Rainer Haselmann
Jan Pieter Krahnen
Tobias H. Tröger
Mark Wahrenburg

# Institutional Protection Schemes: What are their differences, strengths, weaknesses, and track records?

SAFE White Paper No. 88 | April 2022

Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe
policy_center@safe-frankfurt.de | www.safe-frankfurt.de

This document was provided by the Economic Governance Support Unit at the request of the European Parliament's Committee on Economic and Monetary Affairs.

It was originally published on the European Parliament's webpage: Institutional Protection Schemes: What are their differences, strengths, weaknesses, and track records?

**ABOUT THE EDITOR**

The Economic Governance Support Unit (EGOV) assists the European Parliament and its relevant committees and bodies by providing expertise on the functioning of the Economic and Monetary Union (EMU), primarily on its economic governance and banking union pillars.

As a part of the academic network, Leibniz Institute for Financial Research SAFE and its researchers cooperate with the EGOV Unit as contractual partners, supporting the European Parliament with critical and independent expert advice in the field of banking supervision and resolution and financial stability. Specifically, SAFE takes part in joint activities and delivers written and oral expertise to the ECON Committee for their preparation of hearings at the European Parliament.

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

**DISCLAIMER AND COPYRIGHT**

IN-DEPTH ANALYSIS

Requested by the ECON committee

# Institutional Protection Schemes: What are their differences, strengths, weaknesses, and track records?


External authors:

Rainer HASELMANN

Jan Pieter KRAHNEN

Tobias H. TRÖGER

Mark WAHRENBURG



Economic Governance Support Unit (EGOV)

Directorate-General for Internal Policies

PE 699.527 – April 2022


EN

# Institutional Protection Schemes: What are their differences, strengths, weaknesses and track records?


**Abstract**

This briefing paper describes and evaluates the law and economics of institution(al) protection schemes. Throughout our analysis, we use Europe's largest such scheme, that of German savings banks, as paradigm.

We find strengths and weaknesses: Strong network-internal monitoring and early warning seems to be an important contributor to IPS network success. Similarly, the geographical quasi-cartel encourages banks to build a strong client base, including SME, in all regions. Third, the growth of the IPS member institutions may have benefitted from the strictly unlimited protection offered, in terms of euro amounts per account holder. The counterweighing weaknesses encompass the conditionality of the protection pledge and the underinvestment risk it entails, sometimes referred to as blackmailing the government, as well as the limited diversification potential of the deposit insurance within the network, and the near-incompatibility of the IPS model with the provisions of the BRRD, particularly relating to bail-in and resolution.

Consequently, we suggest, as policy guidance, to treat large IPS networks similar to large banking groups, and put them as such under the direct supervision of the ECB within the SSM. Moreover, we suggest strengthening the seriousness of a deposit insurance that offers unlimited protection. Finally, to improve financial stability, we suggest embedding the IPS model into a multi-tier deposit re-insurance scheme, with a national and a European layer.

This document was provided 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**

Rainer HASELMANN, Goethe University Frankfurt, Center for Advanced Studies Foundations of Law and Finance and CEPR
Jan Pieter KRAHNEN, Leibniz Institute for Financial Research SAFE and Goethe University
Tobias H. TRÖGER, Leibniz Institute for Financial Research SAFE, Center for Advanced Studies Foundations of Law and Finance and Goethe University Frankfurt
Mark WAHRENBURG, Goethe University
*The authors are grateful to Anastasia KOTOVSKAIA, RA at the SAFE Policy Center, for excellent research assistance and editorial support at all stages of the discussion process.*

**RESPONSIBLE ADMINISTRATOR**

Marcel MAGNUS
Ben SLOCOCK

**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


Other studies are available at:
http://www.europarl.europa.eu/supporting-analyses

# CONTENTS

## LIST OF ABBREVIATIONS

| | |
|---|---|
| **AT1** | Additional Tier 1 |
| **BRRD** | Bank Recovery and Resolution Directive |
| **BVR** | National Association of German Cooperative Banks (Bundesverband der Deutschen Volks- und Raiffeisenbanken) |
| **BVR-ISG** | BVR Institutssicherung (Institutional Protection Scheme) |
| **CET1** | Common Equity Tier 1 |
| **CMDI** | Crisis Management and Deposit Insurance |
| **CRD IV** | Capital Requirements Directive IV |
| **CRR** | Capital Requirements Regulation |
| **DGS** | Deposit Guarantee Schemes |
| **DGSD** | Deposit Guarantee Schemes Directive |
| **DIS** | Deposit Insurance Scheme |
| **DSGV** | German Savings Banks and Giro Association (Deutscher Sparkassen- und Giroverband) |
| **D-SIB** | Domestic Systemically Important Banks |
| **EBA** | European Banking Authority |
| **ECB** | European Central Bank |
| **e.g.** | exempli gratia |
| **EDIS** | European Deposit Insurance Scheme |
| **EU** | European Union |
| **EUR** | Euro |
| **FSB** | Financial Stability Board |
| **G-SIB** | Global Systemically Important Banks |

| | |
|---|---|
| **G-SII** | Global Systemically Important Institutions |
| **IPS** | Institutional Protection Scheme |
| **IRRB** | Internal Research Review Board |
| **LR** | Leverage Ratio |
| **MREL** | Minimum Requirements for Own Funds and Eligible Liabilities |
| **NCA** | National Competent Authority |
| **O-SII** | Other Systemically Important Institutions |
| **RWA** | Risk Weighted Assets |
| **SIFI** | Systemically Important Financial Institution |
| **SME** | Small and medium-sized enterprises |
| **SRMR** | Single Resolution Mechanism Regulation |
| **SSM** | Single Supervisory Mechanism |
| **SREP** | Supervisory Review and Evaluation Process |
| **SRM** | Single Resolution Mechanism |
| **T2** | Tier 2 |
| **TLAC** | Total Loss Absorbing Capacity |

# LIST OF BOXES



# LIST OF FIGURES



# LIST OF TABLES

## EXECUTIVE SUMMARY

**IPS basics**. In this briefing paper we describe the legal and organizational rules that underlie the operation of institution(al) protection schemes. We speak of IPS networks when we think of a set of local banks as members of a single institution(al) protection scheme. These schemes, in contrast to common deposit insurance/guarantee funds, protect the liabilities of the bank rather than merely its deposits. Much of the IPS-internal organization of the IPS network refers to the monitoring role as well as the handling of risk events, often implemented through mandatory mergers. The protection pledge is typically conditional on a case-by-case decision of network members, which strengthens the bargaining power of the IPS in a crisis. To illustrate our analysis, we focus on the largest IPS in Europe, the savings bank network in Germany. There are similar IPS in operation in 6 countries in Europe.

**IPS economics.** From the organizational side we find IPS to combine aspects of a network of independent financial institutions on one hand, and a consolidated, single group of institutions (concern, holding) on the other. The IPS network we are focusing on realizes the benefit of regionally distributed, local universal banking services, matching an equally decentralized economic and business geography in Germany. Strong relationship banking, both in retail and corporate markets, may explain the steady increase in market share of Germany’s two IPS networks, savings banks, and cooperative banks, to reach market dominance in some, and strong positions in all remaining areas of universal banking.

**Strengths**. Among the strengths, the established monitoring and early warning system is of great importance economically and organizationally, for the cohesion of the network itself (group internal controls). The geographic cartel, which is another defining aspect of an IPS, helps focusing the activities of the local banks on their designated area (no intra-network competition). Thirdly, from the point of view of universal banking, the provision of an unlimited deposit guarantee, embedded in the institution protection scheme, may be a strong marketing instrument, attracting depositors that also receive other banking services from IPS member banks.

**Weaknesses**. The weaknesses are, to some extent, mirror images of the strengths. First, the protection pledge is conditional, which may weaken the credibility of the pledge in the first place, but it may also support underinvestment in the sense of blackmailing the government in case of large losses in the network. Second, the risk diversification within the network is probably limited because of the uniform business model, and the corresponding similarities in the balance sheet exposures. A third weakness is the near-incompatibility of the IPS model with the provisions foreseen in the BRRD. Notably, the institution protection formula precludes the bailing-in of any bank creditor, thereby bypassing the involvement of the resolution authorities – be they national or European.

**Policy Guidance.** Lastly, we suggest treating IPS networks as one unified institution rather than many small and independent players. The supervisory approach should reflect the systemic importance of the IPS network as a whole, and the competent authority should then be selected accordingly. The extent of protection offered to customers seems to be unrealistic in the case of IPS. We suggest increasing transparency on IPS effectiveness, e.g., via IPS wide stress tests and the provision of historical data. Lastly, to improve risk diversification in protection schemes, we suggest a staggered model of deposit insurance that takes the current situation as its tier-1 basis, augmented by tier-2 national risk sharing agreement among different sector-specific schemes, and topped by a tier-3 European scheme that covers only the highest losses in the system (e.g., above 80.000 EUR per account holder per bank).

# 1. RESEARCH QUESTION AND BACKGROUND

In 2021, the European Commission started a consultation[1] on the European Union (EU) crisis management and deposit insurance (CMDI) framework in order to review the current regime which is laid down in the Bank Recovery and Resolution Directive (BRRD)[2], the Single Resolution Mechanism Regulation (SRMR)[3], and the Deposit Guarantee Schemes Directive (DGSD).[4] In a recent response to this consultation, Institutional Protection Schemes (IPS) from six member states demand a preferential regulatory treatment in banking resolution and deposit insurance.[5] The declaration argues that IPS provide an additional layer of safety to bank customers, thereby enhancing financial stability of banking markets as a whole. The IPS declaration claims:

- IPS dispose of early intervention and resolution instruments and powers that supplement (or substitute) the activities of supervisory and resolution authorities.
- IPS ensure the survival of an institution and therefore offer a high level of safety to bank creditors. For depositors, this protection goes beyond that provided by deposit guarantee schemes (DGS), because it intervenes early to prevents an institution from defaulting on its repayment obligations, thereby relieving the statutory deposit insurance scheme from any obligation (see DGSD, art. 8(1) and art. 2(1)(8)(a)).
- Up to now (i.e., April 2021), no customer has ever experienced any loss from the failure of an IPS member institution.

