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Mr Jean-Claude Juncker
President
European Commission
Rue de la Loi 200
1049 Brussels

President.Juncker@ec.europa.eu

**Cooperative Banks concerned about plans for a European Deposit Insurance
(Re-insurance) System Initiative**

Dear Mr President,

In the past couple of months the initiative on the creation of a European Deposit Insurance (Re-insurance) System ("EDIS") has been placed onto the focus of the European agenda. First introduced in the "Five Presidents' Report" in late June as an essential element for the enforcement of an integrated financial market and for the completion of the Economic and Monetary Union, you have announced a proposal to be expected before the end of the year.

While Cooperative Banks and our association share the vision of a stable Economic and Monetary Union, we have serious concerns about the need and the appropriateness of an EDIS and its contribution to the financial stability and to the integrity of financial markets. To the contrary, the premature creation of an EDIS may send a signal of instability and disrupt trust in sound European financial markets. Furthermore, any new financial constraints on the banking sector could make it even more difficult to finance any potential growth of the economy.

The EACB members draw the attention on the fact that numerous measures introduced in the recent years, such as increased capital and liquidity requirements, early intervention measures and resolution tools, notably refined the "first line of defence" and considerably reduced the risk of failure. Moreover, the asset quality review and stress tests of the last year demonstrated the strength of the EU banking system. Considering those good indications, we don't see how any further measures could be justified.

The voice of 3.700 local and retail banks, 56 million members, 215 million customers



The EU financial safety architecture was considerably enlarged. The SSM and the SRM were created and the 2014 Directive on Deposit Guarantee Schemes aligns the national systems and imposes high minimum standards. However, by now only a minority of Member States has implemented these rules. Going deeper and on a more unified level with the DGSs, without having made the other components fully operational (or even implemented) does not ensure a balance and could harm the established safety architecture.

Therefore, the EACB urges to complete the work on SSM, SRM, DGS Directive and BRRD before any new measures in the area of deposit insurance are envisaged. Only when the proper functioning of the created systems is carefully assessed, a possible review might make sense.

The EACB fears that the new initiative sends a wrong message to consumers and investors and might seriously disrupt trust in a sound and steady European financial market. Only a few months after the DGS Directive has entered into force and while national implementation is still on-going, the European leaders note that the system "remains vulnerable to large local shocks". In the context of recent political developments and financial challenges in some Member States, the proposal for establishment of an EDIS as an "immediate" step might be interpreted as a signal for instability, trigger uncertainty and weaken the customers' and investors' confidence. In countries where consumers have a strong confidence in their DGSs taking over of additional risk may undermine confidence.

Furthermore, while the details of a future EDIS are not clear yet, it has been announced that it will be a privately funded re-insurance system. Additional protection will require additional financial contributions or obligations. If banks have to ensure an adequate financing of both a national DGS and a European system, we do not see how this can be done without increasing the overall financial exposure (contributions or guarantees). Moreover, we note that any new funding will have further negative effects on lending capacities of banks and is therefore highly problematic against the background of the EU Agenda on Jobs and Growth.

Given the limitations of the Treaties, we note that the debates on the contentious issue of the legal grounds are likely to be reopened. Reflections on the principles of subsidiarity and proportionality have to be made. Indeed, considering that the DGS Directive mechanism has not been yet fully implemented, nor evaluated, there is no evidence that it has failed to achieve the intended results. A "speeded up" process for the creation of an EDIS should not risk the due consideration of all relevant arguments for the sake of the legal certainty and the soundness of the measure. Any thin legal basis opens the door to legal challenges and eventually leads to instability.



In the light of the aforementioned, the EACB strongly calls for the deliberations on EDIS to be discontinued and to rather focus on the implementation of the current DGS Directive, which also sets a date for a review in 2019. The very recently adopted common principles and standards for the national deposit guarantee schemes should be fully implemented in Member States and be actually applied before any review of their effectiveness for the stability of the European financial system.

Yours sincerely,

Christian Talgorn
EACB Chairman

Gerhard Hofmann
EACB Vice Chairman

Contact:

Hervé GUIDER, EACB General Manager
herve.guider@eacb.coop