact of these four payout events on banks and depositors in Austria by analyzing banks' reporting data and undertaking a media analysis. Our results show neither a negative impact on Austrian banks' resilience nor a slump in deposits and depositor confidence nor a loss in credibility for Austria's DGSs. The paper is structured as follows: Section 1 describes the multilayered structure of Austria's DGS. Section 2 takes a financial stability perspective, focusing on the OeNB's integrated macroprudential approach. Section 3 summarizes the impact of the four recent payout events in Austria. Section 4 concludes.

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[2] *The European Deposit Guarantee Schemes Directive (DGSD) was implemented in Austria by the Act on Deposit Guarantee Schemes and Investor Compensation (Einlagensicherungs- und Anlegerentschädigungsgesetz – ESAEG). Inter alia, the ESAEG regulates the DGS setup and payout procedures in Austria. The Austrian DGS protects the deposits of private individuals as well as partnerships, corporations, communities of owners and private membership associations up to a threshold of EUR 100,000. It does not protect the deposits of credit institutions and institutional investors, such as financial service providers and insurance companies, or public sector deposits.*

1 The structure of Austria's DGS is multilayered

While most European countries have one integrated DGS, the Austrian DGS combines three different deposit guarantee institutions, one each for the largest two subsectors of the Austrian banking system, (1) Sparkassen savings institutions and (2) Raiffeisen credit cooperatives, and a general DGS for (3) all other Austrian banks. Its structure is thus more complex as larger payouts involve more than one DGS.

In line with the EU Deposit Guarantee Schemes Directive (Directive 2014/49/EU – DGSD), payout events should primarily be financed by banks and not by public funds. As in a payout event DGSs need to act swiftly and make funds immediately available to the depositors of the failing bank, they need a clear and reliable funding structure to be credible. In line with the DGSD, there are three sources of DGS funding: (1) ex ante funds, to be built up by the DGS member banks independently of any payout event, (2) ex post contributions and (3) extraordinary contributions with alternative funding arrangements to obtain short-term funding (e.g. credit operations with a public guarantee serving as a last resort).

Each deposit-taking credit institution is required to be a member of a DGS. In Austria, three DGSs are currently in place:

1) Sparkassen-Haftungs GmbH (s-Haftung) for Austrian saving institutions (since 2019);
2) Österreichische Raiffeisen-Sicherungseinrichtung eGen (ÖRS) for Raiffeisen credit cooperatives (since end-2021);[3]
3) Einlagensicherung Austria GmbH (ESA) for all other Austrian banks and their branches (a total of around 100) (since 2019).

All Austrian DGSs are required to build up ex ante funds equivalent to at least 0.8% of the covered deposits of their members by July 2024.[4] Payouts are funded in five steps (figure 1). First, the ex ante funds of the DGS concerned are used. Second, if the covered deposits of the failing bank exceed the DGS's ex ante funds, its members have to make ex post contributions of up to 0.5% of each member's own stock of covered deposits. Third, the two other DGSs' ex ante funds can be drawn ("overflow"). If necessary, the fourth step is activated, drawing on ex post contributions of the other two DGSs (again, up to 0.5% of each bank's own stock of covered deposits). In the event that the payout case exceeds even these funds, the fifth step of funding is activated: All banks are obliged to provide additional extraordinary contributions; based on the rule of "facultas alternativa" that applies in Austria, DGS members have the option to settle these extraordinary contributions by granting a loan to the DGS – an option that is less capital intensive for the bank in question. This option reduces the bank's costs and limits contagion as well as the probability that state aid is required for banks affected by large DGS payouts. In specific circumstances, the Austrian Ministry of Finance may even grant a federal guarantee on such credit operations.

