



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Reform of the European Crisis Management and Deposit Insurance (CMDI) framework

Views from supervisory
perspective

16 October 2023



Anneli Tuominen
ECB Representative to the Supervisory Board

Table of contents

- 1 Introduction
- 2 Role of supervisors in crisis management
- 3 Ensuring optionality in crisis situations

1

Introduction

Introduction

- ❖ General importance of the current review of the European crisis management and deposit insurance (CMDI) framework
- ❖ Successful progress in crisis management at European level
- ❖ Practical experience gained in the banking union has supported this review
- ❖ Today's focus topics:

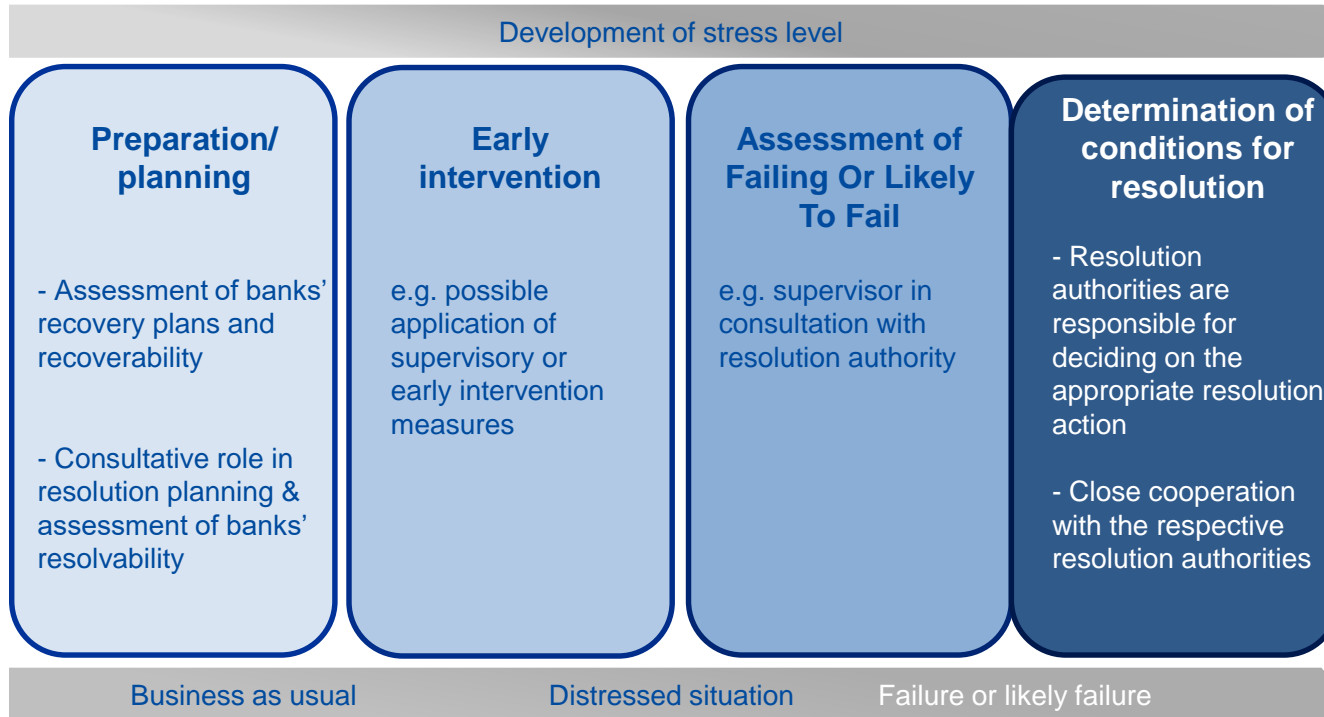
The role of
supervisors in
crisis
management

Ensuring
optionality in
crisis situations

2

Role of supervisors in crisis management

Role of supervisors in crisis management



CMDI proposals: early intervention and cooperation



ECB welcomes the proposals on Early Intervention Measures (EIM), in particular:

- **Direct legal basis** for the ECB
- **Removal of overlap** between EIM and supervisory measures
- **Alignment of the conditions** to use supervisory measures and EIM.



