DET KONGELIGE
FINANSDEPARTEMENT
Royal Ministry of Finance
The Minister of Finance

Bundesfinanzminister Dr. Wolfgang Schäuble
Bundestagsbüro
Platz der Republik 1
11011 Berlin
GERMANY

8 .02.2011

Dear Wolfgang,

First, I would like to thank you for our long and good conversation in Berlin 2 December 2010. I find it very useful to be able to discuss fundamental questions and long term challenges with you. The challenge concerning youth unemployment in many European countries must attract our most serious attention. A joint EU/EFTA initiative must be considered. I would very much like to discuss this issue further with you on an upcoming occasion.

I would also like to draw your attention once again to one of the topics that we discussed at our meeting. As you may recall, the Norwegian deposit guarantee scheme for banks covers, since 1996, approximately 250 000 euro per depositor per bank, and it is very important for Norway that we can keep this coverage level. The EU has adopted a directive harmonising the coverage level at 100 000 euro, and currently the Commission proposal for more comprehensive amendments to the directive on deposit guarantee schemes is discussed in the Council and in the Parliament. The use of bank deposits have traditionally been widespread in Norway, and a coverage level of 100 000 euro per depositor per bank would cover a much lower proportion of the deposits in Norway (47 pct.) than in the EU (72 pct.). Even with our current deposit scheme, which covers approximately 250 000 euro per depositor per bank, only 58 pct. of the total amount of eligible deposits are covered in Norway.

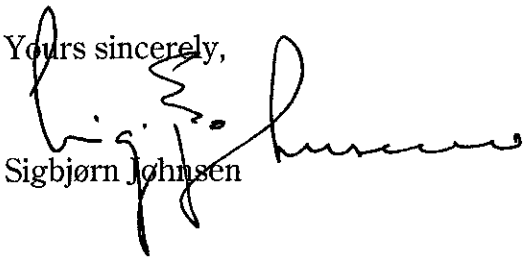
The reality is that Norway is the only country that would have to reduce the level of coverage as a result of the introduction of a fixed coverage level in the EU of 100 000 euro. According to an OECD report (Financial Market Trends 2/2009) on the subject of measures introduced during the financial crisis, Norway was the only EU/EEA country in OECD in which it was not necessary to issue State guarantees for borrowings or lendings or to expand the deposit guarantee coverage. This fact underlines the importance of our deposit guarantee scheme.

Office address: Akersg. 40 Telephone: +47 22 24 41 00 Telefax: +47 22 24 95 14
Postal address: PO Box 8008 Dep, N-0030 Oslo, Norway
Org. no.: 972 417 807

I have recently been in touch with relevant persons in the European Parliament regarding this issue, which is further explained in the enclosed note.

On this background, I hope that you could contribute to a Council compromise that will allow Norway to retain our coverage level of 250 000 euro per depositor per bank.

Yours sincerely,



Sigbjørn Johnsen

Enclosure

Directive on deposit guarantee schemes

Norwegian position on Proposal for a Directive of the European Parliament and of the Council on Deposit Guarantee Schemes [recast] as regards the coverage level.

Through the EEA-Agreement, Norway participates in Internal Market and implements the internal market regulations, including directives on financial services, into Norwegian law, sometimes with an appropriate adaptation text.

A good and reliable deposit guarantee scheme is considered a necessary part of good financial regulation. Our deposit guarantee scheme does, since 1996, cover approximately 250.000 euro (2 million NOK) per depositor per bank. An introduction of a coverage level of 100.000 euro would mean that Norway would be forced to reduce the coverage level with 60 per cent.

Norway therefore would like an amendment to the proposal for a Directive of the European Parliament and of the Council on Deposit Guarantee Schemes [recast] that will allow Norway to maintain our current level of coverage. This should be combined with effective topping-up and export ban measures, which will prevent distortion of the competition in the internal market.