During insolvency procedures after a DGS payout case, DGSs can claim their expenses from the insolvency estate. DGSs enjoy preferred creditor status in the

[3] *With the exception of just a few Raiffeisen institutions, all regional credit cooperatives in Austria are members of ÖRS.*

[4] *In addition to the share of covered deposits, supervisors consider a (less relevant) bank-specific risk component when prescribing each bank's contribution.*

Figure 1

The five steps of funding a payout event in Austria

	Funding source	Volume	Participation
1	Ex ante funds	Up to 0.8% of covered deposits	DGS concerned
2	Ex post contributions	Up to 0.5% of covered deposits	DGS concerned
Overflow			
3	Ex ante funds	Up to 0.8% of covered deposits	Other 2 DGSs
4	Ex post contributions	Up to 0.5% of covered deposits	Other 2 DGSs
5	Extraordinary contributions ("facultas alternativa")	Unlimited	All DGSs

Source: OeNB.

Note: The 2020 reform of the Austrian DGS gave DGS members the opportunity to settle extraordinary contributions exceeding the 0.5% threshold by granting a loan to the DGS ("facultas alternativa").

creditor hierarchy, ranking at the same level as paid-out covered depositors, which enjoy superiority under the DGSD. This superior status of the DGSs helps increase and speed up the recovery of DGS payouts (Hardy, 2014).

2 DGS: an important pillar of financial stability

Establishing a DGS aims at reducing systemic risk and increasing financial stability by preventing bank runs. In general, financial stability builds on credibility. The credibility of a DGS is based on depositors' perception of how well and fast it can handle payout events, of its institutional setup and of banks' risk-bearing capacity.

Systemic risk analysis helps financial stability supervisors and macroprudential authorities assess whether a country's DGS has a risk-mitigating or -amplifying effect (Schmitz and Eidenberger, 2021). Specifically, it determines the capacity of the DGS and identifies potential need for reform or (macro)prudential measures. Such (macro)prudential measures usually aim at increasing capitalization in the respective banking system and thus increase the system's capacity to absorb the contagion effects of a DGS payout. In its systemic risk analysis, the Oesterreichische Nationalbank (OeNB) evaluates the capital and liquidity effects of simulated payout events on banks.

In 2022, the OeNB conducted its most recent DGS-related systemic risk assessment for the Austrian Financial Market Stability Board (FMSB). Based on simulations of fictitious payout events, the effects of these fictitious events on other banks' capital and liquidity coverage ratios were assessed for different capital and liquidity requirement scenarios. The capacity threshold of the DGS was set so that the remaining capital and liquidity in the banking system is sufficient not to endanger financial stability. This capacity threshold plays a major role in the OeNB's integrated macroprudential approach as it is also applied in identifying systemically relevant banks.

This approach considers financial stability measures, crisis prevention and crisis resolution[5] in equal measure and thus ensures consistency between macroprudential regulation, the bank resolution regime and the DGS. In macroprudential supervision, the interplay of measures in these three areas is of major interest (for more details on the integrated approach, see annex).

3 Past payout events in Austria had only insignificant impact on financial system

Although the four recent Austrian payout events[6] were caused by individual bank failures, they were of systemic relevance to Austria's DGSs. They occurred within the space of just two years – between March 2020 and March 2022 – in times of heightened macroeconomic uncertainty caused by the COVID-19 pandemic, the war in Ukraine and the energy crisis. Moreover, the DGSs had to immediately refill their ex ante funds to remain capable of acting swiftly in any further payout event. Despite these broad-based uncertainties, no bank run occurred, no major shifts in deposits were observed and financial stability in the Austrian banking system remained stable. Depositors remained confident in the financial system although uncovered depositors incurred losses. In the following, we examine the immediate impact of the payout events on Austria's DGSs and Austrian banks' contributions to the payouts and also consider the depositors' perspective. We find that the DGSs were able to handle (even cross-border) payouts swiftly.

