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# The cost of not achieving the Banking Union

The COVID-19 crisis and its devastating health, economic and social consequences have overshadowed all discussion about the future evolution of the banking union. Yet it was in recent weeks that we realized once more how important is this project, even though it is still incomplete. SSM and EBA have taken various initiatives to indicate a common path for the whole jurisdiction, thus avoiding that national measures end up fragmenting the European banking and financial system. However, this crisis will most likely show how the lack of determination in completing the Banking Union in accordance with the agreed timelines will seriously jeopardised its key benefits. Today the Banking Union means that supervisory and resolution decisions are mostly European, whilst the ultimate guarantor of financial stability remains national, with limited tools to act. This asymmetry might have serious consequences in future possible banking crisis cases, in which decisions will ultimately be redirected to Member States. Few things can be more destructive to citizens' trust in the European Institutions than threats to financial stability, perceived as risking their savings.

The completion of Banking Union is in many aspects a way to restore European citizens' confidence in the European institutions, build the necessary trust between Member States and address the rise of Euroscepticism. With the benefit of almost eight years of hindsight, it is now clear that several links and stabilising elements are missing in the Banking Union. These need to be urgently tackled.

At the top of the list, there is of course a common deposit protection system. As the ECB has shown in a study on the Commission proposal, with proper risk-based banks' contributions, an almost negligible cross-border subsidisation occurs. The fear that this kind of mechanism could imply significant transfers across countries in case of a new banking crisis is therefore unjustified.

The delay in the set up a common deposit protection system has consequences also in the realization of other steps in the field of banking union. One of these is definitely the harmonisation of EU banks' liquidation regimes. First of all, because without EDIS the asymmetric social and economic impact ensuing from the failure of a bank with systemic relevance at local level would remain. Secondly, because in case of failure of a cross-border systemic relevant bank, the national DGSs would have to reimburse depositors in the subsidiary established in their respective jurisdiction, even though they are neither supervising nor resolving/liquidating the parent company. This problem risks of calling into question the single point of entry/multiple point of entry resolution model, to further strengthening of the supervisory powers of the host national competent authorities, and to make the introduction of capital and liquidity waivers extremely difficult.

Additionally, the entry into force of the BRRD has meant that, as of today, many institutions would only be deemed resolvable if bail-in would be extended to the level of senior debt or even deposits. This, in turn, has had destabilising effects, by amplifying the incentives for a bank run at the earliest sign of distress. Although this problem has been recently addressed with the BRRD review, it is simply not realistic to expect that compliance with Minimum Requirements for own funds and Eligible Liabilities can be achieved by all credit institutions in a very short time frame – especially given the current and future situation in the financial markets due to the COVID-19 crisis - without seriously aggravating their financing costs and profitability. Therefore, resolution authorities need to be able to rely on alternative sources to support resolution actions, such as resolution funds, especially in the current period of transition during which loss-absorbing capacity is not yet fully available.

I truly hope that the challenges brought about by the COVID-19 crisis will help us get out from the risk reduction versus risk sharing debate, to get back to overall objectives of the Banking Union and to move closer to the finish line that was agreed many years ago. ●