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Banking union

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Abstrakt The financial crisis has unequivocally demonstrated that simple coordination is insufficient, especially in the context of a single currency, and that joint decision-making and better coordination at Union level is needed. It was important to limit the growing risk of fragmentation of the EU banking markets, which greatly undermined the single market in financial services and disrupted the effective transmission of monetary policy to the real economy throughout the euro area. The author approaches the historical overview of the major events that led to the establishment of a banking union in the EU. In the closing part, the contribution will focus on subjective assessment of the organization and functioning of the Bank Union. Using the SWOT analysis, it will evaluate the benefits and disadvantages of the Bank Union. The results of the work show that for the complete introduction of the banking union it is necessary to complete the work on the 3rd Pillar as well as to ensure the specificity of the banking systems called "Host countries" to be taken into account in the implementation and construction of the 3rd Pillar.

Klíčová slova banking union, singe supervisory mechanism, single resolution mechanism, European deposit insurance scheme

1. BEHIND THE LEGISLATIVE PROCESSES

The completion of all reforms of the EU regulatory framework was and is necessary but not sufficient to successfully address the major threats to financial stability in the entire Economic and Monetary Union. Further steps were needed to address the specific risks within the euro area, which would prevent, despite close economic and financial integration, the overflow of side effects in the event of a bank crisis and would disrupt the sovereign debt and bank debt, thus preventing re-entry into a vicious circle past has led to the necessary intervention in the form of rescue of EU banks for more than 4.5 trillion euros. The financial crisis has unequivocally demonstrated that simple coordination is insufficient, especially in the context of a single currency, and that joint decision-making and better coordination at Union level is needed. It was important to limit the growing risk of fragmentation of the EU banking markets, which greatly undermined the single market in financial services and disrupted the effective transmission of monetary policy to the real economy throughout the euro area.

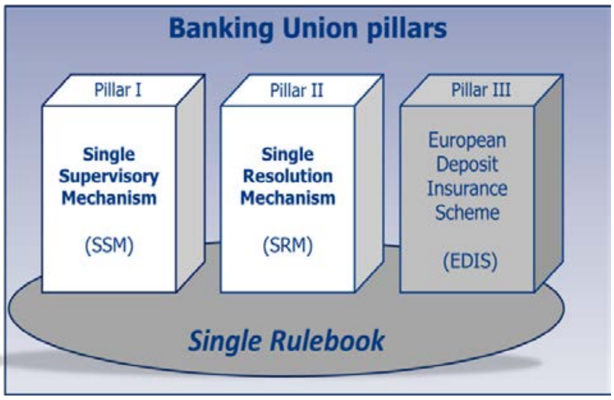
Banking supervision at European level has become a key part of this process, which was then combined with other steps, such as the Joint Deposit Guarantee Scheme and Integrated Crisis Management of Banks. This vision was clearly endorsed by the Presidents of the European Council, the Commission, the Euro group and the European Central Bank (ECB) of 26 June 2012 [4] and the European Parliament in its July 2010 report on cross-border crisis management in the banking sector recommended steps in the same direction.

The aim of the Bank Union is to break the negative feedback between banking systems and public budgets that arose between 2010 and 2012 when the public-sector crisis contributed to a reduction in the rating of rescuing countries, which subsequently made it difficult for banks to access finance from these countries. The means to achieve this was to create independent centralized oversight for the euro area and a number of tools to address the crisis situation without the use of public resources, the use of which was entrusted to a newly created resolution body in the euro area coordinated by the SRB.

The European Union's Banking Union is based on three pillars: a single supervisory mechanism, a single resolution mechanism for resolving crisis situations, and European deposit insurance scheme.

2. PILLARS OF BANKING UNION

Figure 1 –Banking Union pillars



Source: www.nbs.sk

2.1 Single supervisory mechanism

The Single Supervision Mechanism (SSM) consists of the European Central Bank and the national central banks of euro area countries. The SSM officially became operational in November 2014, when the ECB took over the banks in the euro area. The introduction of a single surveillance mechanism can be seen as a further step towards even greater European harmonization. The main objective of SSM is to ensure prudential supervision of all banks and other credit institutions in the Member States. The main objectives of the single supervisory mechanism are:

- guaranteeing the health and safety of the banking system in the EU,
- Increase financial integration and stability,
- Ensure continuous supervision.