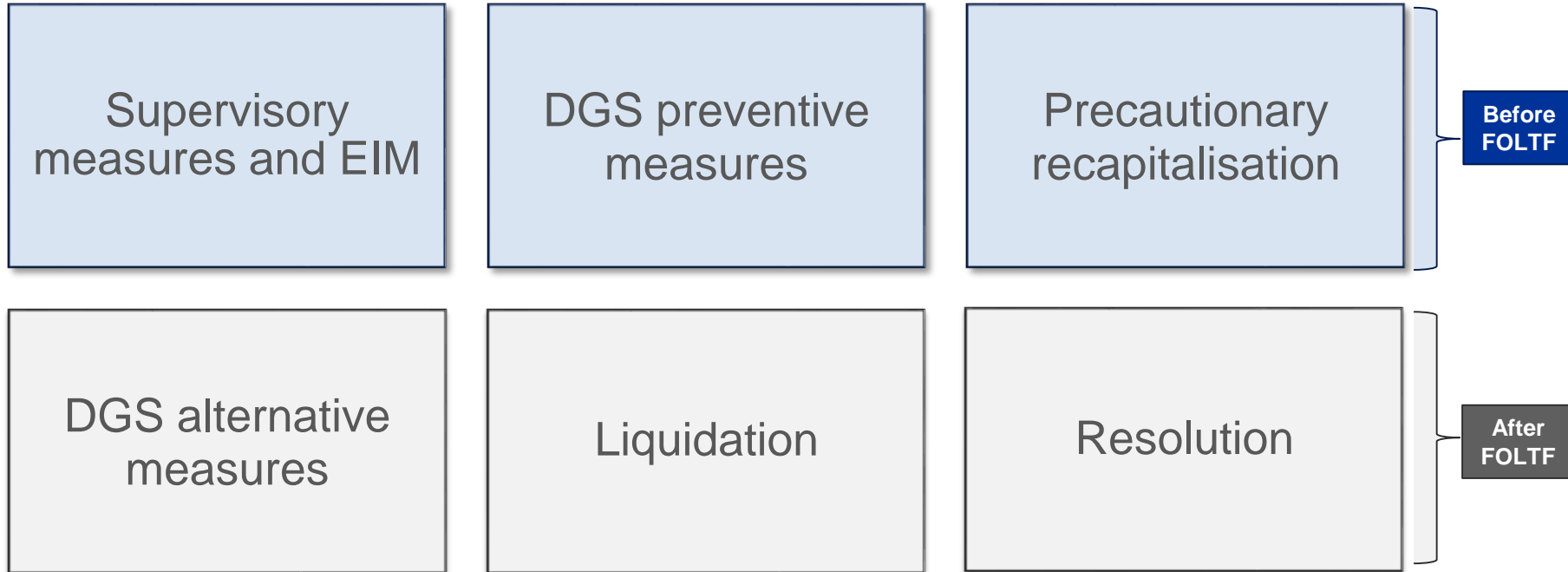
ECB supports very much the proposal to further enhance cooperation and information exchange with resolution authorities in legislation.

As proposed by the Commission, it will be important that **this new early warning process does not affect the well-established resolution procedure.**

