



Effectiveness of Deposit Insurance, Competitiveness and Institutional Diversity in the Banking Union

***A practitioner perspective on the CMDI framework and its
implementation***

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¹ This paper presents the perspective of the European deposit guarantee scheme (DGS) community, coordinated through the European Forum of Deposit Insurers (EFDI).

EFDI is the umbrella organisation of public and private Deposit Guarantee Schemes in Europe, several of which also act as National Resolution Authorities.

The association has no commercial interests and addresses crisis management topics exclusively from a practitioner perspective, drawing on the field experience and technical expertise of its members in deposit insurance and bank resolution.

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1	EXECUTIVE SUMMARY	4
2	Introduction and Scope of the Paper	6
3	Oversight of the CMDI framework reform.....	9
3.1	Foreword.....	9
3.2	The new paradigm in bank crisis management.....	9
4	What CMDI Changes for Deposit Guarantee Schemes	12
4.1	An Expanded and More Flexible Use of DGS Funds.....	12
4.2	Changes in Cost-Containment Logic and Risk Exposure.....	13
4.3	Preventive and Alternative Measures.....	13
4.4	Governance, Coordination and the Role of DGSs in Decision-Making.....	14
5	Conditions for Effective and Sustainable CMDI Implementation.....	15
5.1	Calibration of Level 2 Measures.....	15
5.2	National Implementation and Institutional Set-Ups.....	15
5.3	Operational Feasibility and Executability.....	16
5.4	Governance, Coordination and Information Flows.....	16
5.5	Learning Effects and Review Mechanisms.....	17
6	From Framework Design to Practical Implications	17
6.1	CMDI Reform Seen from the DGS Perspective.....	17
7	European Competitiveness and the financing challenge.....	20
7.1	The case for stronger cross-border banking integration.....	20
7.2	Liquidity dynamics and recent crisis episodes	21
7.3	Balancing Scale and Diversity	22
7.4	Why scale is not sufficient: the role of banking diversity.....	23
7.5	Institutional Diversity as a Source of Financial Stability.....	23
8	Deposit insurance in perspective	24
8.1	Structural barriers to cross-border integration.....	24
8.2	A multi-layered approach to deposit insurance and financial stability	25
8.3	State aid considerations and consistency with the CMDI framework	26
8.4	Simplification and proportionality in the crisis-management framework	27
9	Conclusions and Forward Look.....	28
9.1	Summary of Key Findings	28
9.2	Outlook for Future Regulatory or Legislative Action	30

10	Appendix 1 - Simplification and Operational Effectiveness in the CMDI.....	32
10.1	Introduction	32
10.2	Testing frameworks and operational exercises	32
	Origin of the issue	32
	Practical implications	33
	Possible avenues for simplification	33
10.3	Complexity of the MREL framework	33
	Origin of the issue	34
	Practical implications	34
	Possible avenues for simplification	35
10.4	Concluding remarks	35
11	Appendix 2 - EFDI Contributions to CMDI debate (2015–2025)	36
11.1	Introduction	36
11.2	Preventive and Alternative Measures	36
11.3	The Least Cost Principle	37
11.4	Cooperation within the Financial Safety Net	37
11.5	Funding, Risk Exposure and Financial Sustainability.....	38
11.6	Institutional Diversity and Operational Models.....	38
11.7	EFDI contributions to the CMDI reform process	39
11.8	Concluding remarks	40

1 EXECUTIVE SUMMARY

- The paper highlights that the CMDI reform represents both the **outcome of a decade-long policy debate** on crisis management and deposit insurance in the European Union, and the starting point of a **new phase** focused on implementation and practical application.
- It notes that the evolving policy context, including the **targeted consultation** and the broader debate on **European competitiveness**, highlights two parallel objectives: fostering financial integration and strengthening the capacity of European banks to compete globally, while preserving financial stability and institutional diversity.
- From a practitioner perspective, the paper emphasises that deposit insurance is already a highly harmonised component of the Banking Union framework, while **key sources of fragmentation remain rooted in structural differences across Member States**, including legal, institutional and market-specific features.
- The paper underlines the **evolving role of deposit guarantee schemes (DGSs)**, through earlier involvement, closer coordination, and optional preventive and alternative measures; however, their practical usability will depend on whether the enhanced requirements allow sufficiently **rapid and flexible intervention** in time-critical situations.
- It highlights that the CMDI reform introduces a more differentiated and flexible approach to the use of DGS resources, which concomitantly increases DGS financial exposure without equivalent governance rights, creating a structural imbalance that might raise **concerns around incentives, agency risks**, and the long-term sustainability of DGS funding within a more centralised framework.
- The effectiveness of the reform will depend **critically on implementation**, including the calibration of Level 2 measures and the functioning of cooperation mechanisms among safety net participants.
- Consistent with the absence of a fully integrated federal framework, and in the presence of persistent structural differences across Member States -including legal, institutional and market-specific features- the paper supports a **multi-layered approach to the European financial safety net**, where centralised mechanisms could provide liquidity backstops, national DGSs may continue to operate effectively within local contexts, and decentralised arrangements -such as institutional protection schemes (IPs) and cooperative banking groups- may contribute to early intervention and crisis prevention.
- The paper also highlights the importance of ensuring consistency between the CMDI framework and the **State aid regime**, in order to avoid unintended disincentives for the use of least-cost and less disruptive interventions.
- It further notes that increasing regulatory complexity may affect the operational effectiveness of the framework, and that **simplification** -understood as *clarity, proportionality and usability*- could support more timely and effective crisis management.

- The analysis is complemented by **two technical appendices**: (i) a more detailed discussion of **selected operational aspects**, including simplification; and (ii) a **summary of EFDI's contributions** to the crisis management and deposit insurance debate over the past decade, providing context and continuity to the analysis presented in this paper.

2 Introduction and Scope of the Paper

The recent political agreement on the **CMDI framework** can be seen both as the **endpoint of a decade-long debate** on bank crisis management and deposit protection in the European Union, and as the **starting point of a new phase of policy development**. As attention shifts from the design of the framework to its implementation and future evolution, deposit insurance is increasingly considered not only as a stability tool, but also as a key component of a broader agenda encompassing financial integration, competitiveness and the overall coherence of the European financial safety net.

While the recent **targeted consultation** launched by the European Commission on competitiveness of EU banking sector does not explicitly frame its objectives in binary terms, its structure and underlying policy questions reveal the coexistence of **two parallel priorities**.

On the one hand, several questions point towards further financial integration, efficiency gains and the potential development of larger cross-border banking groups capable of operating on a European and global scale. This perspective is consistent with the broader policy debate on European competitiveness, as recently highlighted in the Draghi Report, which emphasises the need for **stronger, more integrated financial institutions to support investment, innovation and strategic autonomy**.

On the other hand, the consultation consistently emphasises the need to **preserve financial stability, depositor protection and the diversity of national banking systems**, including the role of smaller institutions and decentralised models.

This implicit duality reflects a broader policy tension that has characterised the evolution of the Banking Union over the past decade: **how to reconcile the objective of a more integrated and competitive European banking sector with the structural diversity of its institutional landscape**. In this context, deposit insurance is not addressed in isolation, but rather as part of a wider financial safety net in which deposit guarantee schemes play a key role alongside supervisory and resolution authorities. Their function goes beyond depositor reimbursement, extending to preventive and alternative measures that can contribute to crisis management and continuity of banking services.

From a practitioner perspective, this suggests that **the next phase of policy development should not be framed as a choice between integration and diversity, but rather as an effort to ensure their compatibility**. The effective implementation of the CMDI framework will therefore be a critical test in striking this balance, by clarifying the respective roles of resolution authorities, deposit guarantee schemes and institutional protection mechanisms within a more coordinated, yet still pluralistic, European financial system.

Against this background, the paper is structured in two main sections.

The **first section reviews the CMDI reform** as the outcome of a decade-long policy debate, assessing to what extent the final framework reflects key technical considerations that have been highlighted over time by practitioners. It focuses in particular on the evolving role of deposit guarantee schemes, the interaction between resolution and insolvency, and the implications of the revised framework for crisis management practices.

The **second section** looks forward and places the CMDI reform within the broader policy context emerging from the **targeted consultation and the ongoing debate on European competitiveness and financial integration**. It explores how the objectives of scale, efficiency and cross-border integration can be reconciled with the need to preserve institutional diversity, operational effectiveness and the role of decentralised mechanisms within a multi-layered financial safety net. In this respect, the **challenge is not to choose between scale and diversity, but to design a framework in which both can coexist and reinforce each other within a coherent and resilient European banking architecture**.

Finally, the paper is complemented by **two technical appendices**.

The first focuses on **simplification and operational effectiveness**, which emerge as cross-cutting themes in the implementation of the CMDI framework from a practitioner perspective.

