Beat: Business

European Union reinforce her Banking Union

With a Deposit Insurance Scheme

Brussels, 24.11.2015, 15:40 Time

USPA NEWS - The recent crisis has shown that large economic and financial shocks can weaken confidence in the banking system. The European Banking Union was established to underpin confidence in participating Banks.

The proposal includes a European Deposit Insurance Scheme (EDIS) will strengthen the Banking Union, buttress bank depositor protection, reinforce financial stability and further reduce the link between banks and their sovereigns. This measures are one of a number of steps set out in the Five Presidents' Report to strengthen the EU's economic and monetary union. The Commission´s legislative proposal would guarantee citizens' deposits at the euro area level. The proposal is accompanied by a Communication, which sets out other measures to further reduce remaining risks in the banking system in parallel to the work on the EDIS-proposal.

Vice-President Valdis Dombrovskis, responsible for the Euro and Social Dialogue, said that "completing the Banking Union is essential for a resilient and prosperous Economic and Monetary Union. The Commission's proposal for a European Deposit Insurance Scheme builds on national deposit insurance schemes and would be accessible only on the condition that commonly agreed rules have been fully implemented. In parallel we need to take further measures to reduce risks in the banking system. We must weaken the link between banks and sovereigns, and put into practice the agreed rules whereby taxpayers should not be first in line to pay for failing banks."

Commissioner Lord Hill, responsible for Financial Stability, Financial Services and the Capital Markets Union, said that "the crisis revealed the weaknesses in the overall architecture of the single currency. Since then, we have put in place a single supervisor and a single resolution authority. Now we need to take steps towards a single deposit guarantee scheme. As we do so, step by step, we need to make sure that risk reduction goes hand in hand with risk sharing. That is what we are determined to deliver."

The scheme would develop over time and in three stages. It would consist of a re-insurance of national Deposit Guarantee Schemes (DGS), moving after three years to a co-insurance scheme, in which the contribution of EDIS will progressively increase over time. As a final stage, a full European Deposit Insurance Scheme is envisaged in 2024. The scheme includes a series of strong safeguards against 'moral hazard' and inappropriate use, in order to give incentives to national schemes to manage their potential risks in a prudent way. In particular, a national scheme will only be able to access EDIS if it fully complies with relevant Union law.

The European Deposit Insurance Scheme will be built on the existing system, composed of national deposit guarantee schemes set up in line with European rules; individual depositors will continue to enjoy the same level of protection (€100 000); introduced gradually, step by step; overall cost-neutral for the banking sector: the contributions banks make to EDIS can be deducted from their national contributions to deposit guarantee schemes, and risk-weighted; riskier banks will pay higher contributions than safer banks, and this will be strengthened as EDIS is introduced gradually; risk adjustments will apply from the outset.

Also will be accompanied by strict safeguards: for example it will only insure those national DGS which comply and are being built up in line with EU rules; accompanied by a Communication setting out measures to reduce risks, such as future proposals to ensure that banks´ exposures to individual sovereigns risk is sufficiently diversified, and mandatory for euro area Member States whose banks are today covered by the Single Supervisory Mechanism; but open to other EU Member States who want to join the Banking Union.

Three evolving steps towards EDIS

Phase 1: Re-insurance. The Commission's proposal starts with a re-insurance approach which would last for 3 years until 2020. In the re-insurance phase, a national DGS could access EDIS funds only when it had first exhausted all its own resources; and "“ as in all further phases - if it complied with the DGS Directive. EDIS funds would provide extra funds to a national scheme, but only up to a certain level.

There will be safeguards to ensure that national schemes can access the EDIS only when justified, and to address possible moral hazard. In particular, EDIS funds would only be available if the relevant rules in the DGS Directive have been fully applied by the Member State concerned. Any use of EDIS funds will be closely monitored. Any EDIS funds that are found to have been received inappropriately by a national scheme will have to be fully reimbursed. This first re-insurance step would weaken the link between banks and their national sovereigns. But more is needed to provide full insurance for national schemes to fall back on and ensure that all retail deposits in the Banking Union enjoy an equal level of protection.

Phase 2: Co-insurance. After 3 years as a re-insurance scheme, in 2020 EDIS would become a progressively mutualised system ("co-insurance"), still subject to appropriate limits and safeguards against abuse. The key difference in this phase is that a national scheme would not be required to exhaust its own funds before accessing EDIS funds. EDIS would be available to contribute a share of the costs from the moment that bank depositors need to be reimbursed. This introduces a higher degree of risk-sharing between national schemes through EDIS. The share contributed by EDIS will start at a relatively low level (20%) and will increase over a four year period.

Phase 3: Full insurance. By gradually increasing the share of risk that EDIS assumes to 100%, EDIS will fully insure national DGS as of 2024. This is the same year when the Single Resolution Fund and the requirements of the current DGS Directive will be fully phased in.

A European Deposit Insurance Fund would be created from the outset. It will be financed directly by bank contributions, adjusted for risk. Management of the European Deposit Insurance Fund would be entrusted to the existing Single Resolution Board.

Article online:
https://www.uspa24.com/bericht-6514/european-union-reinforce-her-banking-union.html

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