IN-DEPTH ANALYSIS
Requested by the ECON committee

Institutional Protection Schemes in German Banking

External author:
Jakob DE HAAN

Economic Governance Support Unit (EGOV)
Directorate-General for Internal Policies
PE 699.528 – April 2022

EN

Institutional Protection Schemes in German Banking

Abstract

This paper discusses the Institutional Protection Schemes of the German Savings Banks Finance Group and the National Association of Cooperative Banks. Both schemes have been recognised as Deposit Guarantee Schemes. Although both schemes never had to pay out to depositors, supervisors have expressed worries about several weaknesses of the IPS of the Savings Banks Finance Group, such as unclear responsibilities of the 'owners' and the IPS, complex decision-making processes, risk of insufficient pro-active interventions, and no separation between the IPS and the DGS fund. The paper also discusses how both schemes relate to a European Deposit Guarantee Scheme.

This document was prepared by the Economic Governance Support Unit at the request of the ECON Committee.

This document was requested by the European Parliament's Committee on Economic and Monetary Affairs.

AUTHORS
Jakob DE HAAN, University of Groningen, The Netherlands. I am grateful to Fleming Zimbalski for his support.

ADMINISTRATOR RESPONSIBLE
Cristina DIAS
Kristina GRIGAITE
Marcel MAGNUS

EDITORIAL ASSISTANT
Donella BOLDI

LINGUISTIC VERSIONS
Original: EN

ABOUT THE EDITOR
The Economic Governance Support Unit provides in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

To contact Economic Governance Support Unit or to subscribe to its newsletter please write to:
Economic Governance Support Unit
European Parliament
B-1047 Brussels
E-mail: egov@ep.europa.eu

Manuscript completed in April 2022

This document and other supporting analyses are available on the internet at:
http://www.europarl.europa.eu/supporting-analyses

CONTENTS

LIST OF ABBREVIATIONS

BaFin	German Federal Financial Supervisory Authority
BVR	National Association of German Cooperative Banks
CRR	Capital Requirements Regulation
DGS	Deposit Guarantee Scheme
DSGV	Savings Banks Finance Group
EBA	European Banking Authority
EBF	European Banking Federation
ECB	European Central Bank
EDIS	European Deposit Insurance Scheme
GDP	Gross Domestic Product
IPS	Institutional Protection Scheme
LBS	Landesbausparkasse
LCR	Liquidity Coverage Ratio
LSI	Less Significant Institution
NCA	National Competent Authority
NDGS	National Deposit Guarantee Scheme
SI	Significant Institution
SME	Small- and Medium-sized Enterprise
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism

LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY

Background

Article 113(7) of the Capital Requirements Regulation (CRR) defines an Institutional Protection Scheme (IPS) as a contractual or statutory liability arrangement which protects its member institutions and in particular ensures that they have the liquidity and solvency needed to avoid bankruptcy. IPS-members are autonomous institutions that are supervised individually, so an IPS is not a banking group. Selected prudential requirements may be waived for IPS-members, if conditions as laid down in the CRR are met. Most importantly, credit institutions can apply a 0% risk weight to exposures to other members of the same IPS (with some exceptions). An IPS may be officially recognised as a Deposit Guarantee System (and be subject to all provisions of the DGS Directive).

The institutional protection schemes of the German Savings Banks Finance Group (*Deutscher Sparkassen- und Giroverband*, DSGV) and the National Association of Cooperative Banks (*Bundesverband der Deutschen Volksbanken und Raiffeisenbanken*, BVR) are associations of multiple banks which have entered into a liability arrangement. The IPS of the DSGV and the IPS of the BVR have been recognised as a statutory deposit guarantee scheme under the German Deposit Guarantee Act, which transposes the DGS Directive into national law.

Aim

- To discuss the role of savings and cooperative banks in the German banking system;
- To analyse the IPS of the DSGV and the BVR in some detail;
- To discuss potential shortcomings of these schemes;
- To discuss how these schemes are related to an envisaged European Deposit Insurance Scheme.

Although both schemes never had to pay out to depositors, supervisors have expressed worries about several weaknesses of the IPS of the DSGV, such as unclear responsibilities of the 'owners' and the IPS, complex decision-making processes, risk of insufficient pro-active interventions, and no separation between the IPS and the DGS fund.

A full-fledged European Deposit Guarantee Scheme (EDIS) in which all banks would participate is at odds with the schemes of the savings and cooperative banks in Germany, which have made it clear that they want to be structurally exempted from any participation in any form of EDIS. Political agreement on a full-fledged EDIS as initially proposed by the European Commission seems unlikely. However, a compromise on a hybrid European deposit insurance scheme may be possible. In such a hybrid model, national DGS systems would remain in place, including those of the BVR and the DSGV. At the same time, it seems likely that all European banks would need to contribute to the central fund, also those banks that belong to an IPS that has been recognised as national DGS.

1. INTRODUCTION: IPS

Article 113(7) of the Capital Requirements Regulation (CRR) defines an Institutional Protection Scheme (IPS) as a contractual or statutory liability arrangement which protects its member institutions and in particular ensures that they have the liquidity and solvency needed to avoid bankruptcy (ECB, 2016). IPS-members are autonomous institutions that are supervised individually, so an IPS is not a banking group (Vesala, 2016). Significant and less significant banks may be members of the same IPS. Table 1 shows that IPSs exist in five EU member states. The table shows that two sectors are covered by an IPS, namely cooperative banks and savings banks. Savings and cooperative banks are generally small and heavily dependent on interest income; they carry out large-scale maturity transformation via their balance sheets (Choulet, 2017).

Table 1. Institutional Protection Schemes in the EU, 2021

IPS	Country	Affiliated banks	Customers (million)	Covered deposits (million €)
Raiffeisen Banking Group	AT	360	4.0	88,000
Austrian Savings Banks Group	AT	49	3.8	55,000
BVR Institutssicherung GmbH	DE	841	30.0	534,600
Sicherungssystem der Sparkassen-Finanzgruppe (DSGV)	DE	395	50.0	742,250
Grupo Caja Rural	ES	30	4.5	42,860
Raiffeisen Südtirol IPS	IT	40	0.3	7,010
IPS – SGB	PL	193	2.2	8,741
SOZ BPS	PL	326	2.8	14,298
Total		2.234	97.6	1,492,759

Source: EU IPS (2021)

Selected prudential requirements may be waived for IPS-members, if conditions as laid down in the CRR are met.[1] Most importantly, credit institutions can apply a 0% risk weight to exposures to other members of the same IPS (with some exceptions). In addition, these exposures are exempt from large exposure limits. Furthermore, additional waivers to IPS members may be granted, such as the application of lower outflow and higher inflow percentages for the calculation of the Liquidity Coverage Ratio (LCR).

[1] The CRR specifies, among other things, that (i) the IPS shall dispose of suitable systems for the monitoring and classification of risk (art. 113(7)(c)), (ii) the IPS shall conduct its own risk review (art. 113(7)(d)), and (iii) the IPS shall draw up and publish financial statements on an annual basis, either on a consolidated basis or following the accounting aggregation method (art. 113(7)(e)).

An IPS may be officially recognised as a Deposit Guarantee System (and be subject to all provisions of the DGS Directive) or it may act as a pure IPS in which case its members need to belong to an officially recognised DGS. The National Competent Authorities (NCAs) are charged with recognition and supervision of an IPS as DGS according to the DGS Directive requirements.

The ECB made it clear that an IPS should meet certain requirements (Vesala, 2016; ECB, 2016).[2] Most importantly, the IPS should ensure that member institutions permanently comply with own funds requirements. This implies that the IPS needs to be able to identify financial problems of an IPS member at an early stage (e.g. uniform standards and methodologies and appropriate data flows and IT systems are in place) and that there should be a clear commitment from the IPS to intervene (proactively and timely) to ensure that IPS member institutions comply with the minimum own funds and liquidity requirements. Furthermore, the IPS should be able to provide sufficient support in a timely manner if a member institution faces financial difficulties. This implies that there should be a clear commitment of the IPS to provide support when necessary, that the governance structure and decision-making process allows timely support, and that the IPS has the financial capacity to provide support from funds readily available (existence of an ex-ante fund with sufficient means). Intervention by the IPS is deemed to be triggered, at the latest, where there is no reasonable prospect that any alternative measures, including the recovery measures provided for in a recovery plan, would prevent the failure of that institution.

