FINANCIAL
STABILITY
BOARD

Thematic Review on Deposit Insurance Systems

Peer Review Report

8 February 2012

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Foreword

The April 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*[1] pointed out that events during the recent financial crisis illustrate the importance of effective depositor compensation arrangements. The report stressed the need for authorities to agree on an international set of principles for effective deposit insurance systems, and asked national deposit insurance arrangements to be reviewed against these principles and for authorities to strengthen arrangements where necessary.

In response, the Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI) jointly issued in June 2009 *Core Principles for Effective Deposit Insurance Systems* (*Core Principles*). Together with the International Monetary Fund (IMF), the World Bank, the European Commission, and the European Forum of Deposit Insurers, they also issued in December 2010 a methodology to enable assessments of compliance with these core principles. In February 2011, the FSB agreed to include the *Core Principles* in the list of key standards for sound financial systems that deserve priority implementation depending on country circumstances. As part of the recently completed Review of the Standards and Codes Initiative, the IMF and the World Bank have also confirmed their intention to assess compliance with this standard under their Reports on Observance of Standards and Codes (ROSC) program.

Following the development of the *Core Principles* and their assessment methodology, the FSB agreed to undertake a peer review of deposit insurance systems in 2011. The objectives of the review are to take stock of member jurisdictions' deposit insurance systems and of any planned changes using the *Core Principles* as a benchmark, and to draw lessons from experience on the effectiveness of reforms implemented in response to the crisis.

This report describes the findings of the review, including the key elements of the discussion in the FSB Standing Committee on Standards Implementation (SCSI). The draft report for discussion was prepared by a team chaired by Arthur Yuen (Hong Kong Monetary Authority), comprising Mauricio Costa de Moura (Central Bank of Brazil), David Walker (Canada Deposit Insurance Corporation), Thierry Dissaux (French Deposit Insurance Fund), Salusra Satria (Indonesia Deposit Insurance Corporation), Nikolay Evstratenko (Russia State Corporation Deposit Insurance Agency), Bülent Navruz (Turkish Savings Deposit Insurance Fund) and Arthur Murton (United States Federal Deposit Insurance Corporation). Costas Stephanou and David Hoelscher (FSB Secretariat) provided support to the team and contributed to the preparation of the peer review report.

The peer review on deposit insurance systems has been conducted under the FSB *Framework for Strengthening Adherence to International Standards*.[2]

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[1] See http://www.financialstabilityboard.org/publications/r_0804.pdf.

[2] A note describing the framework is at http://www.financialstabilityboard.org/publications/r_100109a.pdf.

FSB thematic peer reviews

The FSB has established a programme of thematic peer reviews of its member jurisdictions. Each review surveys and compares the implementation across the FSB membership of regulatory or supervisory measures in a particular policy area important for financial stability. Thematic peer reviews focus on implementation of international financial standards, policies agreed within the FSB or, where such standards or agreed policies do not exist, a stock taking of existing practices in the policy area. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation, to evaluate the extent to which standards and policies have had their intended results and, where relevant, to make recommendations for potential follow up by regulators, supervisors and standard setters. They provide an opportunity for FSB members to engage in dialogue with their peers and to share lessons and experiences.

Thematic peer reviews complement FSB country peer reviews, which focus on the progress made by an individual FSB member jurisdiction in implementing IMF-World Bank Financial Sector Assessment Program (FSAP) regulatory and supervisory recommendations.

Executive summary

The global financial crisis provided many lessons for FSB member jurisdictions. The effectiveness of their deposit insurance systems (DISs) in protecting depositors and maintaining financial stability was tested, and several reforms were subsequently undertaken to enhance these systems where appropriate. The speedy adoption by many jurisdictions of extraordinary arrangements to enhance depositors' confidence signals the importance and necessity of having an effective DIS.

Some of the reforms reflect a change in the prevailing views about the role of deposit insurance in the overall safety net. Before the crisis, the functioning of DISs differed significantly across FSB members and the views about appropriate design features were rather general and non-prescriptive. The crisis resulted in greater convergence in practices across jurisdictions and an emerging consensus about appropriate design features. These include higher (and, in the case of the European Union, more harmonised) coverage levels; the elimination of co-insurance; improvements in the payout process; greater depositor awareness; the adoption of ex-ante funding by more jurisdictions; and the strengthening of information sharing and coordination with other safety net participants. The mandates of deposit insurers also evolved, with more of them assuming responsibilities beyond a paybox function to include involvement in the resolution process.

Explicit limited deposit insurance has become the preferred choice among FSB member jurisdictions. In particular, 21 out of 24 FSB members (the latest being Australia during the financial crisis) have established an explicit DIS with objectives specified in law or regulations and publicly disclosed. Of the remaining jurisdictions, China and South Africa confirmed their plans to introduce a DIS and are actively considering its design features.

Saudi Arabia believes that its framework of conservative prudential regulations and proactive supervision can provide depositors with sufficient protection. However, such a framework implicitly relies on government support in the event of bank failures and does not appear prima facie consistent with the G20 Leaders' call on national authorities to make feasible the resolution of financial institutions without severe systemic disruption and without exposing taxpayers to loss. Saudi Arabia may therefore want to consider the introduction of an explicit but limited DIS in order to enhance market discipline and to facilitate the adoption of an effective failure resolution regime for financial institutions.

The responses from FSB members with explicit DISs suggest that their systems are broadly consistent with the *Core Principles for Effective Deposit Insurance Systems* issued by the Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI). Consistency is particularly high in areas such as mandates, membership arrangements and adequacy of coverage. Section III of the report highlights good practices by FSB members in a number of areas covered by the *Core Principles*, which can serve as useful references to other deposit insurers.

At the same time, however, there remain some areas where there appear to be divergences from, or inconsistencies with, the *Core Principles* that need more time and effort to address. Further enhancements of national DISs may be necessary in the following areas:

DIS membership: In some FSB members (e.g. Switzerland), certain non-bank institutions taking deposits from the public and participating in the national payments system are not covered by the domestic DIS. This may have adverse implications on the DIS effectiveness in times of stress, so it is important to ensure that these institutions either do not take deposits from those that are deemed most in need of protection or are included as members of the DIS.

