



European Elections 2024

Positions and
recommendations
of the German
Bausparkassen

With a view to the 2024 European elections, the German bausparkassen have compiled their positions and recommendations in this paper. Our members would like to drive progress on the following issues:

- Acknowledgement of the risk of different business models
- SRB resolution for large entities; national standard insolvency for small and medium-sized entities
- Banking supervisory law: Tailored and proportional
- Risk reduction before deposit protection
- Creation of a genuine European single market for financial services
- Linking environmental standards to climate targets; subsidiarity principle on the way to meeting the requirements
- Creation of EU incentives for investment in sustainable projects

What was still considered unimaginable in the middle of the 20th century – peace in Europe – has increasingly become a matter of course over the decades. For a long time, those cautioning this fundamental achievement on every birthday of the EU seemed out of touch with reality. Then, in February 2022, the citizens of Europe learned just **how quickly history can change** when Russia invaded Ukraine overnight. The war in Ukraine made it clear that the EU is primarily a peace project and that strengthening cohesion between member states at all levels is essential.

The foundation of prosperity and security is the common internal market, which celebrated its 30th anniversary in 2023. Today, the EU is the largest single market in the world with around 450 million citizens. The single market is characterized by its four fundamental freedoms, which are designed to enable goods, services, capital, and people to move freely within the EU. Many young Europeans today have studied in other EU countries and have therefore been able to **experience the freedoms of the single market first-hand**. Not least those working in Brussels but coming from another EU



country experience the single market in their daily lives. And many Europeans are made aware of the numerous advantages of the single currency once they go on holiday abroad. Those who no longer have to exchange marks, shillings, or lira before they travel get to save time and money, allowing them to focus on their trip instead.

It should not be overlooked, however, that despite these obvious benefits, “Brussels” or “Brussels bureaucrats” are made to serve as a universal scapegoat, especially in the discourse on the fringes of the political spectrum that is becoming increasingly socially acceptable. Every member state is represented in the Council of the EU, and the European Commission is not committed to individual interests, but to the interests of European citizens. As **unjustified** as this anti-European rhetoric may be, **it remains dangerous**. It is therefore all the more important that EU citizens exercise their democratic rights and vote. This is to be understood not only as a citizen’s duty, but also as a means of **legitimising and shaping politics**. We all have the right and the moral duty to vote for the future of Europe.

In view of the upcoming European elections, we demand: “Brussels”, regulate the essentials, and not every detail! “Brussels”, use your combined influence to make a successful and measurable contribution to international efforts for more climate protection! “Brussels”, create a framework in which everyone can enjoy the free movement of persons! “Brussels”, create unity by allowing diversity! **Diversity of products, services, and business models** from which almost half a billion people can choose freely, and which make the Union even stronger overall.

Looking at the demands in those areas that are of particular importance for the day-to-day business operations of bausparkassen, they can be broken down into the areas of banking supervisory law, consumer protection and green finance. The aim here is for the EU to create a framework in which financial institutions can operate in a secure and stable manner, consumers are protected, and investments in sustainable projects are promoted.

The German bausparkassen advocate for a tailored and proportional regulatory approach. In the upcoming legislative period, existing regulatory requirements should be reconsidered, and superfluous requirements abolished. Regulation must not be used to harm business or to pursue competition policy to the benefit or detriment of a business model in the banking market. If regional banks are forced to merge due to regulatory requirements, the question arises as to whether the level set by the legislator is still appropriate. The interconnectedness of universal banks operating across borders differs from the homogeneous product range of national specialist credit institutions. This is where regulation should come in and make clearer distinctions. The European slogan “United in diversity” applies: Specific business models, such as that of bausparkassen, contribute to greater diversity of offerings and system stability – they therefore deserve tailored regulatory supervision.



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1. Banking supervisory law

Revision of the CMDI framework

Perhaps the most important regulatory dossier currently being worked on at European level is the revision of the recovery and resolution framework and the deposit guarantee framework – the Crisis Management and Deposit Insurance (CMDI). The European Commission gave its go-ahead with the release of its legislative proposals on 18 April 2023. The dossier is of key importance to the German bausparkassen; if the European Commission's ideas prevail, many bausparkassen would face enormous additional administrative and financial burdens. As mentioned, the unique features of the bausparkassen business should be given sufficient consideration in matters of restructuring and resolution. Many bausparkassen are currently subject to national insolvency regulations. In addition, their balance sheet on the liabilities side consists predominantly of covered customer deposits and therefore does not correspond to the “Minimum Requirements for own funds and Eligible Liabilities (MREL) structure” as would be required by the Single Resolution Board (SRB) under a European resolution regime.

