



## **BANKING UNION:**

### **Malta's potential adoption of the European Deposit Insurance Scheme (EDIS)**

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# What is Depositor Protection and Why is it Important?

- ▶ During periods of severe recession or crisis the solvency of banks can be brought into question
- ▶ In more recent times, regulators have strengthened capital and liquidity requirements on banks, which significantly reduces the risk they will fail
- ▶ However, if banks do fail, customer deposits could be at risk: this is considered inappropriate as depositors are not informed investors and deserve additional protection
- ▶ Over time, regulators across Europe have added additional protection for depositors, principally through protection funds that would protect depositors in the event of bank failure (up to €100k)
- ▶ Banks pay for this fund via levies imposed within each country

# Depositor Protection History

## EUROPEAN UNION

Many European countries developed national schemes and an EU directive in 1994 provided only limited harmonization

An amending directive in 2009 required EU countries to increase their protection of deposits firstly to a minimum of €50,000, and then to a uniform level of €100,000 by the end of 2010.

In 2014, the EU adopted Directive 2014/49/EU, requiring EU countries to introduce laws setting up at least 1 DGS that all banks must join. EU countries must

- ensure a harmonised level of protection for depositors
- produce lists of the types of deposits that are protected

Nov. 2015- Initial European proposal to set up **European Deposit Insurance Scheme (EDIS)**

## MALTA

2003 – Legal Notice setting the Depositor Compensation Scheme Regulations

2006 – Legal Notice to implement Directive 94/19/EC of the European Parliament

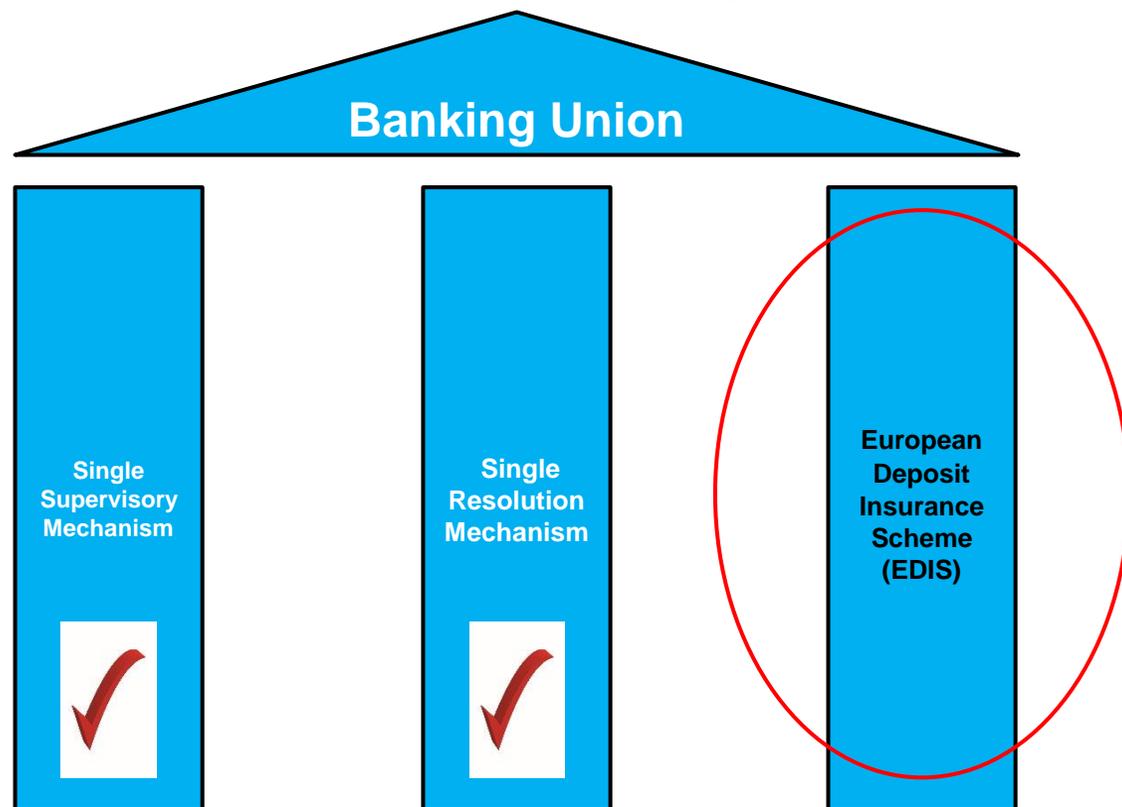
2009 – Legal Notice to implement Directive 2009/14/EC

