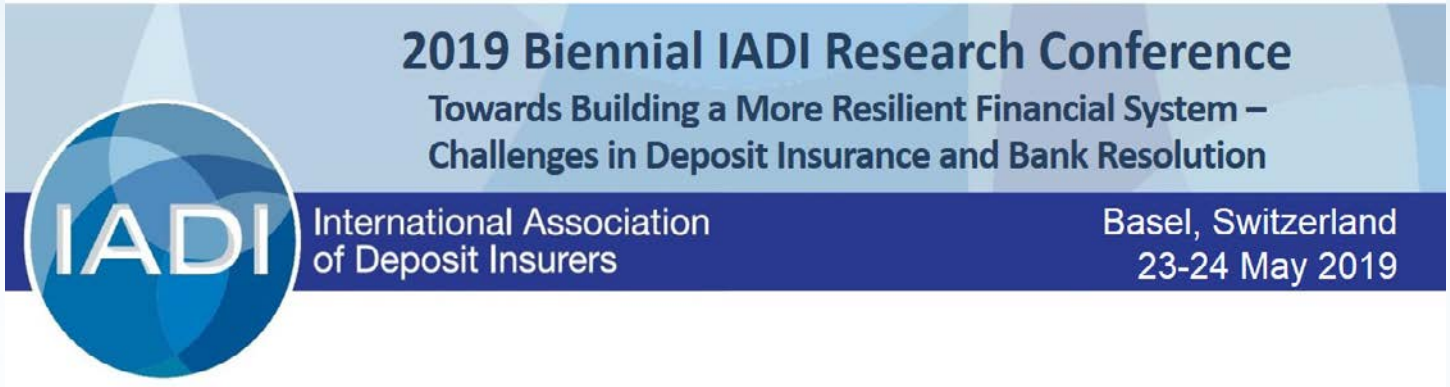

Completing the Banking Union with a European Deposit Insurance Scheme: who is afraid of cross-subsidisation?

Authors: Jacopo Carmassi, Sonja Dobkowitz, Johanne Evrard, Laura Parisi, André F. Silva, Michael Wedow

Discussant: Dirk Cupei, Managing Director Financial Stability, Deposit Protection, German Banking Association

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The paper is based on the assumption that EDIS would strengthen depositor confidence and protection by:

- –**Reducing the vulnerability** of national schemes to local and systemic shocks (via pooling of resources), thus reducing bank-sovereign nexus
- –**Increasing depositor confidence** in the safety of their deposits which would protect banks against funding shocks and contribute to financial stability
- –**Ensuring uniform level of depositor protection** independent of bank location which would promote financial integration
- –**Aligning responsibilities** of supervision and resolution at the Banking Union level
- –**Minimising coordination costs** through centralised decision-making body

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The paper is evaluating only one model – a fully mutualized EDIS (stage 3 of the EC proposal from 2015) with full loss coverage.

Paper:

- –**uses a sample of 2148 Banks in the Banking Union covering 75 % of total assets and 90 % of covered deposits (data end of year 2017)**
- –**calculates EDIS exposure - is the size of EDIS (0,8 %) adequate**
- –**calculates contributions/models risk-adjusted contributions**
  - how to calibrate contributions
  - are smaller/bigger banks penalized
- –**puts the Ratio of EDIS exposure into relation to the contributions to EDIS to elaborate if the is a systematic cross-subsidisation**

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- **Main message/findings of the paper**:
  - EDIS logical step completing the Banking Union
  - Fully-funded EDIS with 0,8 % target level sufficient to protect depositors in a banking crisis
    - » Even in crisis with losses higher than experienced during 2007-2009 global financial crisis
    - » With respect to previous analysis (data end of year 2015) EDIS exposure decreased
  - Relative riskiness of banks and banking systems should be taken into account in the risk-based contributions to EDIS
    - » Preferable to the lowering of the target for certain type of banks

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- Main message/findings of the paper:
  - Smaller and larger banks would not excessively contribute to EDIS (relative to their covered deposit)
  - No unwarranted systematic cross-subsidization within EDIS
    - » No banking systems systematically contribute less than they would benefit from EDIS
- Main conclusions of the paper:
  - EDIS would offer large benefits – enhancing confidence and avoiding bank-runs
  - While posing very limited risks of EDIS exposure and cross-susidisation

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Paper:

- ❖ calculates with a unique data-set
- ❖ is the first which analyzes so concrete the resilience/capacity of EDIS
- ❖ makes its case – proving that there is no susidisation and that EDIS is able to handle most of the crisis scenarios

- ❖ Could be improved by comparing that national schemes are not as resilient on a stand-alone basis
- ❖ Could discuss if liquidity support would not be sufficient if there is a "limited risk of EDIS exposure"

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❖Questions

- Why is the sample limited to 2148 banks /and the coverage per country (TA/covered deposits) so different
- How can those countries/national DGS/banks be convinced who pay more for EDIS than for the national DGS?
- Is the limitation of EDIS by the EC-proposal to contribute only to payouts if the bank is not systemic a mistake taking into account the assumption of the paper: "loss rates is applied: in resolution: 5% - 25% of Total Assets / in insolvency: assumed 50% higher than in resolution" and the fact that many established national DGS practice more alternative measures than payout.

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THANK YOU
FOR YOUR ATTENTION

Authors:

Jacopo Carmassi, Sonja Dobkowitz, Johanne Evrard, Laura Parisi, André F. Silva, Michael Wedow

Discussant:
Dirk Cupei
Managing Director Financial Stability, Deposit Protection, German Banking Association
Dirk.Cupei@bdb.de

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