The German bausparkassen are of the opinion that the general efforts of the European Commission to improve the existing legal framework are fundamentally worth supporting. However, the current separation between **European resolution for large, systemically important institutions** with cross-border business and **national standard insolvency as the default option for the large number of small and medium-sized entities** should be maintained. In general, the question arises as to whether an improvement could be achieved by better enforcing existing regulations rather than turning the current framework on its head.

The high regulatory requirements associated with a European resolution regime could overburden small and medium-sized entities. The associated high financial costs and enormous procedural expenses would unduly weaken these entities and thus not lead to a strengthening of the resilience of the European financial system. On the contrary, this would further reinforce the trend of consolidation in the banking sector towards ever larger entities, the failure of which would have considerable negative effects.

In Germany, the bausparkassen supervisory authority and the legal framework for bausparkassen provide a resolution mechanism specifically tailored to bausparkassen, so that the overarching goal of “financial stability without recourse to taxpayer money” is ensured by using this legal framework. Based on decades of experience in bausparkassen supervision, these proven national resolution regimes, which have so far not required recourse to taxpayer money, should be given priority over a harmonized European resolution regime for all credit institutions that is not specific to any particular business model. Furthermore, overlapping responsibilities of different authorities regarding resolution issues is inefficient from a risk perspective and

should ideally remain where the business model-specific expertise is already located today.

Institutional protection schemes also contribute to the overarching goal of “financial stability without access to taxpayer money”. Some Bausparkassen are members of institutional protection schemes too, which for many decades have been a tried and tested, powerful instrument for protecting institutions from insolvency and liquidation. The revision of the deposit guarantee framework should therefore strengthen institutional protection schemes instead of restricting their activities and options.

European Deposit Insurance Scheme (EDIS)

The revision of the recovery and resolution framework is also linked to the discussion surrounding the possible introduction of a European Deposit Insurance Scheme (EDIS): While the European Ministers of Economy and Finance agreed in summer 2022 to put work on EDIS on hold for the time being and focus on the CMDI framework, many voices – particularly from the European Parliament – continue to call for the introduction of EDIS.

The issue is not new. The Commission proposal has been on the table since 2015 without a political majority. In particular, it is questionable whether the banking union needs a European deposit guarantee scheme called EDIS in addition to the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM) in order to be “complete”, or whether the existing Deposit Guarantee Scheme Directive – which has protected



covered deposits of up to €100,000 throughout the EU since 2014 – does not fulfil precisely this purpose. Furthermore, if there is a need for technical adjustments to the existing deposit protection regulations, the CMDI provides the legal venue to take action.

There has long been a debate about whether European deposit protection is needed to reduce the risks in the banking sector or whether the risks in the banking sector need to be reduced first to enable uniform deposit protection across Europe. It is important not to confuse cause and effect.

The German bausparkassen believe that a serious discussion about the possible introduction of a European deposit guarantee can only take place after a comprehensive reduction of credit risks in the banking sector. This is because the hasty introduction of EDIS could lead to **incalculable consequences** for financial stability, as liability for risks taken would be transferred to risk-averse, solvent institutions, while the profit opportunities would remain exclusively with the risk-generating institutions. EDIS thus entails the danger of the separation of risk and liability as well as forced transfers between the banking systems of the member states.



Future capital requirements under CRR III

In addition to the current discussion on the CMDI framework and the ongoing topic of EDIS, the implementation of the final Basel III framework into European law will result in future capital requirements for European credit institutions and therefore also for German bausparkassen.

Once again, the German bausparkassen are not alone in their demand for appropriate regulatory treatment. The fundamental idea of taking European specifics into account when implementing international regulatory standards was a central element in the political discourse on Basel III. This issue consistently ranked among the top three demands of many of the players involved in the legislative process. The informal political agreement reached on 27 June 2023 also takes up this fundamental and important idea: According to the compromise text, when implementing the outstanding elements of the final Basel III framework, a significant increase in capital adequacy in the EU banking system must be avoided. To this end, **European specifics must be taken into account**. Furthermore, the application of transitional periods should prevent a competitive disadvantage for European credit institutions in competition with their international counterparts.