Regulation ECB / 2014/17 of 16 April 2006 on the framework for cooperation under the single supervisory mechanism between the ECB and the relevant national banks, together with the Single Supervisory Mechanisms Regulation, defines the basic legal framework for the procedures and tasks of the single supervisory mechanism. According to these rules, the ECB is obliged to act with regard to the unity and integrity of the common market in order to avoid regulatory arbitrage, ie on the basis of equivalent treatment of banks. SSM is constantly striving to maintain consistency and highest standards of supervision. In doing so, it is based on the principles of the Banking Supervision of the Basel Committee and the rules lay down by the European Banking Authority (EBA).
A single supervisory mechanism is responsible for about 4,700 supervised entities in the member countries. In order for the supervision to be carried out effectively, the individual tasks and the responsibility for supervision are divided according to the significance of the subjects subject to supervision. In order to make clear which credit institutions are significant, SSM performs regular assessments using materiality criteria. The total asset value, the significance of the credit institution established in that country, shall be assessed. For the institution to be classified as significant, one of the following conditions shall be considered:

- "if the total value of the institution's assets exceeds 30 billion €. Or (if the total value of its assets is not less than EUR 5 billion €) and exceeds 20% of national GDP;
- where it is one of the three most important credit institutions domiciled in that Member State;
- if he is the beneficiary of direct assistance from the European Stability Mechanism;
- if the total value of its assets exceeds 5 billion €; And the ratio of its cross-border assets / liabilities in more than one other participating Member State to its total assets / liabilities exceeds 20%. "[3]

Based on the distribution of banks, respectively groups of banks, the ECB, with the assistance of the national central banks, exercises direct supervision over all these institutions. There are approximately 1 200 subjects. National central banks, respectively. but national supervisors continue to supervise even the less important institutions, which are around 3 500.

2.2 Single resolution mechanism

The establishment of an effective mechanism to deal with crisis situations was an indispensable tool to avoid the risk and damage caused by the failure of banks and financial institutions. For this reason, the European Parliament also approved a directive laying down the rules for the rehabilitation and resolution of banks' crisis situations (BRRD) [2], followed by 15.7.2014 a regulation setting out uniform rules and a common procedure for dealing with crisis situations of banks and financial institutions and a single crisis management bank situations (SRM - Single Resolution Mechanism). [7] Since January 1, 2015, the Single Resolution Board (SRB) has taken on crisis resolution planning (6 permanent members), and then a year since 1 January 2016 took over the crisis management solution. Within the framework of a single resolution mechanism, the Single Resolution Board was established as a centralized power to resolve the crisis situation. In carrying out its work, this Council is working closely with national crisis resolution bodies to ensure that effective decisions are taken within the Union to implement solutions to possible bank failures. The SRB is based in Brussels and its main objective is to prevent the crisis situations of selected institutions and groups in the financial sector and to effectively address the crisis situation with a view to preserving financial stability and safeguarding the assets of the clients of the institution and the group. The SRB acts in a neutral manner and its role is to ensure that national financial stability, the financial stability of the EU and the internal single market are taken into account. The Council draws up and approves, in coordination with the national crisis management authorities, a solution plan that takes into account significant failure scenarios, either at a time of financial instability or when the whole system is hit. Crisis plans do not deal with any extraordinary public financial support (with the exception of single fund support), respectively. with the emergency assistance of the central bank to secure, respectively. increasing liquidity. The Council reminds the recovery plans drawn up by the banking institutions or, groups, shall assess the feasibility of the crisis situation of these institutions. In addition, the Council sets the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) Significant banks and banks that are part of cross-border groups with more than two subsidiaries in the euro area are subject to SRB which, through internal (IRT) is working with national authorities - National Resolution Boards. Less important banks are within the competence of the national resolution board, the Nationl SRB, was created on 1.1.2015 and currently has 10 members and its performance is professionally and organizationally provided by the NBS. Main objectives of II. the pillar of the Banking Union clearly remains the central application of the bank crisis resolution rules set out in the BRRD Directive; strengthening the single market in banking and preserving uniform conditions; focusing on financial stability and boosting confidence in the banking system and, last but not least, minimizing adverse effects in the event of a major bank crash as well as reducing moral hazard (minimizing the need for bail-out).

2.3 European deposit and insurance scheme

Another pillar of the EU Banking Union is the European Deposit Insurance Scheme (EDIS), whose role is to improve EU rules on deposit protection in the event of bank failure. The draft regulation establishing the EDIS is based on the five Presidents' report of 22 June 2015, according to which EDIS should address the problems of national Deposit Guarantee Schemes (DGSs), notably the lack of resilience to local economic shocks. It unifies the protection of depositors throughout the European Union, the main mission being to prevent a "run" on banks, massive collection of deposits in the event of a bank failure, through the protection of depositors against the consequences of bank insolvency. 24 November The European Commission published a draft EDIS regulation through an amendment to the SRM Regulation with effect from 2017, which eventually proved to be unrealistic. Early in 2016, a working group was set up in which all EU Member States are represented, regardless of whether or not they want to participate in preparations for the 3rd pillar of the CA. At present, Member States' views differ on the scope of the proposal for a regulation for the need to establish an international agreement, the regulation of government debt exposures, the various insurance phases and the basic principles of the European Deposit Guarantee Fund (DIF). According to information from the NBS, the Nordic Member States and southern Member States that prefer rapid progress on EDIS differ. The proposal foresees the introduction of EDIS in three successive phases, which will subsequently provide the DGSs with the Deposit Guarantee Fund (DIF) to be managed by the Single Resolution Board (SRB).

