CMDI review as a chance: reduce bureaucracy, ensure stability and maintain proven flexibility

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The German Banking Industry Committee (GBIC) comments on the Trilogue negotiations on the review of the European bank crisis management and deposit insurance framework (CMDI review) and is calling for a suitable continuation in terms of content. The reforms should be important milestones in ensuring stability, competitiveness and diversity on the European banking market.

1. An efficient banking market is essential for strengthening Europe's technological sovereignty

- The German Banking Industry Committee believes that the Trilogue on the CMDI review (review of the European bank crisis management directive and regulation and deposit guarantee schemes directive) offers an important opportunity to secure the efficiency of the European banking industry for financing public and private investments in Europe's future.

- The European Union (EU) needs to invest more in innovation and technology in order to foster a sustainable transition. This is particularly true for investments into renewable energy, sustainable infrastructure and green technologies. To finance this transformation a competitive banking industry with a stable refinancing basis – in particular deposits – is necessary. In this context, well proven Institutional Protection Schemes and Deposit Guarantee Schemes play a very important role, promoting financial stability and depositor confidence. Their ability to act and to perform must not be limited by bureaucratic requirements. Additional administrative requirements for Institutional Protection Schemes and Deposit Guarantee Schemes would weaken credit institutions' refinancing basis or increase its costs, which in turn would negatively affect lending operations. This would obviously be counterproductive for the transformation financing.

- The individual responsibility of all market participants must be strengthened so that responsibility and liability remain where they arise. This is best done with the already established a well proven national Institutional Protection Schemes and Deposit Guarantee Schemes. In contrast, an increasing centralised use of national funds by a European authority would be counterproductive.

- The CMDI review should be used to sign into law an exclusion of pass-through promotional loans for Minimum Requirements for Own Funds and Eligible Liabilities (MREL), similar to that for bank levy and the leverage ratio. This rule would secure the financing of key future projects, particularly in the area of green and digital transformation.

2. Reducing bureaucracy and administrative burdens is the key to more economic efficiency

- Genuine reduction in bureaucracy is crucial in order to sustainably promote the competitiveness of the German and European economy. Centralised administrative structures and extended regulatory competencies must not be an end in themselves. The current European Commission and European Parliament CMDI review proposals should thus be critically revised, as they introduce numerous new administrative requirements and extensive regulatory review and approval provisions.

- One example is the requirement to obtain confirmation from all clients that they have received the annual depositor information sheet. This rule would not just create significant additional costs, but it would also directly conflict with social sustainability goals. It is also very likely that such a procedure would unsettle and confuse depositors, which is in contrast to the goal of providing them with clarifying information.

- In addition, the proposals provide for extensive additional administrative guidance by the European Banking Authority (EBA), the necessity and usefulness of which is questionable. Where regulations are necessary, the GBIC calls, in the interests of harmonisation, for these to be implemented in the level-1-texts. The EBA should be involved in clearly defined and limited cases only, in order to avoid unnecessary bureaucracy and economic burdens that do not have a clear added value and to foster democracy.

3. Institutional Protection Schemes and Deposit Guarantee Schemes on the one hand and bank resolution on the other as separate solutions

- Institutional Protection Schemes and Deposit Guarantee Schemes on the one hand and bank resolution on the other both fulfil important – but separate – tasks within the financial system. While Institutional Protection Schemes and Deposit Guarantee Schemes primarily strengthen depositors trust and prevent potential bank-runs, bank resolution aims at preventing system-wide market disruptions in the event of a threat to the viability of an institution. Both approaches contribute to financial stability, however, they must be viewed separately of one another. Deposit protection funds should therefore only be used for preventive, alternative and reimbursement measures, but not for bank resolution purposes.

- The GBIC advocates that resolution planning should continue to be limited to institutions that are actually systemically important and could jeopardize financial stability in the event of a threat to their viability, and that the aspect of systemic importance should not be artificially extended without need by introducing unsuitable parameters. Small and mid-sized banks – Sparkassen and cooperative banks as well as private institutions - already have efficient guarantee mechanisms in place that are specifically designed to meet the requirements of the institution, namely the Institutional Protection Schemes and Deposit Guarantee Schemes. Extending resolution to these banks is neither necessary nor expedient and would cause unnecessary complexity and costs. Extending the resolution mechanism, on the other hand, would only introduce additional consequential problems, for example in terms of resolution financing.

- In addition, the associated proposals made by the European Commission and Council to make a resolution "artificially" financially more favourable by adjusting the creditor hierarchy or in the least-cost test also weaken the financial capacity of the Institutional Protection Schemes and Deposit Guarantee Schemes.

- The GBIC is therefore clearly opposed to using deposit protection funds to protect deposits that are not eligible for protection from losses in the event of resolution, as this contradicts the mandate of deposit protection and would be contrary to the system.

4. Subsidiarity is a fundamental element of the European set of values

- National Institutional Protection Schemes and Deposit Guarantee Schemes create confidence among depositors due to their regional focus and reduce information asymmetries from the lending business – an indispensable advantage for stable financing within the German economy, especially in challenging times of energy (cost) crisis, geopolitical uncertainties and massive competitive pressures on key industries.

- The German Institutional Protection Schemes and Deposit Guarantee Schemes have proven to be reliable and effective for decades. Thanks to the harmonised standards of the EU Deposit Guarantee Schemes Directive, all crisis situations in other EU countries have also been successfully managed by national guarantee schemes. They all ensure a uniformly high level of protection across the EU and, in addition, contribute significantly to the attractiveness of depositing funds with credit institutions.

- There is therefore no reason to jeopardize the proven functionality of the national guarantee schemes by adding additional requirements on the European level, or by requiring an increasingly centralised use of funds. Such interventions would weaken the confidence of depositors and the stability of funding without creating demonstrable added value. Instead, the national guarantee schemes should be further strengthened.

5. Meeting the needs of Europe`s diversity

- Europe's strength comes from diversity, not homogeneity. A CMDI review that leads to homogeneous market structures will increase the risk of contagion (domino effect), thus weakening financial stability in Europe.

- Considering the global challenges we are facing, it is more important than ever to offer a high degree of security to both citizens and companies. To achieve this, national deposit guarantee schemes need, in addition to a reliable funding base, more flexibility and increased freedom in decision-making.

- In the future, this must include a broad range of instruments for national guarantee schemes – from preventive to alternative and reimbursement measures – which can be implemented quickly and easily. This will make it possible to react quickly and appropriately to each situation, and, if necessary, to maintain continuity in client relationships in the event of a crisis. A comprehensive mandate for national guarantee schemes is essential in order to give them sufficient room to manoeuvre while at the same time protecting depositors trust.

- In addition, in Germany, the voluntary Deposit Guarantee Schemes ensure a very high level of deposit protection through their supplementary and broad coverage.

- By respecting national characteristics and strengthening proven structures, Europe is creating robust and adaptable financial markets. In this way, Europe can use its greatest strength – diversity – to offer companies and citizens the protection they need, especially in challenging times. From the perspective of the German banking industry, the position of the Member States dated June 2024 offers a politically balanced approach that should definitely be followed. At the same time, the aspect of reducing and avoiding bureaucracy should be promoted even more strongly as a central element.

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