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Chances for Pan-European Deposit Insurance

What explains national positions to the recast directive on deposit guarantee schemes?

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1st Supervisor: Ph.D, Dr. habil Shawn Donnelly
2nd Supervisor: Dr. Tsjalle van der Burg

Annika Maria Petra Stahlhut (s0210129)
e-mail: a.m.p.stahlhut@student.utwente.nl

Abstract
The financial crisis has demonstrated that integrated capital and financial markets need strong measures on systemic stability to stand confidence-induced break-downs. In view of raising cross-border banking deposit guarantee schemes as means to avoid panic withdrawals have come into sight. European states have therefore encouraged further harmonization on deposit insurance to first, enhance investor confidence for systemic stability and second, ensure fair competition on common markets for capital and banking services. Despite their commitment to align national guarantee schemes further states fail to ratify pan-European deposit insurance. A case study on Austrian, German and Irish positions examines chances for a common scheme. Neofunctionalist and liberal intergovernmentalist assumptions shed light on stagnant integration of deposit insurance from theoretical perspective. The analysis reveals two motives that seem pivotal to national opposition. First, European states fear liquidity risks from merging national funds. Second, they want to maintain sectoral institutions that have proven to be effective and thus trust-building in financial distress. On grounds of sectoral and national differences in deposit protection a pan-European systems seems unlikely to emerge soon.

Content

Introduction

The financial crisis shows that investor confidence is pivotal to financial stability. Panic bank runs in e. g. the United Kingdom have exacerbated liquidity shortages on European capital markets. Spill-overs from banking to related sectors have decreased investments, production and finally culminated in an economic crisis of global scale. Effective policies on financial stability therefore need to ensure that depositors trust the banking system and to this, ensure repayment of savings. Deposit guarantee schemes represent one of various means to this end (Hartmann-Wendels, Pfingsten & Weber, 2007; Bruni, 2009).

Since 1994 European states have common standards for deposit insurance to manage free flow of capital and financial services. In response to panic withdrawals in 2007 the European Union has increased coverage to EUR 100.000 and reduced payout delay to 20 days (see Directive 2009/14/EC). For sustainable confidence among depositors and hence, long-term stability on markets for capital and financial services states have committed to harmonize their systems further and thus charged the Commission to sketch options for pan-European deposit insurance (Art. 12) (European Parliament & Council of the European Union, 2009). The according proposal developed in line with public consultations has been rejected by various states. Actors involved in the policy process obviously lack incentive to joint action on deposit insurance for the purpose of systemic stability (Aspinwall & Greenwood, 1998; European Commission, 2009). Despite previous support for enhanced cooperation, member states cannot settle upon details of policies (Parliament & Council, 2009). The failure of the 2010 proposal suggests therefore to get the bottom of following questions:

Why do European states do not ratify the new directive on deposit guarantee schemes despite their wish for enhanced cooperation?

How do member states differ in their position to the reforms?

In how far does European integration of deposit guarantee schemes meet liberal intergovernmentalist and neofunctionalist expectations?

Since banks are relatively prone to liquidity risks due to high debt levels in capital structure and limited control of investors, there is need for effective creditor protection (Erlei & Springmann, 2001). The global financial crisis has further highlighted that deposit insurance needs to be up to contagion effects of raising cross-border banking, Their common markets for capital and financial services thus prompts European states to align domestic policies for financial stability. These, however, have reservations to the reforms proposed by the European Commission.

A case study on different countries shall identify causes for the failure of the directive to evaluate chances for pan-European deposit insurance. Need for government support, levels of cross-border banking and institutional approaches to deposit insurance suggest Austria, Germany and Ireland for the analysis. To work out national demands on European deposit insurance governmental debates, positions of banking and consumer groups, recommendations of think tanks and expert committees involved in the policy process have been analyzed.

In response to the recent crises much literature on European financial integration addresses measures on deposit protection. Ayadi and Lastra (2010), for instance, suggest stronger alignment of coverage levels, payout delay, funding, risk sensitivity and clear payment obligations for home and host countries of cross-border banks. In particular, different treatment of branches and subsidiaries abroad as well as unclear responsibilities for compensation of depositors jeopardize financial stability (Lastra & Ayadi, 2010; de la Mata Munoz, 2010). Enhanced exchange of information helps effective crises management and further serves the creditability of guarantee schemes (Hardy & Nieto, 2011). Findings of Schoenmaker and Osterloo (2005) prove the importance of European rather than national supervision to manage cross-border penetration. They suggest states with high cross-border penetration to be more vulnerable to spill-over effects of foreign crises.

Apart from that, effective deposit protection requires an appropriate balance of explicit (funds for repayment) and implicit elements (bailouts, state guarantee, lender-of-last-resort measures) (Bruni, 2009). Whereas explicit forms depend less upon fiscal support, they impose higher costs upon banks. Implicit systems, on the contrary, built on state guarantees and thus tax revenues, but limit costs to credit institutions and hereby allow crippled banks to continue business. Perils of moral hazard are found with both forms (Ayadi & Lastra, 2010; Hardy & Nieto, 2011). Some studies find effective protection to require a combination of limited deposit insurance and prudential supervision (Hardy & Nieto, 2010).

Such trade-offs in policy development for deposit protection might also hamper European integration of deposit guarantee schemes. Aforementioned issues hence need to be taken into account for common policies aimed at raising confidence for systemic stability and second fair competition on common markets. This case study shall help to identify further concerns as regards deposit insurance policies raised by European states in order to improve protection in the European Union. European integration of deposit guarantee schemes is then analyzed from the perspective of integration theories. Results suggest that domestic institutions determine national positions on pan-European deposit insurance to most extent.

Theory

European integration of deposit guarantee schemes has obviously come to standstill. Which factors determine national positions to the reforms of the Commission (2010a), that has been assigned to develop options for enhanced cooperation by the member states themselves (Art. 12, Directive 2009/14/EC).

Since 'any comprehensive theory of integration should potentially be a theory of disintegration' (Schmitter, 2002, p. 4), neofunctionalism and liberal intergovernmentalism, the most prominent theories on European integration, appear useful to develop assumptions about possible reasons for national support or opposition to pan-European deposit insurance. These serve to identify true motives of states to either approve or reject the according directive.

Liberal Intergovernmentalism

Liberal intergovernmentalists regard national governments as prime movers of European (financial) integration deciding about scope and level of cooperation on a rational calculus (Moravcsik, 1998). National officials thus seek to either maximize national payoffs or minimize costs of domestic deposit protection as (financial) regulation is only justified if it is economically efficient (Hartmann-Wendels et al., 2007). States should therefore support pan-European deposit insurance, if they expect national gains (e. g. enhanced protection and investor confidence, fair competition) to outweigh costs of policy reforms (e. g. domestic implementation, supervision, welfare loss of missed transactions from constrains on banks, competitive distortions from uneven implementation) (Meyers, 2008). A common guarantee scheme hence needs to hold out the prospect of first, raising confidence among national depositors and hereby, financial stability on capital markets relevant to domestic investors.

National preferences on foreign policies are further shaped by domestic institutions. The institutional framework of domestic protection should thus influence national positions toward European reforms (Moravcsik, 1993, 1997; Schimmelpfennig, 2007). In fact, states have institutional beyond policy preferences on how deposit protection is to be organized (Schimmepfennig, 2007). This suggests that national positions to pan-European deposit insurance depend on its compatibility with domestic protection systems. If European targets accommodate their institutional design, reforms should be easily accepted by the member states. In this case, domestic providers of deposit insurance would barely need to restructure systems. States with specific schemes, by contrast, might be required to expend huge efforts for meeting European targets and might oppose the proposal therefore. Presumptions of institutional preferences even suggest ideational motives behind favoured designs of 'public goods provision' (Moravcsik, 1997, p. 514). National stakeholders in deposit insurance (e. g. bank customers, credit institutions, taxpayers) might thus prefer certain designs or traditions of deposit protection and vote on the proposal correspondingly.

Policies on deposit insurance produce costs. Foreign economic policies like European cooperation for financial stability are means to reduce fiscal spending (Moravcsik, 1998). To prefer European over national provisions reforms should therefore limit risks of capital injections to banks or recourse to government support for depositor compensation. States that had to bail out various banks in the recent crises should thus welcome European deposit insurance rather than countries that have barely provided (foreign) capital to domestic banks. These, by contrast, are in less need of European support due to less expensive and more effective domestic protection (Moravcsik, 1998; Steinhilber, 2006). Support for the directive should also be stronger in states, in which depositors have lost confidence into the banking system despite own protection. Countries, in which insurance schemes have stood up to panic withdrawals, should thus be more reluctant to further harmonization. These in contrast to the former are in less need of European support as being able to achieve fiscal objectives and those of deposit protection on their own and refuse policy changes therefore (Moravcsik, 1998).