Proposed EDIS phases:

- the reinsurance phase (reinsurance, from 2017-2020), initially the coverage will be limited; provision of 20% coverage of EDIS financial deposits (the remaining 80% will be funded under national Deposit Guarantee Schemes);
- the co-insurance phase (co-insurance, from 2020 to 2020), the coverage ratio of financial deposits will increase by 20% each year up to 80% of the coverage of financial deposits in 2024;
- a full insurance phase (full insurance, from 2024), providing 100% coverage of EDIS financial deposits. [6]

The Deposit Guarantee Scheme Directive introduces the following changes:

- the deadline for the payment of the depositor will be gradually reduced, up to 7 days at the latest by 2024;
- The information should be provided to the depositor in a clear and timely manner, which will improve his / her awareness.
- Application of ex ante funding schemes, which will be set at 0,8% of covered deposits by 2025. [1]

The Directive requires Member States to ensure a coverage level for the depositor's deposits at the level of EUR 100 000 in the event of unavailability of deposits. This limit will apply to all deposits with a bank institution, not dealing with the number of deposits, the currency and the place of deposit within the Union. Banks and credit institutions are required to become members of the Deposit Guarantee Scheme and pay membership fees. The amount of contributions is determined on the basis of their risk rating and other factors. EDIS collects these contributions and creates a fund to be used to pay depositors in case of bank failure and unavailability of its deposits. The Directive furthermore mandates Member States to carry out stress tests in EDIS to check the functionality and compliance of the obligations of all participating country systems and to demonstrate reliable and transparent management and management practices for these systems.

The Deposit Guarantee Scheme Directive also regulates the deadline for the depositor to pay out, so that from the middle of 2015 the depositor should be paid up to 20 business days in case of unavailability of his deposits. By 2024, the payout period for depositors will be shortened gradually, up to 7 business days.

The unprecedented increase in coverage within the European Union during the financial crisis has led some depositors to transfer their money to banks in member countries that have guaranteed higher deposit protection, thereby reducing the liquidity of banks. It is possible that, in the event of a non-uniform procedure, depositors instead of a matching deposit product would decide on a higher deposit protection, which could distort competition in the internal market. It was therefore necessary, through a uniform Deposit Guarantee Scheme, to harmonize all Deposit Guarantee Schemes in the EU Member States so as to ensure uniform and transparent protection for all depositors.

2.4 Historical Overview of the major events of the banking union

26. june 2012	European leaders have asked the European Commission at the European Council summit to propose a single banking supervision mechanism.
12. september 2012	Commission President José Manuel Barroso proposed the system in his speech on the state of the Union.
18.–19. october 2012	Autumn European Council summit.
year 2013	Implementation of the system
13. december 2012	Ministers of Finance adopted an opinion on single banking supervision.
13. – 14. december 2012	European leaders have agreed on the Single Banking Agreement, supported the continuation of further pillars of the Bank Union
19. march 2013	Reaching agreement on single banking supervision after trialogue negotiations.
20. may 2013	The European Parliament's Committee on Economic and Monetary Affairs has adopted a negotiating position on the framework for the recovery and resolution of banks in crisis.
26. june 2013	Ministers of Finance approved a directive on crisis management in the banking sector.
10. july 2013	The European Commission has put forward a proposal for a mechanism for resolving crisis situations.
12. september 2013	The European Parliament has approved a unified banking supervision mechanism.
15. october 2013	Ministers of Finance gave final approval to single banking supervision.
16. december 2013	The first head of banking supervision within the ECB was Danièle Nouy for five years.
18. december 2013	Ministers of Finance have reached a compromise on the resolution mechanism.
15. april 2014	Parliament has agreed a resolution mechanism
21. may 2014	26 Member States signed an Intergovernmental Agreement on Contributions to the Resolution Mechanism Fund, which is an essential part of the Mechanism itself.
4. november 2014	The ECB has taken over the banks of the Member States that are participating in the Banking Union.

Source: authors´ research based on materials from ECB, NBS. EC.

3. SUBJECTIVE ASSESSMENT OF BANKING UNION

3.1 Benefits of banking union

The first pillar:

- setting up joint supervisory teams,
- better understanding of the situation in the entire banking group, more complex perception of the local bank in the banking group, coordination and harmonization of procedures, supervisory and planning activities within the consolidated group,
- regular annual rating of banks, Supervisory review and evaluation process - the result of establishing a minimum capital and liquidity requirement, the harmonization of joint decisions on the capital and liquidity of the bank,
- Unified evaluation processes greatly help to better understand the bank's risk profile, coordinate local activities with group-level activities.