This position paper analyses the IPSs in Germany. The institutional protection schemes of the German Savings Banks Finance Group (*Deutscher Sparkassen- und Giroverband*, DSGV) and the National Association of Cooperative Banks (*Bundesverband der Deutschen Volksbanken und Raiffeisenbanken*, BVR) are associations of multiple banks which have entered into a liability arrangement (Deutsche Bundesbank, 2015). The IPSs of the DSGV and BVR have been recognised as a statutory deposit guarantee scheme under the German Deposit Guarantee Act, which transposes the DGS Directive into national law.

Both groups include significant institutions (SIs) and less significant institutions (LSIs), so different authorities are responsible for the direct supervision of the individual IPS members. Under the SSM, the ECB directly supervises all SIs through Joint Supervisory Teams, while the supervision of all LSIs (to which most of the savings and cooperative banks belong) is conducted by national supervisors (in Germany: the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, BaFin) in collaboration with the *Deutsche Bundesbank*). According to its 2020 Annual Report, each year BaFin and the Deutsche Bundesbank prepare a risk profile for all LSIs under their direct supervision following the SSM LSI-SREP methodology published in February 2020, in order to ensure a uniform procedure in the SSM for less significant institutions. Since then, BaFin has used two dimensions to classify institutions: the quality of the institution and the potential impact of a solvency or liquidity crisis at the institution on the stability of the financial sector. When assessing the quality of the institutions, BaFin defines four tiers ranging from 1 (very good) to 4 (poor). In the same way, it classifies the impact dimension on a scale from low to high. It then uses this overall assessment as the basis for deriving the necessary supervisory measures and defining the audit cycles, the frequency of SREP capital determination, and the depth of the annual risk analysis (BaFin, 2020). Table 2 shows the outcomes of the 2020 classification.

[2] Guideline (EU) 2016/1994 of the European Central Bank of 4 November 2016 on the approach for the recognition of institutional protection schemes for prudential purposes by national competent authorities pursuant to Regulation (EU) No 575/2013 of the European Parliament and of the Council (ECB/2016/38). See also the ECB Guide on options and discretions available in Union law.

Table 2. Risk classification of German LSIs in 2020 (Institutions, %)

	Quality				
Impact	1	2	3	4	Total
High	0.0	0.5	0.2	0.0	0.7
Medium	3.8	11.6	2.3	0.2	17.9
Medium-Low	7.7	40.5	7.7	0.6	56.5
Low	2.7	14.9	6.4	0.9	24.9
Total	14.2	67.5	16.6	1.7	100.0

Source: BaFin (2020)

2. THE GERMAN BANKING SYSTEM

2.1. Overview

Table 2 provides an overview of the German banking system, which is often described as a three-pillar system (Behr and Schmidt, 2016), where the pillars are distinguished by banks' legal form and ownership structure.

The first pillar includes private credit institutions. Here we find the 'big banks', which maintain large branch networks and offer all kinds of banking services to their domestic and international clients[3], as well as *"regional banks and other commercial banks"*. According to the European Banking Federation (EBF), private-owned commercial banks account for some 40% of total assets in the German banking system.[4] Also *"branches of foreign banks"* are included in this category in Table 2.

The second pillar, representing 26% of total bank assets according to the EBF, is the public banking sector, which are the regional *Landesbanken* and the local savings banks (*Sparkassen*). *Landesbanken* were originally designed, among others, to act as clearing banks for the savings banks and as relationship bank of the respective state (hence, their name), but got increasingly involved in wholesale funding, investment banking, and international business activities. Over time, their number decreased to 6 in 2020.[5] According to Bundesbank figures, at the end of 2020 there were 377 savings banks, which are normally organised as public law organisations with local governments as their guarantors/owners. Their business is limited to the area controlled by their local government 'owners'. *DekaBank* acts as the central asset manager of the Savings Banks Finance Group. DSGV is the umbrella organisation of the Savings Banks Finance Group.

The third pillar are the cooperative banks, which comprises a large number of independent institutions, accounting for 18% of total bank assets according to the EBF. It consists of local cooperative banks (818) and one central financial institution (*DZ BANK AG*), the second largest bank in Germany, which is majority-owned by the cooperative banks. Cooperative banks are owned by their members, who are

3 Following the merger of *DB Privat- und Firmenkundenbank AG*, the legal successor to the former *Deutsche Postbank AG*, with *Deutsche Bank AG*, which took effect on 15 May 2020, there are now only 3 big banks in Germany, namely *Deutsche Bank*, *Commerzbank* (which took over *Dresdner Bank* in 2007), and the *HypoVereins Bank* (owned by the Italian banking group UniCredit). Commerzbank came into financial difficulties during the crisis and had to be rescued by the German government (Behr and Schmidt, 2016).

4 https://www.ebf.eu/germany/.

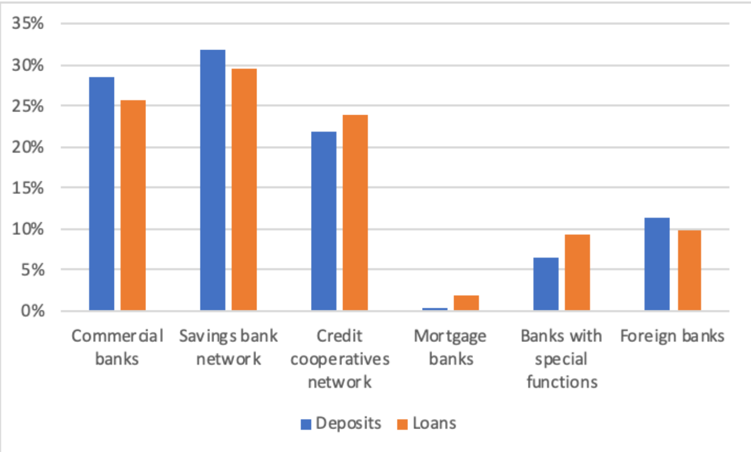
5 *Landesbank Baden-Württemberg, Bayerische Landesbank, Landesbank Hessen-Thüringen, Norddeutsche Landesbank Girozentrale, SaarLB*, and *DekaBank Deutsche Girozentrale*. *LB Berlin* has been reclassified as regional bank from 2018. However, as will be explained in section 3, it is still part of the IPS of the DSGV.

usually their depositors and borrowers as well. Cooperative banks have a mandate to support their members, but also provide banking services to the general public.

Finally, there is a fourth group, called *"other banks"* that include mortgage banks, building and loan associations, and special-purpose banks.

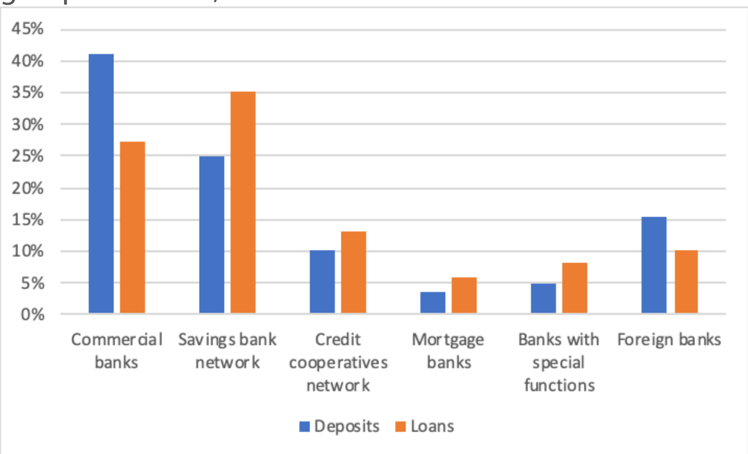
Figures 1 and 2 show the shares of the pillars in deposits of and lending to households and firms, respectively. The graphs show that the savings banks and cooperative banks play a very important role in financial intermediation in Germany.

