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Improving the crisis management and deposit insurance framework while preserving the diversity of the EU banking system

When the Banking Union – arguably the biggest EU reform project since the introduction of the common currency – was set up in response to the sovereign debt crisis, its core objectives were to ensure financial stability and to establish common principles for adequate banking supervision. Its three pillars have since been put firmly into place and their added value has been proven as recently as at the onset of the pandemic crisis, when regulators and supervisors across Europe acted swiftly and in unison.

The start of the review of the crisis management and deposit insurance (CMDI) framework offers the chance for measured reforms to address shortcomings identified since it entered into force. The wide scope of the European Commission's respective stakeholder consultation however suggests a much more fundamental overhaul of the entire framework.

Unfortunately, the underlying concept so far points to an insufficient consideration of institutional protection schemes (IPS), which are widely prevalent among small and mid-sized regional credit institutions in Europe, such as the German savings and cooperative banks.

Most notably, the Commission intertwines the CMDI review with its separate proposal for a European Deposit Insurance Scheme (EDIS). This is unnecessary and will not lead to any results since EDIS has been stuck in the legislative process since 2015 for failing to take account of the diversity of the EU's banking sector. Clinging on to EDIS is an impediment to finding the best European solution.

Not only appears there to be little intention of drafting a fresh proposal which would exclude IPSs from a centralised EDIS on subsidiarity grounds, there are now even additional considerations going in the same, flawed direction. In particular, this regards plans to further centralise competences at the SRB.

Contrary to this, the Commission should build on the subsidiarity inherent to the CMDI framework: A clear distinction between systemically important banks under direct responsibility of EU institutions and non-systemically important banks under national responsibility. Changing this foundation cannot be justified – neither economically nor politically. It would contradict the idea of a diverse Europe and undermine local responsibility.

The European Court of Justice's recent ruling in the so-called Banca Tercas case has highlighted the validity and the importance of preventative and alternative measures to support troubled members of a guarantee scheme from within their respective peer group. By definition, these measures are required to be economically more advantageous than mere reimbursement of depositors in the event of liquidation.

Following the reasoning confirmed by the highest court of the EU, the CMDI review should seek to strengthen the role of existing DGSs and IPSs within crisis management by committing to preventive and alternative measures. In addition, national authorities should be provided with additional tools to deal with banks going into national insolvency. This would improve the proper functioning of the Banking Union going forward and maintain the diversity of the EU banking system at the same time.