In this briefing paper we take the above statements as point of departure for looking into the operation of IPS in the context of the financial system as a whole. That way, we analyse the role played by IPS[6], and scrutinize their strengths and weaknesses. We focus on the legal and economic setup of these schemes. On a very general level an IPS can be described as a set of mutual support promises among institutions that are members of the scheme. We concentrate on the largest IPS schemes in Europe,

---

[1] Public consultation on the review of the crisis management and deposit insurance framework was running from 25 February 2021 till 20 May 2021, further information on the consultation and its outcome is available under <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12737-Banking-Union-Review-of-the-bank-crisis-management-and-deposit-insurance-framework-DGSD-review-/public-consultation_en> accessed 27 March 2022.

[2] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No1093/2010 and (EU) No648/2012, of the European Parliament and of the Council [hereinafter: BRRD], [2014] OJ L173/190.

[3] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 [hereinafter: SRMR], [2014] OJ L225/1.

[4] Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes [hereinafter: DGSD], [2014] OJ L 173.

[5] Haftungsverbund der Österreichischen Sparkassen (Austria), Institutsbezogene Sicherungssysteme der Raiffeisen Bankengruppe Österreich (Austria), BVR Institutssicherung GmbH (Germany), Sicherungssystem der Sparkassen-Finanzgruppe (Germany), Raiffeisen Südtirol IPS Genossenschaft (Italy), Krajowy Zwiazek Banków Spółdzielczych (Poland), Spółdzielczy System Ochrony SGB (Poland) Spółdzielnia Systemu Ochrony Zrzeszenia BPS (Poland), Grupo Caja Rural (Spain), Declaration of Institutional Protection Schemes in Europe of 6 April 2021 [hereinafter: IPS Declaration] <https://www.bvr.de/p.nsf/0/10568748536D2608C12586B9002D8B3E/$file/210406_IPS%20Declaration%20CMDI_Summit_final.pdf> accessed 27 March 2022.

[6] The terminology (see also Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, [hereinafter: CRR], [2013] OJ L 176/1, art. 113(7)) is somewhat misleading, because IPS are literally safeguarding the banking institution itself, not merely its depositors. Moreover, the term *institutional* protection scheme suggests that the protection scheme is institutionalized, while in fact IPS stands for a scheme that protects a (financial) institution.

both located in Germany and attached to the cooperative banking sector and the savings bank sector, respectively.

Box 1 illustrates the important role played by IPS-related institutions forming part of the German banking market. The combined market share in deposit taking from non-banks is exceeding 80% (2021). Box 1 also shows that these banking institutions have extended their dominant role in lending to non-banks over the past decade. Part of this development might be explained by a stricter regulatory treatment of large banks by the ECB within the Single Supervisory Mechanism (SSM) in the banking union (see Haselmann, Singla, and Vig 2019 for evidence).

Table 3 in the appendix shows that some of the existing IPS namely those in Germany and in Austria, have a long history, pre-dating the financial crisis of 2008, and that the member institutions have gained market share in those business lines in which a credible deposit insurance is expected to make a difference: retail banking as well as savings and loans (residential real estate finance). In Germany and Austria, the combined market share of IPS member institutions in retail banking has risen substantially over the last years. The market share of private banks covered by the nationally recognized DGS has fallen correspondingly over those years. Table 3 also lists a number of more recent formations of IPS networks in Italy, Poland and Spain, which were established after the 2008 and 2011 financial and sovereign debt crises.

We summarize information on the market position of banks belonging to an IPS network in Box 1, relying on data from Germany. The figures and tables show a significant, and rising market share of banks belonging to an IPS network in their major business lines, retail saving and lending, and financing of small and medium-sized enterprises (SME).

This very general view suggests that IPS are strong and thriving, possibly outcompeting other banks. This observation raises the question whether the IPS, perhaps through its impact on management and governance, may contribute to this successful development, and whether there is something to learn for the institutional setup of a deposit guarantee scheme.

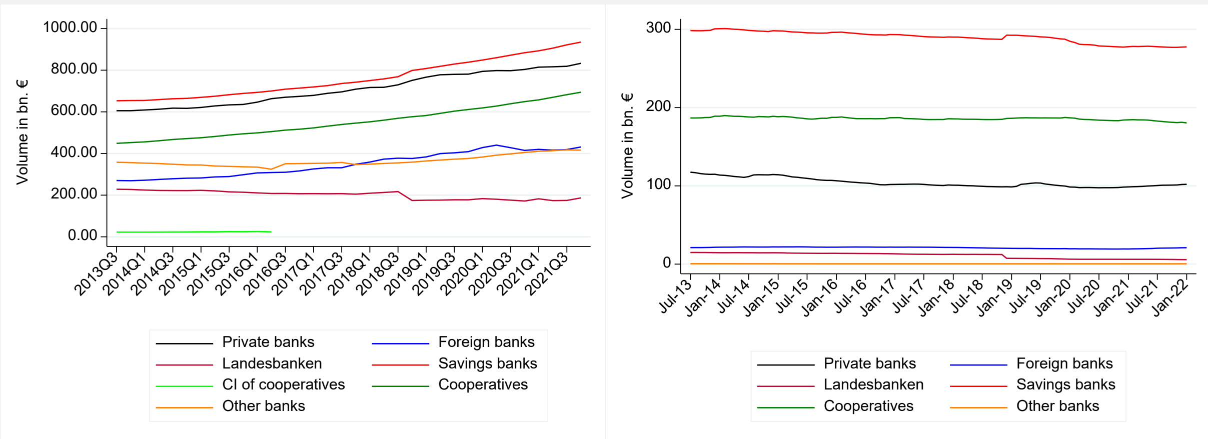
To address these questions, we describe the design and the operations of a prototypical IPS, again drawing on the savings bank model in Germany that is arguably the most developed and tested system in Europe (section 2). Section 3 will develop conclusions from the legal and economic analysis of the IPS model, suggesting a list of strengths and weaknesses of the IPS model. Section 4 formulates some guidelines for the regulatory treatment of IPS going forward, particularly in the context of the CMDI review.

Box 1: Lending, deposit and interbank exposures by categories of different banks in Germany

Our in-depth analysis relies on the design of, and experience with the two representative IPS in Germany, the one formed by the cooperative banking sector ("Bundesverband der Volks- und Raiffeisenbanken Institutssicherung GmbH") and the one formed by the public banking sector ("Sicherungssystem der Sparkassen-Finanzgruppe"). To understand the potential implications of a special regulatory treatment of the member institutions within these two IPS, we look at market shares of the member banks. We show the magnitudes of the lending, deposit and interbank exposures of the member institutions of the two IPS. While the average size of a German cooperative bank and savings bank measured by total assets might be considered small relative to large private banks, the aggregate size of all member institutions can be quite substantial. Given that IPS are particularly relevant once a systemic shock hits the banking sector, aggregate exposures allow us to understand the downside risk in case many small banks would fail at the same moment.

Figure 1 provides time series information of total lending to national customers (i.e., corporate and individuals) and deposits of non-banks for different categories of banking groups in Germany. Lending to non-banks (Panel A) is based on quarterly data from 2013 Q3 until 2021 Q4. Deposits of non-banks (Panel B) is available monthly from July 2013 until January 2022. Figure 1 reveals several interesting insights. First, we focus on lending to non-banks (Panel A). In aggregate, savings banks' loan volume is the highest among all bank categories. Interestingly, savings banks' and cooperatives' loan volume grows faster compared to the other bank categories. At the end of our sample period, the market share of those banks that participate in the two IPS (excluding lending by the DZ bank, for data availability reason – thus downward biasing the IPS market share) amounts to about 58 % (see Table 1 below). Once we focus on customer deposits (Panel B), we observe an even more drastic pattern (see Panel B of Figure 1). The volume of customer deposits is clearly the highest at savings banks followed by cooperative banks. Together these two networks of banks combine more than 80% of all customer deposits in the German banking sector (see Table 1).

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

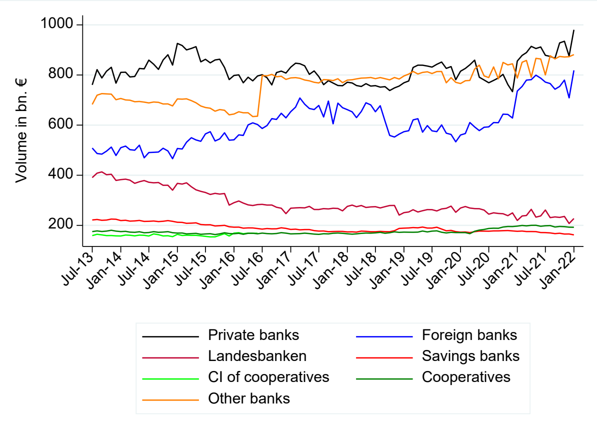



Panel A: Lending to non-banks Panel B: Deposits of non-banks

Source: Bundesbank time-series statistics, own calculations.
Note: Central institutions ("Zentralinstitute") of credit cooperatives are only shown up to June 2016. After merging into the DZ bank, this institute was added to the category of Other Banks. Private banks include the categories big banks and regional banks. Foreign banks include branches of foreign banks and foreign banks. Other banks include mortgage banks, building and loan associations and banks with special, development and other central support tasks.

Figure 2 provides time series information of total lending to banks (i.e., interbank loans) for different categories of banks. As discussed in detail in Section 2.1 on the Regulatory Background, member banks of an IPS receive a preferential treatment for intra-IPS exposures. Note that the interbank loans shown in Figure 2 include intra-banks exposures within the same IPS and loans to any other banks. However, a paper by Upper and Worms (2002) finds that the vast majority of all interbank loans of the public and cooperative sector are provided within the respective networks. In relative terms, the added volume of interbank loans by Landesbanken and saving banks amount to 400 billion EUR, and to 200 billion EUR for cooperative banks. This is substantially smaller than for the other bank categories in this statistic. Figure 2 also shows no trend towards an increase of interbank loans of banks that are members of one of the German IPS.