As German bausparkassen, we support these statements. Since work began on implementing the final Basel III framework into European law, the German bausparkassen have been committed to avoiding or at least reducing the disproportionate impact of the output floor on the capital backing of the low-risk mortgage lending business. **The transitional periods for low-risk exposures secured by mortgages on residential property**

provided for in Art. 465 (5) CRR should therefore be positively emphasized.

While the European Commission had also envisaged that the transitional periods could be extended indefinitely – subject to a corresponding assessment by the EBA – the co-legislators agreed that the risk weights of the transitional phase may be extended by a maximum of four years. This means that the relief for this asset class, which meets significantly higher security requirements than comparable US mortgages, is limited in time and therefore not of lasting benefit in the long term. European specifics, such as the fact that mortgage portfolios remain on the balance sheets of the lending banks, or the increased rights of recourse are therefore not sufficiently taken into account in the long term.

As German bausparkassen, we will continue to advocate **permanent relief for liabilities secured by residential property** when calculating the output floor. The revision clause newly anchored in Art. 518c CRR in the final night of negotiations offers a suitable starting point here. The article stipulates that the European Commission should conduct a review of the current decisions by the end of 2028. This review is to include a

holistic revision of the regulatory supervisory requirements issued to date. As German bausparkassen, we are convinced that both the quantitative and qualitative arguments in favour of a transitional phase also speak for a permanent consideration of the specific features of our institutions. We will continue to push for this.



2. Consumer protection

We consider the creation of a **genuine European single market** to be essential to fully exploit its potential. This applies to the European market for retail financial services. In the area of retail financial services, credit institutions still face numerous difficulties when it comes to expanding cross-border activities. There is **hardly any cross-border business** within the European Union for residential real estate loans.

One of the reasons is that the residential real estate loan is linked to the collateral used – i.e. the property. According to the “lex rei sitae” principle, the lender must always apply and take into account the respective foreign mortgage law when financing real estate across borders. For a large number of credit institutions, this **effort is not justifiable**, so that cross-border financing is not offered simply due to the foreign legal system.

The current rules of the Mortgage Credit Directive (MCD) discriminate against cross-border commuters if the currency of the member state in which they work differs from the currency of their country of residence. Every residential real estate loan that such a cross-border worker applies for is a foreign currency loan due to the current broad definition of the MCD. As many credit institutions do not want to offer foreign currency loans due to the obligations during the term of the loan and because of the currency risks arising from the consumer’s right of conversion under the MCD, it has become very difficult for cross-border commuters to obtain mortgage loans at all since the implementation of the MCD.

With the regulations on foreign currency loans, the MCD aimed to protect consumers in particular who had taken out loans in other currencies with lower interest rates for speculative purposes. Making it more difficult for cross-border commuters to access residential real estate loans was unintentional. For this reason, we are

calling for the definition of foreign currency loans in the MCD to be reconsidered so that cross-border commuters who take advantage of European freedom of movement by living in the eurozone but working in a neighbouring EU country are no longer largely excluded from access to credit.



Consumer protection

According to the Bausparkassen, another major obstacle for all financial institutions operating across borders is the Rome I Regulation, according to which the consumer protection law from the consumer's place of residence applies. This leads to incalculable legal risks for providers if they do not fully adapt their products to the legal framework of the target country. Despite 30 years of EU harmonization in this area, providers are deterred from offering financial services across borders. We therefore appeal to the EU Commission to reconsider the Rome I Regulation (Art. 6 para. 1) and to create the necessary conditions for an increase in the cross-border provision of financial services.

Finally, we would like to point out that a large number of EU laws relevant to the internal market for retail financial services have been adopted in recent years, including the Consumer Credit Directive, the Mortgage Credit Directive, the Consumer Rights Directive, etc. We therefore suggest that the European Commission closely monitors the transposition and implementation of this legislation in the next legislative period and **avoids**

duplication and overlap. The Commission should look for ways to rethink existing regulations and abolish superfluous ones, because increasing regulation can restrict the freedom of consumers and businesses to use the European single market with all its diversity of products.

The EU has set itself the goal of becoming climate-neutral by 2050. In other words, the EU will no longer produce any net greenhouse gas emissions. To achieve this goal, the EU has proposed a series of measures that target all areas of the economy and society. These include a tightening of emissions targets for 2030, a carbon border adjustment mechanism, an increase in energy efficiency and renewable energies, a renovation wave for buildings, a circular economy, and a biodiversity strategy.



