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Banking Union already established

The European Commission argues that the Banking Union is incomplete without a European Deposit Insurance Scheme (EDIS) as its third pillar and that EDIS would contribute to the financial stability in the EU. However, the Banking Union is already complete with the introduction of the Deposit Guarantee Scheme Directive (DGSD). The DGSD ensures that all depositors in the EU enjoy the same level of protection by introducing a common set of rules. The DGSD requires that all Member States progressively fill up their guarantee schemes to the required target level. Consequently, the DGSD makes EDIS redundant.

Many alternatives to the Commission's original proposal have been discussed since its publication in 2015. The Commission itself presented a two-phased insurance scheme in its Communication on Completing the Banking Union in 2017. However, the communication only is a variation of the original proposal, since the objective of centralization and full mutualisation remains.

The DGSD takes account of the diverse banking sector in the EU Member States allowing options of national discretion. Hence, this enables Deposit Guarantee Schemes (DGS) to use their funds for alternative and preventive measures. In sharp contrast, EDIS would prohibit such measures. This is especially detrimental to Institutional Protection Schemes (IPSS) that are recognized as DGSs in accordance with the DGSD.

Small and locally active credit institutions, such as the German Savings Banks, have been using IPSSs for decades. IPSSs protect member institutions and avert emerging or existing financial difficulties for these institutions by deploying alternative measures. In order to be able to use funds for that type of measures, it is indispensable that decision-making powers remain with national DGSs. Contrary to that, EDIS would deprive national DGSs and IPSSs of these powers, since it would not only centralize and mutualize funds, but also centralize decision-making powers on the EU level. There are inherent differences between IPSSs and EDIS. While the latter is merely a paybox that is triggered in an event of a bank's insolvency, IPSSs prevent such a situation by ensuring their members' solvency and liquidity. This allows the continuation of business relationships at all times.

EDIS would abolish national DGSs. This would have severe negative effects on small and regional credit institutions, their clients and ultimately on the EU's financial stability.

Especially in times where we see a fundamental shock to the whole European

economy, it is important to understand the risks that are attached to EDIS. Firstly, EDIS would decouple risks and responsibility. Credit institutions with a high-risk affinity would be encouraged to continue to do so knowing that they would be supported by EDIS. This would be at the expense of banks having less risky business models. Another issue to be addressed is the sovereign-bank nexus, which may prove to be a significant burden in the difficult economic situation to be faced. In the same vein, it is almost inevitable that the ratio of Non-Performing Loans (NPLs) will increase as a consequence of the Corona pandemic, which will probably exacerbate - despite recent efforts - the very significant differences from one member state's banking system to another.

In light of the above, three conclusions have to be drawn:

- EDIS conceals more hazards to the financial stability in the European Union than it does provide appropriate tools to prevent a bank crisis.
- the diversification of funds in the different DGSs in the EU member states is an important feature to avoid the spreading of a potential loss of confidence in the banking sector within all of the EU.
- Looking at the third pillar of the banking union alone is not the right way. More elements have to be analysed in order to set up the banking union appropriately.

Looking ahead, there is no doubt that with the DGSD a well-functioning deposit protection framework already exists in the European Union. Not only it ensures the EU's financial stability, but also takes account of unique national features. ●