Figure 2: Loans to banks for different categories of banks




Source: Bundesbank time-series statistics, own calculations.

Note: Central institutions ("Zentralinstitute") of credit cooperatives are only shown up to June 2016. After merging into the DZ bank, this institute was added to the category of Other Banks. Private banks include the categories big banks and regional banks. Foreign banks include branches of foreign banks and foreign banks. Other banks include mortgage banks, building and loan associations and banks with special, development and other central support tasks.

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

| | Total Lending | Interbank Loans | Deposits from non-banks |
|---|---|---|---|
| Landesbanken | 5,94% | 8,27% | 1,02% |
| Saving banks | 29,71% | 6,60% | 48,91% |
| **IPS of Sparkassen-Finanzgruppe** | **35,64%** | **14,87%** | **49,93%** |
| Cooperatives Banks | 22,06% | 7,68% | 31,96% |
| **Combined IPS** | **57,70%** | **22,55%** | **81,89%** |

Source: Bundesbank time-series statistics, own calculations.

# 2. DESIGN AND OPERATIONS OF IPS

## 2.1. Regulatory background

An IPS is a contractual or statutory liability arrangement that protects its member institutions and ensures that they have the liquidity and solvency needed to avoid bankruptcy where necessary. An IPS may be officially recognized as a DGS by national competent authorities (NCA). The regulatory definition of recognizable IPS is laid down in art. 113(7) of the CRR and further specified in an ECB guideline that channel the discretion of NCA.[7] The regulatory preconditions for recognition seek to collateralize the two key functions of IPS. Therefore, IPS must be able to

1) engage in effective risk monitoring (ex ante crisis prevention) and

2) provide adequate support to minimize the negative consequences should member institutions become non-viable (ex post crisis management)

Therefore, a recognized IPS needs to be able to identify financial problems of an IPS member at an early stage and to take preventive action. In order to do so, the IPS must maintain a monitoring system that classifies the IPS members according to their riskiness and the IPS must have the possibility to influence the risk situation of the IPS member institutions by issuing instructions and recommendations. A recognized IPS therefore can be seen as a central coordination device, although its powers are arguably smaller than that of a parent institution of a consolidated banking group, which can intervene forcefully at the subsidiary level for risk management purposes.[8] Furthermore, a recognized IPS needs to be able to provide sufficient support from funds reliably available to it in the event that a member institution faces severe financial constraints.

IPS networks typically are organized as in a two- or three-tier architecture with local banks, regional and/or central/apex banks. Local banks typically have branches and engage in deposit taking and local lending. Central or apex banks (which may operate on a regional or a national level) take over centralized functions such as securities trading, trade finance, foreign exchange operations, derivatives trading and hedging, and payment system operations. IPS local banks are traditionally shareholders and net creditors of IPS central banks. Local IPS banks often lend their excess funds from deposit taking to central IPS banks. As a result of this structure, there are large exposures in the form of debt and equity claims among IPS member banks. The preferential regulatory treatment thus provides a considerable relief for IPS banks as intergroup exposures are not limited by large exposure limits and risk weighted assets are significantly reduced by applying a 0% risk weight to intra-IPS exposures. In Box 1 we provide data on interbank loans of German savings banks and Landesbanken as well as cooperative banks. As shown by Upper and Worms (2002), it is fair to assume that the majority of these interbank exposures exist within the public and within the cooperative banking sectors respectively. The volumes of the interbank exposures shown in Figure 2 within the public banks sum up to about 400 billion EUR which

[7] European Central Bank, Guideline (EU) 2016/1994 of 4 November 2016. See also Vesala, J. (2016), Public consultation on how to assess institutional protection schemes, ECB <https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/institutional/2016-03-31_ips_public_hearing_presentation.pdf> accessed 27 March 2022.

[8] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, art. 109(2) and (3), [2013] OJ L 176 [hereinafter: CRD IV] clarify that corporate law may not inhibit the implementation and execution of group-wide risk management functions vis-à-vis group affiliates subject to the directive and that even subsidiaries not-subject to the directive can only be exempt from inclusion in group-wide risk management functions if the EU parent institution can demonstrate to the competent authorities that such inclusion is unlawful under the laws of the third country where the subsidiary is established.

constitutes an upper bound for the current intra-IPS exposures. Notably, we do not observe a trend towards more intra-IPS exposures for public as well as cooperative banks according to Figure 2.

The regulatory treatment of DGS and IPS is interrelated as follows: arts. 4(1), 6(1) of the DGSD oblige member states to introduce and officially recognize DGS with a coverage of aggregate deposits of 100.000 EUR per depositor and bank. IPS that comply with the requirements laid down in CRR, art. 113(7) may be recognized as DGS (DGSD, art. 4(2)) and thus become nested into the European system of depositor protection, typically offering full protection to all bank creditors, including depositors. Operationally, an IPS pre-empts the services of a pay-box DGS, thereby eclipsing its role. That is why IPS are effectively *institution* protection schemes; they aim for the preservation of the bank as an institution, covering all its creditors (see also below 2.2).

Despite the commitment to common risk monitoring ex ante and support ex post, IPS members are supervised on a single bank basis. The IPS as such is not an institution or group subject to prudential banking regulation and supervision as an operative entity. IPS members do not form a consolidated banking group, i.e. they are seen as banking groups neither from a supervisory, nor from an accounting, nor from an antitrust point of view.[9] In comparison to consolidated banking groups, this understanding of IPS as a congregation of unrelated banks leads to significant differences in the prudential and supervisory treatment:

- Irrespective of the size of the network, the IPS as such is not subject to capital surcharges for significant institutions (CRD IV, art. 131). IPS are not considered globally or other significant institutions (G-SII or O-SII) by the ECB or other competent authorities, nor are they considered as global systemically important banks (G-SIB) by the Financial Stability Board (FSB), nor as domestic systemically important banks (D-SIB) on the national level. Because the determination is made on the level of licensed institutions, only individual large members of an IPS like the Landesbanken which qualify as significant institutions on a stand-alone basis may be identified as an O-SII (D-SIB) or G-SII (G-SIB) but not the IPS as a whole.[10]
- The leverage rule is not applied to the IPS as a whole but only to individual member banks. This also means, that the capital add-on of 50 % of the G-SII buffer rate foreseen in CRR, art. 92(1a) only applies to individual IPS members that are themselves designated as G-SII, but not to the IPS as such.
- With regard to Pillar 2 requirements the treatment of IPS members as individual banks implies that the IPS is neither subject to an EBA stress test nor a group wide supervisory review and evaluation process (SREP) by the ECB.[11]
- Regardless of their size, IPS as such are not supervised by the ECB. There is no role for the SSM in the supervision of the IPS as such – this this supervisory task was not transferred upon the central supervisor of the SSM and therefore remains entirely with NCA.[12] Only IPS member banks that are individually large enough to fall under direct ECB supervision within the SSM (e.g. Landesbanken) come under supranational oversight in the banking union.

---

[9] XXII. Hauptgutachten der Monopolkommission gemäß §44 Abs.1 Satz 1 GWB (2018), 49 <https://www.monopolkommission.de/images/HG22/HGXXII_Gesamt.pdf> accessed 27 March 2022.

[10] Choulet, C.(2017), Institutional protection systems: are they banking groups? BNP Paribas. Conjoncture (January 2017).

[11] Empirical evidence shows that direct ECB supervision is generally more restrictive, leading *inter alia* to higher risk weights and thus more burdensome regulatoy capital requirements (see Haselmann, R., Singla, S. and V. Vig (2019), Supranational Supervision, mimeo).

[12] Cf. the catalogue of supervisory competences to be carried out by the ECB within the SSM, SSMR, art. 4(1), that does not include IPS supervision.

- The IPS network as a whole is not subject to the BRRD resolution regime and therefore not subject to SRB interference in case of a severe crisis of the IPS. Again, the resolution regime applies only to individual member institutions, but not the IPS as a whole.
- Regulatory prescriptions of bail-in capital apply only on an individual IPS member basis: TLAC requirements[13] do not apply because individual IPS members typically are not classified as G-SII and institution specific MREL[14] apply to resolution entities on the consolidated basis of the resolution group, but IPS members do not constitute a resolution group but individual resolution entities.

However, IPS membership does not remain entirely irrelevant for regulatory and supervisory purposes. Compared to stand-alone banks, IPS members enjoy a preferential regulatory treatment that provides privileges similar to those afforded to institutions affiliated with a consolidated banking group:

- IPS member institutions need not deduct own funds holdings of other IPS members if inter alia, the institutions included in the IPS meet together on an extended aggregated basis the minimum capital requirements laid down in CRR, art. 92 (own funds requirements and leverage ratio (LR), CRR, art. 49(3).[15]
- With the exception of regulatory capital (Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2)) holdings, a 0 % risk weight is applied to exposures to other IPS members, CRR, art. 113(7).[16]
- Large exposure limits do not apply for exposures to other IPS members, CRR, art. 400(1)(f).[17]

## 2.2. IPS-design and operations

In accordance with the regulatory definition in CRR, art. 113(7) within an IPS, legally independent financial institutions, i.e. savings banks or cooperative banks, enter into an agreement to mutually protect their depositors in case of an asset loss. The creditor protection afforded by the German schemes is unlimited in size and is thus aptly named “institution protection scheme” (“Institutssicherungssystem”) rather than deposit protection scheme. The entire financial institution is protected, with all its liabilities. A depositor of a bank that is a member of an IPS is promised to receive full coverage in case of the bank’s non-viability, irrespective of the size of her debt claim. This is because, in the case of a significant asset loss or operational losses, the relevant bank will be restructured (recapitalized), or merged into another member bank of the IPS. Neither the recapitalization nor the merger affects the troubled bank’s liabilities and therefore all creditors of the institution are protected, including its depositors.

376 savings and 772 cooperative banks were active in Germany at year-end 2021, operating in a coordinated way within their respective networks. For example, each individual bank services a

[13] CRR, art. 92a.

[14] BRRD, art. 45e.

