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

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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 there 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-subsidisation
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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 subsidisation 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.
THANK YOU
FOR YOUR ATTENTION

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