Figure 1. Deposits of and lending to households: shares in total deposits and lending of various groups of banks, 2021



Source: Deutsche Bundesbank

Figure 2. Deposits of and lending to firms: shares in total deposits and lending of various groups of banks, 2021



Source: Deutsche Bundesbank

The number of banks in Germany has dropped sharply. In 1990 there were still 4,719 banks (Ayadi et al., 2010). At the end of 2020, only 1,519 banks were left as shown in Table 3. This decline is mostly due to mergers and consolidations within the groups of cooperative banks and savings banks.[6]

[6] The district court of Nürnberg-Fürth recently opened proceedings regarding the merger of three cooperative banks, which may have consequences for future mergers. For further details, see: https://finanz-szene.de/banking/das-volksbank-beben-gericht-stellt-prozedere-bei-geno-fusionen-infrage/.

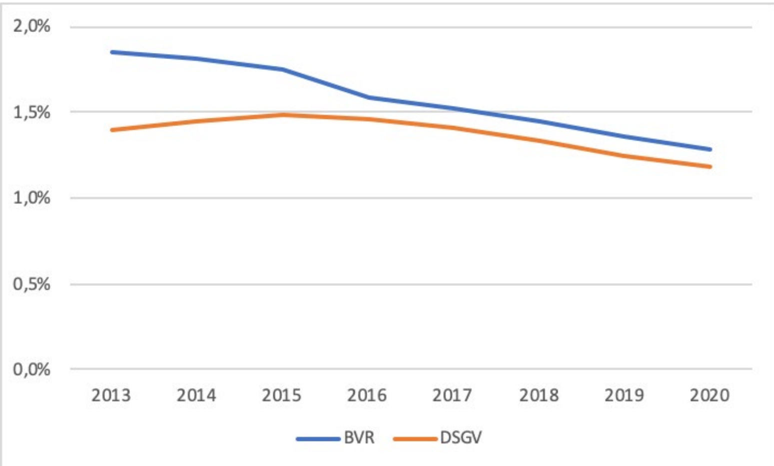
Table 3. The German banking system, 2000-2020

	Institutions		Branches	
	2000	2020	2000	2020
Private commercial banks	294	270	6,520	6,453
Big banks	4	3	2,873	5,146
Regional banks and others	200	151	3,567	1,142
Branches of foreign banks	90	116	80	165
Savings banks group	575	383	17,530	8,528
Savings banks	562	377	16,892	8,318
Landesbanken	13	6	638	210
Cooperative banks	1,796	818	15,357	7,765
Other banks	75	48	3,887	1,314
Total	2,740	1,519	43,294	24,060

Source: Behr and Schmidt (2016) for 2000 and Deutsche Bundesbank for 2020

Both the savings banks and the cooperative banks saw their net-interest margins (net interest income as percentage of average assets) decline in recent years (see Figure 3), while the savings bank group until recently also faced increasing cost-to-income (operational costs as percentage of net banking income; see Figure 4).[7]

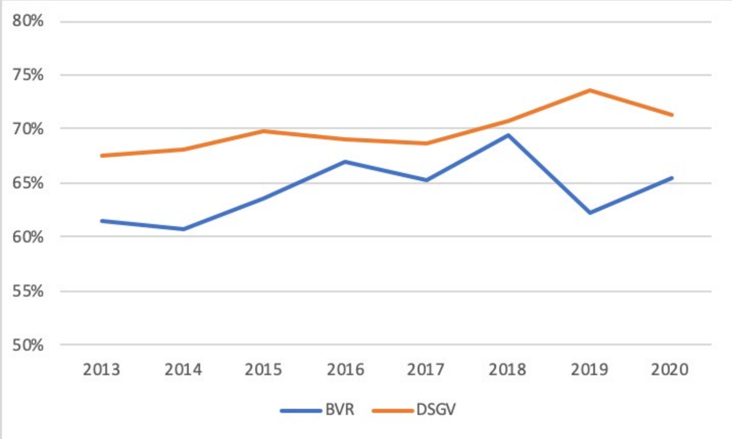
Figure 3. Interest margins of the savings and cooperative banking groups



Source: BVR and DSGV

[7] The data sources can be found here: https://www.dsgv.de/sparkassen-finanzgruppe/publikationen/finanzbericht.html and here: https://www.bvr.de/Press/Consolidated_Financial_Statements

Figure 4. Cost-to-income ratio of the savings and cooperative banking groups



Source: BVR and DSGV

2.2. Savings banks

Sparkassen are regional banks with average total assets of about EUR 3.3 billion. With a network of more than 12,600 branches, there is a local savings bank in every administrative region of Germany (DSGV, 2020). Their *Träger* are municipalities and/or counties (see Figure 5 below).[8] According to Ayadi et al. (2009: 10) *"'Trägerschaft' …. is not easy to translate since it refers to the public law regime under which savings banks in Germany … are still organised. Possible translations for 'Träger' are 'sponsor' or 'responsible or supporting entity', meaning the public or private entity, in the case of a savings bank a municipality, a group of municipalities, or a county …. The rights of the supporting entity of a savings bank tend to be less extensive than those of an owner in a situation governed by private law."* More specifically, the ownership position cannot be sold and the right to have a financial surplus distributed is severely limited.[9] Most profits of savings banks are retained or used for various public welfare projects, as savings banks aim to support the local economy and the local population and not to make as much profit as possible (Behr and Schmidt, 2016).

As shown by Margraf and Veron (2018), most savings banks are chaired by elected politicians. The politicians sitting on *Sparkassen* boards tend to be those elected at the county or municipality level and not federal or state level politicians, with few exceptions. While politicians represent a minority of *Sparkassen* board members, they overwhelmingly form the majority of board chairs. Ayadi et al. (2009: 41) argue that *"Since the economic performance of the savings banks in Germany has been in line with that of other groups of banks, or even somewhat better for a large part of the past 20 years, one may be inclined to think that political influence which may have existed, was not used to make savings banks operate in an economically unsound manner."*[10]

[8] Initially, *Sparkassen* were founded by citizens. Later, they were founded predominantly by municipalities and were integrated into the local government organisations. This legal structure was replaced in 1931, when *Sparkassen* became legally independent institutions under public law.

[9] The impossibility of municipalities to sell their savings banks was by some considered as an impediment to the free movement of capital; see Ayadi et al. (2009) for a further discussion.

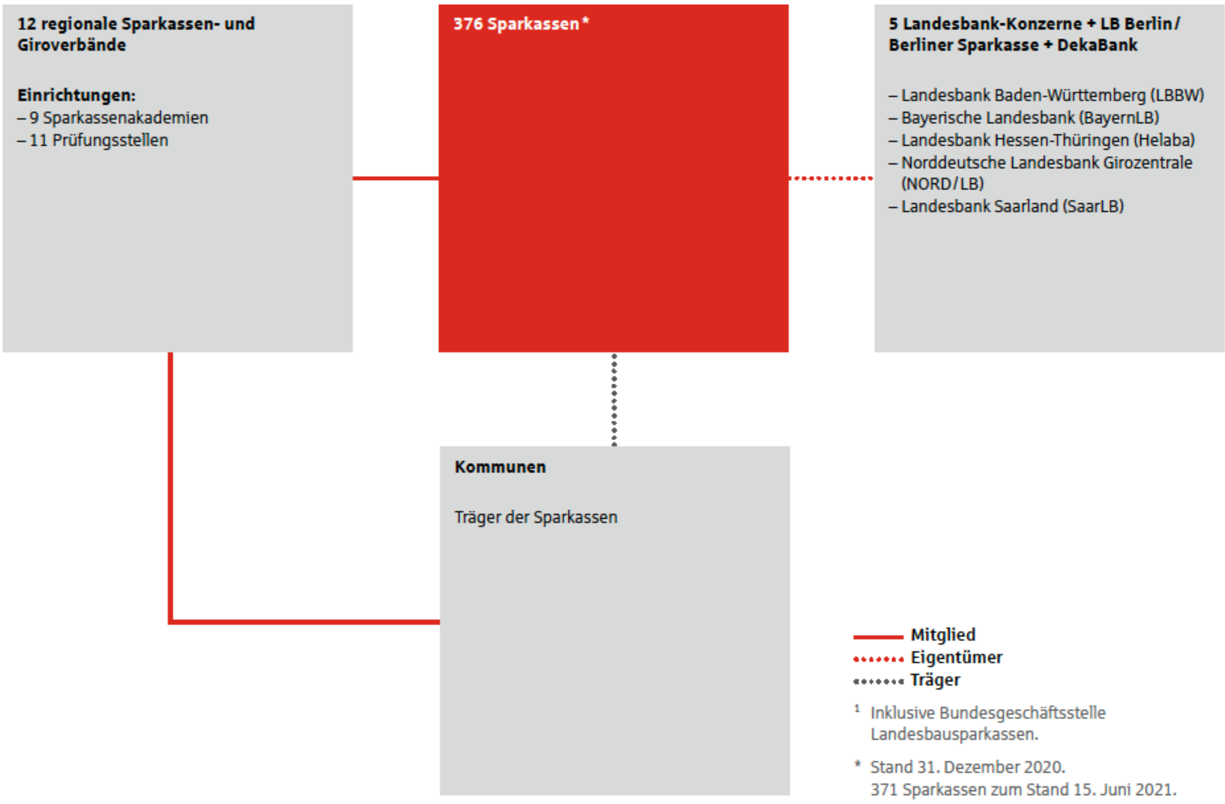
[10] Koetter and Popov (2018) hypothesise that German public banks that lost their communication channel along party lines to political authorities after elections, may be using purchases of sub-sovereign bonds to regain 'front-row access' to relevant politicians. They report that an election that causes a state-owned bank to switch its political status form aligned to misaligned results in an increase in that bank's holdings of debt issued by the respective state government of 12 percent of a sample-wide standard deviation, relative to a similar private bank.