[15] CRR, art. 49(3)(a)(v) prescribes that the LR is met on the extended aggregated basis of the IPS if member institutions want to make use of the exemption from capital deductions, because the LR is part of capital requirements laid down in CRR, art. 92. However, where IPS members do not avail themselves of that exemption, each individual institution only needs to fulfil the LR on a solo basis.

[16] For the respective rules that apply to consolidated banking groups see CRR, art. 113(6).

[17] For the respective rules on the exemption from large exposure restrictions see CRR, art. 400(1)(f).

geographically well-defined area, typically coinciding with an administrative region, like a municipality or a county. The "regional principle", the active region, is typically defined in the bank's statutes – it is not a discretionary decision of the management board. That way, both networks cover the entire country, with competition taking place between networks (and private sector banks) but not within networks. If an individual institution is in trouble, and subsequently merged into a neighbouring bank, the active regions of both institutions are combined and form the enlarged active region of the absorbing entity.

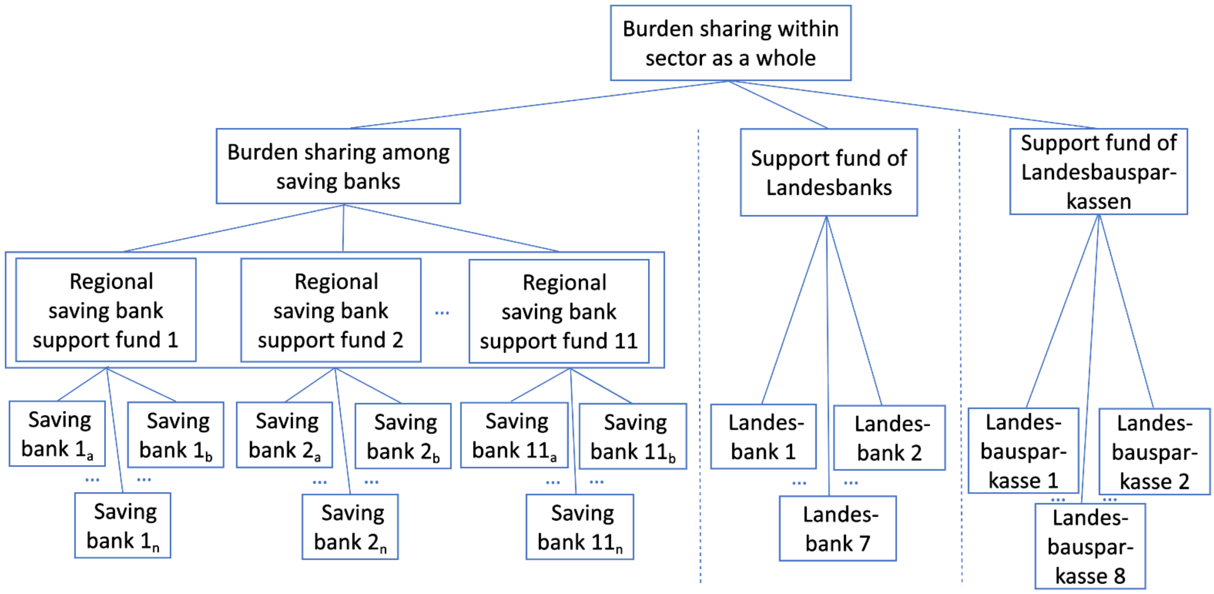
Both networks, savings banks and cooperative banks, have developed an excellent standing in the national market for responding in a flexible way to client needs, being reliable relationship lenders and customer friendly retail banks[18]. In order to exploit economies of scale and scope, there is a large number of central and back-office services that cater to all member institutions jointly, and their regional associations. These centralized tasks comprise services, like accounting, product marketing, risk management, information technology, as well as the development and procurement of specialized financial products, encompassing real estate financing, leasing, payments, and online banking services.

The savings banks of a particular region own a share in the equity of a Landesbank, a regional apex institution, in which the federal state (i.e., the "Land") is holding the remaining equity share. Landesbanken are large banks, relative to any single savings bank, serving the needs of larger and more sophisticated clients, offering capital market transactions, including syndicated lending and high-end capital market services for retail and corporate clients. Their services are complementary to those of the (local) savings banks. Landesbanken and savings banks are also connected through other balance sheet items than equity, as the Landesbanken absorb a large part of the excess savings that are taken in as deposits in the extensive retail network of the local savings banks.

Both institutional layers, savings banks and Landesbanken, are member of the same IPS situated at the German Savings Banks Association ("Deutscher Sparkassen und Giro Verband", DSGV). In accordance with the regional set up of the savings bank organization, the IPS also comprises regional support funds that absorb smaller losses that accrue within the region, and only larger negative shocks lead to loss sharing not only across regional support funds but also with the reserve funds of the Landesbanken (and also the state building societies, "Landesbausparkassen"), Figure 3 visualizes the IPS organization of the DSGV. Regional support funds dispose of cash reserves collected from contributions of local member banks, but they can also draw on additional contributions from these banks if the losses that the fund has to bear overshoot its cash reserves.

[18] Hirsch, B., Nitzl, C., and M.Schoen (2018), Interorganizational trust and agency costs in credit relationships between savings banks and SMEs, Journal of Banking and Finance 97, 17-50. See also Kotz, H. H. and R. H. Schmidt (2017), Corporate Governance of Banks – A German Alternative to the "Standard Model", SAFE White Paper No. 45.

Figure 3: The IPS of DSGV




More precisely, the protection commitment is based on a pay-as-you-go scheme. The ultimate firepower of the regional funds in resolution cases thus hinges pivotally on two factors: the financial strength of its member institutions and their willingness to provide support in any particular case. Hence, the amount of paid-in contributions[19] is ultimately of minor importance for assessing the magnitude of available support in a crisis.

Moreover, although the name “institutional protection scheme” seems to imply that member institutions are protected from failure, there is no a-priori guarantee or irrevocable commitment to rescue an ailing institution. The regulatory preconditions for IPS recognition in CRR, art. 113(7) require them to “be ready for support” (see above 2.1), but they do not (!) compel IPS to unconditionally support failing banks and prevent bankruptcy. For example, any support for German savings banks by their IPS requires prior approval of the German savings bank association's decision-making committee (passing resolutions in pertinent respect with a qualified majority of 75%).[20] In a similar vein, European level 2 legislation under the CRR clearly states that support is not guaranteed: “It may not be assumed that credit institutions will always receive liquidity support from other undertakings belonging to the

[19] For example, the Raiffeisen Institutional Protection Scheme which achieved approval by Banca d’Italia plans to build up a fund with a planned total amount of approximately 95 million EUR to be reached by 2028, <https://www.iru.de/raiffeisen-institutional-protection-scheme-approved-by-banca-ditalia/> accessed 27 March 2022. This amount of paid-in contributions can hardly be expected to protect the 39 participating member banks in a severe crisis. The same funds at the DSGV amount to 4bn EUR (as at 31/12/20) and at BVR amount to (3bn EUR as at 31/12/20), see Deposit Guarantee Schemes data at the EBA website <https://www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/deposit-guarantee-schemes-data> accessed 20 April 2022).

[20] That decision-making process can considerably protract (large scale) rescue operations. The required lead time seems hardly compatible with the idea to allow for a rescue operation “over the weekend”. NordLB, for example, recorded losses in 2018 that basically halved its CET1 ratio, requiring a recapitalization to meet minimum requirements. Following the IPS’ declaration to intervene, it took the responsible bodies nearly five months for the signing of the recaps’ basic principles ("Grundlagenvereinbarung"; see European Commission, Decision on the state aid SA.49094 (2019/N) of 5 December 2019).

same group or to the same institutional protection scheme when they experience difficulties in meeting their payment obligations."[21]

We can speculate about the reasons why the protection commitment is not unconditional. An unconditional guarantee among otherwise independent institutions may amplify moral hazard on the side of the protected institution. Moreover, a formally unconditional support commitment among otherwise independent financial institutions may have accounting implications, possibly requiring the banks to hold additional equity. Lastly, the dependence of the financial assistance on a prior voting process among member institutions may increase the scheme's bargaining power vis-à-vis the government, making a bailout more likely when an individual institution, particularly a large one, is likely to fail.

As already explained, IPS schemes are prone to moral hazard. For example, they may encourage local bank managers to accept higher risks than warranted by their bank's capital base. To make up for this risk, IPS install a formal, supervisory process within their network that monitors the activities of the member savings banks, thereby limiting risk-taking at the level of the individual bank. In the German savings bank network, the internal monitoring happens at the regional level, as each individual savings bank is obliged to join its regional chapter (association). These regional associations comprise up to over 60 local savings banks, and they are, among other things, mandated to carry out the regional supervisory process and also administer the regional support funds.[22]

The regional associations, in their supervisory role, use a traffic light system to convey their assessment, ranging from *green* for no objection, to *yellow*, *red*, and *deep red* for the most serious objections. Depending on the traffic light colour attributed to a particular savings bank, the association will come up with suggestions for specific operational changes, or certain risk management improvements, that banks need to implement strictly. The regional associations thus conduct a bank-external monitoring process that potentially limits moral hazard. The self-imposed monitoring routine helps to protect the resilience of the IPS. Incentives to care for the effectiveness of the regime are shaped by the mutual rescue commitment of all IPS members. To be sure, these incentives are not fundamentally different from those that prevail in a large consolidated banking group with central risk management functions, because at least reputational risks compel parent institutions to assume the losses of their subsidiaries.

The monitoring aspect lengthens the list of coordinated activities within the savings bank group even further: regional market segmentation, joint back-office, common product development and marketing strategies plus a mutual rescue commitment combined with a staggered set of sanctions, from risk management request to the sacking of executive management – all these coordination efforts put the network of savings banks and Landesbanken, and equally the network of cooperative banks and the DZ bank, somewhere on a continuum between independent financial institutions and one consolidated entity.