Dec. 2015 - Legal Notice to implement Directive 2014/49/EU

➤ 2017 - Legal Notice 132 of 2017 – amendments of principal regulations

# European Banking Regulatory Framework – where does EDIS fit?

## Three Pillars of the Banking Union\*



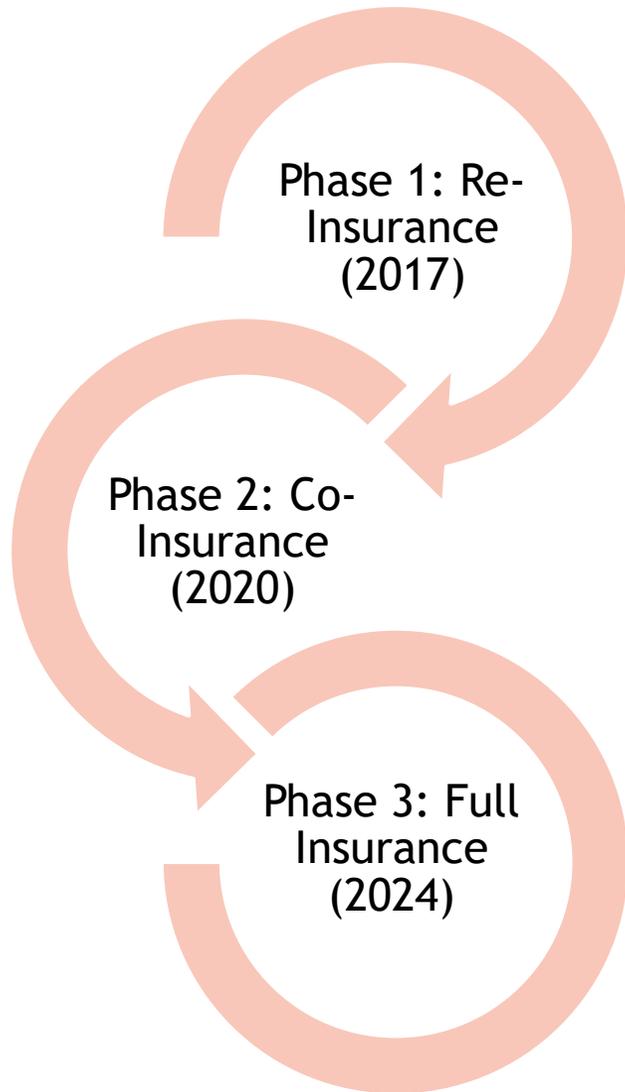
### EDIS will:

- complete and strengthen the Banking Union
- reinforce financial stability in the Euro area
- further reduce the link between banks and their sovereigns

\*Launched by the European Commission - as an essential element to the Economic and Monetary Union and the internal market, created in 2012 as a response to the financial crisis with the aim of transferring the responsibility for banking policy from a national to an EU level.