Sparkassen are local and retail-oriented. They operate under a regional principle, which implies that a savings bank is predominantly to serve clients in the political entity that supports it (Behr and Schmidt, 2016). This principle limits competition within the group of savings banks, but enables cooperation among them. The savings banks have regional associations (see Figure 5).

Until 2005, the savings banks and the *Landesbanken* benefited from public guarantees. In the course of the 1990s, private banks raised complaints with the EU Commission that these guarantees created an unfair competitive advantage, especially in the capital market operations of the *Landesbanken*, and this led to a phasing out of such guarantees.[11]

Due to their focus on local business and granular structure, the German Sparkassen have been largely resilient to the financial crisis. This does not hold for the other 'leg' in this group, the Landesbanken. Four of them (HSH Nordbank, BayernLB, SachsenLB and WestLB)[12] suffered greatly, indirectly also causing losses to the savings banks, due to their roles as co-owners and business partners (Behrens and Schmidt, 2016). As a consequence, conflicts emerged between savings banks and Landesbanken (Ayadi et al., 2009).[13] Landesbanken are supervised by the SSM.

Figure 5. Structure of Savings Banks Finance Group



Source: DSGV

[11] Fischer et al. (2014) report that the removal of public guarantees for Landesbanken induced these banks to lend to riskier customers and this effect was most pronounced for the Landesbanken with the highest expected decrease in franchise value due to the removal of the guarantees.

[12] *HSH Nordbank* changed its name into Hamburg Commercial Bank in 2019 after it had been sold in 2018. *SachsenLB* and *WestLB* do no longer exist.

[13] Puri et al. (2011 report that in the years after 2008 savings banks with substantial (indirect) equity holdings in *Landesbanken* reduced retail lending more than the savings banks from areas in which the savings banks are not co-owners of a *Landesbank* that experienced severe problems in the course of the financial crisis. The authors further show that this effect was particularly pronounced for smaller and more liquidity-constrained savings banks.

The Board of Directors *(Gesamtvorstand)* of the Savings Banks Finance Group consists of a President, four Vice-Presidents, the presidents of the 12 regional savings banks associations, the chairs of the boards of the 5 *Landesbanken* and several other members (including the chair of the board of *DekaBank,* and representatives of the *Deutscher Städtetag, Deutscher Städte- und Gemeindebund and Deutscher Landkreistag*). The Board of Directors of the DSGV is the supervisory body of the management of the guarantee scheme. The management consists of two members appointed by Board. Ten of the 40 members of the Board of Directors are or have been politicians.

2.3. Cooperative banks

Cooperative banks have long been an integral and well-established part of the European financial system (Poli, 2019). Many have evolved over time into full-service universal banks or have entered into activities that do not correspond to their traditional core business. Referring to this type of banks in general, Ayadi et al. (2010) pose that they appear to be almost indistinguishable from their commercial bank competitors, being active in non-retail activities and expanding across domestic frontiers. German cooperative banks, however, claim that they differ from other banks, as their objective is to support the business activities of their members, and not necessarily to maximize profit.

The core of the cooperative banking group in Germany consists of local, small to mid-sized cooperative banks, which are locally rooted. Their business model mainly consists of mobilising local deposits and providing loans to local small- and medium-sized enterprises (SMEs) and households. Like the local savings banks, local cooperative banks are independent legal entities, which are embedded in a dense network of affiliated institutions. The regional principle applies also for the cooperative banks and provides the economic basis for the close cooperation within the network (Behr and Schmidt, 2016). Following a merger in 2016, the co-operative sector has one large financial institution, DZ BANK in Frankfurt, which provides services to its constituent institutions.[14] It is supervised by the SSM.

What distinguishes cooperative banks from other banks is its institutional structure. Cooperatives are organised like clubs, which is why the owners and providers of equity are called members. They are self-governed private organisations. Of the banks' more than 30 million customers, 18.4 million are also members and therefore shareholders of their bank. According to the “democratic principle”, each member has only one vote in the annual general meetings, irrespective of how many shares that member may hold. Moreover, members cannot sell their shares if they want to exit. They can only hand them back and in return retrieve what they initially invested, plus their part of accumulated profits (Behr and Schmidt, 2016).

The BVR is the umbrella organisation of the cooperative financial network, representing its interests at both national and international levels.[15] Furthermore, it coordinates and develops the joint strategy within the network and advises and supports members on legal, taxation, and business management issues. Most importantly, the network's protection scheme is run by the BVR (see section 4.3).

The BVR has four main governing bodies: The Board of Managing Directors, the Association Council, the Administrative Board, and the general meeting of members.[16] The Board of Managing Directors, which is appointed by the Administrative Board, manages the BVR's business operations and represents the BVR externally. The Administrative Board advises the Board of Managing Directors on matters of banking business and banking policy. It also supervises the Board of Managing Directors and monitors how the Board of Managing Directors runs the IPS. The Association Council comprises up to

[14] Additionally, DZ BANK AG acts as the holding company for the DZ BANK Group, which includes *Bausparkasse Schwäbisch Hall* (Germany’s largest building society), *DZ HYP* (one of the leading real estate banks), *DZ PRIVATBANK* (specialized in private banking), *R+V Versicherung* (one of the leading insurance companies in Germany), *TeamBank* (specialised in liquidity management), the *Union Investment Group* (specialised in fund management), *VR Smart Finanz* (offering financing solutions), and various other specialized institutions.

[15] https://www.bvr.de/About_us/Our_remit.

[16] https://www.bvr.de/About_us/Our_remit.

50 members, 12 of whom make up the Administrative Board. The Association Council decides on the Network's strategic direction. It approves the strategic projects devised by special committees. The general meeting of members, at which every institution has a vote, irrespective of its size, convenes at least once a year.

Part of the network are the so-called Auditing Associations (*genossenschaftlicher Prüfungsverband*). Their auditors check the banks' accounts and assess their management. The Audit Associations perform their function also on behalf of the IPS. The contributions of individual banks to the protection scheme depend on the riskiness of a local bank, as determined by the auditors (Ayadi et al., 2010).

Most German cooperative banks were not strongly affected by the financial crisis. But there are exceptions. The *Ärzte und Apothekerbank* (Düsseldorf) had a sizable portfolio of 'toxic' assets causing heavy losses, and had to be supported by the group's IPS in a substantial way. This bank is an atypical cooperative bank since it is not regionally focused and instead serves two professions, namely doctors and pharmacists, as its clientele (Behr and Schmidt, 2016). Nowadays, it is under the supervision of the ECB. Likewise, *DZ BANK*, the central institution in the cooperative network, had suffered from the crisis as it had a portfolio that was seriously affected by the turmoil in the financial markets, especially following the collapse of Lehman Brothers and the crisis of the Icelandic banks. As a consequence, the bank took substantial impairment charges in 2008, which contributed to the reported loss of around €1 billion in that year (Ayadi et al., 2010). *DZ BANK* is also supervised by the ECB.