Not much is publicly known about the actual monitoring activities of the regional associations. However, the monitoring process is widely regarded as intensive and reliable, as far as the tier 1 local savings banks are concerned. Yet, it is unclear whether the regional IPS monitoring is prepared to deal with system-wide risks, as they may emerge from the similarity of the business models at the local level

[21] Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, recital 15, [2014] OJ L 11.

[22] There are 12 regional associations but only 11 regional support funds (i.e. "Sparkassenstützungsfonds"). The Berlin savings bank association has no regional support fund, but the Landesbank Berlin has its own reserve fund.

that importantly depend on interest rates and house prices. Many IPS have a large exposure to the housing market in which cooperative banks and savings banks, along with their affiliated and specialized savings and loan institutions, are by far the largest player in the market, see Box 1.

In contrast to plausibly effective regional monitoring, the evidence of substantial losses at the level of Landesbanken (see Table 2, below) suggests that monitoring does not successfully encompass these tier-2 institutions, despite their belonging to the greater savings bank network. Therefore, it seems plausible that the IPS has insufficient outreach to limit risk taking at the level of Landesbanken with their business lines in international finance, capital markets and upscale corporate finance.

During the financial crisis, Landesbanken experienced huge losses compared to private banks. (See table 2 below). In many cases, substantial losses incurred by Landesbanken were resolved by capital injections from the government and thus constitute government bail-outs. Although Landesbanken enjoyed the protection of belonging to an IPS, their crisis related losses were repeatedly covered by government bail-outs because the IPS was apparently unwilling or unable to protect creditors on the basis on its own resources. The apparent discrepancy between IPS' success at the savings bank level and failure at the Landesbanken level is not accidental. In fact, the Landesbanken are second tier institutions in the savings group model, offering financial services for large corporate clients and private wealth clients that cannot be appropriately serviced at the local, savings bank level.

The persistent savings overhang on the tier-1 level has channelled large amounts of money from the savings banks to "their" Landesbanken. The latter banks, the Landesbanken, were expected to lend-on the excess savings from tier-1 savings banks and to earn a decent return. This was sort of a low risk "carry trade" for many years, as funding from the savings banks was cheap. But later, when the state guarantee for savings banks and Landesbanken was abolished by the European Commission (in 2002), the strive for high returns lead to significant risk taking by the Landesbanken that ultimately resulted in the huge losses incurred by the system.

As a consequence, the losses that surfaced on the balance sheets of Landesbanken are losses that should be attributed to the savings bank group as a whole, i.e. Landesbanken *and* savings banks. However, and notwithstanding the close relationship between excess savings at the tier-1 level and the excessive risk taking on the tier-2- level, the IPS did not deliver on its promise as far as Landesbanken were concerned.[23]

These considerations all lead to the pivotal question whether an IPS-backed banking group should be regarded as a collection of independent financial institutions, or rather a consolidated banking group in disguise, which efficiently delegates decision powers in the organization to the local level.

## 2.3. Lessons from the enquiry

In a nutshell, there are three lessons to report:

- First, the protection commitment embedded in an IPS goes well beyond, and encompasses, the protection covered by the mandatory DGS system. As an institution protection scheme is covers all creditors on the banks' balance sheets.

[23] In all such cases, the state came to rescue and thus indirectly protected the depositors of the savings banks. The often-heard statement that to date no single depositor covered by the IPS model has ever experienced a loss (see above 1) turns out to be a myth – because the never-any-loss outcome is subject to the infusion of taxpayer money.

- Second, the scheme has developed strong internal governance rules that include the monitoring of risk taking and management at the bank level by regional oversight bodies, the regional associations.
- Third, the IPS governance has worked apparently well for the savings banks, and apparently not well for the larger banks in system. The Landesbanken experienced extremely high losses during the financial crisis and repeatedly received capital injections from the government.

The fact that the savings bank sector as a whole was unable to sustain its institutional protection promise from own financial means in the financial crisis may be considered as a historical accident – a rare exception rather than the rule. However, the need for a government bailout hardly came as a surprise. A little thought experiment shows that IPS are indeed more prone to a government bailout than otherwise identical consolidated banking groups. The thought experiment illustrates that the unlimited protection promise of IPS is not sustainable when a crisis hits a larger part of the IPS at the same time. In order to evaluate how credible the protection by an IPS indeed is, we compare the German savings bank IPS with a hypothetical consolidated banking group with identical activities. Assume that this banking group operates an identical branch network across the country and offers the same products to their customers as the German savings bank sector. The only difference is the organizational setup: Instead of having a large number of small savings banks on the tier 1 level and Landesbanken owned by savings banks and federal states on the tier 2 level, assume that the consolidated banking group is organized as a single and centralized stock corporation. For simplicity, assume that there is no DGS in both cases.[24] Suppose now that the centralized banking group issued a protection promise similar to an IPS.[25] How credible is this promise? It is clearly limited by the amount of loss bearing capital of the banking group. If losses exceed the group's loss absorption capacity, the group will find it impossible to sustain its protection promise.

Compare this now to the protection promise of the IPS: its loss absorbing capacity and therefore its capacity to protect creditors is limited in two ways by a) the amount of loss bearing capital within the network (the IPS cannot credibly promise to absorb losses exceeding its aggregate loss bearing capital) and b) the willingness of IPS members to extend protection to failing institutions within the IPS. Realistically, a rescue of a failing member bank cannot be expected to happen if this rescue would threaten the existence of the other members. If their capital is depleted as a result of the rescue operation, the rescue will not receive the needed approval.

As a consequence, the IPS can offer better protection of its creditors than a consolidated banking group only if it has substantially more loss absorbing capital. But the opposite is true. A consolidated banking group that encompasses the whole German savings bank sector would constitute a G-SII and be subject to the stricter regime for these institutions that includes capital surcharges, tighter leverage

---

[24] The existence of DGS does not change the results as long as both institutions do not differ in respect to the financial resources of their respective DGS.

[25] In fact, private banks in Germany also offer deposit insurance at much higher levels than requested by the European regulation to compete with the unlimited protection pledge of IPS. Private banks protect individual account holder up to an amount equivalent to 20% of the bank's tier 1 equity. For example, at Deutsche Bank the individual depositor is protected up to the level of 6 billion EUR per person. It is of course widely known that these numbers are neither credible nor meaningful, but their use is presumably triggered by the unlimited protection, savings banks and cooperative banks, Deutsche Bank's competitor in the market for cheap retail deposits offer through their IPS model.

ratios, TLAC requirements etc., all of which IPS as a whole avoid as a consequence of the solo approach in prudential regulation and supervision (see above 2.1).

One might object that the savings bank sector is less risky per se due to its decentralized nature, and thus can operate with a smaller aggregate amount of equity. [26] We do not find this argument convincing for the simple reason that the pillar 2 capital rules and the SREP should account for this kind of differences and adjust the capital requirements accordingly.

Summing up, we consider the protection promise of a large and systemically important IPS such as the German savings bank sector to stand on a weak foundation. An otherwise identical, consolidated banking group offers more credible protection because it is required to hold more capital and because its regulatory capital stands ready to protect creditors even without the precondition of approval by the IPS members. The fact that investors nonetheless place a high level of trust on the protection promise by IPS seems to be the result of an expected government bail-out in a crisis situation rather than the result of the IPS being able to effectively offer protection with its own resources. We conclude that the regulatory treatment of IPS members as independent and unrelated banks should be reconsidered. Our analysis of the current regulatory framework indicates that IPS are already treated akin to consolidated banking groups when it comes to specific privileges, although they do not incur the general burdens associated with consolidation (see above 2.1). We believe, there are strong economic reasons to generally regard an IPS as a consolidated banking group for regulatory purposes.

[26] An organizational aspect of potentially large impact is the decentralization of decision making power in local networks like the savings bank group. In contrast to the more centralized decision-making in large banks, coupled with their typical 'pyramidal' career paths and management motivation, the local networks may be better suited to offer good relationship banking. See also footnote 12 above.

# 3. STRENGTHS AND WEAKNESSES OF AN IPS MODEL

Building on the legal and economic description and analysis in the previous section, we will now summarize our understanding of IPS in terms of strengths and weaknesses. These insights will form the basis for the policy recommendations in section 4.

### Strengths

In a nutshell, we see three strengths in IPS. First, IPS have developed strong internal monitoring and early warning systems that allow member banks to be reorganized/restructured early on. Second, the mutual character of the IPS, together with the geographic cartel[27], produces strong incentives that keep the overall network solidly grounded, and member banks strongly focused on their assigned business region. That way, growth can only happen by intensifying business relations in the region, rather than competing outside the own region. Third, the fact that the institution is (mutually) protected via the IPS implies (by definition[28]) that all deposits are guaranteed, irrespective of their amount.

These three strengths: group internal controls, no intra-group competition, and unlimited deposit guarantee may be the reason why the IPS model has performed so strongly against private banks in Germany, as far as attracting retail clients and establishing stable banking relationships beyond deposit taking is concerned.

### Weaknesses

The identified strengths come at a price, though. First, the protection pledge is conditional, rather than unconditional, subjecting protection to a case-by-case qualified majority vote by all IPS member institutions. The procedure carries an underinvestment risk, sometimes referred to as blackmailing the government, namely that during large loss events, the taxpayer is called in to cover the losses – and the taxpayer indeed can be forced to bail-out failing institutions because of expected adverse consequences for other entities. Second, and closely related to the first argument, the mutual insurance does not fully cover tier-2 Landesbanken adequately. The latter banks operate as apex institutions to the savings banks in a particular region, and they are the absorber of excess savings accumulated at the level of the local savings banks.

Without an own retail business, Landesbanken have always relied on such interbank loans from their local savings banks. The system is further enhanced by the exemption of intra-IPS exposures from the large exposure regime (see above 2.1). However, when investing these funds, Landesbanken have to face financial risks. Any losses will show up on the balance sheet of the Landesbank – which itself is not a core member of the regional IPS model. As a consequence, Landesbank losses are not necessarily covered by the local savings banks to which they serve as apex institutions, encouraging a government bailout

To illustrate the relevance of this issue, we collected data on the fiscal losses of the German government precipitated by the financial crisis of the year 2008 in Table 2. The cumulative losses of Landesbanken that were covered by taxpayer money summed up to more than 50 billion Euros. It is important to note that the IPS of the Savings Banks Finance Group in Germany has been in place at that time already.