3.1 Austrian DGSs efficiently funded past payout events

While problems in two banks had been presumably caused by money laundering or fraud (Anglo Austrian Bank and Commerzialbank Mattersburg), the business model of Autobank AG turned out to be unsustainable and its own winddown plans failed in 2021. Sberbank Europe AG (Sberbank), a 100% subsidiary of Sberbank of Russia, failed for external reasons.[7] In these four cases, ESA had to manage payouts ranging from EUR 59 million to EUR 947 million per bank in a relatively short period (table 1). ESA's ex ante funds were sufficient in three payout events. This means that Austrian banks were not instantly in need of liquidity. Only in the case of Sberbank, all three Austrian DGSs had to finance the payout together under a special regulation[8] and the overflow mechanism was activated for the first time (for the ex ante funds only). While ESA and s-Haftung were able to finance their liquidity requirements by drawing on their ex ante funds only, ÖRS had to levy additional contributions from its members as its share in the payout

[5] *In a recent working paper, Ebner and Westhoff (2022) argue for a stronger integration of approaches to (macro)prudential regulation and resolution, identifying Austria as the only country in their sample that applies such an integrated approach.*

[6] *Anglo Austrian AAB Bank AG (formerly Meinl Bank), Commerzialbank Mattersburg im Burgenland AG, Autobank AG and Sberbank Europe AG.*

[7] *Sberbank faced high liquidity outflows at the beginning of 2022 as Russia invaded Ukraine and was significantly impacted by the sanctions adopted by the USA and the EU.*

[8] *If institutions that joined the Austrian DGS between July 2005 and December 2017 or that changed their DGS membership during that period fail, all Austrian DGSs have to contribute to the ensuing payout already in the first step (even if the ex ante funds of the DGS concerned are sufficient). Sberbank was granted an Austrian banking license in 2013 and thus joined the Austrian DGS in that period. So in this case, the payout was allocated according to the ratio of each DGS member's covered deposits to the total volume of covered deposits of the members of all Austrian DGSs as of December 31, 2021.*

Table 1

Overview of the four most recent Austrian payout events

	Anglo Austrian Bank (AAB)	Commerzialbank Mattersburg (CBM)	Autobank	Sberbank
Time of DGS payout	March 2020	July 2020	July 2021	March 2022
Trigger of DGS payout	Opening of insolvency proceedings	Prohibition to continue business operations	Prohibition to continue business operations	Prohibition to continue business operations
DGS concerned	ESA	ESA	ESA	ESA, s-Haftung, ÖRS
	EUR million			
Covered deposits	59	481	108	947
	%			
Recovery rate (expected)	100	28	100	100 (realized)

Source: OeNB.

exceeded its ex ante funds, which had only just been set up. A fast winddown and the superiority of the DGSs in the creditor hierarchy allowed for a relatively swift and full recovery of funds from the insolvency estate.[9]

These payout events proved that (1) the operational management of the payouts by the DGSs worked well, (2) the concept of five steps of funding is efficient, (3) the superiority of the DGS is important for financial stability and for the credibility of the DGS and (4) good insolvency procedures facilitate the recovery of funds from the insolvency estates.

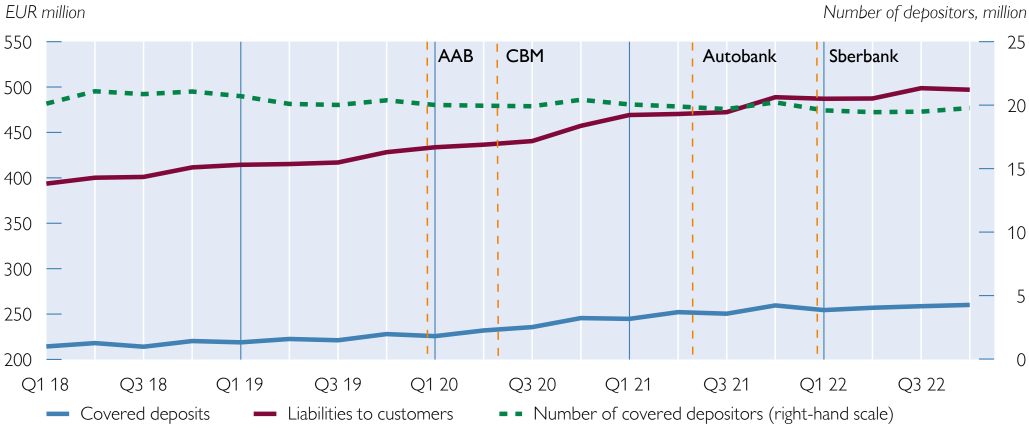
3.2 Development of covered deposits indicates that Austria's DGSs remain credible