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3. European Green Deal

The so-called Green Deal is an ambitious plan. As bauparkassen, we support this goal because we embrace our responsibility for the environment and future generations. We also know that, as providers of sustainable financial services, we can play an **important role in implementing the Green Deal** by, for example, advising and supporting our customers in financing energy-efficient renovations or other sustainable projects. Sustainable finance implies **secure and profitable** financing.

The bauparkassen are proud of the fact that they contribute to climate protection by enabling investments in energy-efficient housing. They specifically support people with low and medium incomes to afford a home that meets their needs and that they can design according to their own wishes. Bauparkassen customers are part of a strong community that supports each other in solidarity.

As the voice of the German bauparkassen, we want to not only think about ourselves, but also about the big-

ger picture. It is important not only to discuss problems, but to offer constructive solutions. Despite its importance, the German bauparkassen are aware that the Green Deal places **high demands on all parties in-**



involved and cannot be implemented without costs and conflicts. We fear that the EU could **lose the support of part of the population** with some of its ambitious targets.

This is because there are risks associated with overly rapid and radical change. We believe that the EU can only achieve its goals if it does not overburden the people. We are concerned to see that more and more citizens in Europe are turning away from “Brussels” and towards **populist parties**. We are convinced that this is partly due to overregulation, which does not take enough account of people’s needs and concerns and makes them feel patronized. We therefore call for more subsidiarity and flexibility in the shaping of European policy. The EU must keep an eye on the social aspects of sustainable development, particularly on life for the ageing population.

It is not always easy to put sustainable finance into practice. There are many challenges and uncertainties that affect both providers and consumers of financial

products. We would therefore like to present our view on some important aspects that will continue to accompany us in the next legislative period.

One example of the topic of environmental standards are the EU requirements for buildings set out in the Energy Performance of Buildings Directive (EPBD). The current revision of the EPBD was initiated by the European Commission in December 2021. The bauparkassen believe that the EU is right to link building standards to its climate targets and to update them periodically. However, we reject the idea that the EU should lay down detailed specifications on how these requirements are to be met.

We call for more technological openness and more space for national and regional specifics. **We do not want to dictate to our customers** which heating system they should install or which insulation materials they should use. Instead, we want to offer them various options and support them in their individual decisions. To shape the new Ecodesign Regulation, the Commission

is authorized to adopt delegated acts with performance and information requirements for many product categories. This also includes heating systems. From the



bausparkassen point of view, it is particularly important to maintain **technological openness** here too. The aim is to increase the energy efficiency without completely banning the sale of traditional heating systems.

Regarding the financing requirements of the Green Deal, we would like the EU to create incentives to promote investment in sustainable projects. Unnecessary hurdles should be rejected, as should discrimination against existing forms of financing. What is needed is a greater sense of proportionality in the regulation of the financial sector. We do not want to make it more difficult for our customers to access cheap loans or impose additional costs on them. Instead, we want to offer attractive conditions and advise them on their long-term planning. The EU must therefore be prepared to support the financing of climate protection measures itself rather than simply demanding it from private individuals and companies.

The EU intends to use various instruments to ensure that financial products make transparent how they

contribute to or jeopardize sustainability goals. These already include an EU classification system for sustainable activities (EU Taxonomy), a label for green bonds (Green Bond Standard), an EU supply chain law (Corporate Sustainability Due Diligence Directive, CSDDD) and a disclosure directive for sustainability information (Corporate Sustainability Reporting Directive, CSRD).

As German bauparkassen, we support these instruments in principle as we are convinced that transparency is a key driver for sustainable finance. The sustainability information generated by them not only helps our customers, but also ourselves. We want to know how our financing affects the environment.

However, with a view to the coming legislative period, we are also concerned that the disclosure requirements will become too complex and strict and thus overwhelm both, us as providers and our customers. The bauparkassen fear that additional transparency standards would contribute to an immense **bureaucratic burden** without creating any added value.

There is a risk that excessive bureaucracy will lead to a narrowing of the financial market by excluding or penalizing many financial products that do not meet the highest standards but could still make a positive contribution – especially in the necessary transition to a sustainable economy. Customers should continue to be able to choose from the widest possible range of financial products and providers in the future. It is therefore important that the EU recognizes and promotes Europe's diversity.

Publisher:

Deutsche Bausparkassen
(EU Office)

In charge of content:

Christian König

Publisher's address:

Deutsche Bausparkassen
(EU Office)
Rue Montoyer 25
1000 Brussels

Design/typesetting:

Eins 64 Graphic Design, Bonn,
Germany