Generally, European states prefer joint over unilateral insurance only if they feel collectively accountable for protecting deposits in the integrated banking system. Unilateral policies on deposit insurance could obstruct each other's effectiveness where there is intense cross-border banking under different financial regulation (Moravcsik, 1993). Here, European states have an incentive to harmonize deposit protection as to manage negative effects of foreign regulation and ensure systemic stability (European Parliament & the Council, 2009; Moravcsik, 1993). Such incentives exist in particular where common provisions lower systemic risks, like e. g. crippled banks that affect domestic markets through interbank assets or foreign subsidiaries (Moravcsik, 1993). Cross-border penetration (share of foreign banks to domestic ones) is indicative of how vulnerable domestic banking systems and capital markets are to foreign shocks (Schoenmaker & Osterloo, 2005). States with high shares of foreign-own banks should therefore support European measures on financial stability rather than those with less cross-border penetration. In case of positive externalities or flexible national measures that can be easily adjusted to international challenges, by contrast, governments have less incentive to change national insurance (Moravscik, 1993). They should hence oppose harmonization, if high national standards rather attract foreign capital, so that domestic industries benefit from fragmented deposit insurance in Europe (Moravcsik, 1992).

In regulating markets for capital and financial services governments respond to groups pressing for own interests in domestic bargaining. Governments aggregate these claims, thus forming a national position on European policies on deposit insurance (Schimmelpfennig, 2007). Stakeholders, worst affected by European measures due to heavy costs or potential losses, contend for their interests most heavily and manipulate policies to strongest extent (Moravcsik, 1993). The more clearly groups define their objectives and the better their means to lobby for deposit insurance, the stronger will be their impact on the final outcome (Moravcsik, 1998). Because of this, economic producers and industrial representatives largely govern foreign economic policies

(Steinhilber, 2006). Accordingly, interests of the financial industry should determine national positions on European deposit insurance. Domestic interests, however, are generally risk-adverse and thus reluctant toward raising costs for deposit protection (Moravcsik, 1997). Striving for international competitiveness providers of financial services support pan-European insurance only if provisions ensure profit growth (Moravcsik, 1997, 1998). They should reject the proposal, if European targets imply cost increases for domestic banks.

In intergovernmental bargaining national officials vindicate national attitude toward European deposit insurance. The degree, to which a final outcome accounts for national preferences, depends on the bargaining power of governments. States that are least reliant upon pan-European insurance due to effective national measures or low shares of foreign deposits are most powerful in enforcing own preferences upon the Community (Moravscik, 1998). For this, they might threaten other states with voting against the proposal. Deposit insurance schemes in Europe will thus be harmonized further only if the majority of states expects sufficient national gains from cooperation and is further able to agree upon its institutional design (Schimmelpfennig, 2007). Any policy outcome should hence largely reflect preferences of most powerful states and – those, that are in least need of pan-European deposit insurance (Schimmelpfennig, 2007).

In line with liberal intergovernmentalism European states will thus decide about pan-European deposit insurance based upon its compatibility with national institutions in place. The less compatible these are with European targets, the stronger will states reject the proposal. National opposition should then be due to fears of decreasing protection that might further lower international competitiveness. On the contrary, states will be more open to European targets, if they depend upon international support to provide effective protection for depositor confidence and stabilize national markets.

Neofunctionalism

Neofunctionalists assume that non-state actors rather than national governments govern the integration process (Hix, 1999). By way of common rules or institutions business associations, trade unions or political parties seek to smooth exchange of goods, services, capital or information for the purpose of higher profits (Hix, 1999; Sandholtz & Stone Sweet, 2010). Banks, depositors and taxpayers –major stakeholders of deposit insurance policies- should hence lobby for European protection (European Commission, 2010a). Here, credit institutions prefer European over national insurance, if differences in standards obstruct their deposit business and thus, curtail profits by e. g. higher costs of administration. Demand for collective insurance should grow in line with cross-border activity suggesting states with many foreign-owned banks to support collective protection to larger extent than those with low cross-border penetration (Sandholtz & Stone Sweet, 2010). Consumers and taxpayers support European insurance if measures help to reduce fiscal expenditure for compensation of depositors. If banking associations, trade unions or consumer advocates expect collective insurance to better serve their interests they should be in favor of stronger harmonization (Busch, 2001; Schmitter, 2007).

In forming trans-regional interest groups (e. g. the European Consumers' Association, European Banking Association, World of Credit Unions Inc., European Association of Corporate Banks) business associations and consumer advocates seek to influence supranational authorities like the Commission to enforce their preferences on deposit insurance and thus, bypass national governments (Sandholtz & Stone Sweet, 2010; Wolf, 2006). The Commission, on the other hand, mobilizes private interests to win them over to own policies. Thus acting as a 'political entrepreneur' it seeks support for own plans on deposit insurance by organizing roundtables or public consultations (Sandholtz & Stone Sweet, 2010, p. 14). The Commission thus strengthens European lobby groups itself, which in turn bolster its own objectives in the issue at stake.

Secondly, neofunctionalism predicts strategies on cooperation, actors are most likely to adopt. European deposit insurance policies basically consist of minimum standards on coverage (EUR 100.000) and payout delay (20 days) (Parliament & Council, 2009). The proposal now seeks to harmonize national systems even further in fixing coverage at EUR 100.000, reducing payout to seven days and prescribing institutional designs for national implementation. It thus enhances decision-making authority of European institutions, albeit limited to deposit insurance. The Commission hence cuts national scope for insurance policies, thus 'building up' European integration of deposit protection (Schmitter, 2007).

To push for political change stakeholders (e. g. banks, depositors, taxpayers) must be dissatisfied with current protection, fiscal costs or economic competitiveness (Directive 2009/14/EC). Only then, they might revise their strategies and support further harmonization (Schmitter, 2007). Those interests perceiving gains of cooperation as equally distributed among stakeholders have less incentive to change current policies (Schmitter, 2007). Instead, they might block further harmonization to prevent competitive disadvantages (Busch, 1996). Rather they should leave policies untouched ('encapsulation') or even relax covenants on deposit insurance and thus raise autonomy of national institutions (Schmitter, 2007). In general, political parties, banking industries or consumer associations should prefer minimal harmonization rather than to change scope and level of collective deposit guarantee (Schmitter, 2007).

Interests affected by European reforms on deposit insurance will mobilize to the extent they are dissatisfied with the proposal. Those interests that are most disadvantaged by the reforms should block the directive rather than those, which benefit or are hardly affected. For a true pan-European system interest groups and policy preferences on deposit protection however need to cluster trans-regionally rather than nationally. Only then will actors prefer pan-European over national systems and support the proposal.

Research Methodology

Theories in neofunctionalism and liberal intergovernmentalism suggest actors to decide about European policies on cost-benefit considerations (Hartmann-Wendels et al., 2007). Costs of European regulation involve e. g. funding, opportunity costs of missed investments (e. g. lending), technical adjustment, decrease of protection levels or competitive disadvantages (Hartmann-Wendels et al., 2007). Benefits, on the other hand, refer to enhanced insurance (coverage, payout, information, accountability of systems), decrease of fiscal expenditure and administration costs, or competitive advantages. Case studies on particular member states investigate upon national positions on pan-European deposit insurance with regard to aforementioned points. Findings will then be tested against theoretical assumptions on European integration of deposit insurance.

Case Selection

Germany has expressed its discontent with the new directive by subsidiary compliant (European Commission, 2011; Deutscher Bundesrat, 2010). Due to additional funds, to which most banks contribute, national protection is relatively high (Richard, Mühlmeyer, Wefers & Bergmann, 2003). National banks therefore expect European harmonization to downgrade domestic protection and require expensive adjustments.

Austria opposes European reforms either (Republik Österreich. Nationalrat, 2010; Republik Österreich. Parlament, 2010b). However, targets on common deposit insurance should be of particular interest to Austria for two reasons. First, the Austrian banking industry is akin to the German with separate guarantee schemes. Adaption to European targets demands technical adjustments from Austrian banks therefore (Österreichische Nationalbank, 2009; Drost & Menzel, 2010). Second, Austrian foreign investments are high (Ben Salem, 2006). Most of its foreign claims are deposited at European banks (~86%) compared to those in the rest of the world (in comparison to Germany: ~60, 2%, Sweden:~57, 5%, the United Kingdom: ~52,71%, Ireland: ~71,82%) (Bank for International Settlements, 2012). European deposit insurance should therefore be of crucial importance to Austria that has criticized some aspects of the proposal (Republik Österreich. Parlament, 2010b).