Coverage: In some jurisdictions (e.g. Germany, Japan, United States), the coverage limits – both in terms of the proportion of depositors covered and the value of deposits covered – are relatively high. Although a high coverage level reduces the incentives for depositors to run, adequate controls are needed to ensure a proper balance between financial stability and market discipline. National authorities that have not done so should consider adopting compensatory measures – such as more intensive supervision, the introduction of risk-based premiums, the exclusion of certain categories of deposits from coverage, and timely intervention and resolution – that are commensurate to the level of coverage in order to mitigate the risk of moral hazard. Unlimited deposit coverage – whether via the complete protection of eligible deposits in some institutions (e.g. some provincially-chartered Canadian credit unions) or the existence of guarantee arrangements protecting the institution itself (e.g. German cooperative and savings banks, some Swiss cantonal banks) – could lead to greater risk-taking and adversely affect the DIS effectiveness, and should therefore be avoided.

In the case of Switzerland, the existence of a system-wide limit of CHF 6 billion on the total amount of contributions by participating members in the (ex-post) depositor guarantee system could create the perception in times of stress that some insured deposits would not be reimbursed in the event of a (large) bank failure. The limit may therefore need to be removed or complemented by explicit arrangements to deal with a payout above that amount.

Payout capacity and back-up funding: The payout systems in FSB members vary significantly – for example, in terms of the institution that triggers a claim for payment or the speed of depositor reimbursement. In the case of Germany, the institutional protection schemes do not have any arrangements to reimburse depositors because they protect their member institutions against insolvency and liquidation. In the case of Switzerland, depositor reimbursement is the responsibility of the failed bank's liquidator (or authorised agent in charge of the bank's recovery) as opposed to the deposit insurance agency (DIA). The starting date used to set the payout timeframes also differs, thus making it difficult to compare jurisdictions on the actual time it takes for depositors to regain access to their deposits after the institution fails.

While there is no agreed maximum target timeframe at the international level for implementing a payout process, there is room for improvement (both legal and practical) in this area. Adequate payout arrangements – such as early information access (for example, via a single customer view as in the United States) – have to be put in place to handle depositor reimbursement. The reform of certain DIS design features – e.g. shifting from a net to a gross payout basis (i.e. the insured deposits will not be offset against the depositor's liabilities owed to the failed bank) as in the case of the Netherlands, Singapore and the United Kingdom following the crisis – can also be helpful to improve the timeliness and efficiency of payouts.

Some FSB jurisdictions (e.g. Hong Kong) found that secondary funding sources (e.g. standby liquidity facility from the government or the central bank) helped ensure the deposit insurer to meet its funding needs. In contrast, unclear or informal standby funding arrangements that may require additional approval before draw-down is effected could jeopardise the speed of handling a depositor payout or bank resolution, impede the effectiveness of the DIS in maintaining financial stability and would not be consistent with the *Core Principles*.

Mandate and integration with safety net: The mandates of DISs in FSB member jurisdictions are generally well defined and formalized, and may be broadly classified into four categories:

1. Narrow mandate systems that are only responsible for the reimbursement of insured deposits ("paybox" mandate) - seven members (Australia, Germany[3], Hong Kong, India, Netherlands, Singapore, Switzerland);
2. A "paybox plus" mandate, where the deposit insurer has additional responsibilities such as resolution functions - three members (Argentina, Brazil, United Kingdom);
3. A "loss minimiser" mandate, where the insurer actively engages in the selection from a full suite of appropriate least-cost resolution strategies - nine members (Canada, France, Indonesia, Italy, Japan, Mexico, Russia, Spain, Turkey); and
4. A "risk minimiser" mandate, where the insurer has comprehensive risk minimization functions that include a full suite of resolution powers as well as prudential oversight responsibilities - two members (Korea, United States).

The mandates of certain DISs have been expanded or clarified following the financial crisis. As a result, more DIAs are now performing functions that are closer to a "loss minimiser". The expansion in mandates will likely continue in the future as a result of the increased attention being given at the international level to developing effective resolution regimes. National authorities will therefore need to strengthen the degree of coordination between the DIA (irrespective of its mandate) and other safety net players to ensure effective resolution planning and prompt depositor reimbursement.

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[3] The DISs in Germany generally assume a paybox function, with the exception of the voluntary schemes (for private and public sector banks) that have additional responsibilities relating to preventive actions and of the institutional protection schemes (for cooperative and savings banks) that safeguard the viability of their member institutions.

Governance: Almost all FSB jurisdictions with an explicit DIA have a governing board type of structure. The composition of the governing body varies across jurisdictions and generally reflects a variety of safety net participants and relevant stakeholders. However, some DIAs are dominated by representatives from the government (e.g. Russia), the banking industry (e.g. Argentina, Brazil, Germany, Italy, Switzerland), or the supervisor. In the absence of adequate checks-and-balances, such an arrangement may not be conducive to the fulfilment of the public policy objectives of the DIS. For example, in the case of privately-administered DIAs with an expanded mandate, there could be obstacles in sharing confidential information or in cooperating effectively with the banking supervisor or resolution authorities in the event of banking problems. In jurisdictions with multiple DISs covering largely the same institutions but not subject to the same public oversight (e.g. the privately-administered statutory and voluntary schemes in Germany), there needs to be separate administration or appropriate firewalls in place concerning the sharing of sensitive bank-specific information.

Cross-border cooperation and information sharing: While the extraordinary depositor protection measures during the crisis were introduced in a largely uncoordinated manner, the subsequent unwinding of some of them (e.g. by the Tripartite Working Group by Malaysia, Hong Kong and Singapore) or their harmonisation (e.g. by EU member states) took place in consultation with relevant jurisdictions. Such efforts are to be commended and need to be adopted more broadly.

The provision of cross-border deposit insurance among FSB members is concentrated primarily in those jurisdictions within the European Economic Area. However, even in jurisdictions not extending protection to overseas deposits, local depositors in foreign-owned bank branches may still be eligible for protection by the foreign (home authority) DIS. The provision of relevant information would therefore be beneficial to the effectiveness of domestic deposit protection arrangements.

In addition to the above issues, there are certain areas in the *Core Principles* where more precise guidance may be needed to achieve effective compliance or to better reflect leading practices. Additional guidance in these areas would help to further enhance the effectiveness of DISs. This work could be carried out by IADI, in consultation with the BCBS and other relevant bodies where appropriate, focusing on the following areas:

Monitoring the adequacy of coverage: Relatively few FSB member jurisdictions regularly collect and assess the statistics necessary for monitoring the adequacy of coverage levels. It would be helpful if the *Core Principles* included an objective benchmark for the ongoing monitoring of the effectiveness and adequacy of coverage levels.

