

THE TREATMENT OF DEPOSITORS IN THE EU FRAMEWORK ON BANK CRISES: A LATENT CONTRADICTION

- 1. The basic rules and their rationale*
- 2. The underlying system of incentives*
- 3. Policy proposal*

Donato Messineo
donato.messineo@bancaditalia.it

WEAKNESS OF DEPOSITORS + WEAKNESS OF THE BANKING SYSTEM

- Depositors lack the skills or the resources to assess and compare the risk profiles of different institutions
- Deposits can hardly be considered as «investments»
- Deposits by enterprises are necessary for the operation of business
- The banking system is vulnerable to massive withdrawals of cash

THE BASIC RULES (1)

- Under the DGS Directive (2014/49/EU), Member States ensure that in the case of deposits becoming unavailable deposits up to euro 100.000 are repayed by DGSs within 7 working days (after the transitional period ending in 2023)
- Under the BRRD (2014/59/EU) and the SRMR (806/2014/EU), «*the protection of covered depositors is one of the most important objective or resolution*» and covered deposits are out of the scope of the bail-in tool



Insured depositors: incentives not to contribute to market discipline

THE BASIC RULES (2)

Depositors above euro 100.000:

- not insured
- bail-inable



- Expected to monitor the health of the supervised institutions and to sanction excessive risk-taking
- *Uninsured depositors: incentives to contribute to market discipline*

THE SYSTEM OF INCENTIVES

- Insured depositors and uninsured depositors are mostly the same persons
- The same persons are provided with opposite incentives as regards different segments of their wealth
- *Is it working / going to work?*
- Threats to depositor confidence:
 - (i) DGSs might be unable to fulfill their reimbursement obligations
 - (i) public authorities might impose losses on insured depositors

POLICY PROPOSAL

CURRENT FRAMEWORK: DRAWBACKS

- Uninsured depositors are poor bank monitors and sources of cheap funding
- Uninsured depositors are not better placed to bear losses than taxpayers
- Writing down enterprises' deposits creates collateral damage
- Once a bail-in is triggered, depositors with others weak banks may flee
- Large depositors may sense trouble in advance and migrate to money market or investment funds

REMEDY: EXCLUDING ALL BRANDS OF DEPOSITS FROM BAIL IN

- Lower risk of generalized flights to safety
- No actual loss of market discipline
- Additional funding from other sources required
- Deposits beyond euro 100.000 still uninsured by DGSs

Thank you for your attention
donato.messineo@bancaditalia.it