The second summarises the **main technical contributions developed by EFDI over the past decade, including its recent work on the CMDI reform**. It is intended to provide context and continuity to the analysis presented in this paper, highlighting how the views expressed build on a broader body of practitioner-based work developed over time.

The CMDI Framework: From Design to Implementation

3 Oversight of the CMDI framework reform

3.1 Foreword

The reform of the European Union's Crisis Management and Deposit Insurance (CMDI) framework introduces important changes to the legal and operational framework governing bank failure management, depositor protection and the interaction between resolution, insolvency and industry-funded safety nets.

This section of the paper focuses on the implications of the final CMDI texts for DGSs, including the evolving role of DGSs within the crisis-management framework, the conditions under which DGS resources may be used, and related governance and coordination aspects. It does not seek to revisit the legislative process or to take a political position on the broader objectives of the Banking Union.

Given the scope of the CMDI reform, this section of the paper also highlights areas where implementation will be shaped by Level 2 measures, national transposition choices and supervisory and resolution practice. The analysis is intended to support a common understanding of the revised framework and to facilitate informed discussion as implementation progresses.

3.2 The new paradigm in bank crisis management

The evolving role of deposit guarantee schemes

From a law and economics perspective, bank crisis management frameworks are shaped by a persistent *trade-off* between market discipline, financial stability, and the allocation of losses among private stakeholders. Since the global financial crisis, European bank resolution policy has been progressively built around the objective of **internalising losses within the banking sector**, while preserving critical functions and protecting depositors. The CMDI framework, introduced in the aftermath of the 2008 crisis, reflected this balance by combining bail-in tools, resolution planning and deposit protection, with the explicit aim of avoiding taxpayer-funded *bail-outs*.

Within this architecture, the **Minimum Requirement for Own Funds and Eligible Liabilities (MREL)** was conceived as the primary mechanism to ensure that banks could absorb losses and be resolved in an orderly manner; if necessary, with support from resolution funds. In theory, this design aligned incentives by reinforcing market discipline and limiting recourse to collective safety nets.

According to the European Commission's assessment, however, experience has shown that some (smaller and medium-sized) banks in certain markets face structural difficulties in building up the MREL, due to their specific liability structure.² On several occasions, the authorities have emphasised that this mismatch between regulatory design and balance-sheet realities has often resulted in the preferential

² European Commission, Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/59/EU as regards early intervention measures, conditions for resolution and financing of resolution action, COM (2023)227 final, 18.04.23.

use of liquidation or national support measures, thereby weakening the consistency and credibility of the CMDI framework across jurisdictions.

It is against this background that, in April 2023, the European Commission proposed a comprehensive revision of the CMDI framework, with the objective of making resolution a more credible and operational option for a broader range of institutions, including enhancing solutions for funding in resolution scenarios. The reform seeks to address the structural shortfall in loss-absorbing capacity by allowing greater reliance on industry-funded safety nets, while at the same time **reducing** the practical dependence on the **bail-in of uncovered depositors**.

Beyond its stated objectives, however, the CMDI reform introduces a substantive shift in the institutional role of deposit guarantee schemes (DGSs). DGSs evolve from relatively autonomous entities primarily designed to address idiosyncratic bank failures into fully integrated components of a more centralised crisis-management architecture, increasingly oriented towards the prevention and management of situations with potential systemic implications. **In this revised setting, DGSs operate less as independent loss-minimisation agents and more as financial contributors to strategies designed and coordinated by public authorities.**

The reform introduces **significant changes** affecting the interplay of (i) the creditor hierarchy; (ii) the design and application of the least cost test; (iii) the scope and applicability of the No Creditor Worse Off (NCWO) principle; and (iv) the operational framework governing preventive and alternative DGS interventions.

Taken together, **these changes** do not merely update the conditions for the use of DGS funds but **embed DGSs within a more interconnected institutional framework** (DGSD3 / BRRD3), explicitly designed to facilitate orderly exit strategies through transfers of assets and liabilities and the preservation of uninterrupted access to deposits. **Discretion in crisis management is expanded but also reallocated:** preventive and alternative measures are subject to enhanced ex ante oversight by designated authorities, while in resolution the determination of DGS contributions rests with the resolution authority, within a harmonised European framework supported by ex post guidance from the European Banking Authority (EBA).

The use of DGS resources under the revised CMDI framework

A central aspect of the CMDI reform concerns the recalibration of the conditions under which DGS resources may be mobilised, which is strongly influenced by the creditor hierarchy applicable in resolution and liquidation.

Under the previous framework, Article 108 of the BRRD established a harmonised depositor preference structure, granting super-priority to covered deposits and corresponding DGS subrogation claims, followed by certain categories of uncovered deposits, with all other unsecured claims ranking thereafter. This structure reflected a clear policy choice to protect depositors and, in conjunction with the Least Cost Test applicable to date, at the same time limit the exposure of DGSs to losses beyond their statutory mandate.

The revised Article 108 BRRD3 broadly preserves the multi-tier depositor preference model, while refining the categorisation of depositors deemed to merit enhanced protection. In particular, **the revised hierarchy maintains the preferential treatment of certain uncovered deposits held by households and SMEs in the second tier, but expands that same ranking to selected non-sophisticated public entities.** A third tier of depositor preference applies to all other deposits not falling within the first two tiers, including the non-covered part of deposits of non-financial corporates which are not SMEs and deposits of credit institutions and financial institutions. Only the categories expressly excluded under Article 108(1) BRRD3, including deposits used for MREL purposes, rank alongside ordinary unsecured claims.

While the European Commission's initial proposal envisaged a more radical restructuring through the introduction of a single-tier depositor hierarchy and the removal of DGS super-preference, concerns raised by DGS stakeholders regarding recoverability and funding sustainability ultimately led to a more balanced outcome. The preservation of the existing hierarchy was accompanied by a different, and more consequential, adjustment: the introduction of a **harmonised and "tool-dependent" least cost detection methodology**, under which the resulting contribution of the DGS varies according to the type of tool applied.

This evolution is most clearly reflected in the revised Article 109 BRRD3. Under classic **open-bank bail-in** scenarios, the **NCWO principle continues to apply**, and DGS contributions remain capped at the net cost that would be incurred in liquidation, taking into account expected recoveries. A comparable liquidation-based safeguard applies, in transfer strategies with market exit, to any additional DGS contribution that may be required under the **"pecking order"** mechanism where a prior DGS contribution has counted towards the thresholds for accessing the resolution financing arrangement and that arrangement has reached its maximum contribution limit.

By contrast, where resolution is implemented through **transfer tools, including a bridge bank**—implying the exit of the institution from the market— the contribution of the DGS is no longer benchmarked against a liquidation counterfactual. In such cases, the DGS may be required to contribute the amount necessary to cover the difference between transferred deposits, including where relevant uncovered deposits, and transferred assets, including any additional amount needed to ensure balance-sheet neutrality for the acquiring entity. The **NCWO principle does not apply, and the least cost constraint is defined exclusively by the cap of covered deposits, irrespective of potential liquidation recoveries.**

Where such transfers include deposits that would otherwise be bail-inable but are excluded from bail-in pursuant to Article 44(3) BRRD, DGS resources should not be understood as protecting those deposits beyond the limits and conditions set out in Article 109 BRRD3; any additional funding need linked to their transfer would have to be supported by other sources where required.

Separately, **in specific "bridge-the-gap" scenarios** — limited to transfer strategies with market exit for institutions with total assets below EUR 80 billion and insufficient fully used own funds and eligible liabilities — DGS contributions may also be considered for the purpose of meeting the thresholds required to access the resolution financing arrangement. **This mechanism constitutes one of the most significant operational innovations introduced by the CMDI reform.**

The **same simplified least cost logic, based on the covered deposit cap, also applies to preventive and alternative measures outside resolution**, subject to the additional safeguards and conditions introduced in the revised DGSD.

Overall, the **CMDI reform enhances the capacity of authorities to deploy DGS resources in support of orderly crisis-management** strategies, while seeking to harmonise intervention conditions across Member States. At the same time, it **reshapes the risk profile of DGSs -particularly those operating under a pure pay-box mandate- by increasing their potential exposure to losses and the likelihood of additional contributions** being required to replenish available financial means, even in scenarios where liquidation might have entailed full recovery.

This evolution raises broader questions regarding the alignment between the financial responsibilities borne by DGSs and their procedural involvement within the crisis-management framework, particularly in a Banking Union context where key supervisory and resolution decisions are increasingly centralised while DGSs remain nationally funded and responsible for depositor protection. Without altering the allocation of competences under the resolution framework or shifting financial responsibility away from national DGSs, greater transparency, timely information-sharing and structured consultation mechanisms could help ensure that DGS perspectives are appropriately reflected in decisions affecting their financial exposure. This would also support the alignment of incentives, help mitigate potential agency risks and contribute to the long-term sustainability of DGS funding models.