Addressing moral hazard: Given the significant increase in depositor protection across most FSB members following the crisis, IADI and other relevant bodies should provide more guidance on the types of instruments and good practices that can help mitigate moral hazard.

Multiple DISs: Six FSB members run multiple DISs (Brazil, Canada, Germany, Italy, Japan, United States). In some of these jurisdictions (e.g. Canada and Germany), there are differences in depositor coverage across DISs that could give rise to competitive distortions and that may impede the effectiveness of these systems in maintaining stability in the event of banking sector problems. In the case of Germany, there is also an overlap in terms of member institutions and administration across different DISs. IADI should provide guidance to ensure that any differences in depositor coverage across institutions operating within the same jurisdiction as a result of multiple DISs do not adversely affect the systems' effectiveness.

The existence of multiple DISs presents organisational complexities that could lead to inefficiencies in addition to potential competitive concerns. There could be benefits from streamlining such an arrangement where possible by consolidating the various systems (as has recently taken place in Spain) or, at least, by improving the coordination between them. IADI should provide guidance to ensure effective coordination in jurisdictions with multiple DISs.

Payout readiness: Of the 21 FSB member jurisdictions operating with an explicit DIS, only Australia, Canada, France, Hong Kong and Singapore have not activated it for the past ten years (or since the establishment of their systems, if created recently). For better contingency planning, IADI should advocate the conduct of simulation exercises to ensure the readiness and effectiveness of the payout process, particularly if a jurisdiction has not triggered its DIS for some time.

Ex-ante funding: Only five FSB jurisdictions (Australia, Italy, Netherlands, Switzerland, United Kingdom) are presently supported solely by an ex-post funding system, while there is a general trend towards the establishment of an ex-ante fund. The type of funding structure may depend on the features of a banking system, since they affect the extent to which a bank's failure can put strain on other DIS members and on the authorities. There may be merits to the broader adoption of ex-ante funding arrangements, and IADI should consider whether a pre-funded DIS needs to be more explicitly advocated in its guidance.

Public awareness: It is not yet a common practice for deposit insurers to conduct regular monitoring of public awareness levels, potential information gaps, or the perception of the DIS by depositors. The need for public awareness is particularly acute in cases where the depositors are simultaneously protected by multiple DISs (whether a local or a foreign scheme) and where the same banking group operates with different franchises whose deposits come under a single maximum aggregate protection limit.

IADI has developed guidance papers on different dimensions of DISs, and it is updating those papers every five years. However, most papers predate the financial crisis as well as some recent developments in system design. It would be useful for IADI to update its existing guidance that pre-dates the financial crisis in the light of the findings and lessons of the last few years as well as of the issuance of other relevant standards by international bodies.

In terms of next steps, the FSB should review and evaluate the actions taken by its members in response to the recommendations in this report. This could take place via a follow-up peer review on DISs or – given the links between DISs and resolution regimes – as part of future peer reviews on the implementation of the *Key Attributes* that will be undertaken by the FSB.

List of recommendations

Recommendation 1: Adoption of an explicit deposit insurance system

FSB member jurisdictions without an explicit DIS should establish one in order to maintain financial stability by protecting depositors and preventing bank runs.

Recommendation 2: Full implementation of the Core Principles

FSB member jurisdictions with an explicit DIS should undertake actions to fully align their DIS with the Core Principles. Such actions include:

- *including as members in the DIS all financial institutions accepting deposits from those deemed most in need of protection.*

- *reviewing the DIS coverage level to ensure that it strikes an appropriate balance between depositor protection and market discipline and that it promotes financial stability. In those jurisdictions where depositor protection levels are high, compensatory measures should be in place to mitigate the risk of moral hazard. Unlimited deposit coverage, whether via the complete protection of eligible deposits or the existence of guarantee arrangements protecting the institution itself, could adversely affect the effectiveness of the DIS and should be avoided.*
- *ensuring that the current resources (including any back-up funding options) of their DIA are adequate and immediately available to meet the financing requirements arising from its mandate.*
- *removing any banking system-wide coverage limit by the DIS that could create the perception in times of stress that some insured deposits would not be reimbursed in the event of a (large) bank failure, or complementing such a limit with explicit arrangements to deal with a payout above that amount.*
- *establishing and publicly communicating a prompt target timeframe for reimbursing depositors, and making all necessary arrangements to meet the payout target.*
- *adjusting the DIA governance arrangements to ensure adequate public oversight and to mitigate the potential for conflicts of interest.*
- *formalising information sharing and coordination arrangements between the DIA, other safety-net participants and foreign DIAs. Sufficient information on cross-border protection by foreign DIAs should be made available to relevant domestic depositors.*

Recommendation 3: Additional analysis and guidance by relevant standard-setters

IADI should, in consultation with the BCBS and other relevant bodies where appropriate, update its guidance that pre-dates the financial crisis. It should also consider developing additional guidance to address areas where the Core Principles may need more precision to achieve effective compliance or to better reflect leading practices, such as:

- *developing benchmarks to monitor the effectiveness and adequacy of coverage levels;*
- *identifying instruments and good practices that can help mitigate moral hazard;*
- *ensuring that there is effective coordination across systems in jurisdictions with multiple DISs and that any differences in depositor coverage across institutions operating within that jurisdiction do not adversely affect the systems' effectiveness;*
- *conducting regular scenario planning and simulations to assess the capability of making prompt payout;*
- *exploring the feasibility and desirability of greater use of ex-ante funding; and*
- *developing appropriate mechanisms to regularly monitor public awareness of the DIS.*

Recommendation 4: Follow-up of peer review recommendations

The FSB should review and evaluate the actions taken by its members in response to the recommendations in this report. This could take place via a follow-up peer review on DISs or as part of the series of peer reviews on the implementation of the Key Attributes for Effective Resolution Regimes.

I. Introduction

A deposit insurance system (DIS) refers to the set of specific functions (whether performed by a dedicated legal entity or not) inherent in providing protection to bank depositors, and their relationship with other financial system safety net participants to support financial stability.[4] An effective DIS is an important pillar of the financial safety net and plays a key role in contributing to the stability of the financial system and the protection of depositors.

Explicit limited deposit insurance has become the preferred choice among FSB member jurisdictions. In particular, 21 out of 24 FSB members (the exceptions being China, Saudi Arabia and South Africa) have established an explicit DIS with objectives specified in law or regulations and publicly disclosed.