In the event of a bank failure, depositors' general trust in the banking sector can be eroded as losses occur for uncovered deposits and covered deposits are being paid out. In general, depositors can react in three different ways: (1) If depositors doubt the credibility of the DGSs, they may react by (partly) withdrawing (covered) deposits from the banking sector and shifting funds from banks to cash or other investment opportunities (e.g. insurers, the capital market or real estate). This reaction would lead to a decrease in the total volume of deposits and, therefore, in the volume of covered deposits. (2) Depositors could also spread their deposits exceeding EUR 100,000 across more than one bank to achieve better protection. This reaction is difficult to analyze as reporting data do not include personalized deposit data. But overall, in such a case, the volume of covered deposits should increase. (3) If DGSs remain credible but trust in some smaller banks deteriorates, depositors might choose larger banks as they assume larger banks are a safer haven for their covered deposits. We test these three potential reactions by analyzing aggregated and bank-level reporting data on covered deposits in particular for the period between the first payout case in March 2022 and year-end 2022.

[9] *Sberbank managed to wind down all its banking business and relinquish its banking license by December 2022. All DGSs profited from the fast winddown and thus from the swift repayments from Sberbank's remaining estate.*

Chart 1

Development of covered deposits shows that DGSs have remained credible

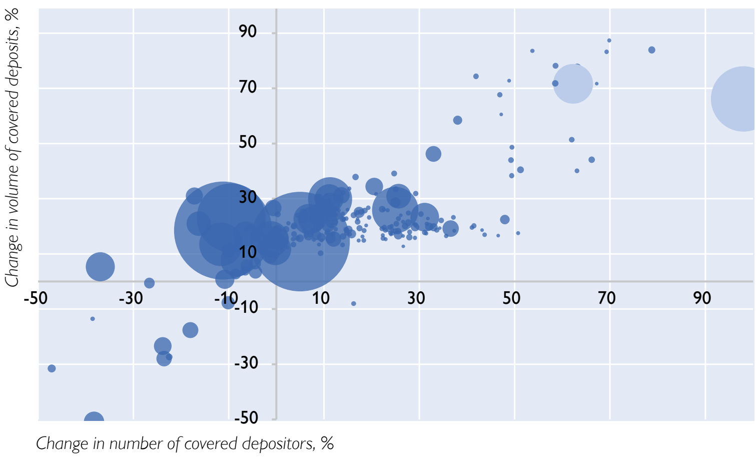


Source: OeNB.

Note: Banks' names indicate the starting point of the respective payout cases. Unconsolidated data.

Figure 2

Payout events did not change customers' preferences for bank size



Source: OeNB.

Note: Q4 22 versus Q1 20. Bubble size reflects 2022 O-SII score. Banks that merged during the observation period (and therefore show a strong increase in covered deposits and depositors) are marked in lighter blue.

No general withdrawal of deposits or covered deposits was observed after the first payout event in March 2020. Chart 1 shows deposits (liabilities to customers) and covered deposits at Austrian banks between March 2018 and December 2022. Both deposits and covered deposits increased by around 15% in volume between March 2020 and end-2022. Hence, we reject (1) that overall trust in Austria's DGSs deteriorated. Rather, the increase in covered deposits indicates that they enjoy high credibility (which supports (2)).