4 What CMDI Changes for Deposit Guarantee Schemes

The CMDI reform introduces a set of interrelated changes that affect how deposit guarantee schemes (DGSs) are positioned within the EU crisis-management framework. From a DGS perspective, the most significant change concerns the broader integration of DGSs into crisis-management strategies beyond traditional pay-out scenarios.

The revised CMDI framework explicitly links deposit protection, resolution and crisis management more closely, and provides authorities with a wider set of tools in which DGS resources may play a supporting role. As a result, DGS involvement may occur in a broader range of situations and at earlier stages of bank distress than under the previous framework.

4.1 An Expanded and More Flexible Use of DGS Funds

Under the revised CMDI framework, depositor payout continues to represent the default reference point for DGS intervention. At the same time, CMDI explicitly allows DGS resources to be mobilised in a broader range of intervention scenarios than under the previous framework, provided that the applicable legal conditions and safeguards are met.

In particular, DGS resources may be used to support:

- resolution strategies involving transfer tools (sale-of-business or bridge institution),
- preventive and alternative measures, where implemented at national level,

- and, in specific resolution scenarios, funding arrangements that facilitate access to the Single Resolution Fund (SRF).

This expanded use of DGS funds is intended to support crisis-management strategies that prioritise continuity and financial stability by allowing DGS resources to be mobilised across a broader range of intervention scenarios.

In practice, for DGSs CMDI is therefore significant in that it enables the mobilisation of DGS resources at different phases of bank distress, including earlier stages than formal failure and in cases where liquidation may no longer be the preferred strategy. As a consequence, DGS interventions may occur earlier, may involve larger amounts, and may take place in contexts where the failing institution exits the market through mechanisms other than liquidation.

4.2 Changes in Cost-Containment Logic and Risk Exposure

A central element of the CMDI reform is the recalibration of the least-cost principle and related safeguards. While cost-containment remains a core objective, the revised framework applies these safeguards in a more differentiated manner depending on the type of intervention tool used.

In particular, in scenarios involving transfer tools or similar arrangements, DGS contributions are no longer systematically benchmarked against a liquidation counterfactual. Instead, the contribution may be determined by predefined caps or by the funding needs of the chosen crisis-management strategy.

Although intervention design, valuation assumptions and recovery prospects already influence DGS costs under the current framework, the reform reduces the constraining role of the liquidation benchmark and thereby increases the likelihood that DGS contributions will exceed the amounts that might have arisen under liquidation.

For DGSs this represents a material change in risk allocation. While safeguards continue to exist, their practical effect may vary significantly across cases. The ultimate cost for a DGS will therefore depend not only on the size and structure of the failing institution, but also on how the intervention is designed and implemented in practice.

4.3 Preventive and Alternative Measures

The CMDI reform reinforces the framework for preventive and alternative measures as instruments intended to enable earlier intervention in situations of bank distress. These measures are conceived as complementary to depositor payout and resolution, and their availability remains a national option. Member States are not required to introduce such measures where they do not exist in national legislation. At the same time, the revised DGSD reflects an expectation that Member States which have not yet implemented preventive and alternative measures should develop the necessary capacity to do so over time.

From a DGS perspective, the relevance of preventive and alternative measures will depend not only on their formal availability, but on their practical usability under the revised framework. CMDI introduces a

harmonised and more structured framework for such measures, including enhanced conditions, documentation requirements and ex-ante assessments, with closer involvement of supervisory and resolution authorities, thereby strengthening consistency, transparency and safeguards compared with the current regime. At the same time, the more formalised process may reduce the scope for rapid and flexible intervention, particularly in time-critical situations.

CMDI clarifies the role of preventive measures by DGSs (where implemented nationally) or IPSs in pre-resolution assessments, requiring resolution authorities to assess whether measures under Article 11(3) DGSD could reasonably avert failure before proceeding to resolution. While preventive measures remain within the decision-making sphere of the DGS or IPS and are initiated at the request of the institution concerned, their feasibility and effectiveness are now a more explicit element of the pre-resolution assessment conducted by the resolution authority.

Overall, CMDI establishes a more harmonized, but also **more operationally demanding, environment for preventive and alternative measures**. While their availability and use continue to depend on national implementation choices, their **effectiveness in practice will depend** not only on the formal design of the revised procedural framework, but also on the **ability of the relevant authorities to apply it in a flexible, proportionate and operationally pragmatic manner**. Such an approach will be essential to ensure that the additional procedural safeguards strengthen accountability without undermining the timely and effective use of preventive or alternative interventions.

4.4 Governance, Coordination and the Role of DGSs in Decision-Making

The CMDI reform strengthens coordination within the financial safety net but also brings into sharper focus a number of critical governance and executability issues for DGSs. These issues stem not from changes to the DGS mandate, but from their more frequent and structurally embedded involvement in authority-driven crisis-management decisions.

Under the revised framework, resolution decisions -including the determination of DGS contributions in resolution- are taken by the relevant resolution authorities, while DGSs are required to provide funding once such decisions are made. In resolution, DGSs continue to have no discretion as to whether or how much they contribute once the legal conditions are met.

In practice, for DGSs this accentuates an existing asymmetry between financial responsibility and decision-making influence, which becomes more relevant as CMDI expands the range of scenarios in which DGS resources may be mobilised.

CMDI also increases the **importance of formal cooperation arrangements**, including memoranda of understanding (MoUs), between resolution authorities, designated authorities and DGSs.³ For DGSs -

³ See Article 30, paragraph 7 of Regulation (EU) 2026/808 amending Regulation (EU) No 806/2014 (SRMR): *Where necessary, the Board shall conclude a memorandum of understanding with the ECB and other members of the ESCB, the national resolution authorities and the national competent authorities, and the designated authorities and deposit guarantee schemes describing in general terms how they will cooperate under paragraphs 2 to 2c and 4 of this Article and under Article 74, second paragraph, in the*

particularly those that are institutionally separate from resolution authorities- the effectiveness of these arrangements will depend on whether they ensure timely and operationally usable information flows, clear interfaces for decision-making under time pressure, and clarity on roles and responsibilities.

Finally, the revised framework places greater emphasis on executability under compressed timelines. Where DGS contributions are required in resolution or pre-resolution contexts, funding may need to be provided rapidly and in full. This heightens the importance of internal governance, liquidity planning and operational readiness within DGSs.

Overall, from a DGS perspective, the governance implications of CMDI will be shaped less by formal competences than by whether coordination arrangements and operational interfaces allow DGSs to act in a **predictable, timely and feasible manner in practice**.

5 Conditions for Effective and Sustainable CMDI Implementation

The CMDI reform establishes a comprehensive legal framework for crisis management and deposit insurance. Whether this framework delivers consistent and sustainable outcomes for deposit guarantee schemes (DGSs) will depend, as mentioned, on how it is implemented in practice.

For DGSs a limited number of key conditions will be particularly relevant as the revised framework moves from legislation to application.

5.1 Calibration of Level 2 Measures

A first and immediate condition concerns the development of Level 2 measures under the revised DGSD and BRRD. The regulatory and implementing technical standards (RTS/ITS) and guidelines mandated to the European Banking Authority (EBA) will play a central role in translating the CMDI framework into operational expectations for DGSs.

Their calibration, proportionality and internal consistency will be critical in determining whether the framework can be applied in a workable manner across different national and institutional contexts.

For DGSs, overly detailed or rigid technical requirements may constrain operational flexibility, particularly in time-critical situations. The extent to which Level 2 measures accommodate differences in DGS mandates, size and institutional set-ups will therefore be a key determinant of practical outcomes.

5.2 National Implementation and Institutional Set-Ups

A second key condition relates to national transposition and implementation. While CMDI establishes a harmonised legal framework, Member States retain discretion in important areas, including the

performance of their respective tasks under Union law. The memorandum shall be reviewed on a regular basis and shall be published subject to the requirements of professional secrecy.

availability of preventive and alternative measures, the allocation of responsibilities between authorities, and the institutional positioning of DGSs.

Regarding preventive and alternative measures, CMDI does not introduce fundamentally new options, as these were already available at national level under the existing framework. It does, however, strengthen incentives for their use and introduces a more harmonised framework for their application.

At the same time, national implementation choices will continue to play an important role in shaping how the revised framework operates in practice and may lead to different outcomes. For DGSs, the interaction between Level 2 guidance and national arrangements will be particularly relevant, especially in cross-border contexts and in Member States with privately administered schemes.

5.3 Operational Feasibility and Executability

The practical impact of the revised CMDI framework will ultimately depend on whether crisis-management measures involving DGSs can be executed in a timely and predictable manner.