The objective of this peer review is to take stock of FSB member jurisdictions' DISs and of any planned changes using the June 2009 BCBS-IADI *Core Principles for Effective Deposit Insurance Systems*[5] (*Core Principles*) as a benchmark (see Annex D). In particular, the review describes the range of practices across FSB member jurisdictions and the rationale underpinning different jurisdictions' arrangements for protecting depositors, including in those cases where no explicit DIS is in place. It also draws lessons on the effectiveness of reforms implemented in response to the global financial crisis of 2007-09.[6]

The *Core Principles* were issued relatively recently and it would therefore be unrealistic to expect FSB member jurisdictions to have fully implemented them, particularly since implementation could involve changes to existing legal and regulatory frameworks. Moreover, several FSB members are still in the process of revamping their deposit insurance arrangements.[7] The purpose of the peer review is therefore to take stock of recent (and forthcoming) reforms and to identify common approaches to resolving deficiencies.

The findings of this review are based primarily on responses by national authorities in FSB member jurisdictions to a questionnaire (see Annex E) that gathers information on key features of a jurisdiction's DIS; reforms undertaken in response to the financial crisis and any lessons learnt; and national implementation of specific Core Principles. The review also relied on relevant information from publicly available sources[8] as well as input from market participants and other parties by posting a request for public feedback on the FSB's website.

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4 A financial safety net typically consists of prudential regulation and supervision, emergency lender of last resort, problem bank insolvency frameworks, and deposit insurance. In many jurisdictions, a department of the government (e.g. ministry of finance or treasury) is also included in the safety net.

5 See http://www.bis.org/publ/bcbs156.pdf.

6 Some FSB member jurisdictions did not experience substantial stress during the recent financial crisis, and consequently did not have to utilise or reform their deposit insurance systems. These jurisdictions were asked to provide relevant information based on previous crises that they may have experienced.

7 For example, the European Commission is currently in the process of proposing additional reforms to the functioning of deposit guarantee schemes within the European Union.

8 For example, the Canada Deposit Insurance Corporation, on behalf of IADI, collected information in 2008 on deposit insurance arrangements internationally using a survey (http://www.iadi.org/research.aspx?id=99). The Joint Research Centre of the European Commission also recently issued a comprehensive study on EU deposit guarantee schemes (http://ec.europa.eu/internal_market/bank/guarantee/index_en.htm#ccr).

The evaluation of the results is based on the BCBS-IADI assessment methodology[9] and relevant IADI guidance documents. The approach of the peer review differs from that of the assessment methodology in at least three important dimensions. First, the review does not include background information on, or evaluate, the components of national financial systems that form part of the preconditions for effective DISs[10], although it identifies instances where some of these preconditions have been particularly relevant during the crisis. Second, the review does not assess compliance with the *Core Principles*. Instead, it makes a qualitative assessment of the degree to which the current situation among FSB member jurisdictions (and any planned reforms) is broadly in line with the *Core Principles*. Finally, the review focuses on some Core Principles that are of greater practical relevance in the aftermath of the financial crisis. As a result, certain Core Principles are not covered (e.g. legal powers and indemnities).

A robust failure resolution framework is one of the main lessons of the financial crisis, and two Core Principles deal with failure resolution (Principle 15 on early detection and timely intervention and resolution, and Principle 16 on effective resolution processes). However, since the peer review was initiated prior to the issuance of the October 2011 FSB *Key Attributes of Effective Resolution Regimes* and given that the FSB will undertake a peer review on resolution regimes starting in 2012, this area was not covered in detail.[11]

The report is structured as follows:

- Section II reviews the extraordinary measures taken on depositor protection schemes in response to the financial crisis and their evolution following the crisis;
- Section III describes the main features and planned enhancements of DISs in FSB member jurisdictions; and
- Section IV summarises the key findings and provides recommendations to further enhance the effectiveness of DISs in promoting financial stability.

The Annexes include detailed summary tables comparing DISs as well as relevant measures undertaken during the crisis across FSB member jurisdictions.

II. Reforms undertaken in response to the financial crisis

By way of background, the United States was the first country among FSB members to introduce deposit insurance (1934). In the twenty years between 1970 and 1990, half of the FSB members (12 of 24) implemented some form of depositor insurance, reflecting a growing recognition of its importance in maintaining financial stability and providing more explicit protection for depositors. On the eve of the crisis, only Australia, China, Saudi Arabia and South Africa had no explicit deposit protection systems.

The growth in explicit depositor protection over the years and the variance in the design of DISs led to a debate on how to ensure the effectiveness of these systems and address possible

[9] See http://www.bis.org/publ/bcbs192.pdf.

[10] As the *Core Principles* note, a deposit insurance system is most effective when a number of external elements or preconditions are met. These include macroeconomic stability, a sound banking system, sound governance of agencies comprising the financial safety net, strong prudential regulation and supervision, a well-developed legal framework, and a sound accounting and disclosure regime.

[11] See http://www.financialstabilityboard.org/publications/r_111104cc.pdf.

distortions that they may pose, in particular whether they increase moral hazard and distort risk assessments. Some academics and policymakers raised the possibility that implicit protection systems were preferable as a means of promoting market discipline, while others pointed out that implicit systems actually led to government-led bailouts and the introduction of blanket guarantees in the event of a crisis. A few countries had even announced that they would not implement deposit insurance out of concerns about possible distortions in financial intermediation.

As a result of such debates, on the eve of the crisis, the views about appropriate design features of deposit insurance were rather general and non-prescriptive. Practitioners acknowledged that jurisdictions assign different roles to the deposit insurance agency (DIA). Efforts were already underway to develop guidance at the international level on deposit insurance arrangements.[12] However, those efforts had not yet had a significant impact and DISs continued to exhibit widely diverse characteristics in terms of (for example) mandates[13], coverage levels, funding structures[14], the existence of risk-based premiums, or access to emergency funding sources.[15]

The financial crisis prompted FSB member jurisdictions to make important enhancements to their DIS. Just over half of all respondents expanded coverage in some fashion and made structural improvements to their national schemes, while six respondents introduced new resolution powers to address the challenges identified by the crisis. It is now widely accepted that moral hazard is not only an issue relevant to the design features of a DIS but also more broadly in the context of resolution arrangements.

The speedy adoption by many jurisdictions of extraordinary arrangements to enhance depositors' confidence signals the importance and necessity of these reforms. The fact that many of these measures have subsequently been made permanent suggests a change in thinking on the role and effectiveness of DISs in promoting financial stability. As a result, there is now greater convergence in practices across jurisdictions and reduced heterogeneity in terms of key features.

