Five reasons why the ECON Committee should not jump the gun on EDIS

April 15, 2024

The National Association of German Cooperative Banks (BVR) and the German Savings Banks Association (DSGV) are calling on the European Parliament's ECON Committee to take the vote on the European Deposit Insurance Scheme (EDIS) off the agenda. At least until the current review of the Crisis Management and Deposit Insurance (CMDI) framework is concluded.

Any ECON decision based on proposals that represent a compromise and are not yet fully developed could have unforeseen consequences, particularly in the run up to the European elections.

1. The Banking Union is more than EDIS.

It is wrong to equate the European Deposit Insurance Scheme with the completion of the Banking Union. Already today the European regulatory framework provides a comprehensive and de-centralized system of deposit-insurance. In every member state important fund levels ensure a comprehensive protection of depositors. Safeguards are also in place to prevent a liquidity shortfall if a bank fails and depositors must be compensated. Other elements would be crucial to the further progress of the Banking Union, but have not been addressed for years due to a lack of political will, such as the regulatory treatment of government bonds and ring-fencing practices by host states. A hasty EDIS compromise would not advance the Banking Union, let alone complete it. In fact, it would create additional risks that could bring the Banking Union to a standstill on more important fronts.

2. EDIS is not compatible with the CMDI framework: don't take the second step before the first.

The EDIS compromise contradicts the CMDI approach because the latter focuses on resolution, whereas the EDIS proposal assumes the standard scenario of insolvency. In fact, the proposed CMDI reform aims to remove the very safeguards that were originally intended to prevent an access to EDIS. Funds made available by national deposit insurance schemes for bank resolution purposes will not be reimbursed to those schemes. Such contributions would represent mandatory losses for the national schemes which would then be mutualized by EDIS at the expense of all affiliated banks. Thus, the assertion that the proposed hybrid model simply provides temporary liquidity assistance is therefore incorrect. A divergence between liability and control would be unavoidable – with far-reaching consequences.

3. No experiments: financial stability comes first.

The compromise proposed to ECON not only lacks balance, it also seriously jeopardises national institutional protection schemes in Europe. These schemes should not be viewed as exotic structures, but as integral components of financial stability. All depositors' claims are protected thanks to the excellent funding provided by the mutual support of the banks in the institutional protection schemes. The protection scheme also rules out interruptions to credit lines and payment transaction services for corporate and private customers in the event that one of the banks in the scheme runs into difficulties. Institutional protection schemes work well precisely because they take existing strengths and circumstances into account. It is not without reason that countries such as Germany, Spain, Poland, Italy and Austria, among others, have institutional protection schemes. Diversity and regionality ensure overall system stability and prevent inadvertent domino effects.

4. The abolition of national institutional protection schemes would jeopardise the European Union's competitiveness.

Exposure to multiple global risks means that the European Union must safeguard its own competitiveness and stability. The German Cooperative Financial Network and the Savings Banks Finance Group support the stronger integration of Europe's capital markets. Despite all efforts, however, it will take years to achieve further progress on the Capital Market Union, which means that businesses will continue to rely primarily on financing from banks and savings banks in the foreseeable future. A strong European economy – especially the SME sector – therefore needs strong and reliable banks. A common European deposit guarantee scheme would increase the risk of contagion of a crisis in one Member State spreading to other Member States and thereby weaken not only bank-based financing structures but also the financial stability of the entire eurozone.

5. Hasty decisions undermine confidence in EU policy.

There is no comprehensible reason to hurry the ECON vote on EDIS. Instead, EU policymakers should focus on earning trust and ensure stability, particularly in a European election year. A hurried EDIS is a gift for populists in the election. Bearing in mind the major challenges we currently face, a balanced and sustainable plan is necessary to secure rather than jeopardise the future success of the Banking Union and the Capital Market Union. The National Association of German Cooperative Banks (BVR) and the German Savings Banks Association (DSGV) are taking proactive steps to address this challenge in connection with the current review of the Crisis Management and Deposit Insurance (CMDI) framework.

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