Finanzgruppe
Deutscher Sparkassen- und Giroverband

Effective protection of deposits in Europe Centralisation is the wrong approach

- *We want to ensure that all the deposits in Europe enjoy a maximum level of protection – this is what the national deposit guarantee schemes available today provide. However, a centralised European deposit insurance scheme means that the national deposit guarantee funds would be liable for unpredictable risks throughout Europe.*
- *The stability of Germany's economy is largely dependent on the fact that depositors have confidence in the safety of their deposits. For this reason, the deposit guarantee schemes currently in place in Germany must not be tampered with.*
- *The institutional protection schemes (IPS) of the decentralised banking groups in Germany are the basis for cooperation within the Savings Banks Finance Group and within the Cooperative Financial Network. The schemes are therefore essential for the preservation of Savings Banks and cooperative banks.*

Depositors would face unpredictable risks

The European Commission is planning to centralise and mutualize deposit insurance schemes in Europe via the European Deposit Insurance Scheme (EDIS) . The Commission is promising that EDIS will provide "greater safety". However, the opposite is true. In a centralised scheme, all credit institutions would have to support each other throughout Europe. They would be obliged to accept liability – without having any influence at all on the other banks' business policies. Claims arising from this liability would be compensated from the guarantee funds of depositors, who would also have no influence at all.

"System discontinuity" for the stability of Germany as a financial centre.

Germany's Savings Banks and cooperative banks are currently protected from insolvency under the IPS of their respective banking groups. In a centralised EU-wide scheme, this protection could no longer be provided.

What we need first and foremost for stable protection of deposits is efficient deposit guarantee schemes – not necessarily based in Brussels. And where efficient schemes already exist, they must not be forced to accept liability for third parties because this would pose a threat to their economic viability. For this reason, the Savings Banks Finance Group is against mutualizing deposit insurance in Europe at the expense of Germany's decentralised banking groups.

Europe's best protection of deposits should not be swapped for second best!

Savings Banks support each other within the Savings Banks Finance Group. In an IPS they can help a member institution before it is in distress and thus ensure that deposits are fully protected.

IPS are recognised under current European law, because they play a particularly important role in maintaining financial stability.

However, a centralised and mutualized deposit insurance scheme at European level would de facto abolish the proven IPS in Germany.

Preventive measures would be prevented – credit institutions would first have to become insolvent before they could be bailed out at great expense.

This is what we want to avoid because any failure of a member institution means a massive intervention to the detriment of the credit supply for small and medium-sized enterprises.

Consequently, the legally acknowledged IPS must not be integrated into a single EU-wide deposit insurance scheme.

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Banking union has already been completed with regard to deposit protection

From an objective point of view, there is no need to further regulate the protection of deposits by way of centralization. In July 2015, a common set of rules was introduced EU-wide with regard to the level of guaranteed deposits and the manner in which the schemes function at national level. As a result, all depositors in Europe enjoy the same standard of protection. Under these rules, all countries are obliged to fill their guarantee schemes to the required levels and to organise them well, so that they are able to act in the event of an emergency. However, if EDIS provides the opportunity to "pass on" risks to the European level, this opportunity will also be utilised.

Mutualization will not create additional safety; instead, it will create incentives for banks to take risks. It would be more appropriate to ensure – through efficient deposit protection schemes in all Member States – that risks will be eliminated where they are taken. However, this does not require EDIS.

Proven SME financing system must be maintained

Germany's financial stability is based on a reliable cycle of deposits and loans, which must not be altered:

For Germany's economy with its small and medium-sized family-run businesses, the preferred method of financing is bank loans. Germany's Savings Banks and cooperative banks, in turn, refinance themselves from deposits of their customers. And customers also deposit with us during periods of low interest rates because they feel confident that there will be no interference with our deposit protection schemes from any party.

Our customers' trust is the basis that provides a reliable source of finance for businesses from all sectors and of all sizes. However, this trust would be damaged if the available guarantee funds were used to support third-party banks in other parts of Europe.

For this reason, the institutional protection schemes of Savings Banks and cooperative banks should not be forced to make contributions to a single EU-wide deposit insurance scheme.

Risks should certainly be reduced – but through more competitiveness

A reduction of non-performing loans (NPLs) in Europe is urgently needed. They make it difficult for the affected countries to improve economically. However, the current debate about reducing the risks does not go far enough, as it is limited to non-performing loans. Today, extensive risk sharing is already in place – for example in the field of monetary policy or via financial assistance provided by the European Stability Mechanism (ESM).

For this reason, it cannot be a matter of artificially reducing the stock of bad loans (e.g. by transferring them to secondary markets), only to mutualize deposit insurance as quickly as possible. True risk reduction means also improving competitiveness in the Member States. In addition, insolvency requirements would need to be aligned, and excess liquidity would need to be reduced. This can only be achieved in the long term: through political action, not by mathematical design.

At any rate, it is not the responsibility of depositors to face different Member States' burden of legacy risks.

Risk must not be separated from responsibility

IPS constantly monitor a credit institution's viability and are able to intervene in time before the institution is in financial distress. This means that these schemes help the Economic and Monetary Union to become crisis-proof by avoiding weakness in the banking system and by containing crises.

However, a centralised deposit insurance scheme achieves the opposite. In a mutualized scheme, the "risks of contagion" from a bank or a market are more easily passed on to other banks or markets – which will then be held liable, although they did not take the relevant risks, nor did they have any influence on them. For this reason, the new German government's coalition agreement states that risk and responsibility have to go hand in hand.

In practical terms, this means that true deposit protection is created by leaving responsibility within the current schemes – and not by forced mutualization of guarantee funds.

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