European Commission - Press release

Banking Union: Commission proposes reform of bank crisis management and deposit insurance framework

Brussels, 18 April 2023

The European Commission has today adopted a proposal to adjust and further strengthen the EU's existing bank crisis management and deposit insurance (CMDI) framework, with a focus on medium-sized and smaller banks.

The EU's banking sector, which includes a strong crisis management framework, has become much more resilient in recent years. Financial institutions in the EU are well capitalised, highly liquid and closely supervised.

However, experience has shown that many failing medium-sized and smaller banks have been managed with solutions outside the resolution framework. This sometimes involved using taxpayers' money instead of the bank's required internal resources or private, industry-funded safety nets (deposit guarantee schemes and resolution funds).

Today's proposal will enable authorities to organise the orderly market exit for a failing bank of any size and business model, with a broad range of tools. In particular, it will facilitate the use of industry-funded safety nets to shield depositors in banking crises, such as by transferring them from an ailing bank to a healthy one. Such use of safety nets must only be a complement to the banks' internal loss absorption capacity, which remains the first line of defence.

Overall, this will further preserve financial stability, protect taxpayers and depositors, and support the real economy and its competitiveness.

The proposal has the following objectives:

1. ***Preserving financial stability and protecting taxpayers' money***

- The proposal facilitates the use of deposit guarantee schemes in crisis situations to shield depositors (natural persons, businesses, public entities, etc.) from bearing losses, where this is necessary to avoid contagion to other banks and negative effects on the community and the economy. By relying on industry-funded safety nets (such as deposit guarantee schemes and resolution funds), the proposal also better protects taxpayers who do not have to step in to preserve financial stability. Deposit guarantee schemes can only be used for this purpose after banks have exhausted their internal loss absorption capacity, and only for banks that were already earmarked for resolution in the first place.

2. ***Shielding the real economy from the impact of bank failure***

- The proposed rules will allow authorities to fully exploit the many advantages of resolution as a key component of the crisis management toolbox. In contrast with liquidation, resolution can be less disruptive for clients as they keep access to their accounts, for example by being transferred to another bank. Moreover, the bank's critical functions are preserved. This benefits the economy and society, more broadly.

3. ***Better protection for depositors***

- The level of coverage of €100,000 per depositor and bank, as set out in the Deposit Guarantee Scheme Directive, remains for all eligible EU depositors. However, today's proposal harmonises further the standards of depositor protection across the EU. The new framework extends depositor protection to public entities (i.e. hospitals, schools, municipalities), as well as client money deposited in certain types of client funds (i.e. by investment companies, payment institutions, e-money institutions). The proposal includes additional measures to harmonise the protection of temporary high balances on bank accounts in excess of €100,000 linked to specific life events (such as inheritance or insurance indemnities).

Next steps

The legislative package will now be discussed by the European Parliament and Council.

Background

In its statement of 16 June 2022, the Eurogroup noted that the Banking Union remains incomplete and agreed, as an immediate step, that the work on the Banking Union should focus on strengthening the crisis management and deposit insurance framework, with the aim of completing the legislative work during this institutional cycle. Other important projects, such as the establishment of the third and outstanding pillar of the Banking Union – European Deposit Insurance Scheme (EDIS) – and further progress on market integration, would be re-assessed subsequently, after the CMDI reform.

In its latest report on the Banking Union, the European Parliament also supported the need for a review of the crisis management and deposit insurance framework to improve its functioning and predictability to manage bank failures.

For more information

Questions & Answers

Factsheet

Legal texts

Joint Research Center (JRC) research update on the reform of the CMDI

Banking Union

Bank recovery and resolution

Deposit guarantee schemes

IP/23/2250

Quotes:

The EU banking system is in strong shape thanks to the unparalleled reforms we put in place since the financial crisis. Our banks are now more robust and well placed to withstand shocks. Today we are taking another step forward to ensure all failing banks can be handled more effectively and coherently should the need arise. Our principles remain the same: to preserve financial stability, protect taxpayers' money and improve depositor confidence. These proposals will also help to finalise the Banking Union: a cornerstone of a successful Economic and Monetary Union.
Valdis Dombrovskis, Executive Vice-President for an Economy that Works for People - 18/04/2023

This reform will improve our capacity to ensure that any bank can exit the market smoothly, irrespective of its size or business model, putting to use the tools created for this purpose. This is the most efficient way to handle bank failures for our economy, taxpayers and, ultimately, financial stability. Depositors will also benefit as they would be more likely to retain uninterrupted access to their accounts.
Mairead McGuinness, Commissioner for Financial Services, Financial Stability and Capital Markets Union - 18/04/2023

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