Table 4 gives some consolidated summary statistics for the group for 2009-2020.

Table 4. Key statistics for the cooperative banking group, 2009-20

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Profit before taxes (€ mln)	6.649	8.113	5.688	9.312	9.553	10.655	9.787	8.308	8.916	7.771	10.179	7.226
Cost/income ratio (%)	63,3	63,2	71,2	61,2	61,5	60,7	63,6	67,0	65,3	69,5	62,2	65,4
Loans and advances to customers (€bn)	560	583	607	632	648	671	701	733	762	795	845	891
Deposits from customers (€ bn)	588	620	647	665	693	713	739	774	801	842	880	938
Consolidated total assets (€ bn)	1.017	1.020	1.058	1.090	1.081	1.136	1.163	1.216	1.243	1.293	1.384	1.476
Consolidated equity (€ bn)	57,6	62,2	65,4	72,2	79,4	86,5	93,0	98,6	104,4	107,7	116,0	121,8

Source: BVR[17]

[17] https://www.bvr.de/Publikationen/Jahresbericht

3. IPSS IN THE GERMAN BANKING SYSTEM

3.1. Overview

The Deposit Guarantee Act of 2015, which transposes the EU Deposit Guarantee Scheme Directive 2014/49/ EU (DGSD) into German law envisages two types of deposit protection schemes: (1) deposit guarantee schemes which repay depositors only if a bank has declared insolvency (statutory compensation schemes) and (2) institutional protection schemes which focus on assisting member institutions and which can apply to be recognised as deposit pro- tection schemes (Deutsche Bundesbank, 2015). In general, every depositor at a credit institution has a legal right to repayment up to €100,000, irrespective of where the credit institution is grouped. All deposit guarantee schemes governed by the Deposit Guarantee Act are required to raise, by 2024, available financial means of up to 0.8% of covered deposits by collecting contributions from the institutions belonging to the respective schemes (Deutsche Bundesbank, 2015).

Pursuant to the DGS Directive, all credit institutions must join a recognised deposit guarantee scheme. This requirement implied that institutions which are members of the IPS of the German Savings Banks Finance Group (DSGV) or the National Association of Cooperative Banks (BVR) now explicitly fall within the remit of the Deposit Guarantee Act. Both IPSs have been recognised as DGS by BaFin.

A recognised IPS remains mandated to ensure the liquidity and solvency of a member institution. However, with regard to such support measures, the IPS is subject to new statutory requirements pursuant to section 49 of the Deposit Guarantee Act, including the following: the costs of the measures to avert a going concern risk may not, in principle, be higher than the costs that would be incurred by providing compensation for the covered deposits; conditions must be imposed which, at the very least, entail stricter risk monitoring and more extensive inspection rights for the IPS than under the previous provisions; the funds used for support measures must be repaid, through extraordinary contributions where necessary. If depositors need to be compensated and funding equals less than two thirds of a statutory deposit guarantee scheme's target level or if the available funds are less than 25% of the target level, BaFin must, following an evaluation, confirm the ability of the member institution to pay the required extraordinary contribution (Deutsche Bundesbank, 2015).

Contributions raised by recognised IPS must comply with the EBA guidelines, which stipulate that contributions are not only to be based on the level of covered deposits, but must also appropriately take institutional risk into account. This applies to the institutional protection schemes in particular, as their central institutions, on account of their business model, generally have only a relatively low level of covered deposits in relation to total assets (Deutsche Bundesbank, 2015).

3.2 DSGV

The members of the DSGV adjusted the protection scheme of the Savings Bank Finance Group in May 2015 to bring it into line with the Deposit Guarantee Act. The function of institutional protection continues to be assumed by the existing protection schemes of the Savings Bank Finance Group. However, as required by the Deposit Guarantee Act, the previous institutional protection scheme has been supplemented with a deposit protection function. Thus, in the case of a compensation event, the IPS will perform the protection function (Deutsche Bundesbank, 2015).

The IPS of the Savings Banks Finance Group consists of 13 functionally interlinked sub-funds[18:]
eleven regional savings banks sub-funds[19];
the sub-fund of the Landesbanken and Girozentralen[20;] and
the sub-fund of the Landesbausparkassen.[21]
The level of contributions paid to these funds by the member institutions is based on risk parameters defined by the supervisory authorities. If a member institution experiences or is threatened to face difficulties, the responsible sub-fund of the protection scheme steps in first. Its task is to ensure the solvency and liquidity of this institution within the framework of the statutory requirements.

Figure 6 shows how this system is supposed to work. In first instance, the respective sub-fund is responsible. If the financial means of the affected sub-fund have been completely exhausted and other financial means for covering the support case are required, other sub-funds will be proportionately drawn upon ('supra-regional equalisation' and 'system-wide equalisation'), where the 'liability cascade' as shown in Figure 6 applies.
So, when a savings bank requires support, it has recourse to the regional fund; if these resources are not sufficient, supra-regional equalisation will be used. If so needed, finally system wide equalisation will be used.

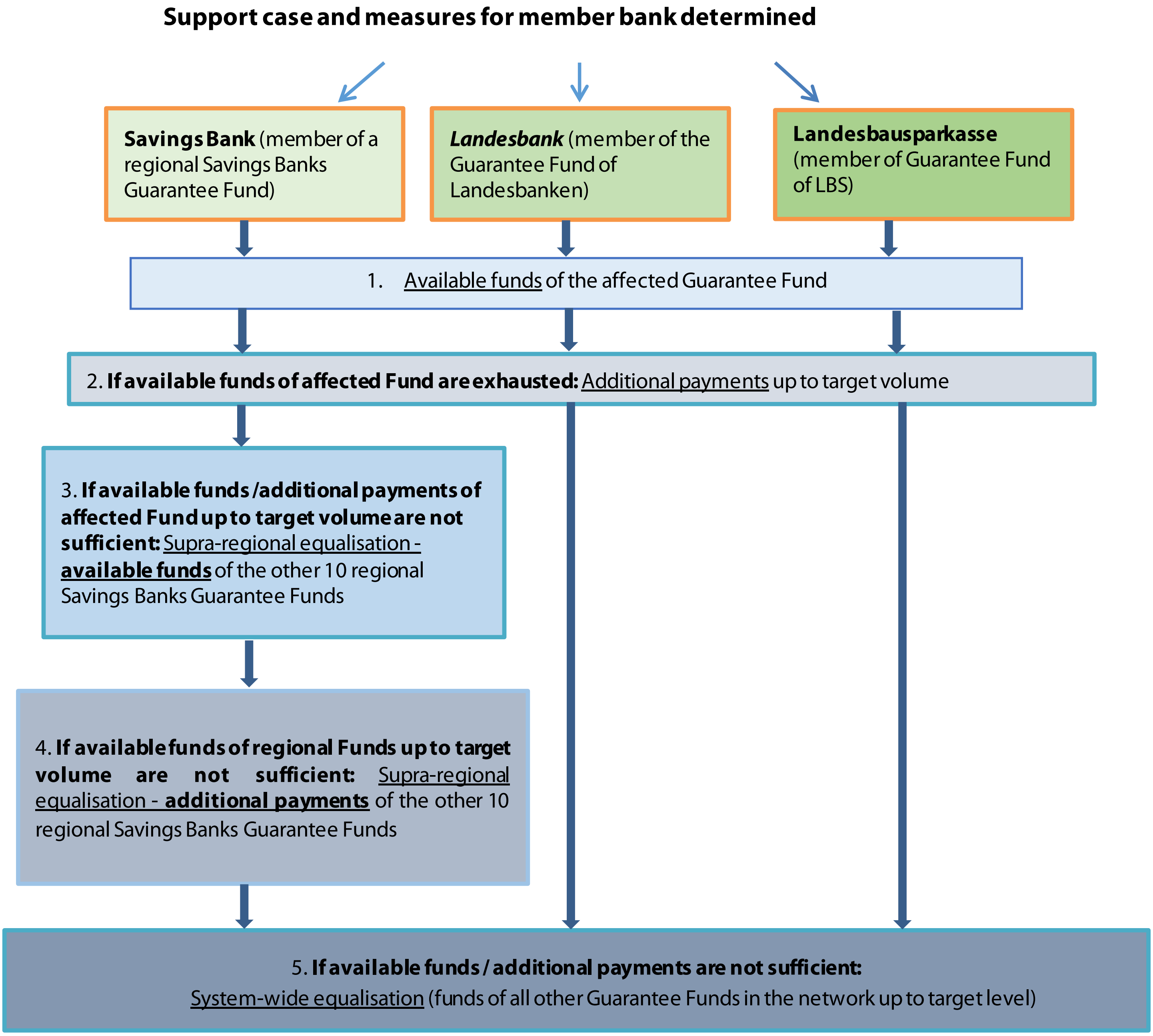
[18] The information provided here comes from: https://www.dsgv.de/en/savings-banks-finance-group/institutional-protection-scheme.html