[27] The German term is regional principle, forcing banks to limit their business activities to a particular geographical area (see above 2.2).

[28] See above 2.2.

Thus, the 50 billion EUR losses to the taxpayer constitute the amount that the government had to contribute in addition to what the IPS was able to absorb at this time. The losses of the private banking sector covered by taxpayer money have been less than half of those incurred by the public sector (see Table 2). We can relate these numbers to the market shares of the respective types of banks. According to the monthly report of Deutsche Bundesbank published in January 2008, total lending to non-financial institutions by savings banks and Landesbanken in October 2007 amounted to 13,423 bn. EUR and for private banks (including mortgage banks) to 1,551.6 bn. EUR billion. Thus, in relative terms the losses covered by taxpayer money have been 0.015 percent of total lending for private banks and 0.038 percent of total lending for public banks. Importantly, as discussed in Box 1 the market share of the public banking sector has increased since the time of the financial crisis relative to that of the private banking sector.

Second, the IPS relies on an insurance model with limited diversification potential. The mutual monitoring model of an IPS, by design, tends to have members that are non-competing, and structurally identical. The main difference between institutions is the designated region of operation. For example, in the region of North Rhine-Westphalia there is one association (i.e., one IPS), with more than 50 savings banks operating the same business model, cheek by jowl, covering the entire area of the state. Thus, in this model, there is some geographical diversification, but only limited diversification across business models and products. There is no diversification at all with respect to risk factors that affect all savings banks in a symmetric way, like a country-wide fall in residential real estate prices.

A third weakness, in our opinion, relates to the near-incompatibility of the IPS model with the objectives of the BRRD. Recall that the creation of a resolution regime for failing banks, the BRRD, was (and is) widely considered to be an important precondition for a viable and stable single European banking market. A key element of the BRRD is the resurrection of market discipline in the governance of banks. The influence of market players is triggered by abolishing the bailout expectation that allegedly has taken hold of the banking industry prior to 2008.[29] In order to nurture the fear of financial losses, subordinate creditors should be exempt from any explicit or implicit government guarantee. The credible prospect of losses incentivizes bank creditors to watch bank activities closely, and to price in any significant policy changes the bank might undertake. This is the narrative behind MREL requirements, which European financial institutions have to fulfil under the BRRD until 2024.

In a basic sense, the IPS model of safeguarding the institution, implying a full protection of all creditors, is not consistent with the concept of a bail-in. Moreover, the bail-in procedure is accompanied by far-reaching powers assigned to the Single Resolution Board (SRB), largely overriding bank-internal governance rules. Such interventions, too, are not foreseen in the IPS world – and it comes as no surprise that the mentioned declaration of all major IPS in Europe[30] maintains prominently that both interventions, bail-in and resolution, should be non-applicable for institutions covered by an IPS.

[29] For evidence see Ueda, K and Weder di Mauro, B. (2013); Santos J. (2014). To show that the issue was not fully resolved despite the reform agenda implemented since 2008, we find credit ratings quite useful. Comparing the uplift given for certain banks with different support assumptions, Moody's makes for example a difference between Deutsche (baa3, just still investment grade) on a "stand-alone basis" (baseline), and that for NordLB (ba3, speculative on a stand-alone basis). In case of Deutsche, the rating agency gives a one-notch (additional) rating uplift, based on the assumption of a moderate level of government support for deposits and senior unsecured debt, while in case of NordLB, they give a two-notch rating uplift from its membership in the IPS, plus a one-notch uplift for government support, given its membership in the systemically relevant savings banks network ("Sparkassen-Finanzgruppe"). The Loss-Given-Failure analysis in both cases adds another three-notches. The bottom-line is that the bail-out expectation still influences ratings, and the membership in an IPS is apparently seen as an extra-level of protection.

[30] IPS Declaration (see footnote 5 above).

Table 2: Estimates of fiscal costs (i.e., total costs to taxpayers) due to the financial crisis of the 2008 for German banking institutes).

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

Source: Hellwig, M., (2018); also the text in the notes is taken from this publication.

# 4. RECOMMENDED GUIDELINES FOR THE REGULATORY TREATMENT OF IPS

In the preceding sections we have described the law and economics of IPS, relying on the largest IPS in Europe, that of German savings banks, comprising a network of hundreds of savings banks and a small number of apex institutions, mostly Landesbanken (see above figure 3). Group governance is complex and intertwined: local savings banks are legally independent, owned by administrative state bodies (municipalities, counties, federal states), whereas Landesbanken are owned by savings banks and one or more states (Land). The group is subdivided in regional subgroups (called 'associations') which, among other things, run the (regional) IPS. The IPS, because of the guarantee it provides to the individual bank, is the backbone of group governance: It carries out the day-to-day monitoring of the savings banks, it initiates early interventions in case of emergence of risks, and it implements the reorganization in times of crisis. 'Purchase and assumption' of problem banks by a dedicated neighbour savings bank is allegedly the method of choice.

Our conclusion with respect to group performance and governance is mixed. IPS have a bright side, as far as tier-1 institutions are concerned. The governance model is effective on the tier-1 level in that it, first, triggers intensive monitoring of local savings banks and, second, initiates and completes reorganizations at the level of the bank. As a by-product of closely monitoring all savings banks in a given region, the business model of these institutions may get coordinated and aligned, as they do not compete with one another, due to the 'regional principle'. The strong governance performance may help explaining the stunning success of savings banks in their competition for market share with private banks. The latter have lost market share in the market for retail and SMI banking steadily over the past 20 years.

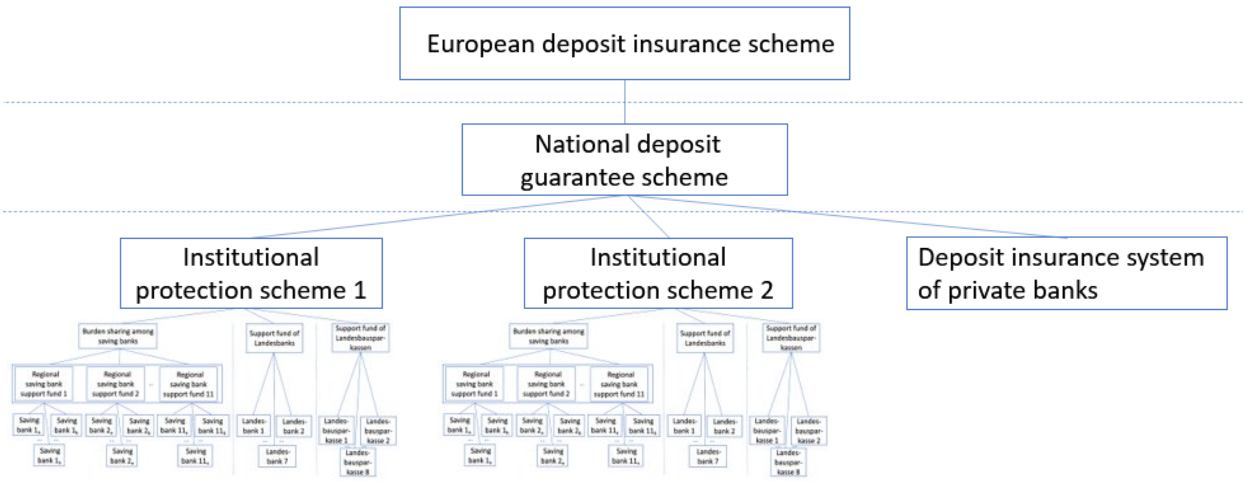
The cooperative banking sector, which also employs an IPS model in its group-internal governance, has been similarly successful as the saving banks.

That said, there is also a dark side of the IPS model that may deserve regulatory attention. Foremost, the IPS model is incomplete by not fully integrating Landesbanken into their scheme. Landesbanken are not subjected to the internal governance model of regional associations, and they are not tier 1 partners of the IPS itself. There is also no automatism by which tier-1 savings banks will support the Landesbank they are jointly owning, or – if the state (Land) is holding a stake as well-- at least co-owning. Historically, in cases of significant Landesbank losses, the taxpayer has repeatedly been forced to pay the bill, without implicating the regional IPS. This is a loophole requiring regulatory innovation. One possible way forward is the integration of the IPS model into the supervisory architecture we currently have. That is, the IPS governance practice with respect to savings banks and 'their' Landesbanken is subjected to regular supervision of the group as a whole, or a few consolidated regional entities, encompassing Landesbanken and savings banks. In practice, this would imply the supervision of most IPS by the ECB as the supranational supervisory authority that oversees significant entities within the SSM.

Another issue we only mention in passing, as it is of lessor importance in the context of the present study, is the significant involvement of parliamentarians of all levels, local, regional, federal, in the supervisory boards of savings banks. A more detailed description and analysis can be found in Haselmann, Schoenherr, and Vig (2018).

In the current IPS model, those risks must be borne by the owners of the local banks, or by the taxpayer. A way forward will try to reduce the uninsured component of savings bank risk, thereby discharging the taxpayer. One possible solution relies on a national deposit re-insurance institution, as sketched in Graph 2. In this model, the deposit insurance on the national level has two tiers, a sectoral DGS or recognized IPS, covering first losses in savings banks, coop banks and private banks in sector-individual schemes. A second 'national' layer would cover second losses in a scheme jointly run by all sectors, savings banks, coop banks, and private banks. The third layer comprises a European re-insurance system that absorbs and mutualized losses that exceed the loss bearing capacity of national DGS.

Figure 4: DGS and IPS in the European banking union




Note. The bottom level of this graph relates to statutory and voluntary DGS in excess of mandatory volume of protection. The upper and middle levels illustrate only the mandatory part.

Weighing the strengths and weaknesses of the IPS model, several insights emerge that may be interpreted as suggestions for regulatory policy.