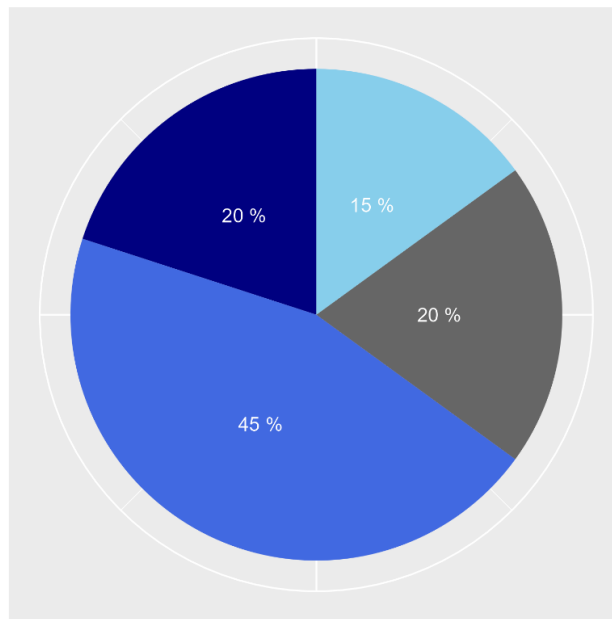
3

Ensuring optionality in crisis situations

Ensuring optionality in crisis situations



Role of DGSs



■ Pay-box (20%) ■ Pay-box plus (45%) ■ Loss Minimiser (20%) ■ Risk Minimiser (15%)

Source: 2021 IADI Annual Survey

Advantages of transfer strategies

Compared to a liquidation, transfer strategies can:

- ❖ **Improve value recovery** by preserving franchise value and through faster process
- ❖ **Reduce strains on DGSs' liquidity** arising from payouts
- ❖ **Improve depositor protection**: Uninterrupted access and broader scope of protection
- ❖ Strengthen **financial stability** and **minimise** the need for **government support**

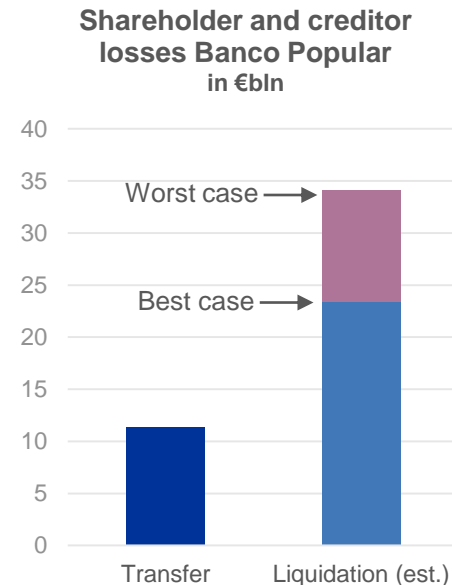
How can value recovery be improved by a transfer?

Transferring the **whole bank – or key parts –** often generates more value than liquidating **individual assets**

- ❖ Customer relationships
- ❖ Experienced staff
- ❖ Deposit base
- ❖ Transfer of whole bank minimises administrative costs

Example: **Banco Popular:**

- ❖ Liquidation would have inflicted 2-3 times the amount of losses on shareholders and creditors than the transfer.
- ❖ Looking at creditors alone, costs would have been 7-12 times higher.

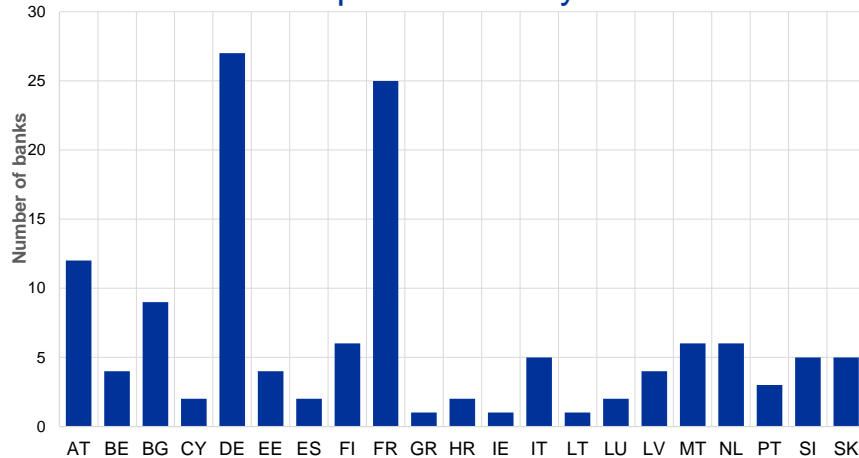


Source: Published version of BPE valuation 3:

<https://www.srb.europa.eu/system/files/media/document/2018-08-06%20Annex%20I%20-%20Valuation%203%20Report%20EN.pdf>

Pay-outs can strain the DGS (1/2)

Number of less significant institutions which can deplete their fully filled DGS

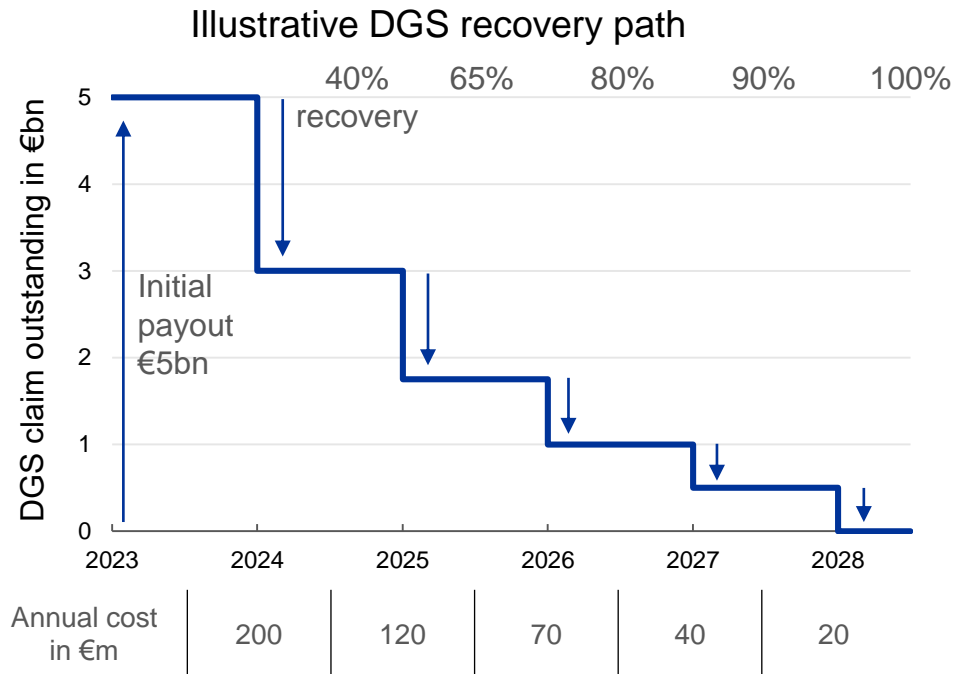


Looking at gross payout amounts, **in each Member State** in the banking union, **at least one less significant institution** can **deplete** its **fully filled DGS** with a **single depositor payout**.

Source: Eule, Kastelein, Sala (2022) Protecting Deposits and Saving Money, Q4 2020

Notes: The chart counts the number of LSIs, LSI groups and LSIs' hosted subsidiaries per Member State whose covered deposits match or exceed the target level of the relevant DGS.

Pay-outs can strain the DGS (2/2)



Even with eventual full recovery of its initial outlay (best-case scenario), a payout of €5bn can currently cost **more than €400m** in lost interest income/financing costs.

Assuming 4% annual costs of the outstanding claim.
Repayment path is only illustrative, but inspired by real cases.

DGS bridge function to the SRF

Shareholders
and creditors
bear losses first



DGS contribution
counts towards
8% threshold



Recourse to the
single resolution
fund

Builds on single-tier depositor preference/least cost test and is subject to several further safeguards, e.g.:

- Only banks earmarked for resolution
- Transfer strategies which lead to a market exit
- Compensating only for deposits and up to the amount necessary to meet the 8% TLOF requirement to access the SRF; for uncovered deposits only in exceptional circumstances to be confirmed by the resolution authority
- Contribution capped by the amount of covered deposits at the respective credit institution