

# Are Germany's Institutional Protection Schemes an Obstacle to EU Banking Reform?

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Proportionality in Bank Crises: the Case of Retail Banks  
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- **EU Commission consultation on review of CMDI**
- **Joint statement of IPS from six member states demanding preferential treatment**
  - Special intervention and resolution instruments and powers within network
  - Guaranteed survival of institution relieves DGS → up to now, no customers incurred any losses
- **In depth-analysis for EP on IPS (joint with Rainer Haselmann, Jan Pieter Krahen, and Mark Wahrenburg)**
  - Design and operation of IPS
  - Strengths and weaknesses of an IPS model
  - Recommendations for regulatory treatment of IPS
- **Takeaways for today's question**

# Economic significance of IPS-related institutions in the German banking market

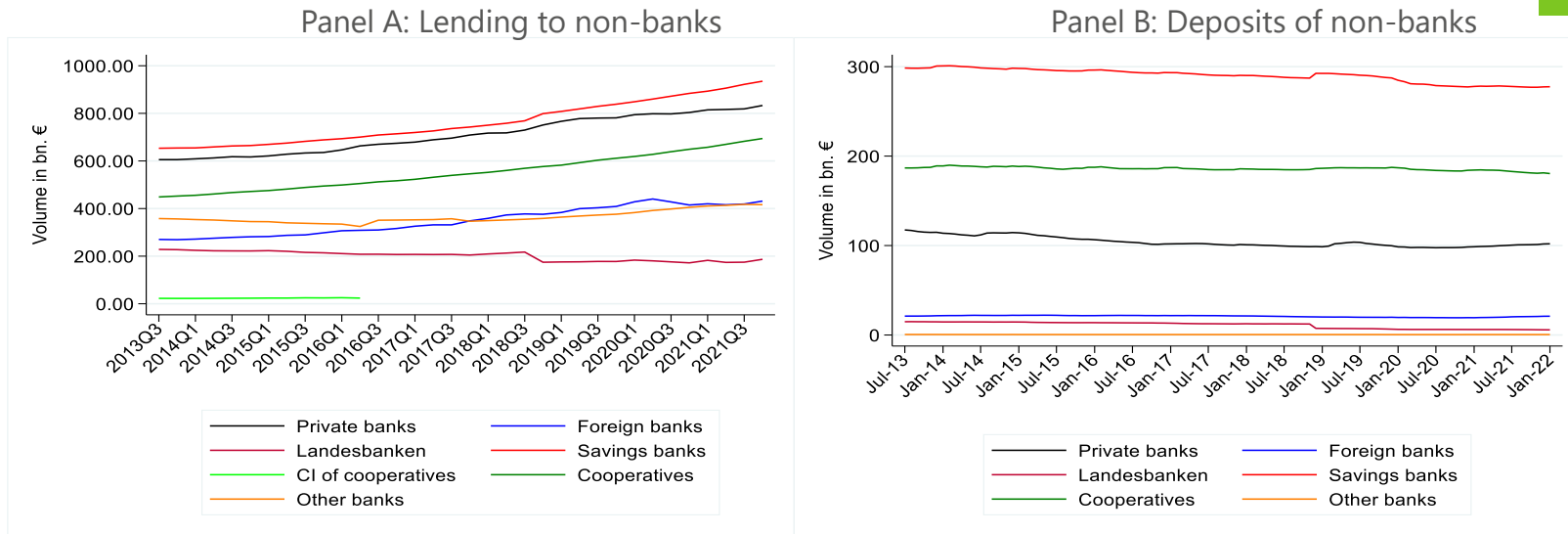


Figure 1: Lending to domestic non-banks and deposits of non-banks for different categories of banks

	Total Lending	Deposits from non-banks
Landesbanken	5,94%	1,02%
Savings banks	29,71%	48,91%
<b>IPS of Sparkassen-Finanzgruppe</b>	<b>35,64%</b>	<b>49,93%</b>
Cooperative Banks	22,06%	31,96%
<b>Combined IPS</b>	<b>57,70%</b>	<b>81,89%</b>

Table 1: Market shares of different categories of banks that form an IPS in Germany, using data from 2021Q4 (Total Lending) or December 2021 (Interbank Loans and Deposits from non-banks).

Source: Bundesbank time-series statistics, own calculations.

## Key features of IPS and regulatory treatment



- **CRR, art. 113(7) “recognized IPS”**
  - effective risk monitoring ex ante (crisis prevention)
  - adequate support for nv members ex post (crisis management)
- **IPS member institutions comprise local banks and apex institutions with significant intra-group exposures (shareholdings, loans of excess liquidity)**
- **Despite interlockings, not treated as consolidated banking group in supervision and resolution**
  - G-SII/O-SII designation of member institutions as stand-alone
  - Macroprudential (CRD, art. 131) and leverage ratio buffers (CRR, art. 92(1a)) and TLAC/MREL applied to individual institutions only
  - IPS as such not subject to EBA stress tests, ECB/SRB oversight, including pillar 2 SREP



- **Privileges, typical for consolidated banking groups, apply to IPS**
  - IPS members need not deduct own funds holdings of other IPS members if, inter alia, IPS institutions meet on an *extended aggregated basis* own funds requirements and leverage ratio, CRR, art. 49(3)
  - With exception of regulatory capital holdings (CET1, AT1, and T2), a 0 % risk weight applies to exposures to other IPS members, CRR, art. 113(7)
  - Large exposure limits do not apply to exposures to other IPS members, CRR, art. 400(1)(f)

# Are IPS “better”?

- IPS
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	Fiscal costs billion EUR	Notes
<b>A. Public Banks</b>		
West LB	18	According to the Finance Minister of the Nordrhein-Westfalen regional government on the occasion of the 2011 parliamentary decision to wind the bank down. The number refers to losses since 2005. The period 2000 – 2005 saw additional losses on the order of € 4 – 5 billion from bad investments in connection with the tech bubble.
HSH Nordbank	16	Current discussion refers to taxpayer losses on the order of € 11 – 14 billion since 2009. An additional € 5 billion of losses were incurred in the years 2004 – 2009 and required a recapitalization in 2009.
SachsenLB	1.5	This amount has by now been taken out of the guarantee fund created by the Sachsen regional government. It is still possible that the full amount of the fund (€ 2.75 billion) might be needed. The equity position of the regional government that was wiped out is not included.
LBBW	5	See Kaserer (2010): the numbers given correspond to the amounts provided by public bodies to recapitalize the banks; they are approximately equal to the losses shown by the banks in the crisis years.
BayernLB	10	See Kaserer (2010): the numbers given correspond to the amounts provided by public bodies to recapitalize the banks; they are approximately equal to the losses shown by the banks in the crisis years.
<b>Sum</b>	<b>50.5</b>	
<b>B. Private Banks</b>		
Hypo Real Estate (HRE)	14	See the calculations by Storn (2013, 2015).
Commerzbank (including Dresdner Bank)	4	Deutscher Bundestag (2017)
IKB (38 % public share)	9.6	Kaserer (2010)
<b>Sum</b>	<b>23.6</b>	

Source: Hellwig, M., (2018)

## Some thoughts on special treatment of IPS



- **IPS network not so different from consolidated banking group**
  - IPS-wide risk monitoring leads to significant coordination of business activities
  - robust group-wide risk management can do similar things as an IPS
  - Credibility of support promises hinges on network-wide LAC
- **Rethink stand-alone treatment**
  - supervision
  - resolution
  - deposit insurance (IPS as *integrated* part, not as *isolated* alternative in national/European schemes)