- Treat an IPS as a network of financial institutions. Supervisors should concentrate on monitoring the overall IPS network risks, and the competent authorities should be defined accordingly. More precisely, prudential oversight should be carried out by the ECB if the IPS network as a whole is significant.
- The prospective sustainability and effectiveness of the IPS protection promise should be made more transparent ex ante. This can be achieved either by building up (and disclosing) sufficient external funds to withstand even larger shocks to bank network assets, or by limiting the promised protection offered to creditors to a level consistent with the loss absorbing capacity of the consolidated network.
- Given that IPS member institutions typically pursue similar business models, IPS are characterized by limited risk diversification and relatively high systemic risk exposures. It seems therefore advisable to fully integrate IPS into a more comprehensive national and European deposit insurance scheme.
- One way to achieve this latter point is by creating a hierarchy of reinsurance layers (i.e. European deposit re-insurance system), in which the existing IPS form the basic (tier-1) layer. The deposit insurance model established in Germany's private banking sector is another example of a tier-1 protection scheme.
    - The tier-1, sector-specific, national protection scheme cover a certain level of the aspired 100K total depositor protection, say 30K. On top of the secretor-specific layer (e.g. the IPS, DGS etc.) sits a consolidated national layer (tier-2) which covers the next 20K of depositor protection. Finally, on the European level, there is a European deposit reinsurance scheme covering the remaining 50K.
    - All tier-1 schemes in one country are the members of that country's tier-2 scheme; all national tier-2 schemes are members of the European tier-3 scheme.
    - The model is graphically sketched in figure 4 above.

  The IPS network is currently outside the BRRD resolution framework. This is partly because of the assumption that the network's cohesion and collaboration does not justify being treated as a single institution. We question the assumption and suggest thinking about a way how to render the BRRD framework applicable to the governance of an IPS network. This should include requiring apex institutions to hold amounts of MREL instruments that provide sufficient loss-absorbing capacity within the network on an aggregated basis.

# 5. REFERENCES


- Choulet, C.(2017), Institutional protection systems: are they banking groups? BNP Paribas. Conjoncture (January 2017).
- Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, [2014] OJ L 11.
- Deutscher Bundestag (2017), Staatliche Hilfen für die Commerzbank: Eine vorläufige Bilanz, Wissenschaftliche Dienste, WD 4 – 3000 – 052/17, Berlin, 21 June 2017.
- Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes, [2014] OJ L 173.
- Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No1093/2010 and (EU) No648/2012, of the European Parliament and of the Council, [2014] OJ L173/190.
- European Banking Authority, Deposit Guarantee Schemes data at the EBA website <https://www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/deposit-guarantee-schemes-data> accessed 20 April 2022.
- European Central Bank, Guideline (EU) 2016/1994 of 4 November 2016.
- European Commission, Decision on the state aid SA.49094 (2019/N) of 5 December 2019.
- Grabher, C., Schettler, H.-J., and E. Schirl (2019), Raiffeisen Schweiz vor grossen Herausforderungen – was kann man von den genosse – genschaftlichen Banken der Nachbarländer lernen und was nicht?, Confidum, Perspektiven und Positionen 01/2019.
- Haftungsverbund der Österreichischen Sparkassen (Austria), Institutsbezogene Sicherungssysteme der Raiffeisen Bankengruppe Österreich (Austria), BVR Institutssicherung GmbH (Germany), Sicherungssystem der Sparkassen-Finanzgruppe (Germany), Raiffeisen Südtirol IPS Genossenschaft (Italy), Krajowy Zwiazek Banków Spółdzielczych (Poland), Spółdzielczy System Ochrony SGB (Poland) Spółdzielnia Systemu Ochrony Zrzeszenia BPS (Poland), Grupo Caja Rural (Spain), Declaration of Institutional Protection Schemes in Europe of 6 April 2021 <https://www.bvr.de/p.nsf/0/10568748536D2608C12586B9002D8B3E/$file/210406_IPS%20Declaration%20CMDI_Summit_final.pdf> accessed 27 March 2022.
- Haselmann, R., Schoenherr, D. and V. Vig (2018), Rent seeking in elite networks, Journal of Political Economy 126, 1638-1690.
- Haselmann, R., Singla, S. and V. Vig (2019), Supranational Supervision, mimeo.
- Hellwig, M. (2018), Germany and the Financial Crises 2007 – 2017, Deutsche Bundesbank.
- Hirsch, B., Nitzl, C., and M.Schoen (2018), Interorganizational trust and agency costs in credit relationships between savings banks and SMEs, Journal of Banking and Finance 97, 17-50.
- Kaserer, C. (2010), Staatliche Hilfen von Banken und ihre Kosten, Initiative Soziale Marktwirtschaft: Texte zur Sozialen Marktwirtschaft 2.
- Kotz, H. H. and R. H. Schmidt (2017), Corporate Governance of Banks – A German Alternative to the "Standard Model", SAFE White Paper No. 45.

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, [2013] OJ L 176/1.
- Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, [2014] OJ L225/1.
- Santos, J. (2012), Evidence from the Bond Market on Banks' "Too-Big-To-Fail" Subsidy' (2014) 20(2) FRBNY Econ. Pol'y Rev. 29
- Storn, A. (2013), Das Desaster der HRE-Rettung: 237 Euro von jedem, Die Zeit, 26 September 2013.
- Storn, A. (2015), Zur Sonne, zur Freiheit, Die Zeit, 30 July 2015.
- Ueda, K and Weder di Mauro, B. (2013), Quantifying structural subsidy values for systemically important financial instituions, Journal of Banking and Finance 37, 3830-3842
- Upper, C., and A. Worms (2002), Estimating bilateral exposures in the German interbank market. Is there a danger of contagion?, Bundesbank Discussion Paper 09/02.
- Vesala, J. (2016), Public consultation on how to assess institutional protection schemes, ECB.
- XXII. Hauptgutachten der Monopolkommission gemäß §44 Abs.1 Satz 1 GWB (2018).


## 6. APPENDIX

In Germany, the institutional protection schemes are operated by the National Association of German Cooperative Banks (Bundesverband der Deutschen Volks- und Raiffeisenbanken, or BVR) and the German Savings Banks and Giro Association (Deutscher Sparkassen- und Giroverband, or DSGV). Founded in 1934 as a response to the global economic crisis, BVR is the world's oldest, exclusively privately financed voluntary protection system.[31] The BVR protection scheme has a guarantee fund based on *ex-ante* contributions and a guarantee network (Garantieverbund) replenished by *ex-post* contributions. Following the changes to the CRR introducing the EU harmonized rules on institutional protection, BVR set up a wholly owned subsidiary called BVR Institutssicherung GmbH (BVR-ISG) serving additionally to the original BVR protection scheme. All member institutions of the BVR that are also affiliated with the BVR protection scheme and have their registered office in Germany are included in the BVR-ISG. These cover 814 institutions, including all Volksbanken and Raiffeisenbanken, PSD banks, Sparda banks, church credit cooperatives, cooperative central banks, and mortgage banks as well as other special institutes of the cooperative financial network. BVR-ISG funds consist of contributions in individual amounts for each member institution. The contributions of the affiliated institutes are paid in accordance with the requirements of the German Deposit Protection Act (*Einlagensicherungsgesetz*), whereby contributions of 0.8 percent of the covered deposits of the affiliated institutes must be accumulated by 2024. The IPS uses monitoring system to prevent failures. The decision-making power regarding preventive measures and loss coverage belongs to the members of management who are appointed and dismissed by the board of directors of BVR. In the event of risks of bank failure, BVR-ISG and affected institution conclude an agreement specifying the need for cover, the type and scope of the cover measures to ensure the liquidity and solvency of an institution and the conditions associated with the cover measures. In particular, the BVR-ISG guarantee fund may cover guarantees, grants, loans, and holdings in CRR credit institutions for recapitalization.

[31] On May 14, 1934, the committees of the DGV, in which the Volksbanks were organized, approved the first guidelines on the protection scheme.

In 1975, DSGV's Institutional protection was launched within the Savings Banks Finance Group. The scheme covers members DSGV and regional associations and does not only protect the affiliated institutions but also has a function of deposit protection. As of 2019, around 520 companies belong to the scheme. The DSGV-IPS incorporates eleven regional savings bank support funds as well as the security reserves of state banks (*Landesbanken*) and state building societies (*Landesbausparkassen*). These "sub-IPSs" are linked together and must aid when individual deposit facilities are insufficient, applying a waterfall principle from within to across regions. To identify risks on early stage, the IPS uses monitoring tools at the regional level. The funds for the savings bank support fund are provided by the member savings banks as part of the association contribution calculated individually on the basis of the risk-oriented contribution assessment. The board of the DSGV decides on the providing support, the type and scope of the support measures after prior involvement of the examination body with a majority of two thirds of its members. Possible support measures cover allocation of liability funds, also in the form of lost grants (equity injection), assumption of guarantees or interest-bearing loans, and fulfillment of third-party claims against the member savings bank. Post-Crisis IPS as a response to tightening regulation.

IPS can be considered as an instrument to prevent negative consequences of new post-crisis banking regulations.

Except the two German IPS, most others are post 2008 phenomena. A major reason to establish theses IPS may have been to take advantage of the lighter regulatory rules. These IPS are sometimes considered a) as a form of regulatory arbitrage: within the available legal limits, banks exercise their freedom of financial contraction such that the resulting regulatory burden is minimized…. And b) a circumvention of antitrust regulation (Erste Bank)

The concrete design and decision-making of the most EU IPS is not transparent because their statutes are not publicly available, and their operational rules are opaque. The overview of the IPS in the EU countries other than Germany is presented in Table 3, below.

**Box 2: EU IPS outside Germany**

1) Austria Raiffeisen IPS *(Institutsbezogene Sicherungssysteme der Raiffeisen Bankengruppe Österreich)*[32]. The IPS for cooperative banks in Austria was founded in 2014. As of 2022, 338 credit institutions are the members of the IPS. Initially, the IPS was designed in two levels (national and regional IPS). Many banks refused to join the IPS because of a fear of reduced autonomy. The regions Salzburg and Kärnten decided against the introduction of an IPS in their region. In those regions that introduced an IPS, the primary reason seems to have been regulatory capital relief in respect to pillar 1 requirements. IPS member banks do not need to subtract their participation in other IPS banks in the calculation of their own funds. In the region Oberösterreich, the cooperative banks seem to have high CET1 capital ratios of 20% and above. But often, their participation on the local central bank („Landesbank") is almost as large as their own equity base. Without the IPS, they would display a severe undercapitalization.

