

Bank Resolution: An intellectual learning process from Banking Union to CMDI

**Status quo from the perspective of
a deposit insurance practitioner**

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Lessons Learned

Fundamental principles of post financial crisis regulation – still valid?

- **No more bailouts** – never use taxpayer's money again to rescue banks/financial institutions
- Must be **possible for banks to exit the market**, constraint:
 - **Uninformed depositors** (consumers) need **strong protection** (no coinsurance, fast payout)
 - Special **regime for systemically relevant banks** (insolvency not applicable, prevent contagion)
- **Burden sharing** – no free lunch for stakeholders and informed investors (bail-in)



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Status quo and current challenges

Simplified view from German private banks
DGS perspective

~180

banks protected by EdB

~130

LSI's principally subject to
national DGS/EdB

50

banks principally subject to
resolution regime/SRB

90%

with a balance
sheet below 10 bn

80%

with a balance
sheet below 5 bn

real CMDI Focus

**~10% LSI's need for
clarification**

? "SRB" banks



CMDI-Proposal

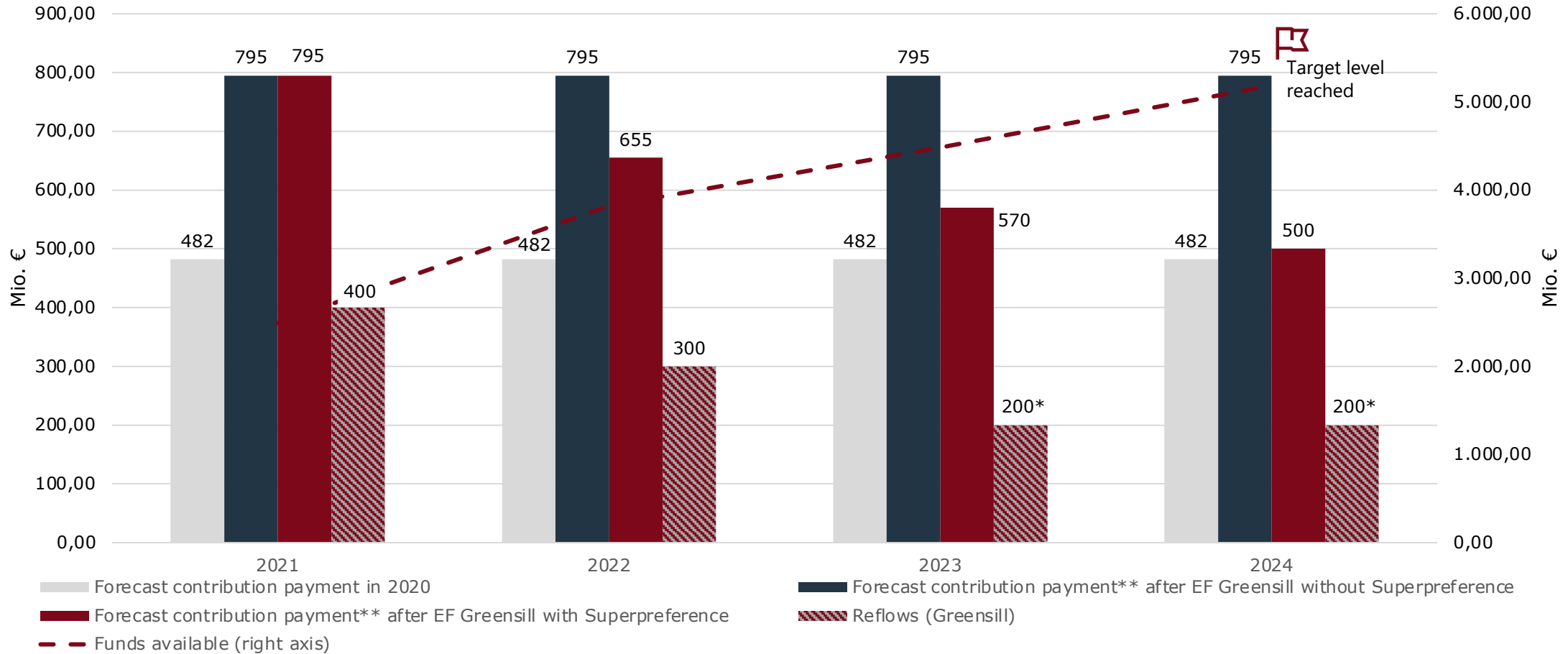
Appropriate response to current challenges?

- **Clarification/further development of PIA** important, but “resolution for all” is wrong approach
- **Scrapping super-preference** for deposit guarantee schemes puts financial resources of DGS at risk and increases damages substantially
- **Financing resolution** of small and medium sized banks **with DGS resources** leads in wrong direction: EDIS through the backdoor
- **Implicit extension of coverage** for informed investors breaks fundamental principles of market economy
- “Resolution for all” leads to **substantial additional burden for small and medium sized banks** (resolution planning/MREL)
- **DGSD-proposal addresses many important issues** that would improve DGS work



Super-preference enables rapid restoration of financial resources

Example Greensill



* Forecast

** In addition to recoveries from insolvency proceedings, other factors influence the amount of the annual contribution collection.



What do we really need from a DGS practitioner's perspective

- General **architecture of crisis management framework** still **appropriate**
- **Resolution** for “small big banks” and “big small banks” **has to be clarified** - limited number of affected institutions
- **Reduction of complexity** is required (regulatory basis, national/ European governance)
- Urgent **need for a more national/cross border coordination and cooperation!**
- **Technical improvements** highly **welcomed**; isolated **adoption of DGSD** would be very **helpful**
- **Pragmatic further development** of framework/architecture (liquidity support scheme)
- Do **not forget state aid issue** (banking communication); should be addressed now, in parallel with CMDI
- **Pay attention to distribution of competency** between different pillars (supervision/resolution/DGS)

Thank you for your attention!



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