



TAGATISFOND
GUARANTEE FUND

GUARANTEE FUND STRATEGY 2022–2024

INTRODUCTION

This strategy paper sets out the main objectives and development orientations of the Guarantee Fund for the period 2022–2024. It also sets out our mission, vision, and values, which guide us in the tasks entrusted to the Guarantee Fund

MISSION

The Guarantee Fund protects clients from the negative effects of the insolvency of financial intermediaries, thereby increasing confidence in the financial sector and contributing to financial stability.

VISION

- The Guarantee Fund is effective in carrying out its statutory functions.
- The credibility of the financial sector is high, the risk of changes in the market structure that could have a negative impact on the safety net is sufficiently mitigated, and financial stability is ensured.
- The Guarantee Fund actively participates and contributes professionally at the national level, at the EU level and in the networking of guarantee schemes internationally.

VALUES

The Guarantee Fund

- is an equal partner in the financial safety net and co-responsible for financial stability;
- is credible in the eyes of the public and fund participants, and supports the orderly functioning of the financial sector;
- operates in a cost-efficient manner and manages the contribution of its shareholders prudently; • performs its tasks quickly, professionally, and efficiently.

TASKS

The Guarantee Fund manages the Sectoral Funds funded by fund participants and initiates the compensation process in the event of fund participants' insolvency. This strategy reflects the main ambitions for the strategy period, but does not deal in detail with the day-to-day tasks of the Guarantee Fund arising from the legislation, although these will receive equal attention during the strategy period.

STRATEGIC OBJECTIVES 2022–2024

The operational strategy of the Guarantee Fund is set for a three-year period, but may be updated and refined as necessary in the annual reviews. The Guarantee Fund's operational strategy and the resulting activities provide input to the preparation of the Guarantee Fund's budget.

The scope of activities and strategic objectives of the Guarantee Fund, as a person in public law in the financial safety net, derive primarily from the need for prudence and stability in the financial sector, and are therefore linked to a greater or lesser extent to the operational strategies of other institutions in the financial safety net, such as the Financial Supervision Authority, the Ministry of Finance, and Eesti Pank.

The main partners of the Fund are

- the institutions of the financial safety net – the Financial Supervision Authority, Eesti Pank, and the Ministry of Finance;
- the financial market participants, including fund participants – credit institutions, investment firms, management companies, and insurance undertakings;
- the professional associations of financial market participants – the Estonian Banking Association, the Estonian Insurance Association, and FinanceEstonia.

BETWEEN 2022 AND 2024 WE WILL STRIVE TOWARDS THE FOLLOWING OBJECTIVES AND DEVELOPMENTS

OBJECTIVE 1. WE WILL ENSURE ADEQUATE FUNDING FOR THE GUARANTEE FUND AND REACT QUICKLY TO RISKS

Deposit insurance is a key measure of the Guarantee Fund to maintain confidence in the financial system. In the event of the insolvency of a credit institution, the Guarantee Fund ensures that clients have quick access to their deposits. The volume of pre-funding from the Guarantee Fund is quite significant. However, in order to keep pace with the rapid growth in deposits and the evolution of the banking sector as a whole, and to remain adequately prepared to protect depositors, the Deposit Guarantee Sectoral Fund will inevitably need to be backed by other sources of funding (notably loans) in addition to the upfront funding provided by the banking sector.

The aim of the Guarantee Fund is to give clients access to their guaranteed deposits within seven working days. The Deposit Guarantee Sectoral Fund must remain viable in order to ensure that it has sufficient funds to pay out deposits in such a short payout timeframe. The Guarantee Fund maintains an adequate level of funding of the Deposit Guarantee Sectoral Fund by collecting risk-based contributions and managing the assets of the Guarantee Fund through prudent investment strategies, while ensuring the possibility to raise additional funds in the form of loans.

The Guarantee Fund regularly assesses the adequacy of the Deposit Guarantee Sectoral Fund's financial resources.

The Guarantee Fund quickly identifies and responds to risks to the funding of the Deposit Guarantee Sectoral Fund. We will map the relevant risks in cooperation with other institutions in the safety net. In our risk mapping, we analyse national, regional, and global economic and financial indicators, factors related to the regulatory environment and financial market developments more broadly.

In cooperation with the Financial Supervision Authority, we ensure that market participants bearing systemic risk are regularly reorganised.

Expected results related to the management of financial risk

1. Stable growth of the Deposit Guarantee Sectoral Fund is ensured and it is adequate compared to the growth rate of deposits.
2. Financing risks have been mapped in cooperation with other institutions in the financial safety net and, where necessary, measures have been implemented to mitigate the risks.
3. The financing capacity (including the sufficiency of resources and the adequacy of the financing structure – pre-funding, extraordinary contributions paid ex post, loans) has been periodically assessed.
4. The Guarantee Fund has quick access to a variety of sources of funding (including own resources, extraordinary contributions paid ex post, and loans).
5. The suitability of the Guarantee Fund's investment policy is regularly assessed and adapted to the investment environment.
6. The Guarantee Fund takes into account the risk of a sharp market transformation, which could have a significant impact on the pre-funding base, when setting the Deposit Guarantee Sectoral Fund's contribution rates.