# Original EC Implementation Plan

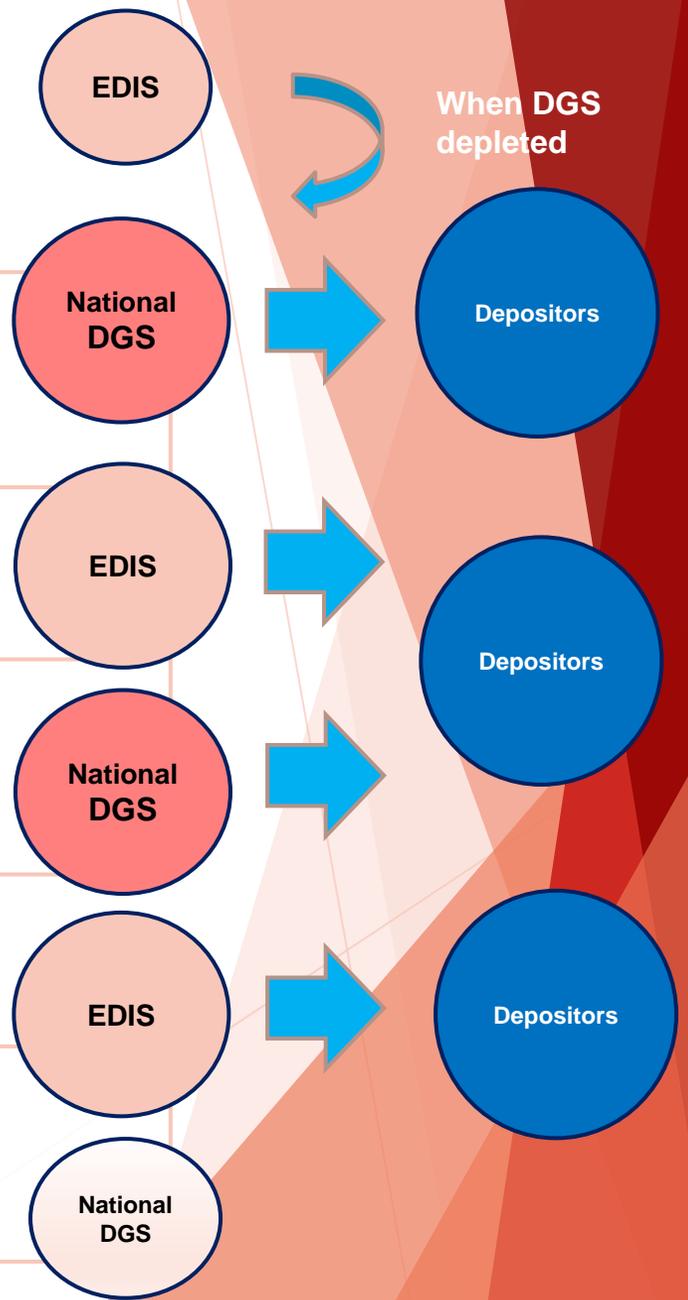
## The Three Stages of EDIS



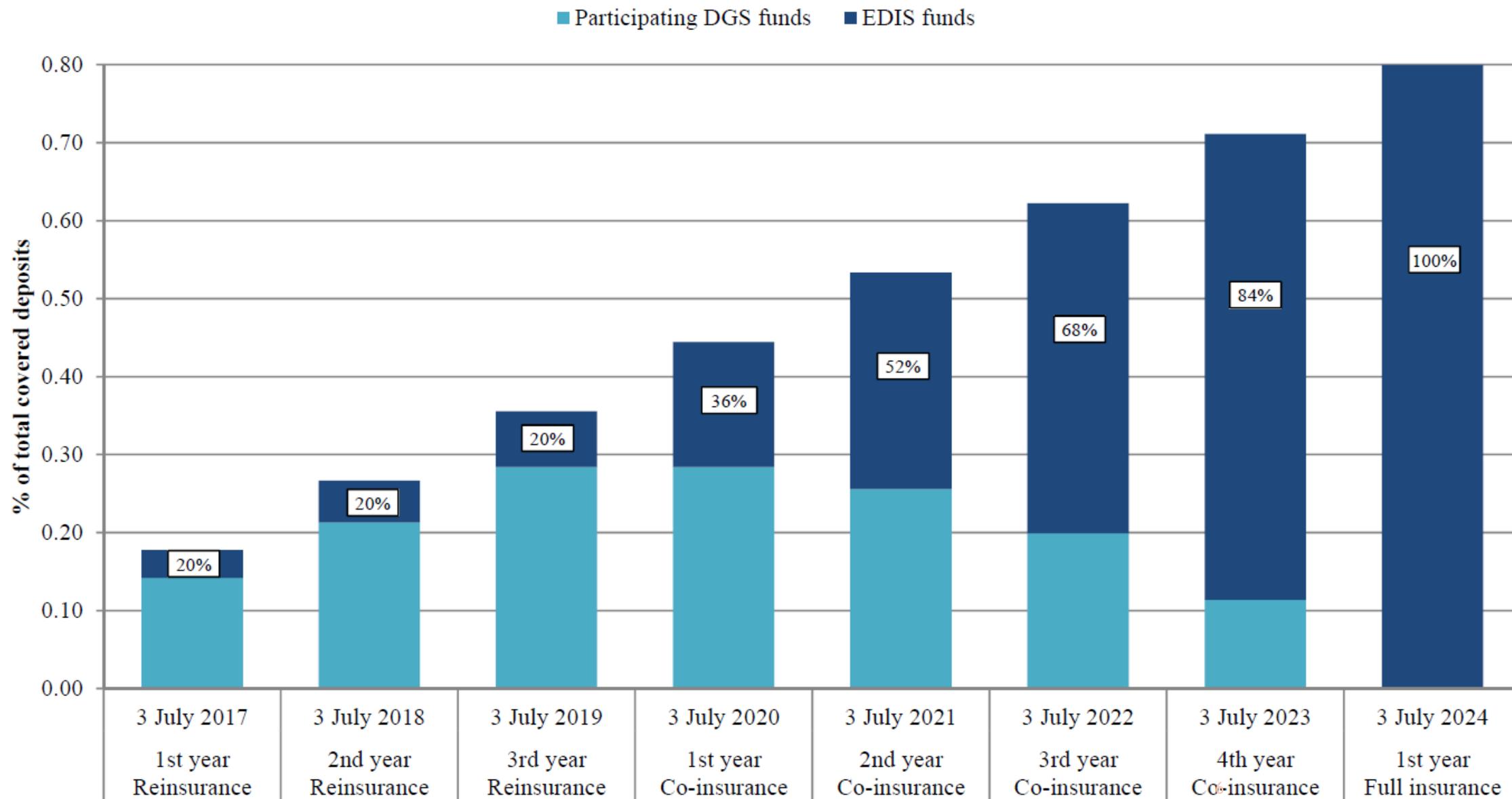
• National Deposit Guarantee Schemes (DGS) could access EDIS funds only after exhausting their own resources.  
• EDIS funds will provide extra funds only up to a certain level.

• EDIS contributes from first euro of loss.  
• The share contributed by EDIS would start at a low level and progressively increase.

By gradually increasing the share of risk that EDIS assumes to 100%, EDIS will fully insure national DGS as of 2024.

