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

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

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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
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