Ireland, by contrast, supports enhanced cooperation on deposit protection (Houses of the Oireachtas. Joint Committee on European Scrutiny (JCES), 2010a). Despite national reservation to mutual credit facilities, most actors opt for European rather than national protection. With high levels of cross-border penetration (50%) Ireland needs effective deposit insurance to attract and retain foreign capital. On the other hand, the state is more vulnerable to spill-over effects from foreign capital markets than Austria or Germany (Schoenmaker, 2011).

Data Collection & Analysis

Data on national positions to pan-European deposit insurance is gathered by literature study. Protocols on parliamentary debates, position papers of national and European banking associations, consumer groups, party representatives or governmental officials are screened to identify rationales behind national positions. Analyses by think tanks (e. g. Economic Institute in Cologne) provide additional information about costs and effectiveness of current policies and European reforms. Newspaper articles add further information. Positions of actors are ordered along key aspects for reforms (see Art. 12 Directive 2009/14/EC): obligatory membership, coverage level, funding, payout and capital transfers between schemes. Findings will hence be limited to the extend actors have brought issues to light based upon their capacity to mobilize. National positions might hence be biased in favor of those interests that have aired their opinions to largest extent.

Austria & Germany

Deposit Guarantee Provisions in Germany

German deposit insurance is regulated by the *Einlagensicherungs- und Anlegerentschädigungsgesetz (EAEG)* of 1998 that implements European targets (Directive 1994/19/EC). Since December 31st, 2010, protection systems insure deposits up to EUR 100.000 and must reimburse customers within 20 days (Directive 2009/14/EC). Effective deposit insurance is a precondition to conduct deposit banking in the European Union and thus in Germany (*Bundesministerium der Finanzen*, 2011).

So far credit institutions have been exempted from deposit guarantee schemes, if they join institutions protecting the banks themselves (*Bundesministerium der Finanzen*, 2011). So are German systems for deposit protection separated along different banking sectors. Private, savings and *Landesbanken* as well as corporative credit associations have own safety devices to insure customer assets against bank failures.

Private and public banks, and building societies contribute to the *Entschädigungseinrichtung deutscher Banken GmbH (private banks)* or *Entschädigungseinrichtung des Bundesverbandes Öffentlicher Banken Deutschlands GmbH (VÖB)(public banks)*. These funds are financed by member institutions and monitored by the *Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)* – the German banking authority (*Entschädigungseinrichtung deutscher Banken GmbH,* 2012; *Bundesverband Öffentlicher Banken (VÖB),* 2012). Members of the German banking association further contribute to a voluntary insurance fund (§2a) (*Bankenverband*, 2012a; VÖB, 2012). This fund protects customer assets up to 30% of liable equity per depositor (*Bundesministerium der Finanzen*, 2011).

Saving and corporate banks pursue a different approach to depositor protection. Their joint liability associations provide capital to illiquid banks. German saving banks participate in the *Sparkassenstützungsfonds der regionalen Sparkassen – und Giroverbände*, which is backed by the *Sicherungsreserve der Landesbanken/Girozentralen*. Corporate banks benefit from the *Garantiefonds des Bundesverbandes der DeutschenVolksbanken und Raifeeisenbanken e. V..* For almost high protection members of the group must procure capital to beleaguered institutes in time (Wurm, Wolff & Ettmann, 2004).

Deposit Guarantee Provisions in Austria

The Austrian *Bankwesengesetz* (§ 93(1)) requires national banks to join an institution for deposit protection. Analogue to the German system Austrian banks have sectoral insurance devices: *Einlagensicherung der Banken und Bankiers GmbH, Sparkassen-Haftungs AG*, *Österreichische Raiffeisen-Einlagensicherung reg GenmbH*, *Schultze-Delitzsch-Haftungsge*n*. reg. GenmbH (Volksbanken*) and the *Hypo-Haftungs Gesellschaft mb*. These schemes protect customer assets by either institution or deposit guarantee (Austrian Federal Chamber of Labour, 2010).

For Austrian saving banks (*Erste Bank*), building societies and the *Unit Credit AG Austria* the *Sparkassen-Haftungs Aktiengesellschaft* compensates depositors up to EUR 100.000. Additional claims are covered by joint liability associations (*Haftungsverbund-GmbH*) that forestalls cash flow problems of member institutions by additional measures (*Erste Bank und Sparkasse*, 2012).

Statutory deposit protection for corporate banks is provided by the *Schulze-Delitzsch-Haftungsgenossenschaft*. Like saving banks these have voluntary schemes like the *Volksbanken-Beteilgungsgesellschaft mbh* and the *Volksbanken Gemeinschaftsfonds* providing capital to compensate depositors or stabilize institutions. To protect affiliated banks from payment difficulties their solidarity group monitors business and provides systems for early warning and risk management (*Österreichischer Genossenschaftsverband*, 2007).

Depositors of the Austrian Raiffeisengroup (2003) are compensated by the *Österreichische Raiffeisen-Einlagensicherung reg.Gen.m.b.H.* Here, institutions receive capital injections from customer guarantee associations to repay depositors.

Deposit insurance can obviously be approached in different ways. Banks either contribute to deposit guarantee funds to protect customer assets against bank failures. Joint liability funds, on the other hand, prevent member institutions from bankruptcy by timely capital injections. Though institution guarantee is primarily targeted at the protection of banks, it serves deposit protection furthermore (Grill & Perczynski, 2004).

Implications on National Deposit Insurance

Obligatory Membership

Since 1987, when the European Commission recommended (87/63/EWG) the introduction of deposit protection schemes to the Community, European measures have fostered deposit rather than institution guarantee. Credit institutions are dispensed from deposit guarantee provided they belong to joint liabilities protecting the institution itself (Art. 3). Systems only had to ensure sufficient capital stocks to repay depositors if banks come to fail (Art. 3) (European Parliament & Council of the European Union, 1994). Form of protection, by contrast, has been of secondary order. Reforms of 2009 still accept institution guarantee systems for deposit insurance. At variance with this more goal- than means-oriented approach the Commission (2010a) now commits all credit institutions to establish deposit guarantee funds.

This evokes strong opposition in Austria and Germany, since corporate and savings banks expect high costs from running both forms of insurance. The German Savings Banks Finance Group for instance, anticipates decreasing credit volumes of EUR 125 Mrd., that might lead to higher credit costs for consumers (*Finanzgruppe Deutscher Sparkassen-und Giroverband (DSGV*), 2010). Similar estimates for Austrian savings banks amount to EUR 300m. Savings banks fear loss of liquidity and thus being constrained in credit business or regional projects (*DSGV*, 2010). Further estimates suggest a burden of EUR 500m to Austrian banks raising credit costs by 12 basis points. Costs for deposit insurance are expected to lower national output by 0,07 percentage points (Kopp, Ragacs & Schmitz, 2010).

Due to their loss-sharing agreements it seems highly inefficient if banks provide both, institution and deposit guarantee (*DSGV*, 2010). Savings and corporate banks would only raise costs for insurance. They hence urge the Commission to accept institution as equivalent to deposit guarantee (*DSGV*, 2010). The economic institute in cologne even proves that institution guarantee is equally reliable and hence on par with deposit guarantee due to control and rating mechanisms and early intervention by the joint liability. So far corporate banks have fulfilled all payment obligations (Hartmann-Wendels & Jäger-Ambrożewicz & 2010).

Consumers are divided over committing banks to deposit guarantee. Some doubt institution guarantee to stand failures of large banks. Indeed, German saving banks have called for fiscal support to bail out regional banks (e. g. WestLB) (Schönwitz, 2010). Rating assessments, on the other hand, prove that their joint liability association can manage resolution of large banks even (Fitch Ratings, 2010). True, saving banks have been up to most emergencies since 1971. Depositors, however, cannot legally enforce payments beyond statutory limit (Schönwitz, 2010).

German investors thus want to be legally entitled to compensation by the association (*Verbraucherzentrale Bundesverband* (VBZ), 2010). Others accept deposit guarantee only (Schönwitz, 2010). Whereas proponents of institution guarantee appreciate focus on prevention, critics doubt that banks have sufficient means available in systemic crises, so that they would have to refer to tax money anyway (Austrian Federal Chamber of Labour, 2010).

By joining deposit guarantee systems German savings banks, however, fear to cast doubts on the effectiveness of institution guarantee systems and hereby threaten depositor confidence even more (DSGV, 2010). Consumers therefore seek to regularize compensation of EUR 100.000, but without aid of tax money. They hence support continuance of domestic systems, but seek to make them legally accountable (VBZ, 2008).

