European Deposit Insurance Scheme

What’s going on? Or not?

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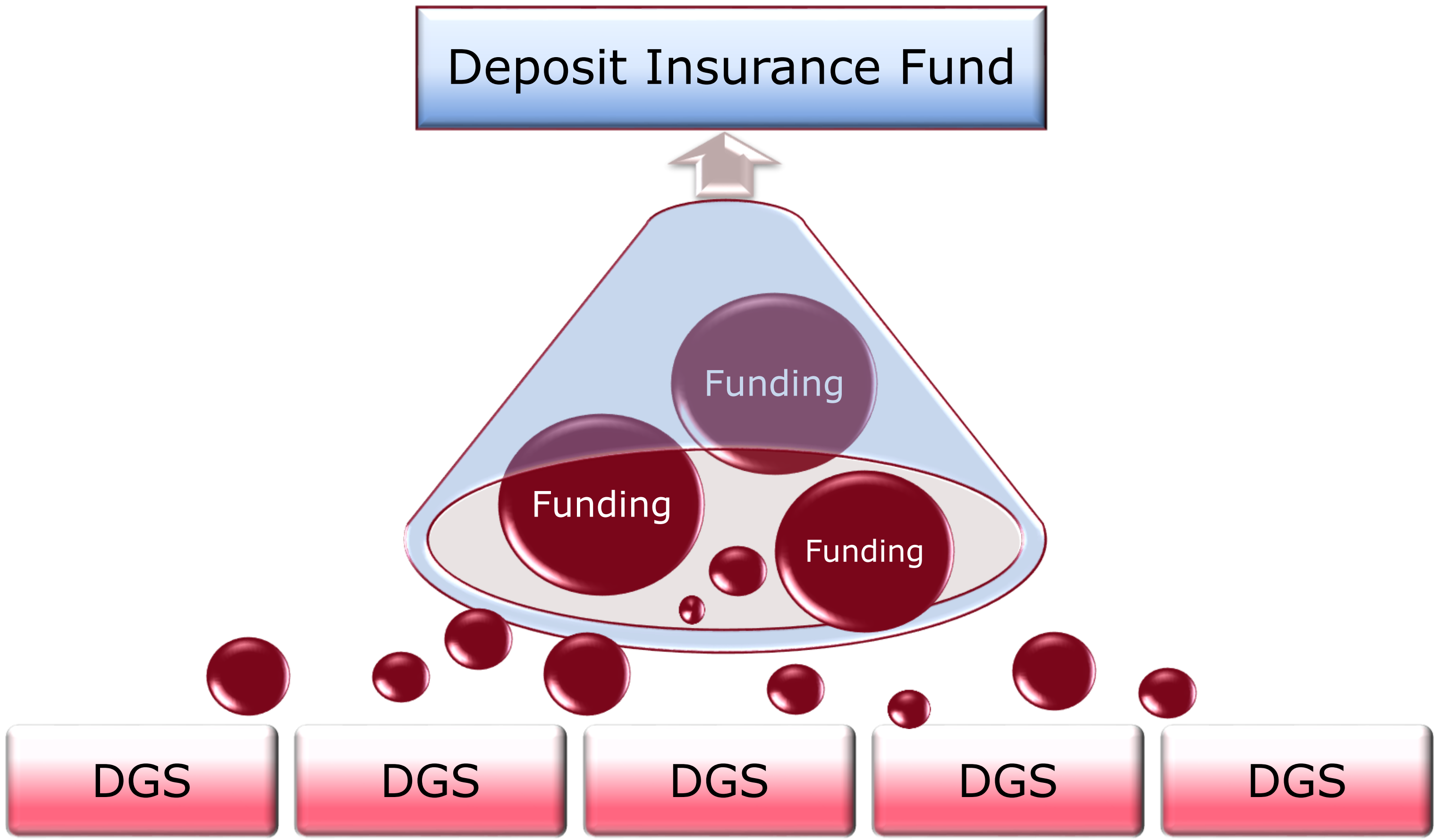
Name of the event: Deposit Insurance and FinTech Symposium

