European deposit insurance scheme (EDIS)

2015/0270(COD) - 24/11/2015 - Legislative proposal

PURPOSE: to establish a European Deposit Insurance Scheme (EDIS) as the third pillar of Banking Union.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with Council.

BACKGROUND: in 2012, the Commission called for a Banking Union that would place the banking sector on a more sound footing and restore confidence in the Euro. The Banking Union should be implemented by:

- shifting supervision to the European level;
- establishing an integrated framework for bank crisis management and,
- setting up a common system for deposit protection.

While the establishment of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) has achieved the first two steps, a common system for deposit protection has not yet been established.

The Five Presidents' Report set out a clear plan for deepening Economic and Monetary Union (EMU), including steps to further limit risks to financial stability. For the single currency, a unified and fully integrated financial system is key for effective monetary policy transmission, adequate risk diversification across Member States and general confidence in the euro area banking system.

The Commission undertook in its follow-up Communication to put forward a legislative proposal before the end of 2015 on the first steps towards EDIS with a view to creating a more European system, disconnected from the sovereign, so that (i) financial stability is enhanced, (ii) citizens can be certain that the safety of their deposits does not depend on their geographical location, and (iii) sound banks are not penalised by their place of establishment.

IMPACT ASSESSMENT: a quantitative analysis has considered the effectiveness of a fully mutualised EDIS in coping with potential pay-outs. The analysis indicates that the number and size of banks for which the Deposit Insurance Fund could handle pay-outs increases significantly for all Member States under EDIS compared to national DGSs.

CONTENT: the proposal envisages the establishment of a European Deposit Insurance Scheme (EDIS) as the third pillar of Banking Union through an amendment of Regulation (EU) No 806/2014 (SRM Regulation). It builds on the existing framework of national DGSs as governed by la Directive 2014/49/EU (the DGS Directive). Depositors will continue to benefit from the same levels of protection (EUR 100 000).

Gradual evolution of EDIS: the proposed amendment to the SRM Regulation establishes EDIS in three successive stages. National DGGs would benefit from:

- a reinsurance scheme for participating national DGSs in a first period of three years (Phase I),
- a co-insurance scheme for participating national DGSs in a second period of four years (Phase 2), and
- a full insurance scheme for participating national DGSs in the steady state (phase 3).

Management of the European Deposit Insurance Fund would be entrusted to the existing Single Resolution Board during the 3 phases. The Deposit Insurance Fund is part of EDIS. It would be filled by contributions owed and paid by banks directly to the Board and calculated and invoiced by participating DGSs.

EDIS applies to all DGSs that are officially recognised in a participating Member State and to all credit institutions affiliated to such schemes. The participating Member States are those whose currency is the euro and those other Member States that have established a close cooperation with the European Central Bank.

The different stages of EDIS: in all three stages, reinsurance, co-insurance and full insurance, EDIS would both provide funding, and cover losses of participating deposit guarantee schemes.

The funding provided by EDIS addresses the initial liquidity need of a DGS to compensate

Depositors within the pay out deadline set by the Directive (normally seven working days), but also to satisfy the request for contribution to a resolution procedure in time. The funding must be reimbursed by the participating DGS to the SRB.

EDIS, would, in all stages, also cover losses that the participating DGS ultimately incurs by compensating depositors or contributing to resolution.

The level of funding provided and the share of loss covered by EDIS increase in each stage:

- in the reinsurance phase, EDIS would provide additional funds to a national system, but only up to a certain level (20% maximum of the participating DGSs excess loss, the remaining 80% being covered by other sources of financing);
- in the co-insurance phase, the EDIS contribution would be 20% in the first year and increases each subsequent year by 20 percentage points, reaching 80% in the last year of co-insurance;
- following the co-insurance phase, EDIS will fully insure national DGS as of 2024.

Safeguards for coverage by EDIS: the proposal includes safeguards against incorrect or unwarranted access to EDIS by national DGS. A national DGS can only benefit from EDIS if its funds are being built up in line with a precise funding path and it otherwise complies with essential requirements under Union law. The Board can decide to disqualify a participating DGS from EDIS coverage by specific voting requirements.

BUDGETARY IMPLICATIONS: concerning its EDIS-related functions, the Board would be fully financed by administrative contributions from credit institutions affiliated to participating DGSs. In turn, this means that the EDIS-related functions will not necessitate a contribution from the EU budget.