OBJECTIVE 2. WE WILL CONTINUE TO IMPROVE THE FINANCING STRUCTURE

In the event of a compensation case, the Guarantee Fund may be faced with a situation where the funds available do not immediately match the funds needed. In view of the regulatory promise to compensate for deposits in any event within a short timeframe, the corresponding risk must be managed in advance.

The Guarantee Fund will take into account the risk of a shortfall in own funds when designing the funding structure and will ensure the capacity to mobilise the necessary amount of loans within the timeframe set for compensation.

Expected results related to the adjustment of financing structure

1. In cooperation with the Ministry of Finance, the legal and financial bottlenecks related to the process of obtaining a public loan/guarantee have been identified and ways have been found to organise the process more efficiently.
2. An optimal funding structure has been defined for compensation cases, and the ratio between own funds and, if necessary, extraordinary contributions paid ex post, and loans has been regularly assessed.

OBJECTIVE 3. WE WILL FOCUS STRESS TESTS ON THE AREAS THAT ADD MOST VALUE TO THE COMPENSATION PROCESS

The Deposit Guarantee Schemes Directive (DGSD), i.e. Directive 2014/49/EU, introduced a number of innovations to improve the preparedness and resilience of the deposit guarantee schemes in Europe, including the obligation for the deposit guarantee schemes to conduct stress tests with sufficient regularity. In 2021, the European Banking Authority (EBA) published guidelines containing a revised methodology for stress tests¹. When designing the stress tests, the Guarantee Fund will follow the guidelines referred to, taking into account the specificities of the Estonian banking market when implementing the methodology.

The regulation on the information to be provided by the liquidator in the event of compensation for deposits has also changed. During the strategy period, the focus will be on monitoring the implementation of the modernised regulatory requirements.

Expected results related to stress tests

1. The EBA stress test methodology has been adapted in the context of the Estonian banking market in order to provide the Guarantee Fund with reliable assessment tools.
2. A stress test plan based on the new EBA guidelines has been drawn up and areas have been prioritised.
3. Legal, financial, data exchange and quality related or other operational obstacles to the compensation process have been identified and measures have been implemented to remove them.

¹ Updated EBA guidelines, <https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-revised-guidelines-stress-tests-deposit>.

OBJECTIVE 4. WE SUPPORT THE ESTABLISHMENT OF THE EUROPEAN DEPOSIT GUARANTEE SCHEME

Significant steps have been taken in recent years to create a safer financial sector for the EU single market. At the level of the Banking Union, a Single Supervisory Mechanism (SSM) was established, followed by a Single Resolution Mechanism (SRM), including a Single Resolution Fund (SRF). At the beginning of 2021, Member States signed amendments to the Treaty Establishing the European Stability Mechanism (ESM) and to the Intergovernmental Agreement on the SRF, implementing the safeguard mechanism of the SRF ahead of schedule.

While the SSM and SRM have been referred to as the two pillars of the Banking Union, the third pillar of the Banking Union – the European Deposit Guarantee Scheme – is still missing. The aim of the European Deposit Guarantee Scheme is to boost confidence in the banking system in times of financial crisis and prevent bank runs.

A uniform scheme would also mitigate the stability risks associated with cross-border banking and is particularly important for countries with a concentrated banking sector.

We acknowledge that the Guarantee Fund lacks direct instruments to shape the fundamentals of the framework and the timeline for moving forward.

Rather, the Guarantee Fund hereby formulates its expectation that it is important for Estonia, as a small country with a concentrated banking market, to move quickly at the EU level in order to ensure greater stability and limit the potential for arbitrage in the market.

However, the Guarantee Fund is nevertheless making efforts, both domestically, to provide support to the Ministry of Finance, and internationally, to promote the importance of the framework in cooperation networks.

OBJECTIVE 5. WE WILL DRAW UP AN ACTION PLAN FOR IMPLEMENTING STRUCTURAL CHANGES, IF NECESSARY

The work plan of the Ministry of Finance includes a drafting proposal for the amendment of the Guarantee Fund Act, the aim of which is to describe different solutions and present options for making the performance of the tasks and duties assigned to the Guarantee Fund more efficient.

Since the beginning of 2020, the Guarantee Fund has been working contractually with a strategic partner, the Financial Supervision Authority, whose capabilities, staff expertise, and technological solutions have already allowed the Guarantee Fund to significantly increase its operational capacity.

In this respect, the Guarantee Fund is monitoring the process of developing the drafting proposal, is ready to provide input to the Ministry of Finance and, in cooperation with the merging institution, plan the merger process in parallel with the regulatory steps.

Expected result of possible structural changes

1. Drawing up an action plan to ensure a smooth merger process, if necessary.