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# European Deposit Insurance and Resolution in Banking Union

**Dirk Schoenmaker**  
Duisenberg School of Finance

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# Banking Union

- Need for coherent approach
- Resolution and deposit insurance are linked
- Scope resolution fund + calculations
- Fiscal backstop is crucial

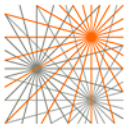
# Current banking framework

## Banking supervision

- Home country supervision,
- With mutual recognition
- Some European coordination (EBA)

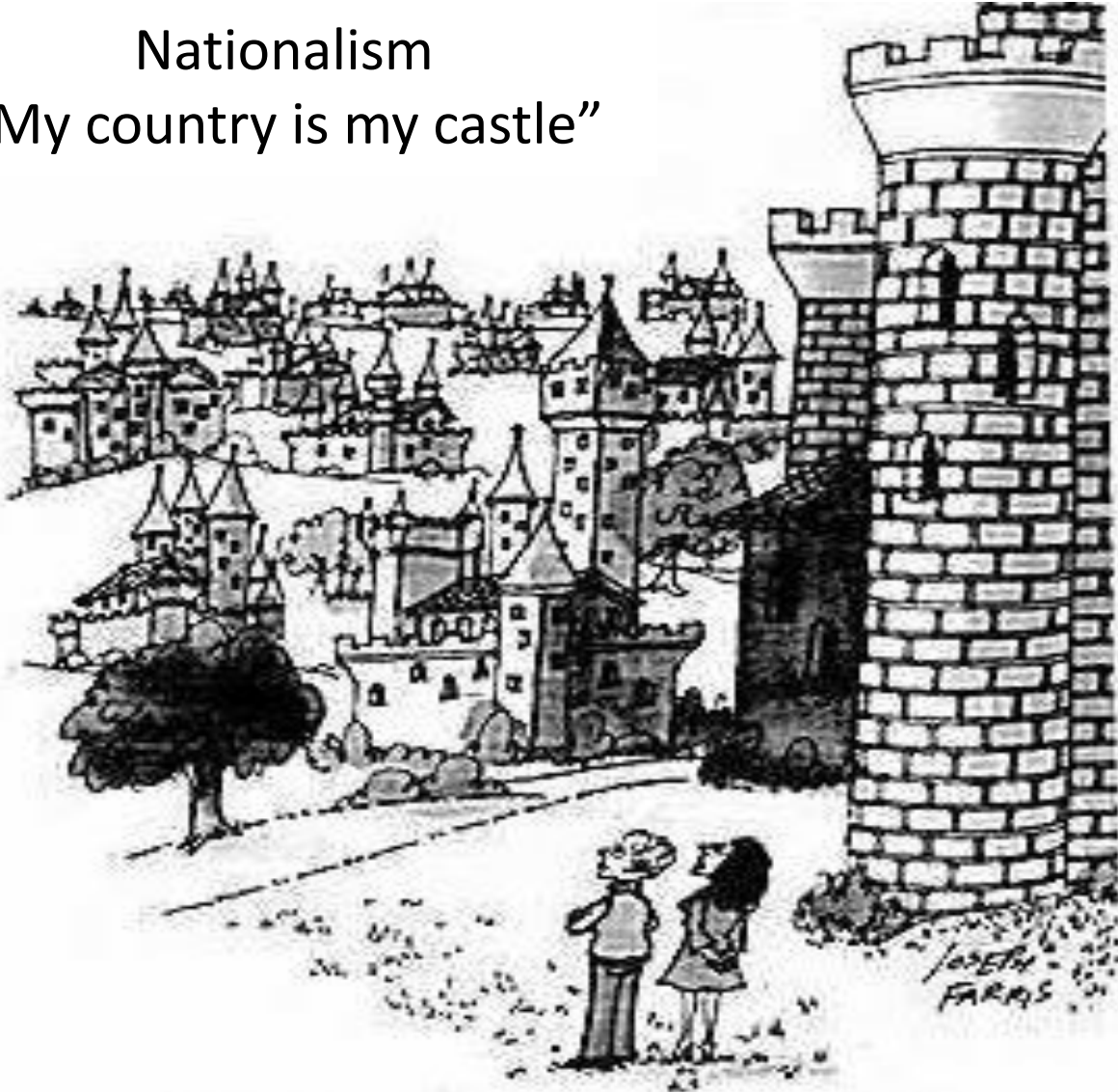
## Banking resolution

- Home country bailout
- Some European coordination (Sarkozy plan in 2008)



## Nationalism

“My country is my castle”



# Paradigm shift

## Banking Union

- From national mandates/responsibilities, to
- European mandate/responsibilities

## For example

- Capital adequacy is part of Single Rule Book!
- No Dutch or German banks, but Eurozone banks

