7-9 September 2022

Eurofi event

Next steps in the development of the Banking Union

Article for EuroFi Magazine, 2022 edition
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Key sentence: A stronger the crisis management and deposit insurance framework is the next step for the Banking Union.

The way banks are supervised and managed in failure has improved considerably over the last decade. The Bank Recovery and Resolution Directive (BRRD), and the Deposit Guarantee Schemes Directive (DGSD) have established a powerful framework in the EU for dealing with failing or failed banks. A dedicated framework for bank resolution was established and all jurisdictions in the EU now have authorities dedicated to managing bank failures of any size. The authorities' actions, together with additional powers for supervisory authorities to intervene early in stressed banks, transform the landscape for handling idiosyncratic and systemic failures. The framework also includes the creation of the Banking Union, and completion of two of its envisaged three pillars – the Single Supervisory Mechanism and the Single Resolution Board.

However, it is also important to acknowledge that the process is not complete in particular with regards to ensuring full resolvability and achieving full MREL in particular for mid-sized banks.[1] The recent crisis events have represented an important testing moment and we must use this time to push for completion of those reforms.

Strengthening the crisis management and deposit insurance framework (CMDI) in alignment with the objectives of the European Commission review is, in my view, an important next step towards completing the Banking Union. It matters because improving the CMDI is a precondition for further integration of the banking market and for avoiding national ring-fencing when problems arise. More specifically, I would like to highlight four areas where changes are needed.

[1] https://www.eba.europa.eu/eba-sees-progress-mrel-shortfall-reduction-largest-institutions-while-smaller-institutions-are

Firstly, in relation to the largest banks in the EU, there is a need to achieve high level of resolvability to ensure that when such banks encounter difficulties, it is possible to manage their failure effectively. To support this objective, the EBA has published guidelines on resolvability and transferability that should be complied with by all EU banks by 1 January 2024. EBA is also working on guidelines for testing resolvability that aim to frame how resolution authorities should gain assurance of institutions' capabilities to support the execution of the preferred resolution strategy. In this context, we also see a need to increase the overall transparency of the resolution framework to improve its credibility via greater predictability and a broader understanding by a wider audience.

Secondly, there is a need to harmonise insolvency regimes across the EU, starting with a clearer and uniform approach to the public interest assessment which determines whether a failing bank will be resolved, using the resolution tools, or liquidated. More harmonization here would introduce more predictability and ensure trust between home and host authorities. That is of particular relevance to mid-sized banks and banks with cross-border presence.

Thirdly, there is a need to introduce more flexibility to deploy resolution funds, and funds raised by deposit guarantee schemes more effectively. Currently, the hurdles to use such funds in resolution are so high that these funds are hardly ever used for this purpose. More flexibility in that respect would provide the authorities with the possibility to apply the most efficient tool and avoid value destruction in bank failures.

Finally, there is a need to further strengthen and harmonise deposit protection rules. While the agreement on the third pillar of the Banking Union – the European Deposit Insurance Scheme – remains elusive, we should continue strengthening the framework to ensure that where depositor payouts are needed, they are done as efficiently as possible. This matters because maintaining depositors' trust in the deposit guarantee is essential for maintaining financial stability. The EBA has supported the European Commission in the review of the current DGSD and made more than a hundred recommendations on how to improve the current framework, including clearer and better information for depositors, improved transparency concerning DGS funding, and clearer and more harmonised rules on complex or specific cases, such as failures where there are money-laundering concerns.

The Banking Union remains a work-in-progress. Enhancing its regulatory framework is a necessary step. At the same time, we should continue to foster effective integration of cross-border activities and the single market by enhancing supervisory cooperation and collaboration in properly assessing cross-border risks within the EU.