[19] All savings banks in a region are members of the respective savings bank support fund. The regional sub-funds are: Hanseatic Savings Banks and Giro Association; East German Savings Banks Association; Rhineland Savings Banks and Giro Association; Savings Banks and Giro Association of Hesse-Thuringia; Savings Banks and Giro Association for Schleswig-Holstein; Savings Banks Association of Baden-Württemberg; Savings Banks Association of Bavaria; Savings Banks Association of Lower Saxony; Savings Banks Association of Rhineland-Palatinate; Savings Banks Association of Saar and the Savings Banks Association of Westphalia-Lippe.

[20] The Landesbanken and Girozentralen sub-fund includes the following member institutions: *Bayerische Landesbank; DekaBank Deutsche Girozentrale; Landesbank Baden-Württemberg; Landesbank Berlin AG; Girozentrale Landesbank Hessen-Thüringen; Landesbank Saar*; and *Norddeutsche Landesbank Girozentrale*. In addition, the following institutions are affiliated to the Landesbanken sub-fund: *Berlin Hyp AG; Frankfurter Bankgesellschaft (Deutschland) AG; Landesbank Berlin Holding AG; Portigon AG; S-Kreditpartner GmbH; S Broker AG & Co. KG*; and *Weberbank Actiengesellschaft*.

[21] The following member institutions belong to the *Landesbausparkassen* sub-fund: *LBS Landesbausparkasse Hessen-Thüringen; LBS Bausparkasse Schleswig-Holstein-Hamburg AG; LBS Bayerische Landesbausparkasse; LBS Landesbausparkasse Südwest; LBS Landesbausparkasse Saar; LBS Norddeutsche Landesbausparkasse Berlin-Hannover; LBS Ostdeutsche Landesbausparkasse AG*; and *LBS Westdeutsche Landesbausparkasse*.

Figure 6. IPS of DGSV: liability cascade



Source: BaFin

The IPS is based on prevention. The DSGV has harmonised preventive measures across all 13 guarantee funds (risk monitoring, transparency, and sanctions for non-compliance). It can decide on restructuring plans, early intervention measures and can provide recapitalisation to affiliated institutions, take over, or provide guarantees and liabilities vis-à-vis third parties in order to finance restructuring measures (IMF, 2016). Close monitoring of the member institutions enables risks to be identified at an early stage and countermeasures to be initiated. In addition to preventive measures, the protection system can impose sanctions.

Unlike the cooperative banks, at the time of writing, the IPS of the Savings Bank Finance Group also functions as DGS; the financial resources of the DGS and IPS are not separated. Legislation requires the guarantee fund to build up its financial resources by 2024. The statutory target level for this is 0.8 percent of the covered deposits of the members of the protection scheme. Table 5 shows the amounts of covered deposits and the available means of the DGS of the DSGV according to the European Banking Authority (EBA).[22]

Table 5. DGS of DSGV (amounts in million €)

	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
Covered deposits	637.4	662.3	686.4	715.3	742.3	793.3
Available financial means	2.2	2.6	3.0	3.4	3.3	4.0

Source: EBA

It turned out to be very difficult to get information about support provided to individual banks.[23] The only publicly available information comes from the Technical Note to the IMF FSAP-report (IMF, 2016). According to this source, DSGV provided support to one case in 2012 in which a guarantee of € 57 million was provided. In addition, the support entailed € 10 million funds, € 12 million participation rights, and € 11 million silent participation. In 2014 there was one support case in which funds totalling € 35 million were provided; compensation across regions applied.

Probably one of the best-known cases of a Landesbank in need of support was NORD/LB, which scored worst among German banks in the 2018 EBA stress tests. In that year it also incurred a record loss of more than 2 billion euros.[24] Under a 3.6 billion euros rescue plan for NORD/LB presented in early 2019, DSGV provided about 1.2 billion euros in fresh equity. In addition, several states provided support.

3.3 BVR

Before the Deposit Guarantee Act, the BVR's IPS consisted of a guarantee fund and a guarantee network (BVR protection scheme). In order to get recognised as deposit guarantee system, the BVR set up a separate company as a wholly-owned subsidiary (BVR Institutssicherung GmbH, BVR-ISG). BVR-ISG is operated in parallel with the BVR protection scheme with largely similar structures. The BVR protection scheme is still operated in its original form as an institutional protection system at the level of the association, but without official DGS recognition. The funds on the opening balance of the BSV-ISG were provided by the BVR protection scheme. Since then, the BVR Institutssicherung GmbH is financed through contributions paid by the affiliated institutions as stipulated in Germany's deposit protection legislation, which requires that assets amounting to 0.8 percent of the affiliated institutions' covered deposits (deposits of up to €100,000 per customer) be accumulated by 2024.[25] A liability arrangement between the BVR protection scheme and BVR-ISG ensures that the funds of the BVR protection scheme are also readily available to BVR-ISG. Membership in the BVR-ISG exists in parallel to membership in the BVR protection scheme. All institutions that are members of the BVR and the BVR protection scheme

[22] Since 2016, the EBA collects data showing how much money is available in each DGS's fund (their 'available financial means'). The EBA also collects information on the level of deposits that are protected by a DGS in each Member State (the level of 'covered deposits'). Member States are required to raise available financial means into their DGS funds equal to at least 0.8% of covered deposits (although, exceptionally, the target level may be reduced to no lower than 0.5%). In the interest of transparency, and to further enhance policymaking in the area of deposit protection, the EBA has decided to make this data publicly available on its website.

[23] Neither the supervisory authorities nor DSGV were willing to provide additional information in view of the confidentiality of these data.

[24] https://en.wikipedia.org/wiki/Norddeutsche_Landesbank.

[25] A list of members is provided here: https://www.bvr-institutssicherung.de/isg.nsf/0/DE46FF9EB0CB3DEEC1257E6E0042B32A/%24FILE/MitgliederISG_20211231.pdf.

are also members of BVR-ISG (Deutsche Bundesbank, 2015). These include all local cooperative banks, PSD banks, Sparda banks, church cooperative banks, cooperative central institutions, mortgage banks, and other specialized institutions in the Cooperative Financial Network such as Bausparkasse Schwäbisch Hall and TeamBank.[26] Table 6 shows the amounts of covered deposits and the available means of the DGS of the BVR according to the European Banking Authority (EBA).

Table 6. DGS of BVR (amounts in million €)

	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
Covered deposits	446.1	466.8	485.5	508.6	534.6	573.7
Available financial means	1.0	1.4	1.7	2.1	2.5	2.9

Source: EBA

The BVR proudly points out that since its establishment in 1934 no compensation has ever had to be paid to depositors as no compensation event has ever occurred and that no affiliated bank has ever become insolvent. According to the IMF (2016), BVR provided support in two cases in 2011. In 2011 the volume of support measures amounted to € 114 million. In 2013 there was one new case and support measures amounted to € 11 million. Finally, one support case in 2014 required support measures of € 11 million. Information for more recent years is not publicly available.