1. Extraordinary measures taken during the crisis

The financial crisis started in 2007 as global credit markets began to retrench in response to concerns about the state of the U.S. housing market and declining confidence in the valuation

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12 The growth in DISs led to efforts to develop an international consensus on the role of deposit insurance in the broader financial safety net. The first EU Directive on deposit guarantee schemes was issued in 1994. In 2000, the Financial Stability Forum (FSF), the precursor to the FSB, formed a Working Group on Deposit Insurance aimed at identifying good international practices - see "Guidance for Developing Effective Deposit Insurance Systems", (September 2001, http://www.financialstablityboard.org/publications/r_0109b.pdf). IADI was established shortly thereafter (2002) to enhance the effectiveness of deposit insurance systems by promoting guidance and international cooperation.

13 A deposit insurer has a broad mandate where it combines deposit payout with some role in bank insolvency and/or supervision, or a narrow mandate where it is only responsible for collecting contributions and payout.

14 DISs either fund payouts through charges on banks following a failure (ex-post funding) or accumulate a fund through premiums paid by banks before any failure (ex-ante funding).

15 See "The Design and Implementation of Deposit Insurance Systems" by Hoelscher, Taylor and Klueh (IMF Occasional Paper No. 251, December 2006) for details.

of mortgage-related and structured credit products. One of the first victims of the crisis was the U.K. mortgage lender Northern Rock, which suffered a run by worried depositors and had to be rescued by the authorities. The crisis reached its peak in the fall of 2008, following the failure of Lehman Brothers Holdings Inc. (including several of its foreign subsidiaries). This was accompanied by a number of other failures or government-led rescues in the United States and in a few European countries.

While not all FSB member jurisdictions were directly impacted by those events, 15 of the 24 jurisdictions took extraordinary measures to enhance their depositor protection arrangements as the crisis deepened.[16] Most of these measures were system-wide in nature and included changes in the scope and limits of deposit insurance coverage and modifications to the DIS powers (see Table 1 in Annex A).

Most respondents report that they adopted these measures as a prudential response to reassure bank depositors and maintain financial stability in the midst of the financial crisis. For a number of FSB members, these measures were part of a broader crisis response package to support banks and maintain financial stability. Relevant measures included system-wide liquidity support facilities, recapitalisation programs, wholesale debt guarantees and, in certain cases, bank-specific recapitalisation and asset purchase plans or guarantees (France, Germany, Netherlands, Russia, Switzerland, United Kingdom, United States).[17]

The extraordinary depositor protection measures were introduced in a largely uncoordinated, sequential fashion across jurisdictions, with little (if any) initial consultation among jurisdictions taking place.[18] Nine jurisdictions (Australia, France, Hong Kong, Italy, Netherlands, Singapore, Spain, Switzerland, United States) report that they had introduced such measures partly as a competitive response to similar moves by other countries.

Ten FSB members raised their deposit insurance coverage limit during the crisis, while four of them (France, Germany, Hong Kong, Singapore) introduced a temporary full deposit guarantee.[19] The crisis also prompted one FSB member (Australia) to accelerate its plans to introduce an explicit deposit guarantee scheme. In October 2008, Australia established an explicit DIS for deposits (Financial Claims Scheme) with a temporary coverage limit of A$1 million; a separate guarantee scheme was also introduced for deposits over A$1 million, which was voluntary (for a fee). The United States provided a full guarantee for non interest-bearing transaction accounts until year-end 2010 (subsequently extended to 2012). Three FSB members (Brazil, Korea, Switzerland) expanded the scope of deposit insurance coverage to

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16 Japan, Korea, Mexico and Turkey were among the countries that did not implement extraordinary measures during the recent global financial crisis, although they had done so in response to financial crises in the 1990s and early 2000s. The measures adopted by these countries in response to their crises were similar to those recently implemented by other FSB member jurisdictions and included increased deposit insurance coverage, full or blanket deposit guarantees, and enhanced failure resolution powers.

17 See the September 2009 report by IMF staff for the meeting of the G20 Ministers and Governors on "Updated Stocktaking of the G-20 Responses to the Global Crisis: A Review of Publicly-Announced Programs for the Banking System" (available at http://www.imf.org/external/np/g20/pdf/090309b.pdf).

18 For a timeline of the announcements of extraordinary depositor protection measures, see "Expanded Guarantees for Banks: Benefits, Costs and Exit Issues" by Schich (OECD Financial Market Trends, Volume 2009, Issue 2, available at http://www.oecd.org/dataoecd/53/48/44260489.pdf).

19 In the cases of France and Germany, this guarantee was provided in the form of a political declaration that depositors would not lose any money deposited in licensed banks.

include certain previously unprotected products such as special time deposits, foreign currency deposits and deposits by some pension schemes.

FSB jurisdictions that are European Union (EU) member states subsequently coordinated their responses via the EU consultative process and incorporated common permanent changes to their DISs via the amendment to EU Directive 94/19/EC on Deposit Guarantee Schemes (DGSD). The DGSD increased the minimum coverage limit for those countries from €20,000 to €50,000 in June 2009, and later to a single harmonized limit of €100,000 by December 2010. It also introduced a requirement that depositor compensation occur within 20 working days rather than three months as well as other requirements relating to the need to provide more comprehensive and timely information to depositors and to ensure that deposit guarantee schemes test their systems regularly.[20]

2. Evolution of depositor protection following the crisis

Unwinding temporary measures

Some FSB member jurisdictions have unwound, or are in the process of unwinding, the extraordinary deposit insurance coverage measures that they had introduced (see Table 2 in Annex A). The speed of unwinding compares favourably in general with past crisis experience, partly due to the fact that some of these measures were put in place primarily as a precautionary step.[21] The communication strategies that have been employed generally comprise public statements by safety net participants, publicity campaigns and information posted on deposit insurers' websites.

In some cases, the plans for unwinding the temporary guarantees were announced when the guarantee was first introduced (Hong Kong and Singapore). To ensure a smooth transition, Hong Kong completed legislative changes and introduced modifications to its DIS immediately after the full guarantee expired. A large-scale, multi-media publicity campaign was used to inform the public of those changes, and the authorities collaborated closely with the banking industry to promote the transition and ensure sufficient liquidity was available. Malaysia, Hong Kong and Singapore established the Tripartite Working Group on the Exit Strategy for the Full Deposit Guarantee in July 2009 to map out a strategy for unwinding full deposit insurance guarantees, and have used this group to coordinate their actions.[22] Indonesia

[20] See http://ec.europa.eu/internal_market/bank/guarantee/index_en.htm for details. The European Commission proposed in July 2010 to fully amend the 1994 Directive with a view to further harmonize depositors' protection in Europe and strengthen the financial resources of the schemes; this process is still ongoing.

