

COMMON GUARANTEES

Berlin Blocks E.U. Deposit Insurance Scheme

The German parliament will oppose the latest efforts by Brussels to create an E.U.-wide insurance scheme for bank deposits, Handelsblatt has learned. It's one of many areas where Berlin and Brussels don't see eye-to-eye.

BY RUTH BERSCHENS, FRANK DROST AND CHRISTOPHER CERMAK



Deposit insurance is another thing for European Commission President Jean-Claude Juncker and German Finance Minister Wolfgang Schäuble to argue over. Source: Picture Alliance/DPA

For Mario Draghi, the president of the European Central Bank, the way forward to prevent another financial crisis is pretty clear. Europe sorely needs a banking union, one that includes common rules, a single

WHY IT MATTERS

The row over deposit insurance could scupper the next step in Europe's efforts to move towards a proper banking union that could help avoid another financial crisis.

FACTS

An E.U. deposit insurance scheme would pool the resources of member states and require banks to jointly fund the bailout of failing banks.

Germany already has its own national deposit insurance scheme and is wary of Brussels opening it up to other countries.

Brussels also wants smaller savings banks and co-operative banks to pay into the fund, a move Germany has strongly resisted.

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supervisor, and also a common guarantee for bank deposits spread across the continent.

The biggest obstacle to that vision: Germany, the continent's largest economy, doesn't agree.

Berlin doesn't agree on the third and final point - a common deposit insurance that would see countries set up a joint fund to bail out depositors of banks that get into trouble anywhere in Europe.

Germany's parliament, the Bundestag, spoke out against the idea on Thursday. Many in Berlin argue that Europe is simply not ready to set up a common pool. As with many common European ideas involving money, many worry that Germany will end up having to foot the bill for the profligacy of other countries.

A report by the parliamentary factions of the ruling right-left coalition government, seen by Handelsblatt and to be released Thursday, said that the "pooling of banking risks through a common European deposit insurance does not create confidence in the security of savings in Europe and does not contribute to the stabilization of the banks."

The decision strengthens the hand of German negotiators and is a blow to the European Commission, which has long held an ambition to create an E.U.-wide deposit guarantee fund, financed through contributions from participating banks.

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ALEXANDER RADWAN
BUNDESTAG MEMBER

In the interim, the European Commission is pushing for a form of re-insurance that would bind all the national funds together in case of a crisis. But this, too, is set to be rejected by the Bundestag.

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“The German deposit insurance system is well set up,” reads the report from the Bundestag factions.

The common European project has long been resisted by German negotiators. Alexander Radwan, a parliamentarian from Chancellor Angela Merkel’s Christian Democratic party, said it’s simply too early to start talking about a common pot of money.

“It’s not the right time,” Mr. Radwan, a member of the Bundestag’s finance committee, told Handelsblatt Global Edition. “Before the European Commission comes forward with new proposals, it should ensure that the laws already established relating to banking union be implemented at the national level.”

By pushing for deposit insurance now, Mr. Radwan said the European Commission was “taking the third step before the first.”

For Germany, the other major concern has been mixed messages about whether its smaller banks - savings banks and cooperative banks - will be forced to pay into the common pot as well.

The European Commission’s president, Jean-Claude Juncker, has promised in the past to safeguard the interests of small savings and cooperative banks. But in the latest draft proposal, seen by Handelsblatt, the Commission makes clear that the network of savings and cooperative banks may have to pay a portion of the costs.

This is ridiculous, argue German negotiators. They point to a common guarantee scheme already set up by savings banks and cooperatives, run through their umbrella organizations.

At an event with German community banks on Thursday, Mr. Juncker urged calm and said these concerns would be taken into account. He promised that Brussels did not plan a system of “liability sharing” and would adopt rules that take into account national bank guarantee systems.

Mr. Radwan noted that smaller German banks were the ones that proved stable in the 2008 financial crisis - it was the large ones like

Commerzbank and various state-backed regional banks that ran into trouble. He praised Mr. Juncker's words, but said he was skeptical that the appropriate rules would follow.

"The savings and community banks, and how they understand and practice banking in Germany, are in my view not really understood in Brussels," he said. "Mr. Juncker's latest comments should finally be taken into account in the Commission's day-to-day work."

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