Where DGS resources are mobilised in resolution or pre-resolution contexts, funding may be required rapidly and in full, often under compressed timelines. From a DGS perspective, executability will therefore be shaped by a limited set of operational determinants.

These include the availability of liquidity, internal governance arrangements that allow for swift decision-making and fund mobilisation, and the ability to meet authority-defined timelines. The way these requirements are reflected in Level 2 measures and national implementation choices will be particularly relevant.

Implementation outcomes will thus depend not only on the legal design of CMDI, but also on whether operational frameworks allow DGSs to act consistently and reliably under stress. In other words, the extent to which *executability* is considered a supervisory and resolution priority will be a key factor in determining how the revised framework operates in practice.

5.4 Governance, Coordination and Information Flows

Effective implementation will also depend on the functioning of governance and coordination arrangements within the financial safety net. CMDI strengthens cooperation obligations between supervisory authorities, resolution authorities and DGSs, but their effectiveness will depend on how these arrangements operate in practice.

Clear decision-making interfaces, timely and usable information flows, and well-defined cooperation frameworks -such as memoranda of understanding- will be particularly important for DGSs that are institutionally separate from resolution authorities.

The sustainability of the revised framework will hinge on whether these coordination mechanisms support predictable and transparent interaction under stress.

5.5 Learning Effects and Review Mechanisms

Finally, the implementation phase is expected to generate learning effects. The practical application of CMDI tools, valuation approaches and funding sequences will provide insights into how the framework operates across different scenarios.

Review clauses and follow-up work at European level will therefore be relevant for assessing whether further clarification or adjustment is needed over time.

In practice, for DGSs continued monitoring and structured exchange of implementation experience will be important to identify emerging issues and to support consistent application of the revised framework.

6 From Framework Design to Practical Implications

6.1 CMDI Reform Seen from the DGS Perspective

To sum up, it can be argued that the reform of the EU Crisis Management and Deposit Insurance (CMDI) framework is intended to address limitations observed in the practical application of the pre-existing crisis-management regime, in particular with regard to the resolution of small and medium-sized institutions. From the perspective of deposit guarantee schemes (DGSs), the reform represents a substantive adjustment of the framework governing bank failure management, rather than a purely technical update.

A central objective of the CMDI reform, as reflected in the final legislative texts, is to facilitate a more operational use of resolution tools across a broader range of institutions. This objective is mainly pursued by strengthening the interaction between resolution and industry-funded safety nets, including DGSs. The revised framework is designed to allow authorities greater flexibility in selecting crisis-management strategies, while seeking to ensure continuity of critical functions and uninterrupted access to deposits.

From a DGS perspective, the CMDI reform is characterised by an evolving role for DGSs within the crisis-management architecture. While DGSs continue to fulfil their core function of depositor protection, the revised framework embeds them more closely into resolution and alternative intervention strategies. In practice, this could entail earlier involvement of DGSs, a broader set of potential intervention tools and closer coordination with supervisory and resolution authorities.

At the same time, the CMDI reform recalibrates the conditions under which DGS resources may be used. The framework introduces a more differentiated approach to the application of cost-containment safeguards, including the least-cost principle, depending on the type of intervention and tool applied. As a result, the financial exposure of DGSs may be shaped less by liquidation counterfactuals and more by the design of the chosen crisis-management strategy. The practical effects of this recalibration will depend primarily on implementation, notably the ability to design and execute efficient and effective interventions in practice, as well as on valuation practices and recovery outcomes.

The CMDI reform also reinforces coordination and information exchange within the financial safety net. DGSs are expected to contribute information and, where relevant, financial resources within a more integrated and centralised decision-making framework. While the legislative texts establish the overall architecture, the way this coordination mechanisms operate in practice will depend on Level 2 measures, national transposition choices and supervisory and resolution practice.

Whether the revised framework delivers consistent and sustainable outcomes for DGSs will therefore depend decisively on implementation and practice. The calibration and proportionality of Level -2 measures, national implementation choices and supervisory and resolution practices will play a key role in determining how CMDI operates in concrete cases. Over time, practical application is expected to generate learning effects with respect to governance, coordination and executability.

Overall, CMDI should be understood as an evolving framework, whose effectiveness for DGSs will be shaped not only by its legal design but by how it is applied in practice. In this context, EFDI will continue to act as a practitioner-based platform facilitating structured exchange among deposit guarantee schemes and with the European institutions, supporting a shared understanding of implementation experience as the revised framework is applied in practice.

Deposit Insurance after CMDI: Balancing Integration and Diversity

7 European Competitiveness and the financing challenge

The debate on the future of the European banking sector is increasingly linked to the broader question of the competitiveness of the European economy. Over the past decade, the European Union has faced a persistent gap in productivity growth, innovation capacity and investment compared with other major economies, particularly the United States.

Recent policy discussions, including those reflected in the Draghi Report on European competitiveness, have highlighted the scale of the investment challenge facing Europe in the coming decades. Substantial resources will be required to finance strategic priorities such as digital transformation, energy transition, industrial innovation and defence.

It is also important to recognise that **the European banking system has become significantly more resilient over the past decade**. Strengthened capital positions, improved liquidity buffers and enhanced supervisory frameworks have contributed to a more robust and stable banking sector.

This increased resilience provides a stronger foundation for addressing the challenges related to competitiveness, financial integration and crisis management, while also reinforcing confidence in the overall financial system.

In this context, the capacity of the European financial system to mobilise and allocate capital efficiently becomes a central policy concern. While capital markets are expected to play an increasing role, the European economy remains predominantly bank-based. In particular, small and medium-sized enterprises (SMEs), which constitute the backbone of the European economy, continue to rely heavily on bank financing.

Strengthening the effectiveness and capacity of the European banking system is therefore not only a matter of financial stability, but also a key component of Europe's broader economic strategy.

The investment required in these areas is substantial and cannot be financed through public budgets alone. Private capital mobilisation will therefore play a crucial role in supporting Europe's economic transformation.

In this perspective, the structure and capacity of the European financial system become key policy issues, **with important technical implications for the design and functioning of the financial safety net.**

7.1 The case for stronger cross-border banking integration

The role of the banking sector remains central in this broader debate. As mentioned, while capital markets are expected to play an increasing role in financing innovation and growth, Europe's financial system continues to be predominantly bank-based, with bank credit representing the main source of external financing for firms, particularly small and medium-sized enterprises.

This structural feature reflects, in part, a fundamental difference between the European and the United States financial systems. The latter operates within a federal institutional framework and is characterised

by a greater reliance on capital markets for corporate financing. By contrast, the European Union is currently composed of multiple national systems, characterised by diverse national legal and institutional frameworks, and maintains a stronger orientation towards bank-based intermediation.

This distinction has important implications for the functioning of the financial system and for the design of policy frameworks. In Europe, the strength and competitiveness of the banking sector remain closely linked to the capacity of the economy to support investment, innovation and strategic transformation. In this context, the development of larger cross-border banking groups could contribute to addressing existing investment needs, including through greater diversification, improved access to capital markets and enhanced capacity to finance large-scale projects. Greater financial integration is also considered to contribute to strengthening depositor confidence, improving private risk-sharing and supporting the resilience of cross-border banking groups within the Banking Union.

At the same time, progress in cross-border banking integration has remained limited. Despite important institutional advances brought about by the Banking Union, the European banking landscape continues to be characterised by a significant degree of national segmentation. Structural differences across Member States, including in legal frameworks and institutional arrangements, continue to represent relevant constraints.

The debate on banking integration is also increasingly linked to broader considerations related to European competitiveness and strategic autonomy. Strengthening the capacity of European banks to support investment in key sectors -such as energy, defence, infrastructure and technological innovation- is seen as an important component of Europe's economic strategy. At the same time, this objective needs to be balanced with the preservation of institutional diversity and the resilience of different banking models across the Union.

Against this background, **a more centralised European framework can play an important role in supporting financial stability, depositor confidence and coordinated crisis management, particularly through providing common liquidity backstops in stress scenarios.** In the short term, central bank liquidity -notably through the European Central Bank- remains a key element in ensuring the stability of the system and supporting banks facing temporary liquidity constraints.

At the same time, instruments such as the Single Resolution Fund (SRF) could be more effectively leveraged to support crisis management actions, especially in relation to large and cross-border institutions where scale and systemic relevance justify a centralised response.

This perspective is further reinforced by the potential availability of additional common backstops, such as the European Stability Mechanism (ESM) backstop to the SRF, as provided for in the revised ESM Treaty, which, once fully ratified and operational, could enhance the overall credibility and effectiveness of the European crisis-management framework in severe stress scenarios.

7.2 Liquidity dynamics and recent crisis episodes

Recent crisis episodes have highlighted the central role of liquidity dynamics in bank distress.

