Strengthening bank crisis management through transparency and cooperation

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The EU’s bank crisis management and deposit insurance (CMDI) framework has enhanced system resilience, as evidenced by the 2023 crisis. However, remaining loopholes create uncertainty and impede further market integration. The lack of a

European Deposit Insurance Scheme (EDIS) and insufficient resolution funding arrangements are key structural gaps. Such an incomplete architecture leads to uneven depositor protection across jurisdictions and undermines the banking union's objectives. Moreover, regulatory inconsistencies persist; addressing these through the CMDI reform would improve flexibility and predictability in managing crises, boost confidence, and promote harmonisation in areas essential for an orderly wind-down of troubled banks, ensuring an effective interplay of rules.

In the absence of a unified safety net, ring-fencing restricts the movement of capital and liquidity within cross-border banking groups. As a result, banking groups need to maintain extra resources at local level and ensure that subsidiaries can continue operations independently in times of stress. However, this fragmented approach hinders integration, reduces efficiency in capital and liquidity allocation, and weakens the EU's ability to manage financial crises effectively. Ultimately, it weakens the ability of European banks to compete effectively on a global scale.

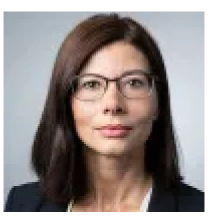
Funding in resolution remains a key gap. The Single Resolution Fund (SRF) and the European Stability Mechanism (ESM) backstop could provide essential funding, but the delayed ratification of the ESM Treaty creates uncertainties about the suitability of the framework in place. Moreover, without a reliable liquidity in resolution (LiR) mechanism, concerns over large bank failures and contagion persist, reinforcing home-host tensions and complicating cross-border crisis resolution. The EU's unique characteristics make the search for a solution more complex. Member States and EU institutions need to renew their efforts towards cooperative approaches.

Reforms should ensure that key elements, specifically EDIS and LiR, are credible, consistently applied, and backed by strong coordination. This requires decisive top-down action. Ratifying the ESM Treaty is essential to ensure swift access to resolution funding. In parallel, cooperation, transparency, and pre-emptive crisis management must improve to prepare the ground for broader reforms. Alert mechanisms should evolve to capture emerging risks and trigger timely interventions. Greater transparency through enhanced public disclosures can help build trust. Initiatives such as the European Banking Authority's centralised Pillar 3 disclosure hub could help boost market confidence by providing clearer insight into banks' financial positions. Although this is a good step forward, additional measures are necessary. Improved coordination between national and EU authorities is critical to boosting confidence. Cross-border crisis simulations and joint exercises can ensure that host and home authorities align expectations, thereby reducing the likelihood of unilateral defensive actions.

Further mechanisms are needed to reassure host countries. Trust-building requires legally binding intra-group support mechanisms for parent banks to support distressed subsidiaries under clear supervisory triggers, reducing host authorities' concerns. Additionally, a LiR facility should ensure access to critical funding, preventing market panic and depositor uncertainty. Clearer guidelines for protecting depositors and critical functions during and after resolution would ease fears of disadvantaging local economic agents. Enhanced coordination and a more consistent application of macroprudential tools across Member States would be beneficial, with a stronger role of the European Systemic Risk Board to promote policy convergence.

A resilient banking union needs a stronger crisis management framework; we encourage progress on this front as highlighted in the Eurogroup Work programme. Key priorities include establishing EDIS, securing fully predictable resolution funding, and introducing legally enforceable intra-group support. On top, macroprudential policy convergence, early-warning mechanisms for emerging risks (including climate shocks, cyber threats, and geopolitical instability), improved data transparency, and cross-border coordination, would provide stakeholders with greater confidence in the shared framework. Stronger crisis management through coordinated action is increasingly critical to ensure financial and operational resilience, in the face of new global challenges. Trust is the foundation of financial stability: rebuilding trust requires closing structural gaps in bank crisis management to be able to move towards a fully integrated banking union, where all depositors are protected equally, and systemic risks are mitigated effectively.

Author



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