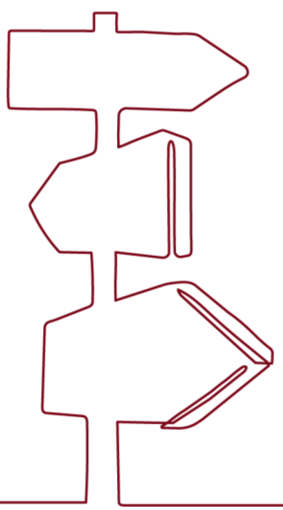
It`s all about the people

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
- End of 2018: Ad-hoc Working Party of the Council
  - 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…

- Chancelor 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

Difference 1	2 Stages
Difference 2	Role of national deposit insurance schemes
Difference 3	Funding
Difference 4	Introduction of Backstops

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

Step 1	It would only be possible to call on the DIF once **national resources** are exhausted
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

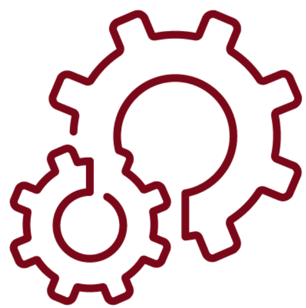
Two Phases of Reinsurance

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.

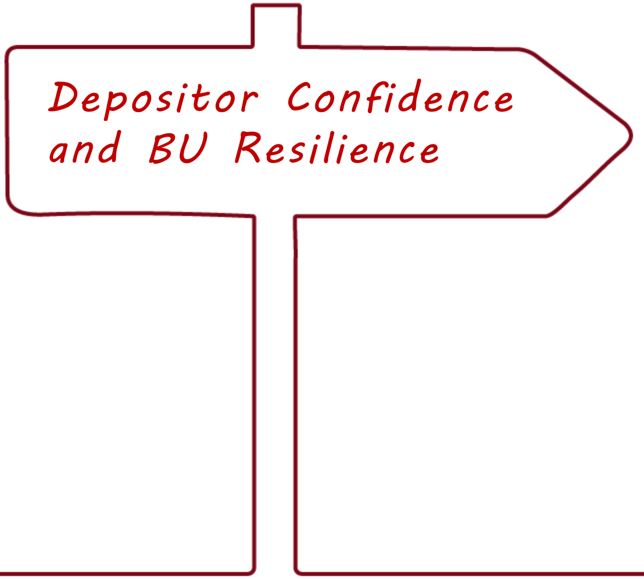


At first glance:

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

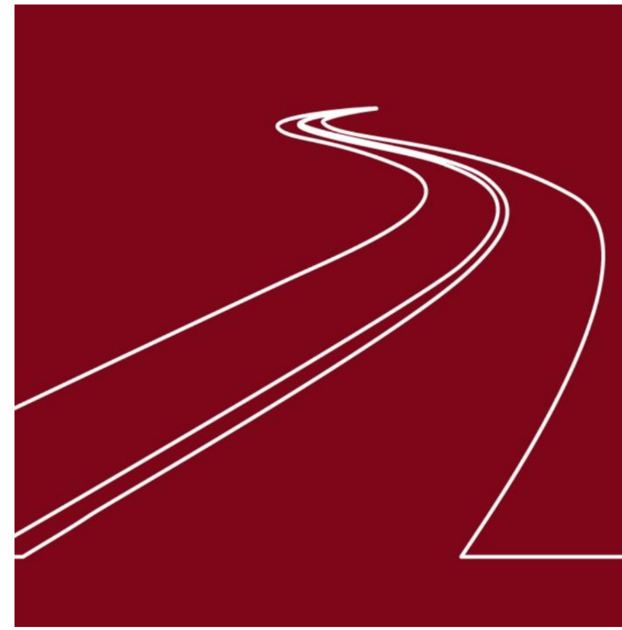
- Scope (e.g. credit unions)

- 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**.

bankenverband

Thank you for your attention!

Association of German Banks

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