European Deposit Insurance Scheme
What’s going on? Or not?

Author: Jan Böttcher
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Name of the event: Deposit Insurance and FinTech Symposium
It's all about the people
Quick Reminder: The whole EDIS Proposal of 2015 on a Single Slide
Ongoing political and technical discussions since 2015 – One Proposal per Year

- Nov 2016: Draft report by rapporteur Esther de Lange
  - Unlike the Commission’s proposal, the draft report primarily envisaged a system of liquidity support only
  - NDGSs would continue to have financial resources of their own (0.4% of covered deposits), enabling them to take alternative measures and compensate depositors on their own authority
  - Banks would pay their contributions to the responsible national DGS, not directly to the DIF

- Oct 2017: Communication of the COM

  - Mutual Lending
  - Hybrid Model (Lending and DIF)
  - COM Proposal

- End of 2019?
ACT V, SCENE 1: 6 November 2019
Enter GERMANY
2019: Germany finally enters the stage...

- Guest contribution by German Minister of Finance Olaf Scholz published in Financial Times on 6 November 2019
- Proposal for next steps towards completing the banking union
- Includes a proposal for a European deposit insurance mechanism

well, kind of...

- Chancellor Merkel did not support the proposal
- So, not an official German proposal
## Key differences between COM Proposal and “German Proposal”

The European deposit reinsurance scheme put forward by the German Finance Ministry moves away from the European Commission’s 2015 proposal.

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<th>2 Stages</th>
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Structure and Establishment of a DIF

- Creation of a **European deposit insurance fund** (DIF)
- Administered by the **SRB**
- The resources would be accumulated in the DIF **in addition** to the NDGs resources
- The DIF would have **national compartments**
- Provision of **liquidity** to the NDGSs when needed, in the form of repayable loans
## Access to Liquidity

### Principle of national responsibility

<table>
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<th>Step 1</th>
<th>It would only be possible to call on the DIF once <strong>national resources</strong> are exhausted</th>
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| Step 2 | Access to **resources of the DIF**  
But: European contribution would be capped |
| Step 3 | Need for additional resources have to be covered by the **Member State** in question |
| Step 4 | If the Member State has not sufficient capacity, the **European Stability Mechanism** (ESM) could support the Member State with normal programme resources |
Two Phases of Reinsurance

1) Liquidity assistance
   Once target level of NDGSs has been achieved (2024)

2) Reinsurance model with – limited – loss-bearing component (“conceivable”)
   But only, once all the other elements of the banking union have been implemented.
At first glance:

Potential increase of the resilience of the banking union
Heading towards the right direction

- Restricted to Temporary Liquidity Assistance
- No loss coverage (in first stage)
- NDGSs remain fully operational and responsible
- Direct claim against national DGS
- Increase of depositor confidence
- Sustainability
- Calculation of contributions in accordance with DGSD (at least for national funds)
But still many open questions

- Legal uncertainty regarding
  - calculation of contributions
  - legal claim of depositors and obligated entity

- Scope (e.g. credit unions)

- Safeguards
  - Which DGS can/shall participate?
  - Consequences of failure to comply?

- Level playing field?
  - Different coverage levels
    - Handling of THB
    - Target level
    - Payment Commitments
  - Different mandates
The Road ahead

The **High Level Working Group (HLWG)** set up in December 2018 to carry out technical work on a roadmap for beginning political negotiations on EDIS presents report to the Eurogroup by the end of 2019.

Three subgroups discuss:
- overall architecture of banking union and the role of EDIS in a completed banking union;
- design of EDIS; and
- prerequisites/conditionality for the next steps and their sequence.

During the past few years, it has become clear that the current so-called ‘three pillars’ (bank supervision, bank resolution and deposit insurance) are just not enough. They alone do not take us towards the goal of a lastingly stable banking union. Priority should take **eliminating the fragmentation of the European banking market**.
Thank you for your attention!

Association of German Banks

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