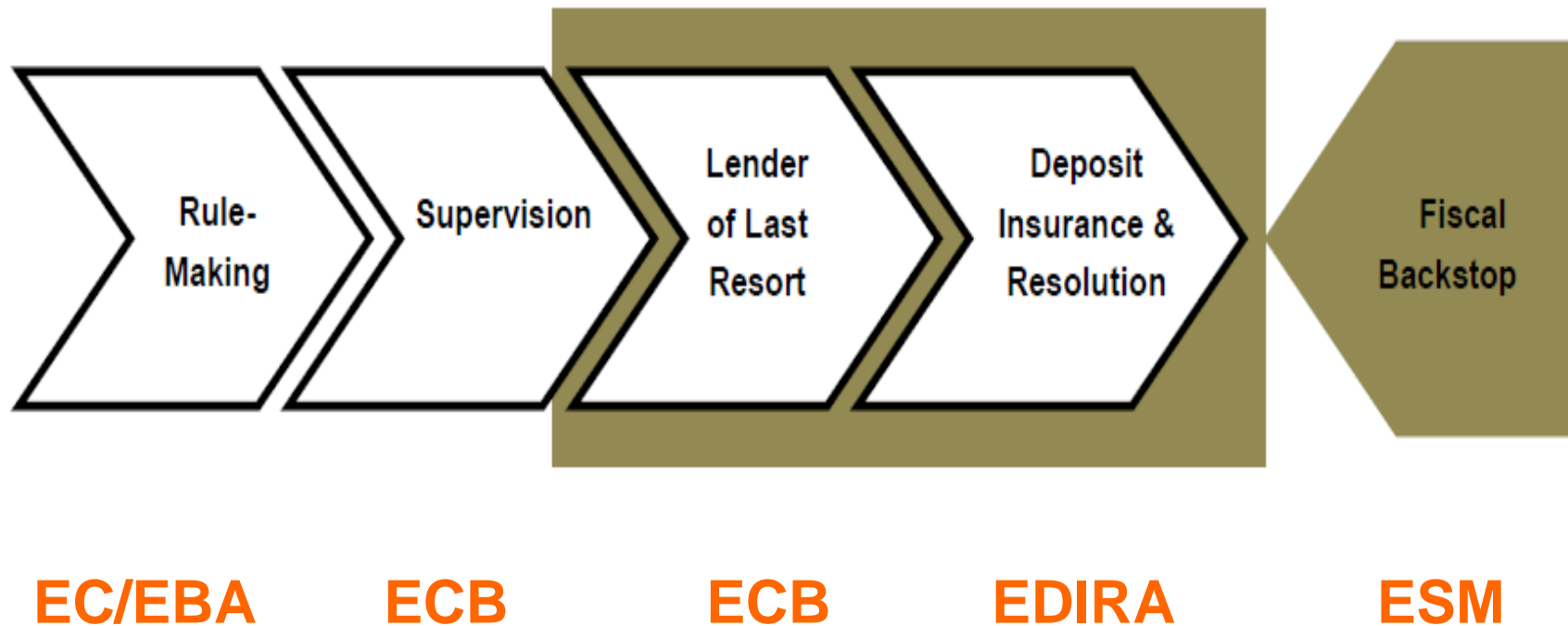
# Global Systemic Banks (G-SIBs)

Banking groups	Total assets in US \$	Home country	Rest of region	Rest of world
<b>Global banks</b>				
1. Deutsche Bank (Eurozone)	2800	34%	32%	34%
2. HSBC (UK)	2556	35%	11%	54%
3. Barclays (UK)	2417	34%	27%	39%
4. Citigroup (US)	1874	36%	21%	43%
5. UBS (Switzerland)	1508	36%	20%	44%
6. Credit Suisse (Switzerland)	1115	21%	26%	53%
7. Standard Chartered (UK)	599	15%	4%	81%
<b>Regional banks</b>				
1. BNP Paribas (Eurozone)	2543	49%	34%	17%
2. Banco Santander (Eurozone)	1619	27%	41%	32%
3. ING Bank (Eurozone)	1244	40%	30%	30%
4. UniCredit (Eurozone)	1199	42%	56%	2%
5. Nordea Group (Sweden)	927	21%	74%	5%

# Global Systemic Banks

Banking groups	Total assets \$	Home country	Rest of region	Rest of world
<b>Semi-international banks</b>				
1. Mitsubishi UFJ Financial Group (Japan)	2664	72%	5%	23%
2. Royal Bank of Scotland (UK)	2330	62%	8%	30%
3. JPMorgan Chase & Co (US)	2266	65%	3%	32%
4. Banque Populaire CdE (Eurozone)	1473	71%	14%	15%
5. Goldman Sachs (US)	924	57%	5%	38%
6. BBVA (Eurozone)	773	56%	9%	35%
7. Morgan Stanley (US)	750	69%	6%	25%
8. State Street (US)	216	72%	3%	25%
<b>Domestic banks</b>				
1. ICBC (China) <b>new in 2013</b>	2456	96%	2%	2%
2. Crédit Agricole (Eurozone)	2432	81%	11%	8%
3. Bank of America (US)	2137	87%	1%	12%
4. Mizuho Financial Group (Japan)	2013	87%	4%	9%
5. Bank of China (China)	1878	78%	15%	7%
6. Sumitomo Mitsui Fin. Group (Japan)	1741	84%	5%	11%
7. Société Générale (Eurozone)	1529	79%	12%	9%
8. Wells Fargo & Co (US)	1314	97%	1%	2%
9. Bank of New York Mellon (US)	326	82%	4%	15%