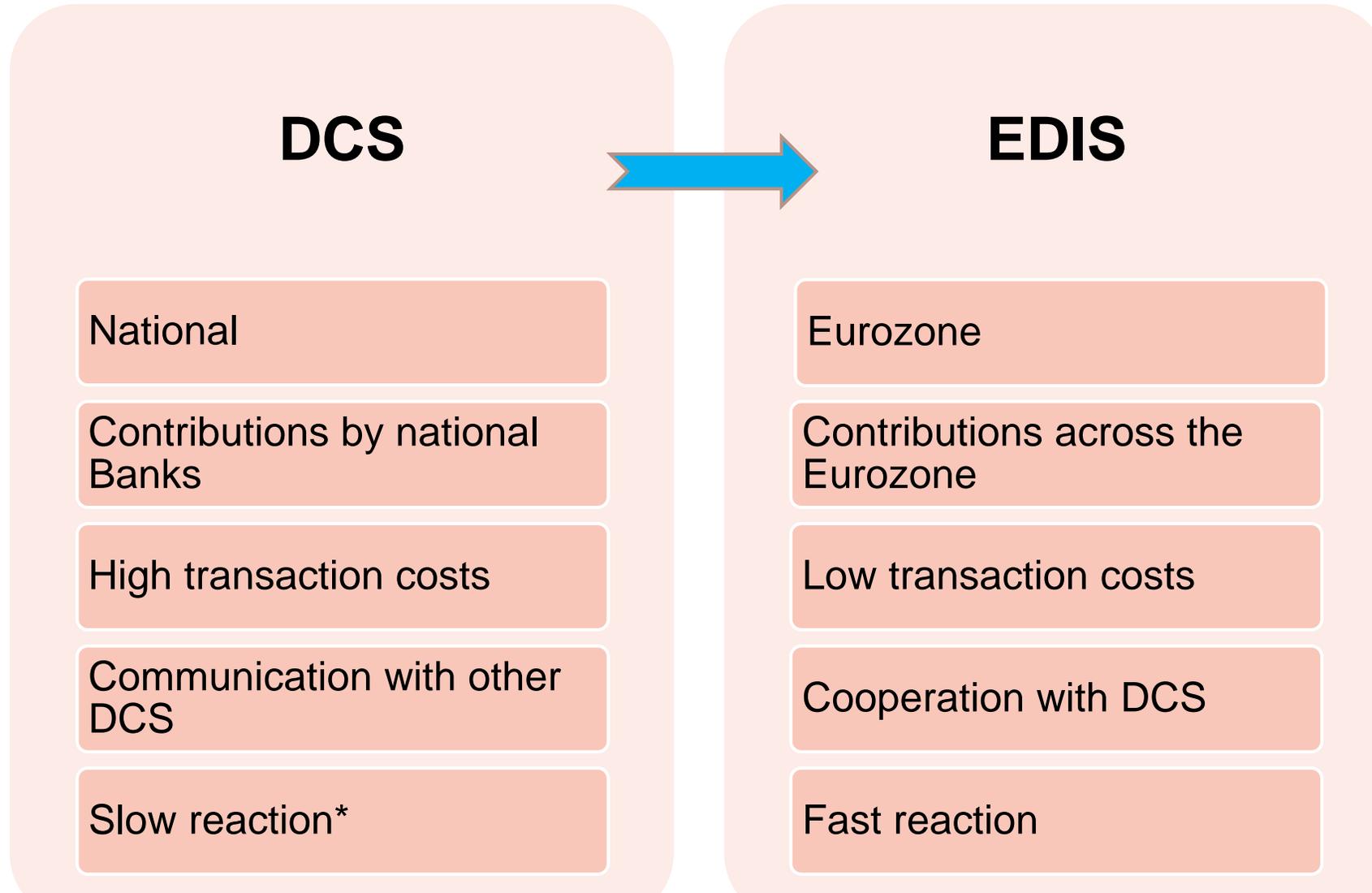


# Profile Under Original Plan



Evolution of EDIS funds compared to the funds of a participating DGS (in case MS/DGS chooses to compensate)

# Malta Depositor Compensation Scheme vs European Depositor Insurance Scheme



\* Technically we should pay within 7 working days from date of determination. Malta made use of an exception in terms of the DGSD. We are now within the last period, (i.e. 1 January 2021 to 31 December 2023) whereby we can effect a pay out within 10 working days from date of determination. As of 1 January 2024 (all things being equal) Malta would effect a pay out within the 7 working day period.

# EDIS – Current Position

- EDIS is at a deadlock with main arguments from countries that can be potential major contributors arguing that it may lead to **moral hazard** and cross-border subsidization.
- The strengthening of the Banking Union is on the **Eurogroup's** work program until December 2021, so we expect to see possible resolution of the current stalemate.
- The German proposal (a hybrid model) on the way forward is that in the case of any bank failure, the following sequence is to be followed:
  - *First resources will be from the national insurance scheme;*
  - *If funds are used, the European fund should grant limited supplementary liquidity through repayable loans;*
  - *If additional financing is needed, then the appropriate sovereign would need to step in.*
- In a recent letter\* to an EU MEP, the President of the ECB reiterated that a fully-fledged EDIS should:
  - remain a key priority for the banking union; and
  - if EU legislators were to support such a model, it should be designed in a way that would ultimately ensure a smooth transition to a fully-fledged EDIS.

# EDIS.... Impact on Malta

- ▶ If approved EDIS will provide: :
  - ▶ depositor benefits in terms of increased **Peace of mind** that EDIS will apply to all deposits up to €100,000 per depositor
  - ▶ Maltese depositors will enjoy the same level of protection to their savings as those enjoyed by participating Member states
  - ▶ Will deliver a significantly stronger deposit insurance scheme than the current system of national schemes
  - ▶ A speedier process for any potential claim
- ▶ For Malta, this could help:
  - ▶ To cement international investor confidence
  - ▶ Safeguard financial stability
  - ▶ Alleviating country related concerns



Thank you