The second pillar:

- Establishment of internal resolution teams coordinated by SRB,
- Creating crisis resolution plans for each banking group - Determine the Minimum Requirement for Own Resources and Mandatory Obligations (MREL),

- Harmonizing the methodology for preparing plans and linking crisis resolution tools to the national legal environment - business and bankruptcy law,
- in the case of Slovak banks, the ability to absorb losses due to excellent capital assets - the key cooperation between the SRB and the national resolution bodies.

The Third Pillar:

- Harmonization of the common rules for Deposit Guarantee Scheme in the event of failure of the first pillar of the CA, harmonization of bankruptcy law, completion of transposition of the BRDD Directive and DGSs,
- concluding an intergovernmental agreement on the transfer and mutualisation of contributions to SRF by all participating States, Coordination of activities and processes that help to increase financial stability in the context of introducing additional regulatory measures - Harmonizing some aspects of MREL and TLAC - Total Loss Absorbing Capacity.

3.2 SWOT analysis of banking union

Strengths
Establishment of joint supervisory teams, coordination and harmonization of procedures, regular annual evaluation of banks, harmonization of joint decisions on bank capital and liquidity, establishment of internal resolution teams, harmonization of the planning methodology, preparation of crisis plans for each banking group, cooperation of SRB and national harmonizing the common rules of the Deposit Guarantee Scheme, harmonizing bankruptcy law, aligning some aspects of MREL and TLAC, increasing the overall stability of financial systems and stabilizing the European financial sector.

Weaknesses
Complex (decision-making) mechanisms (proposal at the level of the national supervisor, decision at the level of the ECB's non-objection procedure), the need to harmonize national legislation, especially with regard to the CRR / CRD national elections in accordance with national legislation, a variety of cultures, supervisory arrangements and supervisory practices in 19 countries, language - working language in SSM and SRM is English, working language at local level is local (internal regulations of banks, contracts with clients, business conditions, etc. are mostly in Slovak),

Opportunities
working in joint supervisory and research teams is of interest to young people, increasing the efficiency of the ECB's monetary policy performance, preventing bank and financial crises, managing bail out of the banking group, protecting deposits across the Eurozone and the EU, harmonizing differences in national legislations, monitoring and resolving crisis situations, the opportunity to transpose the BRDD Directive, changes to the CRD and CRD Directives, effective macro-prudential policy performance to enhance the stability of the financial sector, aligning some aspects of MREL and TLAC, completing the real essence of Economic and Monetary Union.

Threats
the area of regulation remains relatively heterogeneous within the euro area, the divergence of regulations and directives in national legislation - late transposition into national legislation reduces efficiency and increases costs, complete work on 3 pillars - ensure the specificity of banking systems so- The "host countries" that need to be taken into account in the implementation and construction of the 3rd pillar, the need for the completion of the Union's Capital Market Union (CMU), the need to increase the EU's bottom-up competitiveness by identifying and removing barriers, improving the regulation of crowdfunding, removing the national barriers to the free movement of capital, the need to thoroughly transpose the Prevention of Money Laundering and Terrorist Financing (AML IV).

4. CONCLUSION

The Financial crisis in 2008 and then the debt crisis have shown that the creation of a banking union in the European Union is a necessity. A close link between public finance and the banking sector in the countries of the European Union can very easily cause problems across borders across the country in the turbulent period and thus further spread financial difficulties.

The Common Market for Financial Services is based on uniform rules ensuring equivalent rules and proper oversight of banks and other financial institutions that exercise the right to freedom of establishment and freedom to provide services throughout the EU. The completion of the banking union does not jeopardize the integrity and compactness of the single market but is the completion of the ongoing program of a major regulatory reform of the single market, single set of rules. The European Union's Banking Union is based on three pillars: a unified supervisory mechanism, a uniform mechanism for resolving crisis situations, and a unified deposit protection scheme.

Through its unified supervision, the Bank Union creates a contrasting contrast to stability in the banking system. Where the bank is looking for returns, supervision looks at the risks; where banking is a major gain for banking institutions, supervision ensures stability. Harmonization of surveillance has ensured transnational coverage, which makes it easy and timely to observe the risk of infection and to be able to cope with it and prevent its re-expansion. The aim is to prevent banks from taking too much risk, thus protecting not only the economy as a whole, but also investors, taxpayers and consumers. The independence of single banking supervision from partial national well-being ensures uncompromising and objective-making for all banking institutions in the euro area and thus creates real, uniform, harmonized ratios for the benefit of the whole economy.

There are a lot of problems in introducing new systemic changes in the financial sector, but that is precisely why the idea of creating a bank union in the EU is essentially the completion of the economic substance of the EU project, the real economic and monetary union.

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