In several cases, bank failures have been triggered not primarily by solvency issues, but by rapid and large-scale liquidity outflows. The increasing digitalisation of financial services, combined with the speed of information flows, has significantly accelerated the pace at which deposit withdrawals can occur.

This has reduced the time available for corrective action and increased the importance of immediate liquidity support mechanisms.

Recent international and European experiences have shown that even institutions with adequate capital levels may face severe stress when liquidity pressures materialise abruptly.

In this perspective, the availability of effective and credible liquidity backstops -including central bank facilities, resolution funding arrangements and common backstops- becomes a key component of financial stability.

These developments reinforce the case for a **multi-layered financial safety net** (see later), where different instruments can operate in a complementary manner to address liquidity stress across different scenarios.

7.3 Balancing Scale and Diversity

As mentioned above, the debate on European competitiveness is increasingly linked to the concept of **strategic autonomy**, particularly in areas such as energy security, defence and technological sovereignty.

To sum up, achieving these objectives requires not only industrial policy but also financial capacity:

- European firms must be able to access financing at a scale comparable to that available to their global competitors.
- Strengthening the European banking sector can contribute to Europe's ability to finance strategic investments without excessive reliance on external financial systems.

Large cross-border banking groups may therefore play a key role in supporting Europe's economic sovereignty by mobilizing financial resources for strategic sectors. At the same time, the challenge for policymakers is to ensure that greater scale and integration can develop alongside the preservation of institutional diversity and different banking models

The objective should therefore be to **design a financial ecosystem capable of combining scale with diversity**.

Different types of institutions including large cross-border banking groups, medium-sized and regional banks, cooperative and mutual networks, and decentralised institutional structures perform complementary functions within the European financial system.

Large cross-border banks may provide scale and access to capital markets for strategic investment. Smaller and regionally focused institutions including decentralised banking networks also continue to play an important role in relationship-based lending, SME financing and local economic development.

These dimensions of the financial system are not mutually exclusive.

On the contrary, they perform **complementary functions** that contribute to the overall resilience and efficiency of the European economy.

The debate on the future of the European banking system should therefore focus not on choosing between these models but on ensuring that both can coexist within a coherent regulatory framework.

7.4 Why scale is not sufficient: the role of banking diversity

While the case for stronger cross-border integration is well established, it is equally important to recognise that **scale alone does not ensure efficiency or resilience**.

The European banking system is characterised by a high degree of institutional diversity, including large cross-border groups, medium-sized and regional banks operating under different business and governance models. These institutions play a crucial role in financing local economies, supporting SMEs and maintaining long-term customer relationships.

Moreover, decentralised systems of mutual support -such as IPSs and cooperative banking groups- have demonstrated in practice their capacity to prevent crises and manage bank distress without recourse to public funds. **These arrangements represent an important layer of financial stability, built on proximity, information advantages and strong internal governance mechanisms.**

Such models contribute not only to **financial inclusion** but also to **systemic resilience**. Preserving their effectiveness requires ensuring that regulatory and institutional frameworks remain compatible with their operational characteristics, governance structures and funding models.

The key insight emerging from comparative banking studies is that large banks, medium-sized institutions, regional banks and decentralized banking networks are **not substitutes but complements**.

Each type of institution specializes in a different segment of financial intermediation.

Larger and internationally active banking groups may play a greater role in corporate banking, capital markets, wealth management, depository services and cross-border finance, while smaller, regional or relationship-oriented institutions often contribute significantly to SME lending, retail banking and local credit intermediation. A financial system dominated exclusively by very large institutions may struggle to provide adequate financing to smaller firms and regional economies.

Conversely, a system composed solely of small local banks may lack the capacity to support large-scale investment projects and global financial activities.

Maintaining a mix of institutional models therefore allows the financial system to serve a wider range of economic needs, including financial stability.

7.5 Institutional Diversity as a Source of Financial Stability

Institutional diversity also contributes to the resilience of the financial system.

Different banking models rely on different:

- funding structures

- governance systems
- targeted clientele
- risk management approaches.

As a result, economic shocks affect them differently.

For example, large internationally active banks may be more exposed to capital market volatility and global financial cycles.

Different banking models may rely on different funding structures and business strategies; for example, many domestically oriented institutions, including for example cooperative banks and other types of regional networks, rely more heavily on retail deposits and traditional lending activities.

This diversity of funding structures and business models can reduce the likelihood that financial shocks propagate uniformly across the entire banking sector.

In this sense, institutional diversity acts as a form of **systemic diversification**.

A banking system composed of multiple institutional forms may therefore be more resilient than one dominated by a small number of homogeneous institutions.

These considerations also have **important implications for the role and design of deposit insurance** within the broader financial safety net.

8 Deposit insurance in perspective

8.1 Structural barriers to cross-border integration

In discussions on the future of the Banking Union, deposit insurance is often presented as an important missing element of financial integration.

The existing framework already provides a high degree of harmonisation, including a common level of depositor protection, harmonised funding requirements and standardised payout timelines across Member States. At the same time, there is a debate as to whether further integration of deposit insurance arrangements at European level could contribute to strengthening depositor confidence, supporting cross-border banking activity and reinforcing the overall resilience of the Banking Union.

In any case, cross-border banking integration remains influenced by a range of structural factors extending beyond deposit insurance. Under the current institutional structure, the European Union does not operate as a fully-fledged federal system; significant differences in legal, economic and institutional environments will persist across Member States.

These include, in particular:

- insolvency and restructuring frameworks;
- corporate law and governance systems;

- taxation regimes;
- labour market and administrative frameworks.

Such structural differences continue to generate legal and operational complexity for cross-border banking activity and remain important drivers of fragmentation within the European banking market.

For this reason, focusing policy efforts primarily on deposit insurance risks overlooking some of these structural drivers of fragmentation. Overall, deposit insurance should be considered as one component of a broader institutional framework in which financial integration, financial stability and institutional diversity need to be balanced in a coherent manner.

8.2 A multi-layered approach to deposit insurance and financial stability

As discussed above, the recent CMDI reform introduces a revised framework for crisis management and deposit insurance, which will have important implications for the functioning of the financial safety net.

In particular, the framework expands the range of tools available to authorities, increases the scope for coordination among supervisory, resolution and deposit guarantee authorities, and reinforces the interaction between different layers of the crisis-management architecture.

At the same time, the reform creates an opportunity to strengthen cooperation across the different layers of the financial safety net, including national DGSs, resolution authorities and existing mutual support mechanisms. The implementation phase will therefore be important not only for assessing the effectiveness of the CMDI framework itself, but also for further developing the practical interaction among all participants in the safety net.

Taken together, these considerations point towards the relevance of a **balanced and multi-layered institutional architecture**.

In such a framework:

- **Centralised mechanisms** may support the management of large or cross-border crises
- **National DGSs** may continue to operate effectively within their domestic legal and economic environments.
- **Decentralised arrangements** such as institutional protection schemes and cooperative structures may contribute to early intervention, crisis prevention and financial stability in specific national contexts.

At the European level, common mechanisms may support financial stability in stress scenarios, including through liquidity arrangements and coordinated crisis tools. Various options are under discussion, from cooperation between national schemes to more integrated European solutions complementing existing frameworks. In the broader debate, a fully-fledged European deposit insurance framework is often linked to objectives such as reducing the bank–sovereign nexus and enhancing consistency and integration within the Banking Union.

At the national level, deposit guarantee schemes may continue to operate within domestic legal, economic and institutional environments. This enables them to contribute effectively and proportionately to crisis management strategies while maintaining confidence among depositors and financial market participants.

At the decentralised level, mechanisms such as institutional protection schemes and cooperative banking groups can play an important role in early intervention and crisis prevention, particularly where they are embedded in broader legal and institutional arrangements, in some cases of constitutional significance, reflecting the diversity of national banking systems.

The future evolution of the European framework may therefore involve different layers of protection and crisis-management arrangements operating in a complementary manner. Such an approach could help combine:

- the scale and coordination required to support European financial integration and stability;
- the diversity and proximity that can contribute to resilience, operational effectiveness and support for local economies.

8.3 State aid considerations and consistency with the CMDI framework

The interaction between deposit guarantee schemes and State aid rules remains a key element in the design and practical application of crisis-management tools in the European Union. The 2013 Banking Communication introduced a framework that has, over time, generally supported the management of bank failures while ensuring an appropriate balance between financial stability considerations and burden-sharing requirements. At the same time, its application has raised a number of interpretative and operational challenges, particularly in relation to the qualification of DGS interventions.

The experience of past cases, including the Tercas judgment of the Court of Justice of the European Union, has clarified important aspects of the application of State aid rules to privately funded schemes, confirming that interventions carried out without State control and without the use of public resources do not constitute State aid. At the same time, the judgment has left open questions regarding the treatment of interventions carried out by publicly administered schemes, where the boundaries between private and public resources may be less clearly defined.