[21] Three FSB members commented on their experiences unwinding temporary guarantees introduced during previous country-specific financial crises (Japan, Mexico, Turkey). Japan's temporary blanket guarantee, introduced in June 1996, was phased out over the following decade, with full protection of ordinary deposits remaining in effect through 2005. Turkey phased out over 2003-04 its blanket guarantee that was introduced in 2000. Mexico utilized a blanket guarantee to facilitate the transition to an explicit, limited-coverage DIS; deposit insurance coverage was gradually reduced by type and amount between 1999 and 2005 using a seven-stage transition plan.

[22] See the FSB report on "Note by the Staffs of the International Association of Deposit Insurers and the International Monetary Fund on Update on Unwinding Temporary Deposit Insurance Arrangements" (June 2010, available at http://www.financialstabilityboard.org/publications/r_1006.pdf).

has also coordinated its plans to reduce the current coverage limit (which was raised from IDR100 million to IDR2 billion in October 2008) in this working group.

In September 2011, the Australian government announced a new coverage limit of A$250,000 to be effective from 1 February 2012. It also announced that it would introduce an additional payment option that allows the authorities to transfer deposits to a new institution.[23] Australia reports that it based the transition to this scheme on a number of factors, such as coverage; financial risk; moral hazard; international comparability and guidance; the impact on depositors, financial institutions and markets; funding and governance; and public information. It relied on public statements to inform markets and provided information via the DIS website and hotlines.

The United Kingdom's full guarantee of depositors in Northern Rock, Bradford and Bingley, and in the United Kingdom operations of certain Icelandic banks was removed in May 2010. The modification of the EU DGSD in June 2009 superseded the French political declaration of full deposit guarantee, while Brazil's temporary guarantee of special time deposits issued by banks is being phased out by 1 January 2016.

Enhanced measures that have been made permanent

Most member jurisdictions have permanently enhanced various features of their DISs. Among these are the introduction of a permanent explicit DIS (Australia), expansion in coverage limits (EU members, Russia, Switzerland, United States) and in the categories of covered deposits (Korea, Switzerland), improvements in the payout process (EU members), elimination of co-insurance (Germany, Russia, United Kingdom), lifting of netting or set-off arrangements from compensation rules (Netherlands, Singapore, United Kingdom), modifications in assessment base and rates (United States[24]), and the adoption of ex-ante funding (Netherlands[25]).

These changes were introduced to limit the risk of bank runs, better protect depositors, or (as in the case of the EU) harmonize the depositor protection offered by a group of countries. Not all of the changes were prompted solely by the crisis – for example, in the United States, the deposit insurance coverage limit had not been increased since 1980 and the case for increasing it had been made prior to the crisis. This objective was met when Congress made permanent in 2010 the temporary increase in coverage to $250,000.

Other permanent changes involved enhancements to the mandate and powers of the DIS as well as to the permanent safety net. The expanded powers enable some members to provide alternative resolution options to payouts, such as open-bank assistance and liquidity support in the form of loan acquisitions and receivables-backed investments (Brazil). Russia provided expanded powers to enable its DIS to prevent failures of troubled systemically important banks and arrange purchase-and-assumption transactions. Special resolution regimes were

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23 See the FSB peer review report of Australia for details (September 2011, available at http://www.financialstabilityboard.org/publications/r_110926b.pdf).

24 In the United States, the proposed changes were adopted in response to the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) in July 2010 (http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/content-detail.html).

25 The Netherlands prepared a report in June 2009 on ex-ante funding, and subsequently decided to implement an ex-ante funding system as of July 2012 and to create a separate independent agency for fund management.

introduced or enhanced to resolve troubled credit institutions (Canada, United Kingdom) and systemically important financial institutions or SIFIs (United States). Following an assessment of the crisis, Germany implemented legislation in January 2011 that provides a more flexible regime for restructuring and reorganizing credit institutions.[26]

III. Key features of deposit insurance systems

This section, which is organised along groupings of Core Principles (CPs), reviews the overall structure and some of the key design features of DISs across FSB member jurisdictions, including the highlighting of good practices in specific systems.

The responses indicate that most design features of DISs are broadly consistent with the *Core Principles*. In particular, the mandates of virtually all reviewed DISs are clearly defined, formally specified and made known to the public; compulsory membership is commonly adopted for DIS participation; and sufficiently high coverage levels are in place to enable the majority of depositors to be fully protected by the DIS. Some of these features have arisen in response to recent crisis-induced reforms, which have further improved the ability of the DIS to reinforce depositor confidence when dealing with banking sector problems.

At the same time, however, there are some areas where there appear to be divergences from, or inconsistencies with, the *Core Principles* that need more time and effort to address – for example, in terms of coverage design, governance structures, back-up funding arrangements, information sharing, target payout timeframes, and public awareness assessments. Section IV includes recommendations to address these issues.

1. Structure of depositor protection arrangements

Almost all FSB member jurisdictions (21 out of 24) utilize an explicit limited DIS for depositor protection.[27] Australia was the latest member to introduce an explicit DIS, leaving only three jurisdictions without such a system: South Africa, China and Saudi Arabia.

South Africa intends to adopt such a system in 2012. The DIS in South Africa will insure deposits in commercial and mutual banks, and it will be operated under the responsibility of the South African Reserve Bank. For the co-operative banks segment, a separate scheme under the auspices of the Cooperatives Bank Development Agency will be established. The proposed depositor protection limit for both schemes will be SAR 100,000 (around USD 15,000) and there will be ex-ante funding.

China is currently studying the feasibility of establishing an explicit limited DIS to cover all deposit-taking financial institutions. This initiative has been included in the Twelfth Five-year Plan for National Economic and Social Developments adopted by the National People's Congress in October 2010. An interagency deposit insurance Task Force, jointly led by the

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[26] The introduction of these special resolution regimes has not affected the mandate of the respective DIAs in Germany and the United Kingdom.

[27] According to the *Core Principles*, an explicit DIS clarifies the authority's obligations to depositors (or if it is a private system, its members), limits the scope for discretionary decisions, can promote public confidence, helps to contain the costs of resolving failed banks and can provide countries with an orderly process for dealing with bank failures and a mechanism for banks to fund the cost of failures.

