



The third pillar of Banking Union

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Five Presidents' Report (June)

- *Deepen and enhance Economic and Monetary Union (EMU)*
- *Foster growth, prosperity and social cohesion*
- *Two stages: mid-2017 and 2025*

4 Unions for EMU convergence

I. Economic Union

→ Jobs & Growth

1. Strengthen Competitiveness
2. Binding convergence process

II. Fiscal Union

→ Fiscal sustainability / stability

1. Assess fiscal recommendations
2. Macroeconomic stabilisation

III. Political Union

→ Democratic accountability

1. More parliamentary control
2. Euro area treasury

IV. Financial Union (BU+CMU)

→ End dependency from banks

1. Complete BU / Launch CMU
2. Full European Backstop

Complete Banking Union

- *Full **transposition** of BRRD and DGSD*
- ***Bridge financing** mechanism for SRM start*
- *Steps towards credible **common backstop***
- ***European Deposit Insurance Scheme (EDIS)***

Common deposit insurance for EMU

- *Safe deposits **key driver** for Banking Union*
- *Natural **third pillar** of Banking Union*
- *Lack of **political support** so far*
- *5-PR: Long-term goal, **interim steps** now*

What about the recent Directive?

- *Significant improvements for depositors*
- *Comprehensive funding mechanism*
- ***BUT: Sovereigns still exposed to insurance risk***

Why the doom-loop is still there

- *Large regional shocks*
 - **Failure of one or more relatively large banks**
 - **Failure of many relatively small banks**
- *National DGS overwhelmed, banks in distress*
- *De facto or de iure liability for sovereign*
- *Fiscal constraints in the EMU? Monetise debt?*
- *Lack of depositor confidence when most needed*
- *Deposit insurance dysfunctional*

Fully-fledged EDIS – some ideas

- *Full mutualised funding / Diversified risk-pool*
- *Risk-adjusted contributions for all BU banks*
- *Local „branches“ to collect, monitor and pay out*
- *EU agency to administer and oversee branches*
- *Moral hazard? Monitoring, coordination and „excess“ at local level*
- *Break circuit / Contribute to resolution*

Interim steps? - Some options

- *5-PR: Reinsurance*
 - **Proportional or non-proportional?**
- *Gradual mutualisation*
- *Mandatory lending*
- *Self-insurance?*

Next steps?

- *No comment*