Against this background, the ongoing reflection by the European Commission on the State aid framework for the banking sector provides an opportunity to enhance legal certainty and ensure greater consistency with the revised CMDI framework. This is particularly important in light of the expanded role of DGSs under CMDI, including their involvement in preventive and alternative measures, as well as in resolution-related interventions.

From a conceptual and operational perspective, it is important to **ensure that the interaction between State aid rules and the CMDI framework does not create unintended disincentives for timely and less disruptive interventions**. Where DGS interventions are designed to achieve outcomes that are less costly and more stability-preserving than depositor payout - which represents the default and most

disruptive outcome and is not considered State aid - consideration could be given to ensuring that such interventions are not subject to a more restrictive treatment under the State aid framework.

In this context, procedural arrangements should support timely and effective crisis management. In situations where DGS interventions meet the requirements of the CMDI framework, including applicable safeguards and the least cost test, streamlined or expedited State aid assessments could help avoid delays that could undermine financial stability.

More broadly, ensuring coherence between State aid rules and the CMDI framework is important to **avoid unintended disincentives for early and efficient interventions**, while preserving sufficient flexibility for Member States and authorities to address crisis situations in a proportionate and effective manner.

A balanced approach would support the transition towards an industry-funded model of crisis management, reinforcing depositor confidence while preserving the respective roles and objectives of each regime.

In this context, the objective should be to ensure that the interaction between both frameworks remains clear, predictable and operationally workable, without constraining the ability of authorities to respond effectively to crisis situations.

8.4 Simplification and proportionality in the crisis-management framework

The growing complexity of the European crisis-management framework has emerged as a key concern in the ongoing policy debate, including in the context of the targeted consultation on the competitiveness of the EU banking sector. While the current framework has significantly strengthened financial stability, its cumulative development over time has resulted in a system that is, in several areas, highly complex and operationally demanding.

The interaction between different layers of regulation -including prudential requirements, resolution rules and deposit guarantee schemes- can generate overlaps, legal uncertainty and operational challenges, particularly in crisis situations where timely decision-making is essential. This complexity is further amplified by multi-level governance arrangements and by the extensive use of detailed Level 2 and Level 3 measures.

From a practitioner perspective, a certain degree of complexity is inevitable in a framework designed to safeguard financial stability and limit moral hazard. However, further efforts towards simplification and a more consistent application of the principle of proportionality could be pursued without undermining resilience. In particular, simplification should focus on improving the usability, predictability and operational effectiveness of the framework.

Several areas could benefit from targeted simplification. These include:

- Streamlining the interaction between prudential, resolution and deposit insurance, and State aid frameworks, in order to reduce overlaps and improve legal clarity.

- Simplifying procedural requirements and decision-making processes, especially in crisis situations requiring rapid intervention.
- Enhancing proportionality, particularly for small and medium-sized institutions with less complex business models.
- Improving the consistency and efficiency of data requests and reporting obligations across authorities.
- Ensuring that testing and operational exercises (including, for example, dry runs) are conducted in a proportionate and efficient manner.

Particular attention should also be paid to the overall complexity of the MREL framework. While MREL has strengthened resolvability, its calibration and interaction with other prudential requirements can reduce predictability and increase compliance costs, especially for smaller institutions. A more transparent, stable and proportionate approach would enhance both effectiveness and usability.

More broadly, simplification should be considered as a guiding principle for the future evolution of the European crisis-management framework, in line with the broader objective of strengthening the competitiveness of the European financial system.

In complex crisis situations, simplicity is not a reduction of safeguards, but a prerequisite for effective and timely action.

9 Conclusions and Forward Look

9.1 Summary of Key Findings

Looking at the CMDI reform as a **possible starting point** for a new phase of policy development, in the context of the current diverse institutional architecture of the EU and by persistent structural differences across Member States, the question of how to balance integration and diversity within the European financial safety net remains central. Against this background EFDI highlights the *relevance of a multi-layered approach to the European financial safety net*.

The completion of the Banking Union is commonly associated with the objective of fostering financial integration and strengthening the resilience of the European banking sector. At the same time, further harmonisation should go hand in hand with the preservation of **institutional diversity**. There are differing perspectives on how this objective is best achieved. In this context, a multi-layered institutional architecture—combining centralised mechanisms, national deposit guarantee schemes and decentralised arrangements—may represent a feasible approach to reconcile these objectives.

Centralised mechanisms may provide credibility and liquidity backstops in systemic scenarios, while national DGSs and a range of decentralised arrangements and locally embedded structures (e.g. IPSs and Cooperative Groups) contribute to proximity, flexibility and effectiveness in addressing local and idiosyncratic situations. Preserving this balance, while enhancing coordination across layers, appears

essential to ensure that the European framework remains **both effective and consistent with the institutional diversity that characterises the Union.**

At the same time, the recently approved CMDI reform can also be seen as the **endpoint of a political compromise** reached after a decade-long debate on the development of the Banking Union and the management of banking crises within the European context.

This perspective naturally shifts the focus to the **implementation phase of the new framework, which will unfold over the coming years.**

The CMDI reform is intended to facilitate a broader and more operational use of the resolution framework, including for smaller and medium-sized institutions with deposit-funded business models. This represents a clear change in direction compared to past practice, although the extent to which resolution will be applied more frequently in such cases will ultimately depend on supervisory and resolution decisions, valuation outcomes and market conditions.

From a deposit guarantee scheme perspective, a central finding of this report is that the reform **materially expands the potential scope, timing and scale of DGS financial involvement** in crisis management. The revised framework enables DGS resources to be used more flexibly across resolution and non-resolution tools, which may, in some cases, support orderly exit strategies. At the same time, it increases the range of situations in which DGS funds may be called upon, often at earlier stages of bank distress and under tighter time constraints.

The report further finds that the CMDI reform **reduces the practical relevance of traditional cost-containment benchmarks for DGS interventions in certain scenarios.** In particular, where crisis management strategies rely on transfers of assets and liabilities or bridge institutions, DGS contributions are no longer consistently anchored to liquidation counterfactuals and expected recoveries. Whether this leads to higher net costs for DGSs will depend on the specific design of transactions, the quality of valuations and the effectiveness of subsequent recoveries.

At the same time, the reform **does not significantly strengthen the position of DGSs in decision-making processes.** While DGSs are expected to play a more active role through information provision, assessments and financial contributions, key strategic choices -such as the selection of tools, valuation assumptions and funding structures- remain with supervisory and resolution authorities. This creates an ongoing imbalance between the **financial responsibilities borne by DGSs and their limited influence over the decisions that shape those responsibilities.**

With regard to preventive and alternative measures, the CMDI reform establishes a more harmonised and procedurally structured EU framework. From a DGS perspective, this enhances legal consistency across Member States but also reduces national discretion and operational flexibility. Preventive interventions become more documentation-intensive and authority-driven, likely resulting in increased procedural complexity and higher costs. This potentially limits their practical usability in fast-moving situations.

Finally, the revised SRMR strengthens cooperation and information exchange within the financial safety net and explicitly recognises the relevance of DGS information for crisis-management tasks. However, cooperation arrangements remain largely authority-driven and, in some cases, discretionary. The extent

to which this results in predictable and workable processes for DGSs will depend on how these arrangements are implemented in practice.

Taken together, the CMDI reform signals a shift away from a framework in which DGSs primarily operated as pay-box mechanisms towards a model in which DGSs may function as more integrated financial contributors within a more integrated crisis-management architecture. Whether this shift proves sustainable for DGSs over time will depend on how risks are allocated in practice, how safeguards are applied, and how the balance between centralised decision-making and decentralised financial responsibility evolves during implementation.

In this context, the **role of supervision remains a fundamental**, and often under-emphasised, component of financial stability.

Effective crisis management frameworks can mitigate the impact of bank failures, but their use should remain exceptional. **The first line of defence lies in timely and effective supervisory action aimed at identifying and addressing emerging risks at an early stage.**

From a practitioner perspective, this suggests the importance of supervisory approaches that are not only robust, but also proportionate, forward-looking and operationally effective.

Ensuring that supervisory frameworks remain capable of capturing evolving risk profiles and business model vulnerabilities is essential to reduce the likelihood of crisis situations requiring the activation of resolution or DGS interventions.

In this perspective, **simplification** emerges as a key element for the effectiveness of both supervisory and crisis-management frameworks. Excessive complexity, overlapping requirements and highly proceduralised approaches may reduce the ability of authorities and market participants to act in a timely and effective manner.

In such a framework, ensuring consistency between the CMDI framework and the **State aid** regime will also be important, in order to avoid unintended disincentives for the use of less costly and less disruptive intervention strategies.