People's Bank of China and the China Banking Regulatory Commission, has been established to design and develop the DIS. Based on preliminary research, ex-ante funding and a risk-based premium system will be among the preferred design features of the system.

Saudi Arabia had previously studied the establishment of an explicit DIS but decided not to adopt one. It believes that its framework of conservative prudential regulations and proactive supervision can provide depositors with sufficient protection.

Most of the other FSB members have a single DIS, although six of them run multiple ones (see Annex B). Multiple systems in a single jurisdiction generally cover depositors in different types of institutions: four for Brazil (commercial banks vs. credit unions); several for Canada (federally-chartered credit institutions and provincially-chartered trust and loan companies vs. provincially-chartered credit unions); six for Germany (four for commercial banks and two institutional protection schemes for cooperative and savings banks); two for Italy (joint stock/cooperative banks vs. mutual banks); two for Japan (banks/credit cooperatives vs. agricultural and fishery cooperatives); and two for the United States (banks/thrifts vs. credit unions).[28]

Germany and Switzerland have fairly unique DIS arrangements. In Germany, commercial banks are subject to the statutory deposit guarantee schemes (one for private banks and one for public sector banks), but they also take advantage of voluntary "top up" depositor protection offered by their respective banking associations. However, these privately-run schemes have no administrative powers and are not supervised by the supervisory agency (BaFin). In addition, there are two so-called institutional protection schemes (one for cooperative and one for savings banks), managed by the respective banking associations, which safeguard the viability of their member institutions through various arrangements and cross-guarantees. Their member institutions do not participate in the statutory schemes; however, they are subject to supervision by BaFin and, if the viability conditions are deemed not to be fulfilled, the members must shift to one of the statutory schemes.

In the case of Switzerland, there is a single ex-post depositor guarantee system, although some cantonal banks have their liabilities fully guaranteed by their respective cantons (for a fee). If the liquidity of the failing bank is insufficient to compensate depositors[29], then the deposit protection system is triggered. However, there is a system-wide limit of CHF 6 billion on the total amount of contributions by all participating members; any compensation to depositors above that amount has to be paid out of the liquidation of the institution's assets.

The organizational structures of the statutory DIAs vary across FSB jurisdictions. The DIAs of 19 members are operated by a legally separate autonomous entity defined in law (see Table 1 in Annex C). One system is established within the central bank/supervisor (Netherlands)

[28] The Council of Ministers in Spain approved a royal decree-law in October 2011 to merge the three deposit guarantee funds (banks, savings banks and credit cooperatives) into a single Credit Institutions Deposit Guarantee Fund.

[29] Given the absence of an explicit ex-ante funding of the DIS, all deposit-taking institutions (with a few exceptions) are required to hold assets in Switzerland equivalent to 125% of their covered deposits. The liquidity from these assets (where available) serves as the first resort for payout to depositors and can be drawn upon in the event of the institution's failure.

and one within the prudential regulator (Australia), while South Africa intends to set up its explicit DIS within the central bank/supervisor.[30]

Most of the DIAs (13) are publicly administered but funded by the banking industry. Five jurisdictions are classified as under private administration (Argentina, Brazil, Italy, Spain and Switzerland[31]). The DIA in Japan is jointly owned by the government, the Bank of Japan and private financial institutions. The DIA in France is privately administered but established by law and regulation and under tight public control, while Germany's two statutory guarantee schemes have a mixed private/public component where they are privately administered but established in law and with public elements such as delegated public policy functions and oversight by the supervisory agency.

In some FSB jurisdictions, depositors are protected by other institutional arrangements (in addition to prudential regulation and supervision). There are 13 FSB members (Argentina, Australia, China, Hong Kong, India, Indonesia, Mexico, Russia, Singapore, South Africa, Switzerland, Turkey, United States) providing statutory priority to depositors or the DIS over other unsecured creditors in bank liquidation.[32] In addition, Australia, Canada, Italy and Spain impose limits on covered bond issuance by banks to provide further protection to depositors.[33]

2. Objectives, mandates, powers and governance (CPs 1-5)

The principal public policy objective of FSB jurisdictions utilizing an explicit DIS is to protect depositors. Twelve jurisdictions (Canada, France, Germany, Hong Kong, India, Indonesia, Japan, Korea, Mexico, Russia, Turkey, United States) go further and include the specific objective of contributing to financial system stability. All surveyed jurisdictions with a DIS had formalized their policy objectives in law and/or statutes (see Table 2 in Annex C).

Given the differences in financial safety net arrangements across FSB member jurisdictions, DISs have a wide range of mandates (see Table 3 in Annex C). These mandates may be broadly classified into one of four categories:

1. Narrow mandate systems that are only responsible for the reimbursement of insured deposits ("paybox" mandate) - seven members (Australia, Germany[34], Hong Kong, India, Netherlands, Singapore, Switzerland);

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30 A separate scheme will be established to insure deposits in co-operative banks, which will be under the auspices of the Cooperatives Bank Development Agency.

31 Germany's two institutional protection schemes and two voluntary deposit guarantee schemes also belong to this category.

32 For a discussion of depositor protection in resolution, see Annex 7 of the FSB consultative document on "Effective Resolution of Systemically Important Financial Institutions - Recommendations and Timelines" (July 2011, available at http://www.financialstabilityboard.org/publications/r_110719.pdf).

33 The value of assets in cover pools must not exceed 8% of an Authorized Deposit Institution's assets in Australia. The maximum limit in Canada is 4% of the assets of the issuing institution. In Italy, the limits are 60% and 25% on eligible assets based on the levels of total capital ratio and the Tier 1 capital ratio respectively of the issuing bank.

34 The DISs in Germany generally assume a paybox function, with the exception of the voluntary schemes (for private and public sector banks) that have additional responsibilities relating to preventive actions and of the

2. A “paybox plus” mandate, where the deposit insurer has additional responsibilities such as some specific resolution functions - three members (Argentina, Brazil, United Kingdom);
3. A “loss minimiser” mandate, where the insurer actively engages in the selection from a full suite of appropriate least-cost resolution strategies - nine members (Canada, France, Indonesia, Italy, Japan, Mexico, Russia, Spain, Turkey); and
4. A “risk minimiser” mandate, where the insurer has comprehensive risk minimization functions that include a full suite of resolution powers as well as prudential oversight responsibilities - two members (Korea, United States).

