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EDIS: completing the Banking Union

The banking union project began in the summer of 2012, after a first semester in which the capital outflows of some countries – only balanced out by the Target2 program – had nearly led to a rupture of the monetary union. Thus, it can be stated that the banking union was launched at a critical moment for the Eurozone, during which the general banking risks were absorbed by sovereign governments. This triggered a surge in public deficit and hence the debt in some countries.

These increments in public liability fed an uncertainty in the markets concerning their ability to repay, and, therefore, the sustainability of pegged interest rates and the integrity of the monetary union. In order to minimize the risks of rupture, countries had to adopt pro-cyclical fiscal policies, in the short-term, and these policies narrowed the possibilities of recovery due to the absence of a common budgetary instrument that would be able to counter public national deficit reductions in a supplementary way. Precisely for this reason, the "banking union" was commenced, with the aim to avoid similar spiraling in each member state and to prevent the transfer of general banking risks to national sovereignty.

The journey began with the creation of the single-rule book, a European supervisor (SSM) and the design of a shared mechanism in order to manage the banking crises (SRM and SRF). However, this boundary between sovereign and banking risks has not been completely due to the maintenance of national deposit insurances, which continue to be managed by national authorities. It is not consistent that the national tax-payers would assume the risk of a banking crisis whose regulation is not the competency of the national legislature, as not even the supervisory organisms are controlled by their respective parliaments.

The European Commission presented its regulatory proposal for the creation of a European deposit insurance scheme in 2015 – nearly 5 years ago. While progress on the negotiations in the Parliament and the Council has been scarce, the excuses have been abundant.

Within this period, I have identified at least two types of obstacles to the negotiation. The first argument is based on the necessity of reducing the general banking risks in all national systems before merging the assurance at the European level. The second argument centers on the heterogeneousness of the current deposit insurance models, including various systems within a certain countries.

To tackle the former of these two problems, the Union has continued legislating to raise capital and liquidity requirements and clarifying resolution payment models. A massive task certainly lies ahead as there cannot possibly be a new requirement at each juncture of the process before beginning the negotiation of the EDIS. Naturally, this would seriously erode the levels of confidence among negotiators. In order to resolve the latter of the problems, and to provide a reasonable amount of time to achieve larger amounts of risk mutualisation, the S&D Group in the European Parliament has proposed an alternative model to the European Commission text, referred to as the "bi-insurance model".

The proposal of the S&D Group entails the maintenance of current national insurance schemes alongside a European scheme. The banking entities must contribute to both funds, subject to a limit of 0.8% of covered funds. In the case of "accident", the national insurance would cover the liquidity requirements until their exhaustion before being supplied directly to the entity or depositors by the European insurance. As such, it is not a model of the reinsurance of national systems, but rather a 'double insurance' of the entities themselves.

Under this system, the level of mutualisation would depend on redistributing the contributions of each entity to each insurance scheme and, naturally, must be an open issue in the negotiations. In such a system, with a previously agreed level of mutualisation, the framework of security deposits would cease to depend – whether explicitly or implicitly – on the respective national treasuries. And this, in turn, would allow us to achieve the original objective of the banking union. ●