A greater focus on clarity, proportionality and operational usability - both in supervisory practices and in crisis-management tools - would contribute to strengthening prevention, enhancing executability and reducing the likelihood that financial safety nets need to be activated

9.2 Outlook for Future Regulatory or Legislative Action

The period following the adoption of the CMDI reform will be shaped by a sequence of interlinked steps, starting with the development of Level 2 measures, followed by national transposition and institutional implementation, and ultimately by supervisory and resolution practice. For deposit guarantee schemes (DGSs), each of these phases will be relevant in determining how the revised framework operates in practice.

As mentioned, against this background particular attention should be given to the simplification of the framework in the implementation phase. Ensuring clarity, proportionality and operational usability will be essential to support timely and effective crisis management, especially under conditions of stress.

A first and immediate area of focus will be the **work mandated to the European Banking Authority (EBA)** under the revised DGSD and BRRD. The forthcoming technical standards and guidelines will play a central role in translating the CMDI framework into practical expectations for DGSs. The calibration, proportionality and internal consistency of these instruments will be decisive for whether the framework can be applied in a workable and proportionate manner across different national contexts.

In parallel, **national transposition and implementation** will constitute a second critical layer. Member States retain discretion in key areas, including the availability and scope of preventive and alternative measures under national law. Differences in legal traditions, existing DGS mandates and crisis-management structures mean that the revised CMDI framework may be implemented differently across jurisdictions. How these national choices interact with Level 2 guidance will be particularly important for DGSs operating in cross-border institutional settings.

Beyond the formal transposition phase, attention will increasingly shift to the **practical application of the revised framework in individual cases**. How resolution authorities apply the least cost methodology, how valuations are conducted under time pressure, and how recoveries materialise over time will largely determine the effective financial impact on DGSs. Even under harmonised rules, differences in national practice and case-specific circumstances may lead to divergent outcomes for DGSs across Member States.

Another important element will be the **functioning of cooperation and information-exchange arrangements** within the financial safety net. While CMDI strengthens cooperation obligations, their effectiveness will depend on how these obligations are implemented at national and cross-border level. Predictable, timely and operationally useful information flows will be essential for DGS preparedness, particularly where national arrangements involve multiple authorities with shared or overlapping responsibilities.

As implementation experience accumulates, the CMDI reform may also prompt **further reflection on the alignment between financial responsibility and governance arrangements**. If DGS exposure increases in practice without corresponding procedural safeguards or influence, questions may arise as to whether the current balance between centralised decision-making and decentralised funding remains appropriate.

Against this background, **EFDI's role in the post-legislative phase will be central**. This phase will be decisive for ensuring effective implementation of the framework and addressing practical challenges as they emerge. Continued monitoring of developments, structured exchange on national transposition approaches, and coordinated practitioner input into consultation processes with authorities will be essential to identify emerging challenges, divergences and unintended effects at an early stage and enable a consistent, operationally workable and proportionate application of the framework.

10 **Appendix 1** - *Simplification and Operational Effectiveness in the CMDI*

10.1 Introduction

The increasing complexity of the European regulatory framework for bank crisis management and deposit insurance has become a central issue in the current policy debate. While successive reforms over the past decade have significantly strengthened financial stability, they have also resulted in a layered and highly articulated system, which may pose challenges in terms of usability, predictability and operational effectiveness.

From a practitioner perspective, simplification should not be interpreted as a reduction of safeguards, but rather as an effort to ensure that the framework can be effectively applied in real-life situations, particularly under time pressure. This appendix provides a more detailed analysis of selected areas where simplification and proportionality could enhance the functioning of the system without undermining its objectives.

10.2 Testing frameworks and operational exercises

In an increasingly complex crisis-management architecture, operational readiness depends less on the existence of individual testing regimes than on **how coherently supervisory, resolution and DGS-related exercises are designed, sequenced and interpreted across authorities**. From a DGS perspective, testing therefore becomes a key element of simplification efforts aimed at ensuring that multiple, partially overlapping preparedness requirements translate into **consistent operational insights rather than parallel processes**, which has brought coordination challenges into sharper focus in recent years.

Origin of the issue

In recent years, testing frameworks and operational exercises have been significantly expanded across the European financial safety net. These include:

- resolution dry runs coordinated by resolution authorities;
- supervisory stress-testing and contingency exercises;
- DGS stress tests under EBA Guidelines (2021);
- internal simulations conducted at banking group level.

While these initiatives are essential to ensure preparedness, they have developed in parallel across different authorities and institutional layers, often without full coordination.

Practical implications

In practice, this has led to several operational challenges:

- **duplication of efforts**, with similar data and scenarios requested multiple times by different authorities;
- **high operational burden**, requiring significant allocation of internal resources over extended periods;
- **limited marginal benefits**, where repeated exercises generate limited additional learning;
- **lack of proportionality**, as smaller and less complex institutions may be subject to requirements similar to those applied to large or systemic banks.

These factors can reduce the overall efficiency of testing frameworks and may divert resources from core risk management and operational preparedness activities.

Possible avenues for simplification

A more proportionate and efficient approach could be achieved through:

- **enhanced coordination among authorities**, including the development of joint or mutually recognised exercises;
- **standardisation of methodologies and templates**, allowing results to be reused across different frameworks;
- **risk-based and proportional approaches**, differentiating requirements based on size, complexity and systemic relevance;
- **optimisation of frequency and scope**, avoiding unnecessary repetition of similar exercises;
- **improved alignment of data requests**, reducing duplication and reporting burden.

The effectiveness of testing frameworks depends primarily on **effective coordination across supervisory, resolution and deposit insurance authorities**. Where exercises are insufficiently aligned, testing risks becoming fragmented and repetitive rather than strengthening readiness. **The objective of testing should be to enhance preparedness**, not to generate operational burdens with limited incremental value.

10.3 Complexity of the MREL framework

While the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is primarily a prudential and resolution-planning instrument addressed to banks and resolution authorities, its calibration and practical usability have **important system-level implications** for the application of the CMDI framework.

From a deposit guarantee scheme (DGS) perspective, MREL does not constitute a policy objective in itself. However, structural shortfalls, complexity or unpredictability in MREL directly affect the feasibility

and design of resolution strategies, thereby shaping the likelihood, timing and scale of potential DGS involvement under resolution, transfer tools and related funding sequences.

Origin of the issue

The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) has been a key pillar of the post-crisis framework, strengthening the resolvability of banks and reducing reliance on public support.

However, in the European context, MREL has evolved into a highly complex framework due to:

- its application to a broad range of institutions, beyond globally systemic banks;
- the combination of multiple components (loss absorption, recapitalisation, buffers and discretionary add-ons);
- its interaction with prudential requirements, including capital ratios, leverage constraints and supervisory expectations.

While these features reflect the ambition to ensure robust loss-absorbing capacity across the system, they have also increased the overall complexity of the framework.

Practical implications

This complexity generates several operational and strategic effects that are relevant for the functioning of the CMDI framework:

- **reduced predictability**, as changes in prudential requirements (e.g. Pillar 2 requirements) can mechanically affect MREL levels;
- **interdependence between going-concern and gone-concern requirements**, making capital planning more complex;
- **high degree of discretion**, which may reduce transparency and comparability across institutions and amplify valuation uncertainty and contestability in resolution decisions with financial implications for DGSs.
- **market constraints**, particularly for smaller institutions with limited access to eligible funding instruments increasing the likelihood that resolution authorities may rely on transfer strategies or bridge solutions, in which DGS contributions play a materially different role compared to classic open-bank bail-in;
- **increased planning and compliance costs**, leading in some cases to conservative over-compliance strategies.

Taken together, these effects do not primarily affect DGSs through the design of MREL itself, but through their indirect impact on resolution paths, funding structures and the executability of crisis-management tools under CMDI. These may reduce the usability of the framework and complicate both internal planning and external communication with investors.

Possible avenues for simplification

Without reassessing the policy objectives of MREL or supervisory mandates, a more effective and proportionate MREL framework could be supported by measures aimed at reducing unnecessary complexity such as:

- **greater alignment with international standards**, including a clearer distinction between different components;
- **reduction of automatic linkages with prudential requirements**, limiting unintended effects;
- **enhanced transparency of calibration methodologies**, improving predictability for resolution planning;
- **stronger proportionality in the application of rules**, particularly for smaller and less complex institutions without undermining the consistency of outcomes;
- **consideration of market capacity**, ensuring that requirements are realistic and sustainable.

Excessive complexity in calibration reduces not only efficiency, but also credibility, as **market participants may struggle to understand the drivers of MREL requirements and to assess how these translate into feasible resolution strategies and associated funding needs in practice.**

10.4 Concluding remarks

Beyond specific areas, simplification should be considered as a cross-cutting principle guiding the evolution of the European crisis-management framework.