# Integrated framework - The New Normal!





# Politics

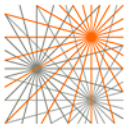
- The financial trilemma model gives clear choice:
  - Supranational, or
  - National
- But politicians are drifting
  - A supranational start with ECB
  - Followed by intergovernmental ERB and ESM
- ERB will need
  - single decision making scheme (one captain), and
  - single resolution fund

## A. Lender of last resort

- Currently the NCBs are responsible for ELA with ECB guidance under Art 14.4 Statute of the ECB and ESCB
- When SSM starts, ECB should become responsible under Art 18.1 Statute (credit operations against collateral)
- Will ECB announce conditions under Art 18.2 Statute?
  - See for example, [public lecture](#) at LSE in 1999

## B. European Resolution

- December Ecofin/Eurogroup compromise
  - Theory suggests ERB with full decision-making power  
-> one captain on the ship,
  - But political choice for involvement of national authorities -> common and national mandates are getting messed up
  - Transition period needed, but is 10 years too long?



# The German view



# European Resolution

- Two very different approaches
  1. Market led (bail-in): Northern Europe
  2. State led (bail-out): Southern Europe
- How to solve cultural divide?

# European Resolution

- Financing resolution
  1. Shareholders/bail-in of (senior) creditors
  2. European resolution fund (bail-out) (with ESM as fiscal backstop)

## C. EDIRA

- Combining deposit insurance and resolution functions?
  - Resolutions during crisis were *de facto* deposit insurance
  - Swift decision-making without interagency conflict
  - Least cost principle: choose between liquidation with deposit pay-offs and public support
- International examples: FDIC and DICJ
  - Important source of ‘federal’ risk-sharing

## Scope

All banks or only significant banks?

- US history is very clear: small state deposit insurance funds failed after introduction of FDIC (large banks are crucial to fill the fund and large sovereign as backstop)

SRM choice for all banks is

- Good for the stability (credible fund for all banks)
- Consistent with SSM (authorisation of all banks; supervision of significant banks)



## How to build EDIRA?

- Single decision-making (supranational)
- Build Single Deposit Insurance and Resolution Fund
- Risk-based premia payed by all eurozone banks
- Gradual transition for deposit insurance
  - 1st year: 10% European, 90% national
  - 2nd year: 20% European, 80% national
- Target size fund is € 120 bn:
  - Ex ante: 1.5% covered deposits -> € 90 bn
  - Ex post: 0.5% covered deposits -> € 30 bn

## D. Fiscal backstop

- Single Deposit Insurance and Resolution Fund
  - Can easily deal with one or two large failures, or a few medium-sized failures
  - But not with a banking crisis (remember TARP was on top of FDIC)
- Need for fiscal backstop -> ESM
  - Direct recapitalisation / guarantees of banks, and/or
  - Credit line to Single Fund

# Equity of largest eurozone banks

Table 2: Market Share of the Largest Eurozone Banks

<i>Bank</i>	<i>Tier 1 capital (in € billion)</i>	<i>Assets (in € billion)</i>			<i>Market share (in %)</i>	
		<i>Total</i>	<i>Domestic</i>	<i>European</i>	<i>Domestic</i>	<i>Eurozone</i>
BNP Paribas (France)	71	1,965	971	1,641	12	5
Crédit Agricole (France)	62	1,880	1,530	1,739	19	5
Banco Santander (Spain)	62	1,251	338	851	9	3
Deutsche Bank (Germany)	49	2,164	742	1,448	9	4
UniCredit (Italy)	43	927	386	911	10	3
Groupe BPCE (France)	41	1,138	808	971	10	3
ING Bank (Netherlands)	39	961	384	750	16	2
Rabobank Group (Netherlands)	38	732	541	607	22	2
Société Générale (France)	37	1,181	931	1,072	12	3
Intesa Sanpaolo (Italy)	37	639	520	612	13	2
BBVA (Spain)	34	598	333	390	9	1
Credit Mutuel (France)	28	605	521	583	6	2
Commerzbank (Germany)	26	662	336	546	4	2

# Conclusions

- Integrated framework
  - Need for supranational approach for resolution (so, if we do not solve it now, politicians will have to do it after next banking crisis)
  - Deposit insurance will have to follow
  - ESM should expand scope from eurozone countries to eurozone banks

## References

- Gros and Schoenmaker (2014), European Deposit Insurance and Resolution in the Banking Union, *Journal of Common Markets Studies*, May, forthcoming.
- Schoenmaker (2013), *Governance of International Banking: The Financial Trilemma*, Oxford University Press, New York.

# Thank you for your time

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