Similar to the IPS of the Savings Banks Finance Group, the BVR-ISG has a risk monitoring system in place and it takes the lead in restructuring its member institutions, typically through loans, guarantees, purchase-and- assumption transactions or mergers (IMF, 2016). According to its website: *"BVR-ISG … acts preventively to identify any adverse financial trends at cooperative banks as quickly as possible, to provide valuable support to the institutions concerned throughout their financial restructuring and, therefore, ultimately to prevent financial resources from having to be withdrawn from the protection fund. If, however, such funds do have to be utilized in the event of restructuring, the first task is to ensure that the relevant institutions' annual financial statements are able to receive an unqualified auditors' opinion*[27] *by making the necessary cover funds available. The banks concerned are then financially restructured. The objective here is to prevent banks from becoming insolvent and, consequently, avert the need for depositors to be compensated, thereby also meeting the legal requirements … This means that the BVR's proven system of institutional protection, which has been in operation for more than 80 years, has not changed at all in terms of its practical impact on cooperative banks' customers. The BVR has merely integrated the system of deposit protection now legally required throughout the EU into the cooperative bank institutional scheme."*

[26] https://www.bvr-institutssicherung.de/isg.nsf/index.xsp. On its website, the BVR states: *"The BVR protection scheme is Germany's first deposit guarantee fund for banks and is financed entirely without government support. Since its creation in the 1930s as a consequence of the global economic and banking crisis, it has always ensured that all affiliated banks have been able to meet their financial obligations, particularly with regard to the deposits of retail customers. The protection scheme run by the Cooperative Financial Network is therefore the world's oldest exclusively privately financed deposit guarantee fund for banks."*

[27] An unqualified opinion is an independent auditor's judgment that a company's financial statements are fairly and appropriately presented, without any identified exceptions, and in compliance with generally accepted accounting principles.

4. POLICY ISSUES

4.1. The case for diversity

A good case can be made for diversity in the banking system. As Ayadi et al. (2010:vi) put it: *"A financial system populated by a diversity of ownership and governance structures, and alternative business models, is likely to be more competitive, systemically less risky and conducive to more regional growth than one populated by a single model … In many respects it is the mix of different types of institutions that is important (the biodiversity argument) as much (if not more so) than the merits of any particular ownership structure or business model."* I strongly agree with this view. In fact, there is evidence that countries with strong savings banks and cooperative banks sectors are doing much better according to several metrics, such as financial inclusion (Ayadi et al, 2009; 2010), financial stability (Beck et al., 2009; Behr and Schmidt, 2016), and regional development (cf. Hakenes et al., 2009). There is also substantive evidence that savings banks and cooperative banks in Germany are not underperforming compared to commercial banks (cf. Altunbaş et al., 2001; Behr et al., 2013). So, as Behr and Schmidt (2016: 563) put it, *"a diversified legal and ownership structure has the important advantage that diversification provides risk protection. In the context discussed here, it protects against the danger that the "current state of knowledge" would at some future time turn out to be erroneous…. In this sense, one can plead for … maintaining diversity in the banking system with the same argument with which ecologists plead for biodiversity and for safeguarding endangered species: they help us to retain a kind of social capital whose value we might overlook because we do not see it today."*

Diversity in banking implies diversity in organisational structures. As has been made clear in the description above, institutional protection schemes are an integral and key element of the way the savings banks and cooperative banks in Germany are organised. Their protection schemes helped maintaining the stability and sustainability of these banking groups by focusing on prevention and providing support to individual banks if so needed. However, that does not imply that changes are not required. Notably, the IPS of the DSGV needs to be changed to keep it viable.

4.2. Shortcomings in the IPS of DSGV

According to an article in the German newspaper *Handelsblatt* on May 27, 2020, the ECB and BaFin have identified serious shortcomings in the IPS of the savings banks pillar.[28] First, in case of rescue operations, the responsibilities of the IPS and bank owners are unclear.[29] According to the DSGV statute: *"Support measures [by the IPS] with the aim of preserving a member institution as an operating company are generally only considered if their sponsors make appropriate support contributions."* This may give the IPS an incentive to put things on the backburner instead of taking pro-active steps. Clear triggers are needed to make clear when an IPS is supposed to act. In addition, I would add, it is unclear how the equalisation is supposed to precisely work out. This holds first for the 11 regional sub-funds of the *Sparkassen*. Each of these regional schemes has an incentive to minimise support to other regional schemes and to postpone support. One national, systemwide scheme instead of 11 regional schemes seems a logical solution. Each bank should contribute to that scheme, which would provide aid to banks if so required. Furthermore, the *Sparkassen* have weak incentives to support the *Landesbanken*, notably because they cannot fully control the risks of *Landesbanken*. This holds in particular for *Sparkassen* associations which no longer have any significant *Landesbank* holdings and therefore do not want to take responsibility for possible problems with *Landesbanken* in Bavaria, Baden-Württemberg, Hesse or Lower Saxony. So, either the *Landesbanken* should be part of the same national scheme for the savings banks, or the equalisation between the schemes of the savings banks and the

---

28 The supervisory authorities could not share confidential documents.

29 In case local or regional governments have to provide additional capital, there is always the risk that the European Commission considers the support to be illegal state aid. For instance, the Commission, *HSH Nordbank* and its owners negotiated for years over a plan to restore the bank to health and avoid state aid.

Landesbanken should be stopped. That would not imply that the savings banks would be fully off the hook, as some of them are often also co-owners of *Landesbanken*.

Second, the complex structure of the DSGV institutional protection scheme makes it difficult to resolve support cases quickly. This is particularly the case with controversial issues and major support cases. A case in point is the rescue operation of Nord LB, mentioned earlier. According to the *Handelsblatt* report, the ECB and BaFin are therefore calling for simplification and streamlining of the decision-making process, ideally through the establishment of a single decision-making body. In addition, the representatives of the DSGV-IPS would have to be vested with powers strong enough to enable them to contribute effectively to finding solutions in potential support cases.

Third, the supervisors worry that indicators used by the IPS may not always accurately capture the situation of its members correctly, so that it is not sufficiently ensured that risks are identified at an early stage. According to the *Handelsblatt* report, BaFin and the ECB criticise the fact that the institutional protection scheme does not conduct any stress tests in order to assess the potential need for support. The result of this, they say, could be that the funds may be too small. The supervisors are also worried that the institutional protection system is not consistent enough when *Landesbanken* accumulate too many risks. The use of decisive intervention rights is not applied to *Landesbanken*. In my view, this issue would be less of a problem under a national system of which the *Landesbanken* would be part.

Finally, as outlined earlier, unlike the BVR, the DSGV does not separate the financial resources for DGS and IPS. According to the *Handelsblatt* report, the financial supervisory authorities are worried about the firepower of the protection system. The best way to remedy this problem is that DSGV builds an additional fund.

In August 2021, the members of the DSGV unanimously adopted a resolution on the further development of its IPS. According to the website of the DSGV, the core of the agreement is, among other things, an additional guarantee fund, which is to be filled by the institutions from 2025 and is to be available in addition to the existing guarantee funds. This is intended to make it possible to act even more quickly in the event of a crisis. However, the decentralised fund structure and monitoring of the savings banks will remain unchanged in the future. According to reports in the *Handelsblatt* and other newspapers, by 2024, the institutions are to initially transfer 0.8 per cent of the legally protected deposits - i.e. the capital of their customers in current, fixed-term or savings accounts up to the amount of 100,000 euros - to the Deposit Protection Fund. According to newspaper reports, Landesbanken are to bear 2.6 billion euros, and two billion euros are to be paid by the savings banks. In addition, the savings banks would have to make *"payment promises"* in the amount of 600 million euros. From 2025, a separate pot is to be filled for institutional protection. The target amount corresponds to 0.5 percent of the risk positions of the participating banks.

4.3. European Deposit Insurance Scheme

The European Commission published a proposal to amend the Single Resolution Mechanism (SRM) Regulation on 24 November 2015. This outlines a European Deposit Insurance Scheme (EDIS), to be established in three sequential stages. In the final phase, risks would be shared in full among all participating member states and all compensation cases in the participating states would be paid out via EDIS.

In my view, a full Banking Union requires a common DGS. However, the European IPSs have stated that: *"As EU IPS by definition prevent the insolvency of their member credit institutions, EU IPS need to be structurally exempted from any participation in any form of European Deposit Protection Scheme (EDIS)."* (EU IPS, 2021).

