MARTIN MERLIN

Director, Bank, Insurance and Financial Crime, DG for Financial Stability, Financial Services and Capital Markets Union, European Commission

Evolution rather than revolution in crisis management and deposit insurance

Completing the Banking Union remains a priority for the Commission, currently working on the review of the crisis management and deposit insurance framework, with a public consultation launched in February, a high-level conference mid-March and legislative proposals scheduled at the end of the year.

EDIS is a natural complement of such a review. Seeking to facilitate interventions by deposit guarantee schemes (DGS) to finance the sale and market exit of smaller, deposit-based, banks, the liquidity support from EDIS would mitigate the lack of available funding and the risks of shortfalls in the DGS financial means, requiring the recourse to public financing. The pooling of resources in EDIS would avoid "re-nationalising" the Banking Union and could lower bank contributions while maintaining an appropriate firepower and ensuring a more sustainable replenishment. Synergies with the Single Resolution Fund could also strengthen the resilience of the EU crisis management toolkit and deliver efficiency gains.

The Banking Union would not be complete without its third pillar, EDIS. The ongoing health crisis reaffirms the urgency for robust financial safety nets financed by the industry in a crisis management framework for every bank whatever its location, size or business model. Such a robust framework with effective and proportionate instruments available for all banks would strengthen depositor confidence and pave the way for further market integration. The priority should be to preserve financial stability and level playing field in full respect of the diversity in the EU banking landscape while limiting the use of taxpayer money.

Overall, the Banking Union should ensure a solid and stable banking sector in Europe, taking full advantage of the single market. Indeed, market integration generally increases access to funding for the real economy, lowers the cost of capital, contributes to risk diversification and stronger resilience to shocks. Banks in Europe need such a regulatory environment to continue contributing to the economic recovery and play their role in other important challenges ahead.

The work on the so-called hybrid EDIS, based on the coexistence of national DGSs and a European central fund, continues in the Council and in the intergovernmental context. The hybrid model would provide liquidity support as a first step and, is evolutive in nature, allowing for a gradual and conditioned transition towards loss mutualisation in the steady state.

The process for Banking Union completion also involves other components, including on mitigating the sovereign-bank nexus, reflecting upon banks' exposures to sovereigns, their financial stability implications and the need for safe assets at the EU level. Progress on EDIS should unlock some of home-host issues and ring-fencing practices.

At this juncture, one observes only one resolution case managed by the SRB and a frequent recourse to public money under national procedures. The current efforts to complete the Banking Union provide a momentum, not for a revolution of the framework, but for targeted changes to improve existing tools, ensure a broader application of the EU framework and mark the start of the gradual establishment of the third pillar.