

Study findings: The institutional protection scheme of the German Cooperative Banking Network is efficient and reliable – standardising deposit guarantee system in Europe is the wrong approach

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The institutional protection scheme of the German Cooperative Banking Network (Genossenschaftliche FinanzGruppe Volksbanken Raiffeisenbanken) is efficient, reliable and equivalent to a properly designed deposit guarantee scheme – these are the findings of a study about the importance of and outlook for institutional protection schemes, which was carried out by the Cologne Institute for Economic Research (IW) in cooperation with the University of Cologne, and was commissioned by the National Association of German Cooperative Banks (BVR). The researchers warn against implementing the European Commission's current proposed directive, which they say would result in over-regulation and create a series of false incentives.

According to the proposal submitted in July 2010 to reform European deposit guarantee systems, the European Commission intends to limit deposit insurance coverage to €100,000 per investor. In contrast, the institutional protection scheme in place at the Cooperative Banking Network is designed to preserve the affiliated institutions from default, thereby protecting customer deposits to the maximum possible extent, without limitation as to the amount.

"So far, the BVR institutional protection scheme has always been able to achieve its objectives without ever having to call on government assistance. Furthermore, the member cooperative banks remained stable during the financial markets crisis thanks to their liability arrangement," commented Dr Manfred Jäger-Ambrożewicz of the IW. He also said that, while the European Commission's proposed Deposit Guarantee Directive is aimed at Europe-wide harmonisation of the investor compensation process in the event of a bank failure, the BVR

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institutional protection scheme ensures that such a situation does not arise in the first place. The analysts described the proposals outlined in the Commission's directive as "flawed", due to the extent to which they would restrict options for structuring institutional protection schemes. A properly designed proposal for a directive, they say, must ensure that the focus on the prevention characteristics of institutional protection schemes is retained in future, in view of its effectiveness.

The study also concludes that, even compared to schemes in place in other countries, the institutional protection scheme employed by the German Cooperative Banking Network already meets the current proposed requirements that were developed under the overall responsibility of the Bank for International Settlements (BIS) in Basel and the IMF in Washington, and that are soon to come into force. The study said that the BVR institutional protection scheme is in fact more effective than deposit guarantee schemes, which do not afford failure protection to member institutions under a shared liability arrangement. Less capital is required, it claimed, because of three features: the focus on prevention, which allows early identification and combating of potential crisis situations; the structure of the Cooperative Banking Network, which serves to diversify risk across many, primarily smaller, banks; and the business model employed by the German cooperative banks, which is oriented around sound practices in deposit and lending.

BVR President Uwe Fröhlich comments: "The study shows that effective consumer protection, which is the aim of the European Commission's Deposit Guarantee Directive, is already being fully afforded by the BVR institutional protection scheme by virtue of its group liability mechanism. We are calling on the European Commission to rethink its approach and replace its drive for maximum standardisation with a move towards appropriate deposit guarantee system requirements. This would ensure that tampering with proven guarantee schemes would be kept to a strict minimum.

The complete study is available at www.bvr.de/se-studie.

About the study:

The study entitled "Mutual Guarantee Schemes: Importance and Outlook" ("Bedeutung und Zukunftsfähigkeit von Institutssicherungssystemen") was commissioned by the BVR, and jointly developed and carried out by the Cologne Institute for Economic Research (IW) and the University of Cologne (Department of Business Administration and Banking). It was authored by Dr Manfred Jäger-Ambrożewicz (IW Cologne) and Professor Thomas Hartmann-Wendel (University of Cologne).

About the BVR institutional protection scheme:

The BVR institutional protection scheme is the world's oldest, 100% privately financed banking protection system. For decades this system has ensured that no customer of a cooperative bank has ever lost a cent on deposits. The BVR institutional protection scheme ensures that each bank is able to meet its obligations at all times. Bank failures and paying out on depositor insurance claims are unknown to the Cooperative Banking Network.

About the German Cooperative Banking Network (Genossenschaftliche FinanzGruppe Volksbanken Raiffeisenbanken):

The Network's cooperative banks (Volksbanken and Raiffeisenbanken), and its special-function institutions pool almost all of the capital of the Cooperative Banking Network – including that of the Network's two central banks DZ BANK AG and WGZ BANK AG. The Network serves over 30 million customers, 16.4 million of whom hold shares as cooperative bank members. The ownership structure of the Cooperative Banking Network is thus very broad-based, and entirely in private hands. The cooperative banks account for more than half of the business volume and income of the German Cooperative Banking Network.

The cooperative central bank institutions and affiliated companies – which, in addition to Bausparkasse Schwäbisch Hall AG, DG HYP - Deutsche Genossenschafts-Hypothekenbank AG, Union Asset Management Holding AG and R+V Versicherung AG, also include Münchener Hypothekenbank eG, WL BANK AG Westfälische Landschaft Bodenkreditbank, VR-LEASING AG and TeamBank AG – put a complete range of financial products and services at the disposal of the member cooperative banks, allowing every individual retail bank to tailor-make its own packages to achieve effective market positioning. The BVR is the top-level strategy association of the Cooperative Banking Network, representing its interests in the banking industry both nationally and internationally. The Group's institutional protection scheme is administered by the BVR.