So far, little progress has been made to reach an agreement on EDIS. The ECOFIN Council agreed on a roadmap to complete the Banking Union at its June 2016 meeting. Negotiations on EDIS were supposed to start *"as soon as sufficient further work has been made on the measures of further risk* *reduction"*. In October 2017, the European Commission published an additional communication about completing the Banking Union, in which it proposed a more gradual introduction of EDIS in two instead of three phases. At the Euro Summit of June 2021, the commitment to the completion of the Banking Union was reiterated and the Eurogroup was invited *"to agree without delay on a step-wise and time-bound work plan"*.

Still, it seems unlikely that a political agreement on a fully-fledged EDIS with a common scheme to protect depositors in the banking union is within reach.[30] However, a compromise on a hybrid model seems possible. This model is based on the coexistence of a central fund and the national deposit guarantee schemes.[31]

In a non-paper, then-German-finance minister Scholz (2019) argued in favour of a European reinsurance scheme, thus changing Germany's strong opposition towards EDIS: *"the varying capacities of the national deposit guarantee schemes (NDGSs) could be balanced out within a European reinsurance scheme. To this end – once the target level set out in the EU Deposit Guarantee Schemes Directive has been achieved, and on the basis of an intergovernmental agreement – resources would be accumulated in a European deposit insurance fund in addition to the NDGS resources."* However, several conditions, including a reduction of NPLs to 5% gross/2.5% net, harmonisation of bankruptcy laws, and risk-based charges on banks' holdings of sovereign debt[32], should be met before such a hybrid EDIS would be possible.

In such a hybrid model, national DGS systems would remain in place, including those of the BVR and the DSGV. At the same time, it seems likely that all European banks would need to contribute to the central fund, also those banks that belong to an IPS that has been recognised as national DGS.

[30] According to the manifesto of the current German government, a full mutualisation of the deposit guarantee systems in Europe is not the goal, but Germany is *"ready to create a European reinsurance for national deposit guarantee systems"*, but only once risks within the financial industry have been further reduced.

[31] Carmassi et al. (2018) conclude that a comparison between a fully-fledged EDIS and a mixed deposit insurance scheme (where the national funds intervene before the European insurance fund) reveals that the latter would increase cross-subsidisation. This result is the consequence of some banking systems paying less under a mixed scheme, thus building up a smaller pool of resources.

[32] This is controversial but needed anyway in my view as a crucial step to end the 'doom loop' due to which bank risk and sovereign risk interact to create additional risk endogenously. See Alogoskoufis and Langfield (2019) for a further analysis.

REFERENCES

- Alogoskoufis, S. and S. Langfield (2019). Regulating the doom loop. ECB Working Paper 2313, Frankfurt: European Central Bank.
- Altunbas, Y., L. Evans and P. Molyneux (2001). Bank Ownership and Efficiency. *Journal of Money, Credit, and Banking*, 33(4), 926-954.
- Ayadi, R., E. Arbak, S. Carbó Valverde, F. Rodriguez Fernandez and R.H. Schmidt (2009), *Investigating Diversity in the Banking Sector in Europe: The Performance and Role of Savings Banks*, Brussels: Centre for European Policy Studies.
- Ayadi, R., Schmidt, R. H., Llewell, D. T., Arbak, E., & De Groen, W. P. (2010). *Investigating Diversity in the Banking Sector in Europe. Key Developments, Performance and Role of Cooperative Banks*. Brussels: Centre for European Policy Studies.
- BaFin (2020). 2020 Annual Report. Bonn/Frankfurt: BaFin.
- Beck, T., H. Hesse, T. Kick and N. von Westernhagen (2009). Bank Ownership and Stability: Evidence from Germany. https://voxeu.org/article/bank-ownership-and-stability-evidence-germany.
- Behr, P., L. Norden, and F. Noth (2013). Financial constraints of private firms and bank lending behavior. *Journal of Banking and Finance*, 37, 3472–3485.
- Behr, P. and R.H. Schmidt (2016). The German Banking System. In: Palgrave Handbook of European Banking.
- Carmassi, J., S. Dobkowitz, J. Evrard, L. Parisi, A. Silva, and M. Wedow (2018). Completing the Banking Union with a European Deposit Insurance Scheme: who is afraid of cross-subsidisation? ECB Occasional Paper 208, Frankfurt: European Central Bank.
- Choulet, C. (2017). Institutional protection schemes: are they banking groups? Economic Research BNP Paribas. https://economic-research.bnpparibas.com/html/en-US/Institutional-protection-systems-banking-groups-1/5/2017,29434.
- Deutsche Bundesbank (2015), Deposit protection in Germany, Monthly Report December 2015, Frankfurt: Deutsche Bundesbank.
- Deutsche Bundesbank (2021a), Bank office report 2020, Frankfurt: Deutsche Bundesbank.
- Deutsche Bundesbank (2021b), The performance of German credit institutions, Monthly Bulletin September 2021, Frankfurt: Deutsche Bundesbank.
- DSGV (2020). Inside the Savings Banks Finance Group. Berlin: DSGV.
- ECB (2016). Guide on the approach for the recognition of institutional protection schemes (IPS) for prudential purposes. ECB: Frankfurt am Main.
- EU IPS (2021). Declaration of Institutional Protection Schemes in Europe with regard to changes to the regulatory framework for Crisis Management and Deposit Insurance. https://www.bvr.de/p.nsf/0/10568748536D2608C12586B9002D8B3E/$file/210406_IPS%20Declaration%20CMDI_Summit_final.pdf.
- Fischer, M., Hainz, C., Rocholl, J. and Steffen, S. (2014). Government guarantees and bank risk taking incentives. CESifo Working Paper, No. 4706.
- Haag, H. and Steffen, J.L. (2020). Banking regulation Germany: an overview. https://uk.practicallaw.thomsonreuters.com/w-007-4084?transitionType=Default&contextData=(sc.Default)&firstPage=true
- Hakenes, H., R.H. Schmidt and R. Xie (2010). Public Banks and Regional Development. *Journal of Financial Services Research*, 37(2), 131-158.
- International Monetary Fund (2016). Germany Financial Sector Assessment Program. IMF Country Report 16/194; Technical Note. IMF: Washington DC.
- Koetter, M. and A.A. Popov (2018). Politics, Banks, and Sub-Sovereign Debt: Unholy Trinity or Divine Coincidence? ECB Working Paper 2146.
- Markgraf, J. and N. Veron (2018). Germany's savings banks: uniquely intertwined with local politics. Bruegel post: https://www.bruegel.org/2018/07/germanys-savings-banks-uniquely-intertwined-with-local-politics/.

- McKinsey & Company (2021). German banking returns to the playing field.
- Poli, F. (2019). Co-operative Banking Networks in Europe Models and Performance. Palgrave Macmillan: Cham, Switzerland.
- Puri, M., J. Rocholl, and S. Steffen (2011). Global retail lending in the aftermath of the US financial crisis: Distinguishing between supply and demand effects. *Journal of Financial Economics,* 100, 556–578.
- Scholz, O. (2019). *Position paper on the goals of the banking union*. Bundesministerium der Finanzen.
- Vesala, J. (2016). Public consultation on how to assess institutional protection schemes. ECB: Frankfurt am Main.

This paper discusses the Institutional Protection Schemes of the German Savings Banks Finance Group and the National Association of Cooperative Banks. Both schemes are recognized as Deposit Guarantee Schemes. Although both schemes never had to pay out to depositors, supervisors have expressed worries about several weaknesses of the IPS of the Savings Bank Finance Group, such as unclear responsibilities of the 'owners' and the IPS, complex decision-making processes, risk of insufficient pro-active interventions, and no separation between the IPS and the DGS fund. The paper also discusses how both schemes relate to a European Deposit Guarantee Scheme.

This document was provided by the Economic Governance Support Unit at the request of the ECON Committee.

PE 699.528
IP/A/ECON-BU/FWC/2020-003/LOT3/C1/SC3

Print ISBN 978-92-846-9388-7 | doi:10.2861/3778 | QA-07-22-229-EN-C
PDF ISBN 978-92-846-9389-4 | doi:10.2861/845336| QA-07-22-229-EN-N