Both, governments in Austria and Germany, urge banks with institution to be exempted from deposit guarantee systems. Fearing downgrades of protection for national consumers, all parties urge the Commission to recognize sectoral insurance systems (CDU/CSU-Bundestagsfraktion & ÖVP-Parlamentsklubs, 2010; SPD-Bundestagsfraktion, 2010; Aumer, 2010; Nationalrat, 2010, Republik Österreich. Das Parlament, 2010a). In fact, European amendments should at least ensure, and improve national protection at best (Republik Österreich. Das Parlament, 2010a; Deutscher Bundstag, 2010). Growing costs for deposit insurance, however, rather jeopardize continuance of corporate and savings banks, which are of crucial importance to savers and mid-size companies (*CDU/CSU-Bundestagsfraktion & ÖVP-Parlamentsklubs*, 2010; Nationalrat, 2010). These institutes are further disadvantaged if being compelled to take responsibility for risky operations of other banks by common insurance funds (Bundesrat, 2010; Höller, 2010).On potential obligations to deposit guarantee, governments mostly account for demands of the banking industry; albeit in the expectation that institution guarantee benefits consumers likewise.

Coverage

So far European targets on coverage are formulated as minimum levels – currently set at EUR 100.000 per institution and depositor. In its ambitions to avoid competitive distortions the Commission (2010a) seeks to fix coverage at EUR 100.000 (Art. 5) now. On parts of the German banking industry the *Verband Öffentlicher Banken (VÖB*) rejects coverage ceilings for obviating the need for voluntary funds beyond the statutory insurance. Protection would thus be decreased at the expense of consumers (VÖB, 2010b).

Here, the *Bundesverband Deutscher Volks-und Raiffeisenbanken* (2010) criticizes the Commission to neglect, that national systems *are* effective. Saving and corporate banks support this position, referring to their own institution warranty. According to them maximum coverage rather impairs protection (DSGV, 2010; *Erste Bank und Sparkasse*, 2010). A European-wide maximum, however, shall prevent capital transfers induced by different coverage levels and thus, competitive distortions (Commission, 2010c). German corporate banks, by contrast, attribute capital shifts to their conservative business that actually permits them to grant full compensation and thus seems to be the true motive behind transfers (Hartmann-Wendels & Jäger-Ambrozewicz, 2010).

The German retail sector argues maximum coverage to impede objectives of raising confidence and financial stability in Europe (*Handelsverband Deutschland,* 2010). According to the Commission (2010c), however, higher coverage would benefit depositors to marginal extend only, whilst raising costs for insurance substantially. European think tanks therefore recommend tightening supervision instead (*Centrum für Europäische Politik*, 2010). Different coverage in Europe does not necessarily distort competition, whereas full alignment might do so by preventing banks from attracting customers by forms of deposit protection (Hartmann-Wendels & Jäger-Ambrożewicz & 2010). Seeking full insurance of their financial assets consumers tie in with these arguments and urge unlimited coverage likewise (*VBZ*, 2008)

Unlike the German, members of the Austrian parliament are divided over a maximum insurance of EUR 100. 000. On the one hand, they fear to encourage banks and customers to purely return-oriented investments and trifle with risks. On the other hand, they want to provide almost high protection to restore depositor confidence (*Republik Österreich. Das Parlament*, 2009). Members of the German parliament, by contrast, are united on cross-party basis that maximum coverage is first, incompatible with institution guarantee and would second, lower protection as voluntary funds become redundant (Aumer, 2010; *Deutscher Bundesrat*, 2010; *Deutscher Bundestag*, 2010; Reinemund (FDP), 2010; SPD-Bundestagsfraktion, 2010).

Parliamentary debates in both states clearly reflect positions of major pressure groups. Delegates hence plead for full recognition of institution guarantee (Bundesrat,2010; Nationalrat, 2010). They urge the Commission to accept sectoral systems providing higher protection. In contrast to Austrian officials, that support equal coverage to avoid competitive distortions, those in Germany refuse maximum insurance of EUR 100.000 due to additional funds for compensation (Bundesrat, 2010; Republik Österreich. Das Parliament, 2010a). Positions of governments in both states seem to reflect banking and consumer interests on coverage to almost the same extent.

Funding

Contrary to previous directives the Commission (2010a, b) tightens funding to ensure sufficient reserves and avoid competitive distortions from interest revenue. Reforms therefore address payment patterns, application of funds or contribution assessment. Even though Austrian and German banks support equal funding, they criticize the directive for neglecting sectoral differences (VÖB, 2010c). On grounds of joint liability associations that even reduce insolvency risks corporate and savings banks urge lower contributions (VÖB, 2010c, Starnbacher, 2010; Ikrath, 2010). They also fear differences in accounting to obstruct fair contribution assessment (Starnbacher, 2010).

Urging lower payments the German government is claimed to defend the interests of the banking industry only. Social democrats, by contrast, support high contributions to increase capital stocks of insurance schemes. Additional payments, as proposed by the Commission (Art. 9(3)), would not balance actual capital deficits (Kressl, 2011). Since the majority of German banks has been stable in the crises, the government, however, wants to relax targets on funding, that seem too tight and thus infringe with principles of subsidiarity and proportionality (Aumer, 2010; Deutscher Bundestag, 2010).

The Austrian government defends the interests of domestic banks for same reasons urging joint liability associations that actually reduce risks of payment default to be considered in contribution assessment (Nationalrat, 2010). For lasting stability of capital and financial markets it seeks to minimize costs for banks, estimated at EUR 24bn for corporate and savings banks and EUR 300m for the whole banking sector including Basel and EU capital requirements (Republik Österreich. Parlament, 2010a). The Austrian government largely sides with the banking sector, seeking to relax capital requirements. Even though national officials want to strengthen capital reserves in the long-term, they criticize funding for being too tough (Nationalrat, 2010; Republik Österreich. Parlament, 2010a),

Payout Delay

To prevent a confidence-induced crisis of financial and capital markets, crippled banks need to assure customers of their ability to pay. Only if systems repay depositors quickly, they prevent panic withdrawals from other banks. It seems plausible therefore, that payout delay is pivotal to depositor confidence. To strengthen public trust the Commission (2010c) suggests payout delay of 7 days (Art. 7). Whilst shorter periods would require gradual payments that rather prejudice confidence, banks should be able to verify claims within this period (European Commission, 2010c). To facilitate procedures even further, depositors do not need to apply for compensation anymore, as banks are requested to arrange repayment instead (Art. 7(2)).

After the recent decrease to 20 days (Directive 2009/14/EC) domestic groups in Austria and Germany are concerned about plans to shorten the timeframe even more. Low capital stocks or insufficient time to verify claims might impede fast compensation that rather threatens public confidence and thus financial stability (Commission, 2009). Public debates in Austria and Germany reflect this trade-off.

The German banking sector expects difficulties to compensate depositors within seven days – especially in times of financial distress *(VÖB*, 2010b). They fear to upset depositors rather than to improve confidence, if systems cannot meet their deadlines (*VÖB*, 2010a). Likewise can data needed to verify claims be hardly provided within less than three days, especially for joint or escrow accounts or those of foreign customers (Starnbacher, 2010). To back up their arguments, banks refer to the Committee of European Banking Supervisors (CEBS) advising against too ambitious targets on payout delay, which cannot be met in the end (Starnbacher, 2010).

Think tanks like the *Centrum für Europäische Politik (2010)* also doubt payout within seven days to be realistic. If at all possible, it would come with huge costs, which in turn disadvantage customers by decreasing interests or raising fees on deposit accounts. German consumer groups, by contrast, want time for repayment to be shortened as much as possible. Urging that banks should generally be obliged to prove claims they probably welcome to be compensated without having to apply for it (*VBZ*, 2008).

Even though national governments of both, Austria and Germany, seek to enhance depositor confidence as much as possible, they criticize the new payout for being unfeasible. Policies on financial stability need to strengthen confidence among depositors in first instance, and must thus not threaten capital stocks of banks (Deutscher Bundestag, 2010; Österreichischer Nationalrat, 2010, Republik Österreich. Parlament, 2010a, c).

Pan-European Funds

Two provisions of the new proposal come closest to a true consolidation of domestic funds for depositor insurance. To fasten payments to customers of cross-border banks, host country schemes shall reimburse depositors on behalf of home country systems. In addition, guarantee systems are allowed to take out loans with other schemes to strengthen their capital base in times of financial distress (Art. 10). These are limited to 0, 5% of eligible deposits and have to be returned within 5 years. For sound lending among schemes the European Banking Authority supervises repayment of loans.