After the merger of the Raiffeisen Zentralbank Österreich AG and the Raiffeisen Bank International AG in 2017, members of the national level IPS were also the regional Raiffeisen headquarters, the

[32] See press, e.g. Gruppendynamik: IPS-Haftung am Raiffeisensektor (2017) <https://www.fondsprofessionell.at/news/maerkte/headline/eine-besondere-gruppendynamik-ips-haftung-am-raiffeisensektor-134466/> accessed 27 March 2022.

Raiffeisen Holding Niederösterreich-Wien, the Posojilnica Bank,the Raiffeisen Wohnbaubank andthe Raiffeisen Bausparkasse.

In 2019, Raiffeisen joined the general deposit insurance Austria (Einlagensicherung Austria - ESA), which includes joint-stock banks such as Bank Austria, as well as private banks, the Volksbanken and Hypos. However, the Raiffeisen banking group withdrew from the ESA in 2021 after the costly insolvency of the commerzialbank Mattersburg in 2020. Raiffeisen contributed around 220 million euros to the around 490 million euros that the ESA paid out to Commerzialbank customers.[33] The Raiffeisen banking group also had to bear considerable costs in the event of the bankrupcy of the Anglo Austrian Bank.[34]

In 2021, the Raiffeisen group started a new IPS, merging the former regional and federal schemes. At the same time, the previously existed federal IPS was dissolved. The sector is now responsible for its approximately 88 billion euros in customer deposits in the event of insolvency.[35] IPS members contribute to an ex-ante fund that has a target volume of 968 million euros. If necessary, the risk council may decide to impose additional ex-post contributions up to 100% of total capital in excess of the minimum regulatory requirement plus a cushion of 10% for all members. The IPS conducts joint monitoring and, if needed, provides financial support, including loans, liquidity, guarantees and capital.[36]

2) Austria HVG *(Haftungsverbund der Österreichischen Sparkassen)*

Members of the HVG are the Erste Group Bank AG and around 50 Austrian savings banks in the federal states. In 2001, the Erste Group Bank AG and savings banks concluded an agreement setting up the joint institutional protection scheme. All savings banks joined the scheme in 2007, except those in the region Oberösterreich which entered the IPS in 2013.

In January 2019, the Austrian Financial Market Authority (FMA) officially recognized the IPS of the domestic savings banks as statutory deposit protection under the Austrian Deposit Protection and Investor Compensation Act (*ESAEG*).

The central part of the HVG is an early warning system that recognizes possible economic distresses of its members. The HVG thus has far-reaching powers; among others, the savings banks require the approval of the management for annual budgets and investment plans, for changes to the general principles of the business policy of savings banks and for board appointments in savings banks. In addition, the HVG has information rights, including monitoring compliance with the rulebooks in savings banks, To avoid bank failures, the IPS takes countermeasures at an early stage, e.g. through

[25] See press, e.g. Raiffeisen verlässt die gemeinsame Einlagensicherung (2021) <https://kurier.at/wirtschaft/raiffeisen-verlaesst-die-gemeinsame-einlagensicherung/401338083> accessed 27 March 2022; Raiffeisen verlässt die gemeinsame Einlagensicherung (2021) <https://www.vol.at/raiffeisen-verlaesst-die-einlagensicherung/6945082> accessed 27 March 2022.

[34] See press, e.g. Raiffeisen hat von Aufsehern grünes Licht für eigenen Sparerschutz (2021) <https://www.wienerzeitung.at/nachrichten/wirtschaft/oesterreich/2108594-Raiffeisen-bekommt-von-Aufsehern-gruenes-Licht-fuer-eigenen-Sparerschutz.html> accessed 27 March 2022.

[35] See press, e.g. ach Ärger um CommerzialbankEigene Sicherung geplant: Raiffeisen verlässt die Einlagensicherung (2021) <https://www.kleinezeitung.at/wirtschaft/5959972/Nach-Aerger-um-Commerzialbank_Eigene-Sicherung-geplant_Raiffeisen> accessed 27 March 2022.

[36] Raiffeisen Bank International FY 2021 Results (2022) <https://www.rbinternational.com/resources/RBI-Investor/rbi-investor/2022/2022-02-02%20Presentation%20RBI.pdf> accessed 27 March 2022.

capital or liquidity support. All restructuring measures are planned in advance internally, whereby each member contributes to the guarantee fund.

The IPS consists of two funds. The ex-ante fund will be built up in quarterly contributions until 2024 as revenue reserves, which can only be released in the event of bankruptcy. The liability assets of the ex-post fund do not constitute special assets but cover the security case on the basis of the funds available in the IPS.

3) Italy[37]: The Institutional Protection Scheme (IPS) of the South Tyrolean Raiffeisenkassen resulted as a consequence of a legal reform in Italy: As part of the reform of the Italian cooperative banks in 2016, the South Tyrolean Raiffeisenkassen would also have had to merge into a banking group with a joint stock company as the central institution. An amendment to the reform law in December 2018 obtained a special provision for South Tyrol and granted the South Tyrolean Raiffeisenkassen the possibility to establish an IPS instead of a banking group. Overall, the Italian IPS thus seems to be primarily the result of successful lobby activities by banks that try to prevent negative consequences of banking regulation.

In 2020, the Italian banking supervisory authority Banca d'Italia approved the IPS for the South Tyrolean Raiffeisenkassen. The IPS includes 39 Raiffeisenkassen, Raiffeisen Landesbank Südtirol AG and RK Leasing GmbH.

To identify undesirable developments at an early stage, the IPS has set up a monitoring system that continuously analyzes the data of the members. If the risk situation deteriorates, the IPS can request members to implement risk reduction measures. On the intervention stage, the affected institution shall be provided with financial resources from the security fund. Based on the current calculations, the total amount of the security fund will be gradually increased to EUR 92 million by 2028. The amount of funding is calculated individually for each member on the basis of stress tests, i.e. assuming unfavorable economic scenarios.

4) Poland: The National Association of Cooperative Banks (Krajowy Zwiazek Banków Spółdzielczych) has been operating since 1991 offering institutional protection for the largest association of Cooperative Banks in Poland bringing together over 300 cooperative banks. Rules on decision-making are established by the Statute adopted by the general meeting.

5) Poland: The cooperative SGB (Spółdzielczy System Ochrony) protection scheme was founded in 2015 following new provisions resulting from the CRD IV Directive and CRR. The IPS protects almost 200 polish cooperative banks.

6) Spain: institutional protection offered by Grupo Caja Rural was recognized as IPS in accordance with CRR in 2018, although it was operating de facto before. The scheme covers 30 Cooperative banks in Spain. By 2024, the IPS aims to reach fund's target volume of 300 million euros.[38]

[37] See press, e.g. Raiffeisen Institutional Protection Scheme approved by Banca d'Italia (2020) <https://www.iru.de/raiffeisen-institutional-protection-scheme-approved-by-banca-ditalia/> accessed 27 March 2022.

[38] See press, e.g. DBRS Morningstar Upgrades Banco Cooperativo Español's LT Rating to BBB (high) (2019) <https://www.bancocooperativo.es/sites/default/files/DBRS-2019.pdf> accessed 27 March 2022.

Table 3: EU IPS outside Germany

| IPS / Characteristic | Raiffeisen IPS (Austria) | HVG (Austria) | IPS of the South Tyrolean Raiffeisenkassen (Italy) | KZBS (Poland) | SGB (Poland) | Grupo Caja Rural (Spain) |
|---|---|---|---|---|---|---|
| Foundation year | 2014 | 2001 | 2016 | 1991 | 2015 | 2018 |
| Number of members | 338 | Around 50 | 41 | Over 300 | Almost 200 | 30 |
| Fund's target volume | EUR 968 mn | n.a. | EUR 92 mn | n.a. | n.a. | EUR 300 mn |
| Publicly availability of a statute | no | no | no | no | no | no |
| Is protection unlimited, in case of event? | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Is protection unconditional? | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| What are consequences for management of damaged institution, in case of a protection event? | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Is there any preparation for a damage of the network as a whole? | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Is there transparency about processes? | no | no | no | no | no | no |
| Is there transparency about history of events and operations? | no | no | no | no | no | no |

This briefing paper describes and evaluates the law and economics of institution(al) protection schemes. Throughout our analysis, we use Europe's largest such scheme, that of German savings banks, as paradigm.
We find strengths and weaknesses: Strong network-internal monitoring and early warning seems to be an important contributor to IPS network success. Similarly, the geographical quasi-cartel encourages banks to build a strong client base, including SME, in all regions. Third, the growth of the IPS member institutions may have benefitted from the strictly unlimited protection offered, in terms of euro amounts per account holder. The counterweighing weaknesses encompass the conditionality of the protection pledge and the hold-up risk it entails, the limited diversification potential of the deposit insurance within the network, and the near-incompatibility of the IPS model with the provisions of the BRRD, particularly relating to bail-in and resolution.
Consequently, we suggest, as policy guidance, to treat large IPS networks similar to large banking groups, and put them as such under the direct supervision of the ECB within the SSM. Moreover, we suggest strengthening the seriousness of a deposit insurance that offers unlimited protection. Finally, to improve financial stability, we suggest embedding the IPS model into a multi-tier deposit re-insurance scheme, with a national and a European layer.
This document was provided by the Economic Governance Support Unit at the request of the ECON Committee.

PE 699.527
IP/A/ECON-BU/FWC/2020-003 /LOT3/C3/SC2

Print ISBN 978-92-846-9385-6 | doi:10.2861/571280 | QA-09-22-171-EN-C
PDF ISBN 978-92-846-9384-9| doi:10.2861/479118 | QA-09-22-171-EN-N