

EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL
MARKETS UNION

Bank, insurance and financial crime Resolution and deposit insurance

Targeted consultation on the review of the crisis management and deposit insurance framework

RISKS MUST BE KNOWN, BAIL-IN PRINCIPLE MUST BE STRICTLY PRESERVED

Impact assessment is needed before the advancement of the legislative proposals

Finance Finland as a representative of the Finnish Banking industry would like to stress, as an overall opinion, that to avoid flaws in the coming legislation, proposals concerning DGSs (Deposit Guarantee Schemes) and EDIS should not be advanced before we have a thorough and reliable impact assessment of the economic consequences of the COVID-19 pandemic. The assessment should include an analysis of the balance sheets of European banks after public moratoria and other relief measures have ended.

Overall aim and principles of the DGS

The overall aim of the legislation should be to have a well-functioning and reliable DGS which guarantees depositors' covered deposits, but which does not, in itself, create a risk to financial stability.

Unwanted and unexpected risks may surface if the legal system allows financial losses to spread through the financial system in an unanticipated way. If the DGS is constructed without adherence to certain necessary core principles, there is a risk for contagion which could trigger a systemic shock to the financial system. This happens if investors fear that their investments to a bank are in danger.

The investor uncertainty created by ill-constructed and/or vague legal norms of the DGS might hinder recapitalization of a bank and cause severe liquidity and capital adequacy problems. To hinder this, it is of paramount importance that rules are unambiguous and clear and there are necessary guiding principles in place.

Guiding principles of the system should in our opinion be the following:

-the investors of each bank are responsible for their own institution. This makes risks they bear at least somewhat transparent even in the middle of possible market turmoil. *This means that investor bail-in principle must be strictly preserved and adhered to.*

-DGSs should operate at most as liquidity providers, i.e., they either provide liquidity to be used by authorities when they make instalments to depositors in bank insolvency or, in a possible European system, to provide loans to a central fund, which again provides loans to a national DGS (NDGS) in a bank insolvency.

-The amount of loans in a liquidity support system should be clearly limited and they should receive a legally undisputed super seniority with respect to other claims to the estate of the failing bank.

-It should be made sure that the loans an NDGS or a potential central DGS has provided to another NDGS have a recovery rate, in practice, of 100 % (or very close).

-If there is a need to have alternative ways to handle liquidation (e.g., transfer of deposits and corresponding amount of assets of the failing bank to another institution) the DGS could give liquidity support in form of a repayable loan for the purpose to make instalments to depositors possible. Ultimate losses should not be covered by the DGS even in these circumstances.

-The DGS funds must be kept to a large extent (e.g., 90 %) in NDGS and within National Authorities. The obligation of a single NDGS to give a loan as well as its right to receive liquidity support should be clearly limited.

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