Various groups in Austria and Germany oppose credit facilities among guarantee schemes. Corporate, public and savings banks fear to sponsor risky operations of foreign banks that can hardly be controlled by domestic authorities (Erste Bank & Sparkasse, 2010; *VÖB*, 2010d; Starnbacher, 2010; Ikrath, 2010). In fact, providers of deposit insurance cannot prove in advance whether other systems are able to return loans. Payment difficulties might cause liquidity shortages in other schemes and so destabilize the whole system. National differences in insolvency law further impede quick resolution of banks and might even provoke conflicts between states (Starnbacher, 2010). The UK and the Netherlands, for instance, have even considered legal action against Iceland to reclaim compensation for domestic depositors, who had invested with *Landsbanki* (EurActic, 2011). Financial industries in Austria and Germany thus expect that risks inherent in mutual lending outweigh potential benefits and oppose mutual borrowing, therefore. In regard of strong opposition of most states against topping-up loans to Greece, banks hardly understand these plans on mutual lending (*Zentraler Kreditausschuss (ZKA)*, 2010).

Accordingly, governments in both states oppose mutual borrowing to prevent a transfer union in (*adhoc*.news., 2011; Aumer, 2010). Officials fear unfair burden sharing and domestic funds to be exploited by foreign systems. Due to enhanced capital requirements the Austrian parliament seeks to limit costs for banks and rather sides with the interests of the financial industry (Nationalrat, 2010). Except for mutual borrowing officials generally welcome European efforts to enhance depositor confidence for financial stability (Nationalra*t*, 2010). Yet, they perceive interventions as unproportional in neglecting sectoral differences and effective institutions in place. Afraid of decreasing protection and loss of competitiveness some delegates even oppose pan-European insurance at all (Republik Österreich. Parlament, 2010a).

Governmental officials in Germany are united on cross-party basis, that collective insurance rather diminishes protection and endangers local banks, which are of vital importance for savers and medium-sized companies. In respect of effective domestic institutions extra costs implied by European reforms put German banks at disadvantage (Bundesrat, 2010). In addition, parties commonly defend institution guarantee that stabilizes banks at an early stage and further ensures unlimited protection to customers. Furthermore, these systems can hardly be consolidated with deposit guarantee schemes due to their different approach to deposit protection. Parties in Austria and Germany therefore oppose pan-European insurance and prefer separated guarantee schemes instead (Deutscher Bundestag, 2010; Deutscher Bundsrat, 2010; Republik Österreich. Nationalrat, 2010; Republik Österreich. Parlament, 2010a).

In contrast to broad opposition to the provisions themselves, German parties are divided about the Commission's general right to prescribe national measures to such extent. Whereas Christian Democrats and Liberals see principles of subsidiarity and proportionality be infringed and support an according complaint therefore, Social Democrats rather press for European action to stabilize common markets (Aumer, 2010; Reinemund, 2010; SPD-Bundestagsfraktion, 2010). The Austrian parliament also doubts, that there is sufficient legal ground for such tough targets on parts of the Commission and urges the same to account for national differences therefore (Republik Östereich. Das Parlament, 2010a). In fact, all parties expect domestic institutions in place to protect national depositors to better extent than would be accomplished by European provisions.

At first glance it indeed seems that governments in Austria and Germany mostly defend interests of the financial sector in seeking lower costs for deposit insurance. Depositors, however, do also benefit from institution guarantee, that prevents their financial assets from becoming unavailable at all. Domestic standards on deposit insurance thus exceed European targets, so that consumers in Austria and Germany rather profit, if national systems are sustained (VBZ, 2010). Governments of both states obviously aggregate domestic claims to a common position on deposit insurance reflecting broad national consent.

Ireland

Deposit Guarantee Provisions in Ireland

In contrast to Austria and Germany, Irish banks are protected under a common deposit guarantee scheme. Managed by the Irish Central Bank the system compensates depositors up EUR 100.000 (CES, 2010a). Even though states have to guarantee EUR 100.000 since 2010 only (Directive 2009/14/EC), Ireland has increased the level in 2008 already to regain confidence into its stricken banking sector. Since then, Irish deposit insurance covers deposit at credit unions in addition to those at private banks and building societies (Department of Finance, 2008).

To repay depositors in case of cash flow problems Irish banks maintain a deposit protection account at the central bank, on which they have to ensure a balance of 0, 2 % of total deposits (JCES, 2010a). Due to strong loss of public confidence (see Northern Rock) additional guarantees protect assets beyond statutory insurance. Following a blanket guarantee (Credit Institutions Financial Support Scheme) the ELG Scheme insures specific deposits beyond statutory level since 2009 (National Consumer Agency, n. a.). In connection with international assistance for economic recovery, the scheme has been extended several times now and will expire by the end of 2012 (JCES, 2010a). Yet, it will not be affected by European reforms on deposit insurance.

Apart from credit unions most banks in Ireland do not provide for voluntary funds as do credit institutions in Germany. Only the Irish League of Credit Unions runs an own Savings Protection Scheme (SPS) to insure deposits against payment difficulties of its members (Oireachtas Library & Research Service, 2011). To stabilize beleaguered institutions or reimburse depositors up to EUR 12.700 credit unions contribute to this fund on voluntary basis (Brennan, 2010). Until 2008, when statutory protection was extended to credit unions because of the crises, these had been protected by their own system only. Credit unions, however, had fulfilled all obligations until then, due to their tough regulations on deposit business and early intervention measures by the League itself (Brennan, 2010). In this regard, they are akin to corporate and savings banks, which pursue a similar approach to deposit business.

The ELG Scheme, by contrast, does not apply to credit unions (National Consumer Agency, n. a.). For them insurance beyond statutory coverage is limited to voluntary support from the League's protection system.

Implications on National Deposit Insurance

Obligatory Membership

Contrary to corporate and saving banks in Austria and Germany Irish credit unions contribute to statutory deposit insurance since 2008 (Central Bank of Ireland, 2010). An obligation to join deposit guarantee schemes does not affect them, therefore. Unlike corporate and savings banks in Austria and Germany Irish credit unions welcome statutory protection in addition to own measures to stabilize their group (Commission on Credit Unions, 2012). Indeed, they even press for all types of credit institutions being accepted to a common scheme and claim according changes to the proposal: 'Access to the deposit guarantee scheme shall be open to all institutions that accept deposits, or withdrawable shares in the case of financial cooperatives' (JCES, 2010a). In here, Irish credit unions depart from corporate and savings banks in Austria and Germany, that however seem to pursue similar strategies in other fields of banking. Why this being the case do Irish credit unions actually foster additional deposit guarantee then?

In 2010 the League of credit unions has hit the headlines with significant losses of bailing out members. These amount to EUR45,5m and stand in marked contradiction to their surplus of EUR15,4m in 2009 (Conor, 2011; Oireachtas Library & Research Service; 2011). Credit unions are obviously undercapitalized and will hardly overcome their capital deficits soon (Commission on Credit Unions, 2012). The Commission on Credit Unions (2012) therefore recommends various measures to strengthen the group. Membership in statutory deposit insurance is one of them, albeit taking account of the specifics of these institutes (Credit Union Advisory Committee, 2010). The institution guarantee of their Austrian and German counterparts, by contrast, has proven stable in the crisis, so that insurance devices of corporate and savings banks do not necessitate additional insurance.

Coverage Level

In the turbulence of the financial crises the Irish government has increased statutory deposit insurance to EUR 100.000 to prevent panic withdrawals and reassure citizens (Department of Finance, 2008). Irish deposit insurance will hence not be affected by European provisions on coverage (Department of Finance, 2008; JCES, 2010d). Political parties rather support high coverage as the previous amount has been too low to manage bank runs in the recent crises (Burton, 2010). The Irish central bank expects coverage of this amount to benefit consumers. Further extension and clearer definitions on scope of coverage meets domestic support for being conducive to investor certainty.

Despite small exclusions of particular assets, Irish banking representatives expect reforms to strengthen depositor protection on the whole (JCES, 2010a). The Irish Banking Federation believes clear and tight regulation to fasten payout and thus benefit consumers (JCES, 2010a). Even though insurance would be capped to EUR 100.000, the Department of Finance and the Irish Banking Federation appreciate unique coverage in Europe (JCES, 2010a, b). Unlike German banks, those in Ireland hardly provide for voluntary insurance that might become redundant, if the directive is passed. Since the ELG-scheme is extended until 2012 and there is hence protection beyond statutory level even, Irish depositors would not be disadvantaged by limiting coverage to EUR 100.000.

Since 2008 this level also applies to credit unions, that expect higher coverage to raise confidence in Europe (JCES, 2010a). Apart from statutory insurance credit unions are protected by ILCU Savings Protection Scheme insuring savings up to EUR 12.500 (Brennan, 2010). This system should be in contradiction to maximum coverage of EUR 100.000. It would be likely therefore if Irish credit unions opposed maximum coverage as do corporate and saving banks in Austria and Germany. However, financial losses (EUR 45,5m) of the League have sharply diminished own funds and credit unions are not expected to recover soon (Commission on Credit Unions, 2012; Connor, 2011). With the help of statutory protection these would be enabled to go easy on their resources.

