

Panel 1

# PATH TO/TOWARDS EU BANKING UNION

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**EFDI** EUROPEAN FORUM  
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**DAB**

STATE AGENCY FOR DEPOSIT INSURANCE  
AND BANK RESOLUTION - CROATIA

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# Banking Union - a demanding political project (1/2)



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- Successful start of the Banking Union in November 2014
- Single Supervisory Mechanism resulted in more intrusive supervision and “big data approach” by the ECB
- Single Resolution Board and Single Resolution Fund established
  - Interplay with the SSM
  - Own supervisory capacity ?
  - Legacy risks in banks balance sheets



- National Deposit Guarantee Schemes
  - Relatively comprehensive and more stringent regulation/supervision from July 2015
  - Ex ante funding and strict requirements to re-fund after payouts
  - Too limited catalogue of allowed investments of DGS funds increases portfolio risk and is detrimental especially in low interest rate environment



## Main arguments by proponents of a European DIS:

- Especially in times of crisis, link between banks and sovereigns could/should be weakened
- Shock absorbing capacity increased: Coping with bigger shocks which are systemic for one country, but non-systemic for the Euro area as a whole



## Some arguments by opponents:

- Revised DGS directive just in force from July 2015; current framework prove should itself before further reforms are discussed
- Legal and political reasons limit quantum leap reforms in terms of much deeper integration in the short term
- Systemic risk could rise due to higher overall risk and incentive structure
- Depositors don't accept a „transfer union“ in DGS

# Recent ideas for future development of DGS further



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1. Voluntary lending arrangements between DGS
2. Reinsurance system
  - a) Voluntary
  - b) Obligatory, imposed by EU legislation
3. Fiscal Backstop for national DGS, especially by the ESM
4. Single European Deposit Guarantee Fund
5. Combining DGS and resolution function in one authority

# What should actually be done ? (1/3)



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- Let the revised DGS directive play out, performance of the new framework could be better than expected as all systems will show significant quality improvements and have higher paid-in funding
- DGS should not be a field for experiments, volatile changes of legislation are counterproductive
- Trust of the public in DGS must be maintained at all times

# What should actually be done ? (2/3)



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- Overall level of integration within the Eurozone appears key.  
DGS should not preempt further integration
- More integrated DGS require a higher level of political integration, common economic policies and Fiscal Union
- Most retail depositors are not in favour of mutualisation of DGS.
- Thus the European dream could experience new setbacks



# What should actually be done ? (3/3)



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- Voluntary (market driven) forms of closer integration of DGS may be beneficial although not easy to achieve
- Overall conclusion:  
Time is not ripe for obligatory reinsurance or mutualisation schemes in the area of DGS. FDIC is not a role model because of fundamentally different levels of political integration (United States of Europe do not exist)

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