- Norway experienced a severe and systemic banking crisis in the period 1988-1993. Private share capital was wiped out, and the government had to provide new capital to the banks in order to keep the banking system open.
- Following the banking crisis the Norwegian financial regulation was strengthened in order to have a sound and consistent regime. Preventing new financial crises was one of the main objectives.
- A deposit guarantee scheme with high coverage level is an important part of the total financial regulation to ensure financial stability. Our deposit guarantee scheme does, since 1996, cover 250.000 euro per depositor per bank, and is prepaid with a 17 bn NOK fund (more than 2 bn euro). Currently, we are considering demanding continued premium payment (take away the limit on the size of the fund) and a larger risk element in the premium paid by the banks.
- We had no bank runs in Norway during the international financial crisis autumn 2008, largely because of a robust and consistent financial regulation covering all financial sectors, but also due to the high coverage level of the deposit guarantee scheme, There was no need for issuing state guarantees for deposits or bad assets in Norway.
- According to an OECD report (Financial Market Trends 2/2009) on the subject of measures introduced during the financial crisis, Norway was the only EU/EEA country in OECD in which it was not necessary to issue State guarantees for borrowings or lendings or to expand the deposit guarantee coverage. This fact underlines the importance of our deposit guarantee scheme.
- With the increased levels, both in the EU and in the US ($ 250.000), the difference between our coverage level and the coverage level in other countries has been reduced.
- The Norwegian Deposit Guarantee Scheme has long been an integrated part of Norwegian financial regulation, and is well known among Norwegian depositors and in the public more generally. It would therefore be near impossible to weaken this

important part of financial regulation by proposing a significant reduction of the guarantee-level to the Norwegian legislators.

- An introduction of a coverage level of 100.000 euro would mean that Norway would be forced to reduce the level of the current deposit guarantee with 60 per cent (a reduction from approximately 250.000 euro to 100.000 euro). Norway is the only country that would have to significantly reduce the level of coverage as a result of the introduction of a fixed level. (Italy, with a previous coverage level of approximately 103.000 euro was the only other country that had to reduce its coverage level).
- The Commission has made an Impact Assessment (12th July 2010). This shows that, within the EU, as much as 72 pct of eligible deposits will be covered with a guarantee level at 100.000 Euro. [€ 100.000: EU, EU-15, Germany, France and Spain: 72 pct; UK and Italy: 66 pct, Denmark: 63 pct, Sweden 60 pct, Finland 82 pct.]
- The United States FDIC standard insurance amount is now 250 000 USD (approximately 200 000 euro) per depositor per bank. About 71 pct of eligible deposits in the U.S. are covered by the FDIC insurance.
- Similar calculations in Norway show that only 47 pct of the deposits would be covered with a 100.000 euro coverage level. Even with the coverage level of 250.000 euro, as Norway has had since 1996, only 58 per cent of eligible deposits are covered.
- Our statistical data on foreign depositors prove – in line with our experience – that the Norwegian deposit guarantee has not caused distortions with respect to the Nordic banking market or vis-à-vis other countries.
- Sweden and Denmark had, until recently, a 20.000 euro coverage level. With the marked increases in the guarantee level in the neighbouring jurisdictions based on the new EU legislation (€ 100.000), such potential problems in the future, if any, should be diminished.
- However, in order to be sure to maintain a situation where there are no distortions, Norway is of course prepared to continue to offer the possibility of topping-up membership for branches of foreign banks located in Norway. We would also accept an export ban for coverage above EUR 100.000.
- Topping-up means that Norwegian branches of foreign credit institutions will be allowed to offer its customers the same coverage as Norwegian credit institutions. Norway already has a topping-up arrangement in place which allows foreign banks to offer a coverage level of 2 million NOK.
- Export ban means that Norwegian credit institutions will not be allowed to offer higher coverage than 100 000 euro to customers outside Norway.
- A foreign depositor that wants to open a Norwegian bank account needs a Norwegian identification number. This identification number can be used to solve export ban issues related to cross border banking services without establishing branches.