The Irish government supports almost high insurance to eliminate public doubts on domestic protection. High insurance is thus indispensible to consumer confidence in Ireland. Delegates therefore welcome the extension of the ELG scheme to ensure almost high protection (JCES, 2010c). As European targets on coverage would not raise costs for domestic banks and government spending in Ireland, national leaders give priority to the interests of consumers and promote unique levels across Europe.

Funding

Irish deposit insurance is financed by ex-ante and ex-post contributions. Credit institutions keep an account for deposit protection at the national central bank with credits of 0, 2% of total assets. The proposal requires banks to extent balance to 1, 5% of eligible deposits raising their costs substantially. In respect of additional burdens from tightened provisions on financial reserves (e. g. Basel III etc.) the Irish Central Bank doubts, that banks can manage enhanced capital requirements (JCES, 2010a). Referring to US targets of 1, 25% the Banking Federation fears competitive distortions by quotas on funding that even exceed international average. In particular, they fear capital deficits to frustrate their credit business. Banks therefore claim contribution assessment on basis of covered rather than eligible deposits to better adjust funding to eventual payment obligations of schemes. Banks could raise their capital base nevertheless (JCES, 2010a).

In line with German think tanks, Irish banks regard funding provisions as poorly conceived. Though appreciating the risk-oriented approach, they fear to be put at disadvantage, if contributions only account for average instead of individual risk-profiles of credit institutions (JCES, 2010b). Credit unions thus urge their conservative approach to deposit business and own protection measures to be taken into account and claim lower payments therefore (JCES, 2010a).

On governmental level, domestic interests culminate in a common position urging workable targets on funding. Whereas e. g Fine Gael (2011) claims, that these must be better aligned with risk-profiles of banks, Labour urges sound financing to ensure stable capital stocks and prevent fiscal support for compensating depositors. Delegates are mostly concerned about banks' capacity to meet European targets on funding. They worry about potential costs for the government and hence taxpayers, which would have to pay in the end, if banks lack capital to reimburse customers (JCES, 2010d).

In view of high capital injections to banks, the Irish government seeks to minimize fiscal spending on deposit insurance in shifting the burden to credit institutions and tightening banking regulation (Eurostat, 2012a; JCES, 2010d). For them policies need to primarily ensure, that the state will never be put at risk again by bailing out the financial sector (JCES, 2010c). Officials hence urge feasible targets on funding, even if this might slow down build-up of insurance funds. Reforms may not destabilize the banking sector further and so turn into 'a *kamikaze* approach' (JCES, 2010c). On funding, the Irish government thus focuses on the interests of national consumers (including taxpayers), but claim careful enhancement of funding to ensure banks remain stable in the long term (JCES, 2010b, c).

Payout Delay

Like Austrian and German officials the Irish see difficulties to repay depositors within seven days - especially in times of financial distress. To speed up repayment, guarantee systems would have to improve data retention substantially (JCES, 2010c).

To this, the Commission (2010a) permits transition periods for technical adjustments and improving customer databases. Appreciating these efforts on higher transparency, the Irish Central Bank offers support to banks in advancing information systems and disclosure obligations. The head of the according committee, Mr. Molumby, further calls for certain exemptions in payout obligations to ensure that the deadlines granted can actually be met (JCES, 2010b). Still he emphasizes that quick payout is indispensible to public confidence and needs hence to be guaranteed by appropriate targets.

Despite the extra costs implied by payout reduction the Irish Banking Federation strongly support fast compensation to avoid panic withdrawals. This, however, represents a significant project to banks and insurance systems. Illiquid banks might have difficulties to provide customer data in time due to internal resolution impeding impedes *ad-hoc* payments. Fears of unfulfilled deadlines, that could unsettle depositors even more, thus govern parliamentary debates in Ireland (JCES, 2010a).

In view of panic bank runs, Irish depositors should call for immediate compensation. It therefore appears that Ireland strongly supports shorter payout, so that concerns of technical challenges are the sole obstacle. Nonetheless, national officials and heads of domestic banks want to assume this responsibility to restore public confidence (JCES, 2010b). National efforts hence demonstrate that consumer protection has top priority in Ireland and thus justifies extraordinary burdens to the financial industry. National banking regulation must ensure, that banks are 'properly funded, supervised and held to account' (Senator Mooney), so that depositors are reimbursed as fast as possible to keep confidence among the same (JCES, 2010d).

Pan-European Funds

In line with broad national support for the bulk of reforms (coverage level, reduction of payout delay) Ireland is very supportive to enhanced cooperation on deposit insurance. The Banking Federation expects harmonized measures to benefit depositors across Europe. It is joined by the Central Bank that supports harmonization of national schemes to raise public confidence for financial stability in Europe and more particular, Ireland (JCES, 2010b). Confidence among Irish citizens is low, as indicated by continuing withdrawals from domestic banks. These amount to EUR 525m (April – June 2011) demonstrating that Irish capital markets are still fragile (Kelly, 2011). Most notably, it is the reduced payout that shall raise confidence and help financial stability (JCES, 2010b). Clear and unique definitions of those assets covered by insurance are means to this end, deemed to increase certainty about scope of protection. This, as maintained by the banking federation, is a major advantage of the proposal. Provisions for payout by host on behalf of home schemes of cross-border banks thus need to be considered carefully to not obstruct quick compensation (JCES, 2010b).

Solid and harmonized funding should also improve market confidence (JCES, 2010c). Various representatives of the banking association (Ms O'Rourke, Sheridan) therefore remind to focus on fast payout in first instance. The consolidation of funds shall thus not jeopardize depositors' trust. They hence call to approach mutual lending facilities carefully as European solidarity may not go at the expense of creditors (JCES, 2010b). Mutual borrowing is hence a minor issue in Irish debates on the proposal. Banks, financial authorities and the government officials focus on restoring depositor confidence in first instance (JCES, 2010b). According policies therefore need to ensure quick repayment, whilst limiting fiscal spending as much as possible. European targets must be workable for banks to prevent them from falling back on the treasury.

Though both, the Department of Finance and the Irish Central Bank, raise concerns on potential risks of mutual credit obligations (e. g. destabilizing effect of diminished systems), they still promise to 'approach discussions on this issue….[…]…with an open mind and in a constructive and positive way' (Pat Casey) (JCES, 2010a, p. 25). On governmental level delegates accept extra cost for banks for the benefit of domestic savers. It seems that Ireland does not exclude pan-European deposit insurance for the future to same extent as Austria and Germany do. For now, however, national efforts concentrate on recovering domestic banks and prevent future crises. Ireland appears thus much more cooperative in fields of common insurance than Austria or Germany.

Aforementioned positions suggest that the Irish banking industry and governmental representatives raise hopes on European cooperation to improve domestic deposit protection and financial stability in Ireland. In fact, the country depends strongly on foreign assistance to straighten out its crippled banking sector, demonstrated by overall support for the new proposal. Economic recovery is one of the core objectives of financial regulation in Ireland. National leaders thus seek to minimize payments to the financial sector to protect domestic taxpayers, moreover. The government therefore seeks to bolster capital reserves of credit institutions and tighten banking regulation.

Theoretical Reflection

Liberal Intergovernmentalism

European states vote for or against collective deposit insurance based upon costs and gains to domestic protection. Design and effectiveness of national insurance and hence need for foreign support determine whether governments expect the proposal to raise confidence and financial stability on domestically relevant markets. Institutional designs of domestic insurance, need for cooperation where markets are vulnerable to foreign shocks, fiscal spending and interests of powerful domestic groups determine, whether improvements justify domestic adjustments. Such arguments indeed shape national cost-benefit calculations. Form and intensity of European cooperation further depends on bargaining power of parties involved. Austrian, German and Irish votes on pan-European deposit insurance are indeed governed by aforementioned issues.

Structural adjustments of domestic schemes are a major cost factor of policy implementation. Their extent, however, depends on designs of domestic insurance and hence, institutional changes required. Compelled to restructure national schemes substantively, Austria and Germany oppose a common guarantee scheme for huge efforts required. Unlike Irish provisions, that mainly employ deposit guarantee, Austria and Germany have institution guarantee schemes moreover. Repudiating all insurance systems other than deposit guarantee (Art. 3), the proposal exacts radical changes of domestic institutions. Banks with institution guarantee are thus forced to establish additional funds and thus withhold capital from alternative use.

