

Credible deposit protection requires reliable EU policy

**National Association of German Cooperative Banks and German Savings Banks Association
against proposals for
communitising deposit guarantee schemes / bank protection in the euro zone**

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A European report published on 22 June 2015 once again makes proposals for a Europe-wide communitisation of national deposit guarantee schemes. The Presidents of the European Commission, the European Central Bank, the European Parliament, the Council and the Eurozone have proposed that national deposit guarantee schemes should be merged into a European Deposit Insurance Scheme (EDIS) as the third pillar of a fully-fledged Banking Union. In the opinion of the five presidents, a re-insurance scheme between existing national deposit insurance systems in the euro zone would constitute a first step in this direction.

The National Association of German Cooperative Banks [Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR)] and the German Savings Banks Association [Deutscher Sparkassen- und Giroverband (DSGV)] are emphatically against this type of communitisation, which would create cross-border liability obligations without offering adequate possibilities of (risk) control, arguing that it would represent a further step on the road towards an uncontrolled transfer union.

With the extensive regulatory framework of the Banking Union, the EU has deliberately gone down the road of harmonisation of national deposit guarantee schemes. Many countries have meanwhile installed new deposit guarantee schemes of their own that offer protection for deposits up to 100,000 euros. Other countries – such as Germany – have, in addition to deposit guarantee schemes, extensive institutional protection systems in place that ensure the protection of an entire bank and therefore of its depositors. These systems were outfitted with adequate financial reserves decades ago.

Rekindling the debate on the best way of protecting depositors and savers is counterproductive. Indeed, communitising existing deposit guarantee schemes will permanently damage the confidence of citizens in many Member States. Particularly in the EU's current political situation, however, any further consumer uncertainty must be avoided at all costs. Instead, it is now the responsibility of each Member State to establish and expand their own protection systems.

The National Association of German Cooperative Banks and the German Savings Banks Association are not willing to use funds that have been accumulated over many years to safeguard their own depositors' assets in order to provide deposit protection in other countries, nor are they willing to assume liability for foreign deposit guarantee schemes within the scope of a re-insurance system. We appeal to Members of the European Parliament and of the German Bundestag to ensure that institutional protection systems operating under the current Deposit Guarantee Schemes Directive are in no way impaired.

There are solid arguments against communitisation of deposit insurance within the Banking Union and against the assumption of liability, for instance within a re-insurance scheme:

1. The Banking Union should not be a transfer union

There are significant differences between individual banking systems within the euro zone in terms of their stability and performance, and this was the case long before the financial crisis. Communitised deposit insurance would therefore in essence be creating a transfer union between banks and between deposit guarantee schemes. Stable and efficient banking systems and their protection funds would then become liable for unstable systems, but without having any control over foreign risks. For instance, economic policy errors affecting a country's financial stability would also have to be shouldered by foreign protection systems.

2. Communitisation would undermine citizens' confidence

The safety of bank deposits is an invaluable asset for banks and their customers, but also for politics in general. Communitising banks' liability risks would potentially mean that all deposit guarantee schemes forced into financial solidarity with a crisis country would find themselves weakened. This is a recipe for spreading instability to the entire euro zone, which in turn would trigger negative reactions in the financial markets. In any case, the safety of deposits in Germany and other EU countries would be weakened, and with it the confidence of depositors. More than 80 percent of German savings are held with cooperative banks or institutions of the Sparkassen-Finanzgruppe. These must not be disadvantaged. However, crisis areas can be successfully stabilised only if problems are regionally limited and prevented from spreading to other protection systems. This means that national protection systems are particularly imperative in efforts to promote greater stability.

3. Communitisation sets disincentives

The EU Deposit Guarantee Schemes Directive, which was to be implemented as national law by the beginning of July 2015, has legally enshrined the rights of depositors to EUR 100,000 in the whole of Europe as well as strict quality standards within the various systems. This Directive, which is just now at the national implementation stage, should be given a chance to have an effect.

Making significant new proposals with regard to communitisation before the Directive enters into force raises questions about democratic legitimacy and governance structures in Europe; above all, however, this provides strong incentives for national deposit guarantee schemes not to be established with the necessary stringency. Countries would increasingly be tempted to rely on outside help.

Uncontrolled moral hazard has been a key trigger to severe banking crises. The responsibility of countries, banks and their protection systems should be strengthened, not weakened.

4. Communitisation is not a substitute for political progress

The proposed communitisation of deposit insurance stands in stark contrast to the willingness of countries of the euro zone to make progress on the road to political union. For instance, the five presidents could not seem to agree on the goal of a political union, not even in a longer-term perspective. However, the proposal to communitise deposit insurance cannot be a substitute for the further development of the euro zone. There also is considerable doubt as to whether the existing EU Treaties provide an adequate legal basis for the establishment of a mandatory, non-voluntary Community liability.