We do not find evidence for the third potential reaction (3), namely that depositors assume larger banks are a safer haven for their covered deposits and move their deposits there. We analyze the change in the number of covered depositors per bank and consider bank size as the differentiating factor (see figure 2).[10] The x-axis shows the change in the number of covered depositors, while the y-axis shows the change in the volume of covered deposits (between Q1 20 and Q4 22). Most banks are located in the upper right-hand

[10] *The O-SII score serves to identify other systemically important institutions. Its calculation is based on quantitative indicators (related to bank size, interconnectedness, relevance for the economy, complexity). The O-SII score ranges from 0 to 10,000 basis points, representing a bank's systemic riskiness. Banks with a score equal or smaller than 1 are not included in the chart.*

quadrant, which indicates an increase in the volume of covered deposits and the number of covered depositors. The largest banks, though, record a smaller increase or even a decrease in the number of covered depositors but still an increase in the volume of covered deposits.

3.3 Payout events well-perceived in Austrian media coverage

When analyzing media coverage of the four DGS payout cases in Austria, we find that the failure of Commerzialbank Mattersburg im Burgenland AG (CBM), Anglo Austrian Bank AG (AAB) and Sberbank attracted the highest attention (counting around 400, 80 and 70 media reports, respectively, in the first year after the bank failure), while coverage of the failure of Autobank, a smaller bank, was less frequent (about 25 media reports). In all four payout events, the fact that covered deposits were fully protected by a well-functioning DGS was already mentioned in the first related news reports. We find no major negative reporting on the protection of covered deposits in the year after the payout case became public. Reports only mentioned larger losses of firms with high amounts of uncovered deposits. However, these losses were related to firms' lack of diversification in their funding strategies rather than to mistrust in the financial system. In the fall of 2020, after the CBM and AAB payout events, Austrian banks publicly called into question the design of Austria's DGS, discussing more strongly risk-based DGS financing and potential contributions from depositors and highlighting the need for better early warning systems to avoid payout events. These discussions faded out, however.

4 Conclusion

In the recent past, Austria's deposit guarantee schemes (DGSs) had to manage a number of payout events in a short period of time (between 2020 and 2022) that was characterized by great macroeconomic uncertainties. Despite the systemic dimension of these events and although uncovered depositors incurred losses, all Austrian DGSs as well as Austria's overall financial stability proved resilient. Our analysis shows that the credibility of Austria's DGSs has been maintained. No significant direct or indirect contagion effects on other banks have been identified. The following factors were found to be crucial in maintaining credibility: First, the well-functioning setup of Austrian's DGSs combined with a well-structured and clear funding structure. Second, efficient operational management allowing for smooth collaboration between the DGSs and swift payouts. Third, the superiority of the DGSs in the creditor hierarchy and sound insolvency procedures, which ensured the fast recovery of funds from the insolvency estate.

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Annex

Austria's integrated macroprudential approach

Austria's integrated macroprudential approach aims at achieving consistency between macroprudential regulation, the applicable bank resolution regime and the DGSs in place. In the following, we describe how these policy areas interact.

In Austria, two structural macroprudential buffers are in place: the other systemically important institution buffer (O-SII buffer) and the systemic risk buffer (SyRB). The O-SII buffer is complementary to the SyRB as it aims to increase the risk-bearing capacity of systemically important banks and mitigate the too-big-to-fail issue. For the Austrian O-SII buffer, the market share of covered deposits is a relevant indicator as the failure of an important bank with a high share of (covered) deposits would stress the DGSs. Financial stability assessments concerning O-SII buffers and bank resolution have the same aim: identifying systemically important institutions. Hence, these two assessments should apply consistent methodologies and thresholds (Ebner and Westhoff, 2022). This is why the OeNB applies both consistent indicators and consistent thresholds in these three policy areas. The DGSs' capacity threshold helps differentiate between banks that are small enough to leave the market under insolvency procedures (i.e. by becoming a payout event) and larger banks that need to be resolved as their insolvency would overburden the DGSs.