Austria and Germany do not expect to improve deposit insurance with new directive, since institution guarantee is practically unlimited. Protection for the majority of domestic saving deposits rather shrinks, if this form of insurance would be abolished (e. g. Germany: 81, 4%) (Bankenverband, 2012b). Cases of e. g. *Sparkasse Südholstein, HSH Nordbank, Bayrische Landesbank, WestLB*, where property owners have rescued banks themselves, amply demonstrate, that institution guarantee of corporate and savings banks protects customer assets effectively (BVR, 2010; FitchRatings, 2010; Volksbankengruppe, 2011). Hence, states do not require institutional changes.

Irish credit unions, on the other hand, contribute to deposit in addition to institution guarantee to go easy on own resources, which have been diminished by EUR 45,5m. Additional protection measures rather stabilize these banks and are thus, welcomed by the same.

Apparently, governments in Austria and Germany do not expect reforms to raise public confidence. On the contrary, domestic banks even fear them to jeopardize public trust in raising institution guarantee systems to question. National consumers might further be disadvantaged by growing credit costs (e. g. 12 basis points for Austrian banks) due to lower credit volumes (estimates suggest EUR 125bn for German savings banks) as capital would be bound for additional guarantees (Kopp et al., 2010).

Obviously, set-up of domestic systems determine national positions on pan-European insurance. Depending on form and approach these are even incompatible with European targets, which even undermine effective protection. Preferring well-proven systems over untested measures policies on deposit insurance and hence, systemic stability, governments and interest groups are indeed risk-adverse. This becomes obvious in public debates in Austria and Germany. Due to effective national measures both states oppose European reforms whereas Ireland being unable to prevent panic bank runs supports the proposal. Design and effectiveness of domestic insurance are hence crucial determinants of national support for pan-European deposit guarantee.

Institutional frameworks of deposit protection and their effectiveness in financial distress affect costs of domestic adjustments. Especially the latter determines need for capital injections by governments. Since foreign policies are means to lower government spending, excess figure for deposit protection determines preferences of governments. This is truly observable in Austria, Germany and Ireland, where governmental positions on measures at stake are in line with potential effects on the treasury.

Ireland expects tightened funding to reduce public costs of deposit protection (JCES, 2010c). Compared to Austria (52%) and Germany (47%) fiscal spending is exceptionally high due to bail-outs of domestic banks (67% of GDP) (Wahrig & Gancedo Vallina, 2011). Unlike EUR 5.961,0m, spent by the Irish government, support to German (EUR 500,00m) and Austrian (EUR 699,8m) banks is much lower (Eurostat, 2012a). In March 2011, the Irish government has even announced further USD99 billion, required to restore the financial sector (NewYorkTimes, 2012). In shifting the burden to banks now, reforms probably limit public spending and meet governmental support therefore.

Curtailing their financial reserves for depositor compensation, Austrian and German banks are likely to raise need for subsidies in financial distress. If anything, reforms might thus increase government spending in the future.

Ireland showing the highest deficit of EUR 5.123m welcomes European targets. Better funding serves lower government spending (JCES, 2010c). Public deficits in Austria (EUR 301,8m) and Germany (EUR 288,0m), by contrast, are much lower. Here, national contingencies amount to five (Austria) and two (Germany) per cent of GDP, compared to Irish liabilities of 45% (Eurostat, 2012b). Officials have thus less incentive to merge national funds to lower public expenditure. Apparently governments do vote on pan-European deposit insurance on grounds of potential effects on state coffers.

It further appears that Ireland supports European harmonization of deposit protection, for being highly vulnerable to foreign shocks and thus more reliant upon international cooperation. Indeed, cross-border penetration in Ireland (2009:~50%) is much higher than in Austria (2009:~20%) and Germany (2009:~11%) (Schoenmaker, 2011). Ireland will thus be highly interested in clear and unique responsibilities for insurance of depositors, who invest with cross-border banks. Moreover, capital injections to banks and contingent liabilities by the government (TEUR ~130) exceed those in other states (Austria: TEUR 17) by far and in fact stem from domestic need for foreign assistance (Eurostat, 2012a). Indeed, Ireland has strongly profited from intergovernmental loans of other states to restore its economy, whereas Austria (EUR 2. 037m) and Germany (EUR 19. 994m) have rather granted credit to aforementioned countries. Loans by Ireland, on the contrary, amount to EUR 347m only (Eurostat, 2012b).

Governments of Austria and Germany respond to interests of domestic groups lobbying for deposit insurance. Interests most heavily affected by the directive seek to manipulate governments in favor of own preferences. So do public banks in Austria and Germany, where corporate and savings banks would restructure insurance substantively, protest against the reforms. Compelled to establish additional funds in spite of institutional guarantee, they fear competitive disadvantages from extra costs, these changes imply. These might be exacerbated by downgrades in domestic protection as compensation would be limited to EUR 100.000 only. Institution guarantee, by contrast, ensures continuance of banks themselves and hence unlimited protection. Customers even chose banks according to services offered, of which deposit protection is an important element. Deposits at Austrian and German savings banks have thus grown by EUR 1,8bn and EUR 15,6bn in 2010, since they have been stable in the crises. This is probably due to their focus on conservative investments and strong deposit protection (DSGV, 2012). The abolishment of institution guarantee puts them at disadvantage therefore. Accordingly, corporate and savings banks lobby strongest against the proposal. Private banks fear loss of competitiveness likewise as maximum levels for insurance diminish need for voluntary funds. Hence, German consumers, that fear downgrades in protection, mobilize against the abolishment of institution guarantee, albeit to lesser extent than the financial industry.

Irish banks, by contrast, probably gain from European deposit insurance, since unique protection lowers incentives to withdraw money from domestic institutions. Drain of capital at banks has come to more than EUR 1,6bn in the first half of 2011 (Kelly, 2011). Being the only state that is officially hit by recession, banks, related industries and governmental officials in Ireland expect unique standards to raise international competitiveness (JCES, 2010b). There is hence overall support for the proposal. Domestic interests thus not mobilize against the reforms, which stands in marked contrast to bank and consumer groups in Austria and Germany. Here, national officials mostly defend corporate and savings banks urging institution guarantee to be acknowledged for deposit protection. Bank customers also profit from institution guarantee, but urge it to be legally enforceable (VBZ, 2010).

If passed, the directive disadvantages Austrian and German depositors to larger extent than would Irish consumers, who mostly sustain actual conditions (esp. in terms of coverage), profit from the reforms. The abolishment of institution guarantee thus produces a *pareto*-inferior outcome to the status quo that permits institutional differences in deposit protection. Consumer mobilization for according policies is hence much more intense in Austria and Germany than in Ireland. In particular, defence of institution guarantee demonstrates that domestic interests are risk-adverse and hence reluctant to policy change that might lower national protection.

The fact, that member states seek to block the new directive by subsidiarity complaints, suggests, that stakeholders defend preferences on European policies through national governments. Broad parliamentary consent in Austria, Germany and Ireland on various points supports this impression. Yet, trans-regional interest groups (European Banking Federation, European Consumer Organization) try to influence European integration of deposit insurance furthermore. Current developments however rather suggest a two level-process, in which interest groups use national governments to articulate their demands on European level: A pivotal argument for this proposition is certainly the fact, that various states used subsidiarity complaints to influence European policies.

The extent, to which demands of member states have been incorporated into the Danish compromise, shows that bargaining power of Austria and Germany is quite high. Both states provide effective protection and are hence, in least need of European cooperation. Instead they urge national distinctions to be acknowledged by the Commission. Truly, targets have been loosened (Art. 1(c); Art. 3) in response to national pressure, as contractual systems will now be accepted for deposit insurance also (Council, 2012). Provisions on maximum coverage that also run counter to preferences of Austria and Germany are not addressed. However, the compromise has not been approved yet, so that there is still room for intergovernmental negotiation.

Targets on payout delay represent another obstacle to national support for European deposit insurance. These have now been relaxed so that systems must compensate depositors within 7 days not earlier than by 2016 (Art. 7). In here the compromise accommodates demands of all states.

Public debates and pressure of national governments seem much more intense in Austria and Germany. Indeed, both states do not require European assistance to protect deposits effectively. Reforms are much more contested here than in Ireland that in needing foreign support for economic recovery is forced to submissive behavior in international bargaining. This is clearly reflected in various positions emphasizing, that Ireland appreciates European efforts on deposit protection. This confirms assumptions of liberal intergovernmentalist about bargaining power of states.

Neofunctionalism

For neofunctionalists non-governmental actors are the true engines of European integration. Indeed, interest groups mobilize trans-nationally to lobby for deposit insurance on European level. On behalf of Austrian, German and Irish credit institutions European banks advocate stronger harmonization of national systems for transparent regulation on deposit insurance.

