



# COMPLETING THE BANKING UNION

## Reform of the crisis management and deposit insurance framework (CMDI)

April 2023

### OBJECTIVES OF THE REFORM



Preserving financial stability and protecting taxpayers' money



Better protection for depositors



Shielding the real economy from the impact of bank failure

### WHAT ARE WE DOING?

MAKING THE SYSTEM OF HANDLING BANKS FAILURE AND SHIELDING DEPOSITORS MORE EFFECTIVE ESPECIALLY FOR SMALLER AND MID-SIZED BANKS



Mid-size and smaller banks

Business model with high share of deposits in the balance sheet

#### BEFORE THE REFORM

IF BANK FAILS: LOSSES NEED TO BE ABSORBED BY...



SHAREHOLDERS & CREDITORS



DEPOSITORS



NATIONAL RESOLUTION FUND / SINGLE RESOLUTION FUND (IN THE BANKING UNION)

#### AFTER THE REFORM

IF BANK FAILS: LOSSES CAN BE ABSORBED BY...



SHAREHOLDERS & CREDITORS REMAIN FIRST LINE OF DEFENCE



DEPOSIT GUARANTEE SCHEME (INSTEAD OF DEPOSITORS)



NATIONAL RESOLUTION FUND / SINGLE RESOLUTION FUND (IN THE BANKING UNION)

## TAPPING THE POTENTIAL OF SAFETY NETS FUNDED BY THE INDUSTRY

Privately funded safety nets (e.g. Deposit Guarantee Schemes and resolution funds) should be put to good use to reinforce our crisis management toolbox, as a complement to banks' internal loss absorption capacity.



### Levels of safety nets financed by the banking sector in the Banking Union by 2024

Single Resolution Fund	Deposit Guarantee Schemes
80 billion* €	55 billion* €

*\* Amounts expected by the end of the build-up phase*



Safety nets barely used in resolution



**By relying on safety nets, we limit the use of taxpayers' money**

## APPLYING RESOLUTION CAN IMPROVE COST-EFFICIENCY, SUPPORTING THE REAL ECONOMY AND ITS COMPETITIVENESS



### LOCAL PUBLIC ENTITY (e.g. municipalities)

For instance EUR 300 000 in bank account, offering services to the local community



### SMALL COMPANY active on local markets

For instance EUR 220 000 in bank account, catering for working capital (pay salaries/invoices, supply chain)





### SAVERS

For instance EUR 130 000 in bank account, as a result of lifetime saving












### FAILURE of the mid-size/smaller bank

BEFORE THE REFORM	AFTER THE REFORM
<p><b>Low incentive</b> to choose resolution for smaller/mid-size banks</p>	<p><b>Higher incentive</b> to choose resolution for smaller/mid-size banks, e.g. facilitate transfer of deposits to another bank</p>
<p><b>100 000 €:</b> protected* <b>Rest of deposits:</b> low chance to recover</p>	<p><b>100 000 €:</b> protected <b>Rest of deposits:</b> uninterrupted access, e.g. through a transfer to another bank</p>
 <p><b>PRESSURE ON PUBLIC FUNDS</b></p>	 <p><b>BETTER PROTECTION FOR PUBLIC FUNDS</b></p>

\*National option to protect deposits from public entities

## THE LEVEL OF COVERAGE OF EUR 100 000 PER DEPOSITOR AND BANK REMAINS FOR ALL EU ELIGIBLE DEPOSITORS

### THE REFORM WILL IMPROVE DEPOSITOR PROTECTION ACROSS THE CRISIS MANAGEMENT FRAMEWORK

Temporary high balances on bank accounts	Deposits from public entities	Protection of client funds' deposits
<p>Harmonisation of the protection of the amounts in excess of EUR 100 000 linked to life events such as:</p>	<p>Harmonisation of the protection of deposits from public entities to reduce losses on public funds such as:</p>	<p>Client funds held by non-bank financial institutions will now be protected:</p>
 <b>Real estate transactions</b>	 <b>Schools, universities</b>	 <b>E-money institutions</b>
 <b>Insurance indemnities</b>	 <b>Hospitals</b>	 <b>Payment institutions</b>
 <b>Inheritance</b>	 <b>Municipalities</b>	 <b>Investment firms</b>