Key dimensions include:

- Reducing overlaps between prudential, resolution and deposit insurance frameworks.
- Ensuring that key decision-making criteria, such as the least cost test and the public interest assessment, can be applied in a consistent and operationally workable manner, while avoiding unnecessary additional prescriptive guidance.
- Ensuring that procedural timelines are compatible with crisis-management needs.
- Improving consistency in reporting and data collection across authorities.

Simplification is not an objective in itself, but a means to ensure that the regulatory framework remains effective, credible and operationally viable.

In complex crisis situations, the ability to act quickly and coherently depends not only on the availability of tools, but also on the clarity and usability of the framework within which those tools are applied.

In this context, **simplicity should be understood not as a reduction of safeguards**, but as a prerequisite for effective and timely action.

11 **Appendix 2 - EFDI Contributions to CMDI debate (2015–2025)**

11.1 Introduction

Over the past decade, the European Forum of Deposit Insurers (EFDI) has contributed to the policy debate on crisis management and deposit insurance through a series of technical papers and position documents.

The following sections summarise key themes emerging from EFDI's workover time and do not necessarily correspond to individual papers, but rather reflect recurring principles and practitioner-based insights developed across multiple contributions.

As a practitioner-based organisation representing a wide range of deposit guarantee schemes (DGSs) - including public, private and hybrid systems, both within and outside the Banking Union- EFDI has consistently sought to provide operationally grounded input, reflecting the practical experience of its members.

Despite significant institutional diversity, EFDI has been able to identify common technical principles and shared concerns, contributing constructively to the evolution of the European crisis-management framework.

Following a first paper published in 2018, containing technical considerations for the design of Edis, more recently, EFDI has contributed extensively to the debate on the CMDI reform through a series of dedicated position papers and technical analyses, reflecting the consensus of practitioners on the proposed revision of the framework.

These contributions build on a broader body of work developed over the past decade, which is publicly available and provides further background on the topics addressed in this paper.

11.2 Preventive and Alternative Measures

One of the most consistent themes in EFDI's work has been the role of preventive and alternative measures as effective tools for managing bank distress.

EFDI has emphasised that early intervention mechanisms:

- can reduce the overall cost of bank failures;
- limit disruption to depositors and local economies;
- avoid the escalation of idiosyncratic problems into systemic events.

From an operational perspective, preventive measures allow DGSs to act before the point of non-viability, often leveraging detailed knowledge of member institutions and local market conditions.

EFDI has also highlighted that the effectiveness of such measures depends on:

- Timely decision-making.
- Proportionality of procedural requirements.

- Clarity in the allocation of roles between DGSs, supervisors and resolution authorities.

In this perspective, EFDI has consistently advocated for a framework that enables preventive interventions while maintaining appropriate safeguards.

These principles have been consistently reaffirmed in EFDI's recent contributions to the CMDI debate, where practitioners have emphasised the importance of preserving the effectiveness of preventive and alternative measures within the revised DGSD framework.

11.3 The Least Cost Principle

EFDI has devoted significant attention to the application of the least cost principle, a cornerstone of DGS intervention frameworks.

In its technical contributions, EFDI has underlined that:

- the least cost test should function as a **decision-making tool**, not as a rigid constraint;
- comparisons between alternative interventions should take into account realistic recovery scenarios and operational feasibility;
- excessive reliance on theoretical liquidation counterfactuals may lead to suboptimal outcomes.

EFDI has also noted that the application of the least cost principle must remain compatible with:

- the objective of preserving critical functions;
- the need for timely intervention;
- the avoidance of unnecessary value destruction.

These considerations have been particularly relevant in the context of CMDI discussions, where the interaction between least cost logic, resolution tools and DGS contributions has evolved significantly.

In the context of the CMDI reform, EFDI has also highlighted the need to avoid excessive proceduralising of the least cost test, noting that overly rigid or standardised approaches may reduce flexibility and increase operational complexity without clear benefits.

11.4 Cooperation within the Financial Safety Net

Another central pillar of EFDI's work has been the analysis of cooperation mechanisms within the financial safety net.

EFDI has highlighted that effective crisis management requires:

- clear allocation of responsibilities among authorities;
- timely and reliable information flows;
- well-defined coordination frameworks, including memoranda of understanding.

Particular attention has been given to the interaction between:

- deposit guarantee schemes;
- supervisory authorities;
- resolution authorities.

EFDI has stressed that, while legal frameworks can define roles at a high level, the effectiveness of cooperation depends on **operational arrangements** and the ability of institutions to act under time pressure.

This dimension has become increasingly relevant under CMDI, where the interdependence of safety net participants is further strengthened.

This dimension has been further emphasised in the CMDI debate, where EFDI has stressed the importance of clearly defined roles and effective coordination mechanisms among authorities, particularly in situations where DGSs may be called upon to contribute to resolution actions.

11.5 Funding, Risk Exposure and Financial Sustainability

EFDI has also examined the funding and financial capacity of DGSs, with a focus on:

- the adequacy of available financial means;
- the design of risk-based contributions;
- the potential pro-cyclicality of funding requirements.

From a practitioner perspective, EFDI has highlighted that:

- DGS funding frameworks must balance resilience with proportionality;
- excessive or unpredictable financial demands may affect the sustainability of schemes;
- the interaction between DGS resources and other safety net mechanisms should be carefully calibrated.

These issues have gained prominence in the context of CMDI, where the potential use of DGS funds has expanded beyond traditional payout scenarios.

In its CMDI-related work, EFDI has also underlined the importance of safeguarding the financial capacity of DGSs, stressing that the use of DGS funds in resolution should not lead to their depletion and should remain consistent with their primary mandate of depositor protection.

11.6 Institutional Diversity and Operational Models

Across its various contributions, EFDI has consistently acknowledged the diversity of DGS structures in Europe.

EFDI members include:

- pay-box systems;
- loss-minimisation schemes;

- institutional protection schemes (IPs);
- hybrid arrangements combining multiple functions.

EFDI has consistently emphasised that this diversity reflects:

- differences in national banking systems;
- legal and institutional frameworks;
- historical development of financial sectors.

Rather than representing a weakness, such diversity has been recognised as a source of:

- operational flexibility;
- resilience;
- adaptability to local conditions.

EFDI has therefore advocated for a regulatory approach that preserves this diversity while ensuring a common level of depositor protection across the Union.

11.7 EFDI contributions to the CMDI reform process

Over the last three years, in the context of the CMDI reform initiated by the European Commission in 2023, EFDI has developed a structured set of contributions reflecting the collective view of practitioners across the European Economic Area.

A first paper, adopted in October 2023, set out key statements of principle, emphasising, inter alia:

- the importance of maintaining a strong role for national crisis-management frameworks, particularly for less significant institutions;
- the need to preserve the credibility and financial capacity of DGSs;
- the importance of clearly defining the scope and application of the public interest assessment;
- the necessity of aligning State aid rules with the evolving role of DGSs.

A second, more detailed paper, adopted in March 2024, provided technical analysis and recommendations on the DGSD review, addressing a wide range of operational aspects, including:

- the use of DGS funds and the calibration of the least cost test;
- the design of preventive and alternative measures;
- the role of Level 2 and Level 3 regulation, with particular attention to proportionality and subsidiarity;
- the need to limit unnecessary regulatory burden and avoid excessive reliance on detailed technical standards.

A third document, published in December 2024 in view of the trilogue phase, summarised EFDI's main recommendations and confirmed the key principles guiding practitioners' views, including the

importance of proportionality, operational flexibility and the preservation of institutional diversity within a harmonised framework.

Taken together, these contributions reflect a consistent and coherent position, grounded in practical experience, and aimed at ensuring that the CMDI framework remains both effective and workable in different institutional contexts.

11.8 Concluding remarks

Drawing on the experience of its members, EFDI has also contributed to the debate through insights derived from real-life interventions.

These experiences have shown that:

- early and targeted interventions can significantly reduce losses;
- local knowledge and proximity to institutions can enhance decision-making;
- decentralised arrangements can complement centralised frameworks in managing bank distress.

In several cases, mutual support mechanisms - including IPSs and cooperative banking groups - have demonstrated their ability to stabilise institutions without recourse to public funds.

These lessons have informed EFDI's broader position that effective crisis management requires a combination of tools and institutional arrangements.

Taken together, EFDI's contributions over the past decade reflect a consistent effort to support the development of a European crisis-management and deposit insurance framework that is:

- operationally effective;
- proportionate;
- compatible with institutional diversity;
- grounded in practical experience.

EFDI has not sought to promote a specific institutional model, but rather to identify common technical principles that can guide policy development across different national contexts.

In this perspective, the CMDI reform and its implementation phase represent both a validation of past contributions and an opportunity to further develop a coherent and workable European financial safety net, building on the accumulated experience of practitioners, as reflected in EFDI's recent CMDI-related work.