Raising certainty of consumers about scope of protection raises confidence and hence financial stability. Equal coverage and payout delay seem crucial in this regard and forestall competitive distortions. Representatives of various banks in Europe banks thus agree, that policies on depositor confidence must have priority and require sound funding. Provisions on mutual borrowing or repaying depositors on behalf of other systems therefore rather diminishes capital stocks and thus destabilize the common banking system instead (European Banking Federation, 2010).

European harmonization of systems, though appreciated in principle, must hence proceed gradually and account for structural differences between banks (EBF, 2010). These want funding procedures to be carefully aligned and urge gradual instead of hasty conferral of powers upon new institutions (European Banking Authority). In the absence of common rules on capital transfers they prefer national over European regulation. The international federation does further warn against disproportionate targets on financing and application of funds. Co-operative and savings banks, that would have to replace institution by deposit guarantee, claim national scope for decisions on deposit insurance likewise. They adduce differences in wealth, deposits, competition, auditing standards and fiscal legislation and thus urge the Commission to prescribe 'core indicators' for funding only, while leaving the details to the member states (Europaan Association of Co-operative Banks (EACB), 2010a, p.1).

In fact, national and sectoral differences between banks argue against a European system and rather obstruct banks in assuming 'local responsibility and social control' (European Savings Banks Group, 2010, p. 11). In fear of capital deficits from merging funds banks refuse collective insurance for being too early after the crises. Whilst generally supporting cooperation to improve transparency in European financial regulation, savings banks want to avoid any liquidity risk that might put their institutes at risk.

European consumers, by contrast, are strongest in pushing for European deposit insurance. To reduce financial risks they urge full harmonization and compel banks to join deposit insurance for legal certainty. Systems shall thus be legally accountable for depositor compensation (European Consumers' Organization, 2010). To account for growing cross-border banking European depositors claim maximum harmonization and equal coverage across Europe (European Consumers' Organization, 2010). Customers of foreign branches are not to be disadvantaged compared to local creditors. To facilitate quick payout and equal protection they demand stronger exchange of information (European Consumers' Organization, 2009).

From theoretical perspective developments of European deposit insurance stagnate despite national ambitions to encourage a common system. Whereas the banking industry seeks to avoid costs and liquidity deficits of consolidated systems, European consumers support collective action to handle international crises in the future. In line with e. g. capital requirements or the Single Euro Payments Area harmonized deposit insurance seems necessary to encourage citizens to investments on common rather than domestic markets only (→ functional spill-over).

Interests at stake however prefer different strategies based on individual cost-benefit considerations. Consumer advocates seem most dissatisfied with current protection (see Icelandic Bank) and hence, 're-evaluate strategies' of European cooperation (Schmitter, 2007, p. 57). To manage cross-border effects they seek to 'build-up' collective insurance for effective deposit protection and thus support the directive (Schmitter, 2007).

For European banks, by contrast, costs and risks outweigh benefits of collective insurance. They block a merger of funds (e. g. mutual borrowing, payout on behalf of other schemes), therefore. Due to national and sectoral differences banks in Europe oppose full consolidation of guarantee schemes and urge separate institutions instead.

The Danish compromise on deposit guarantee regulation suggests that European integration of deposit insurance corresponds to 'naturally entropy', according to which actors 'respond to a crisis (or unsatisfied needs) by marginal modifications' (Schmitter, 2007, p. 58). Since banks with institution guarantee shall be exempted from membership in deposit guarantee schemes and payout is to be gradually reduced until 2022, revisions hardly deviate from the *status quo*. Mutual borrowing, for instance, remains optional (Art. 10) (Council, 2012).

The institutional development of European deposit insurance shows, that depositors rather than banks prefer European over national measures to manage risks of cross-border banking (*VBZ*, 2008; European Consumers' Association, 2009). Demand for European protection is much stronger among depositors than banks, which would rather be constrained in business and face higher costs. Even Irish banks, which would benefit most from cooperation, reject full consolidation of funds to protect own capital reserves. Depositors, who have lost assets by insufficient protection, might profit from gaining legal certainty. European lobbying, however, seems less intense among consumers than banks, which probably mobilize more easily due to better resources.

Transnational support for European harmonization is also stronger among private (e. g. European Banking Federation) than among corporate or savings banks, who expect competitive disadvantages and thus oppose the directive (EACB, 2010b; ESBG, 2010).

The Danish compromise relaxes covenants on coverage, forms of systems, payout delay or mutual borrowing. Recognition of institution as equal to deposit guarantee benefits savings and corporate banks in Austria and Germany that have lobbied on national as well as European level for being exempted from deposit guarantee (Council, 2012). Consumer advocates, on the other hand, have pressed for enshrining institution guarantee by law. In fact, institution guarantee would have to fulfil same criteria as deposit guarantee systems (see Directive 2006/48/EC). To fasten compensation revisions now permit gradual reduction of payout until 2022 and thus, meet consumer demands in the long-term at least. Still, provisions leave scope to national banks to recover from the financial crises.

Subsidiarity complaints by national governments (e. g. Germany) suggest European integration of deposit insurance to proceed as a two-level game, in which national preferences are generated in domestic debate and then vindicated in Council negotiations (Commission, 2011). However, there *is* evidence of trans-regional mobilization of interests that lobby for deposit insurance on European level. Indeed, various claims of banking and consumer groups have been considered in the Danish compromise (e. g. reduction of payout, acknowledgement of institution guarantee, optional lending among schemes). In contrast to political influence by subsidiarity complaints or Council voting, that of lobby groups can hardly be proven.

After all, one might only conjecture about their impact on the final outcome. It however seems that they *do* have played a role, since covenants on membership, payout, funding and mutual borrowing have been relaxed substantially. However, it seems that interests on deposit insurance policies in Europe still cluster nationally rather than transnationally. In fact, national traditions on deposit protection, which manifest in domestic institutions, encourage national sooner than trans-regional interest mobilization. Groups hence articulate preferences through national governments to most extent. It thus appears that European integration of deposit protection meets liberal intergovernmentalist more than does it comply with neofunctionalist assumptions as interests are bound by national institutions. In terms of integrative strategies given by neofunctionalism, however, the new proposal would upgrade the level of integration, in raising decision-making powers of e. g. the Commission or the European Banking Authority (see mutual borrowing). However, policy changes seem too marginal as to identify any substantive progress in European cooperation on deposit insurance.

Conclusion

To examine national attitudes on European deposit insurance domestic positions in Austria, Germany and Ireland have been compared along different aspects of insurance (coverage, payout, funding and Intra-European cooperation). To identify true causes behind national opposition to the proposal, opinions of various stakeholders (national and international banking associations, consumer groups, political parties, governmental officials) and recommendations of think tanks have been screened to identify obstacles to further integration. Arguments for and against the amendments have then be aggregated to identify national frames and trans-national parallels.

The analysis suggests that a single pan-European guarantee system is unlikely to emerge soon. National approaches to deposit protection still vary across banking groups. So far European legislation has granted huge latitude to states in setting minimum standards on deposit insurance only. These permit traditional differences (institution vs. deposit guarantee) impeding full harmonization of schemes. For the time being full consolidation of systems seems to downgrade rather than improve protection due to huge institutional differences between the member states. Findings, however, do not suggest that these oppose collective protection in principle. Rather they urge supranational institutions to consider regional and sectoral distinctions to raise protection of at least some states without worsening that of others. For *pareto-optimal* outcomes, European policies need thus to account for institutional differences among banks. Preventive measures (e. g. controlling, early warning, liquidity accrual from adjoined institutions) as common with some credit institutions have proven to be trust-building and should rather be advanced to avoid 'confidence-induced financial meltdowns' (Buni, 2009, p. 48). Provisions that seem to raise confidence at face value (e. g. shorter payout, payout on behalf of other schemes) need to be balanced against destabilizing side-effects (e. g. diminished funds, difficulties to comply with payout). Negative effects of cross-border banking (e. g. contagion effects from liquidity shortages) could otherwise occur in the consolidation of guarantee schemes either (de la Mata Munoz, 2010). To avoid competitive disadvantages furthermore regulation should not worsen protection levels in place. Indeed, European cooperation on deposit protection is generally supported by all states considered in the analysis. This, however, has to be done in such a way that minimizes distortions to international as well as sectoral competition. Pan-European insurance therefore needs to be accompanied by according supervision to enforce measures effectively (Vardi, 2011; Ayadi & Lastra, 2010).

Even though a single European deposit insurance seems thus far from being established, trans-European schemes of similar banking groups (corporate and savings banks, private banks, credit unions) might be the next step toward consolidated protection. They might pave the way for a true European system in the future.

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