Despite these variations, all of the reviewed DISs have generally well defined and formalized mandates that are supported by necessary powers, in accordance with Core Principles 3 and 4.

Almost all FSB jurisdictions with an explicit DIA have a governing board type of structure, such as a management committee, board of directors, supervisory board, or managing body (see Table 4 in Annex C).[35] The composition of the governing body generally reflects a variety of safety net participants and relevant stakeholders. In some cases, this body consists primarily of government officials (e.g. Russia), the banking industry (e.g. Argentina, Brazil, France, Germany, Italy, Switzerland), or the supervisor (e.g. Korea, United States). The composition of the governing body is an important feature of a DIA’s operational independence[36], although broader governance aspects – such as the DIA’s legal status (i.e. whether defined by law or by-laws), the adequacy of resources to fulfill its mandate, the powers and fit-and-proper requirements of its governing body as well as its relationships with other stakeholders and the DIA’s own surveillance systems – need to be considered to properly evaluate and assess its operational independence.[37] However, in general, a balanced

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institutional protection schemes (for cooperative and savings banks) that safeguard the viability of their member institutions.

35 Australia and the Netherlands do not have a separate board structure for their DIA, since it forms part of the prudential authority.

36 Operational independence means that the deposit insurer is able to use the powers and means assigned to it without undue influence from external parties and that there is no significant evidence of undue government, supervisory or industry interference.

37 For example, the privately administered DIA in France is established by law, while its by-laws need to be approved by the public authorities and the Chairman of its Executive Board is appointed through a legal agreement from the Minister of Finance. In Germany, the statutory guarantee schemes are entrusted with public policy functions and certain administrative powers, are supervised by BaFin, and there are firewalls between the (independent) auditing association performing member audits and the relevant DIA committees. However, the same individuals (drawn from the bankers associations) work for both the statutory schemes and for the unregulated voluntary schemes covering the same institutions.

composition of the DIA's governing body can reduce the potential for conflicts of interest and undue influence from specific stakeholders.[38]

3. Membership and coverage (CPs 8-9)

Membership

Almost all of the surveyed systems appear to meet the requirement of Core Principle 8 that membership in the DIS should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection, which serves to help avoid adverse selection. One exception is Switzerland, where certain deposit-taking institutions – PostFinance (the financial services unit of state-owned Swiss Post) and cooperatives – are not covered by the domestic deposit protection scheme since they do not have the status of a bank. The deposits in PostFinance are fully covered by a state guarantee, and their size is significant as a proportion of total Swiss banking system deposits.

Given the primary focus of safeguarding the interests of domestic depositors and the safety of the domestic financial system, all jurisdictions cover the deposits held in the domestic subsidiaries of foreign banks. Most of them (14 of 20) also cover deposits held in the domestic branches of foreign banks (see Table 5 in Annex C).[39] A few jurisdictions (Australia, Korea, EU member states and the United States) extend their coverage to deposits taken by foreign branches of domestic banks.[40]

Coverage level

The level of coverage in FSB members with an explicit DIS adequately covers the large majority of depositors, as required under Core Principle 9 (see Table 5 in Annex C). As shown in Figure 1, coverage limits on a per depositor per institution basis range from US$2,240 (India) to over US$1 million (Australia[41]), with a simple average of around US$145,000. Those limits have increased substantially for many members as a result of the crisis. When converted into a percentage of the jurisdiction's per capita GDP, which is another crude metric of comparison, the coverage limits range from 83% (Argentina) to almost 8,000% (Indonesia). However, this measure does not take into account other relevant factors such as the types of covered deposits (e.g. corporate or interbank deposits).

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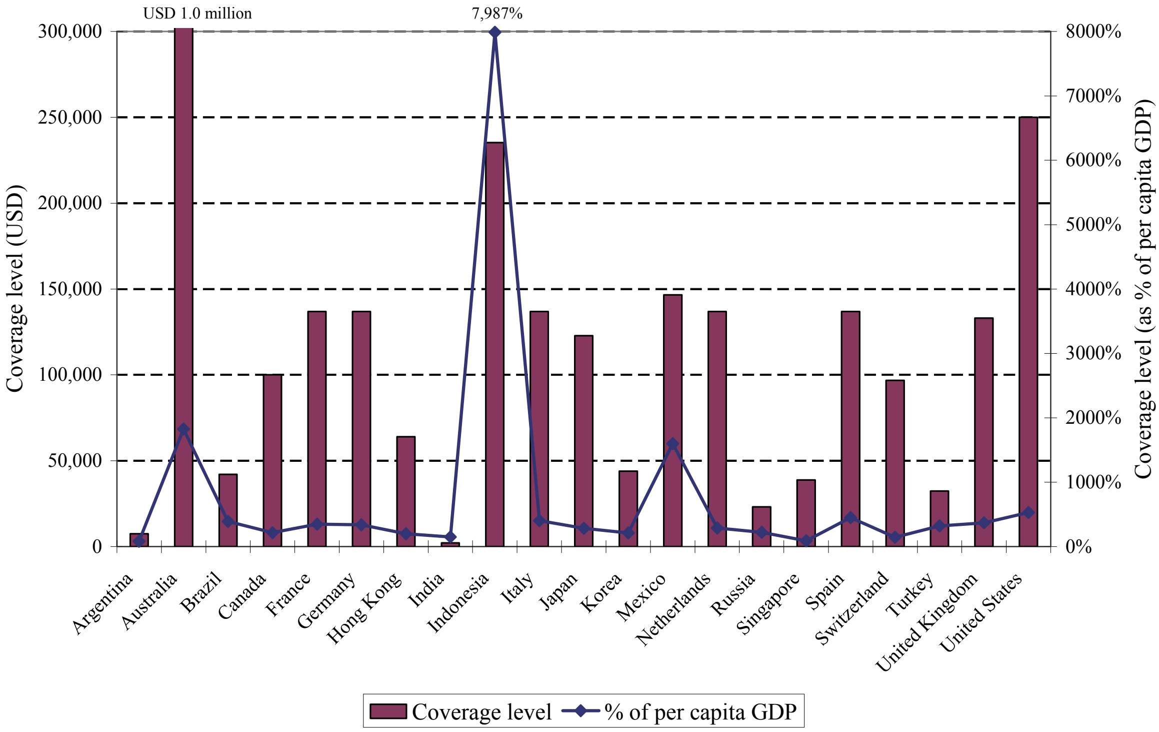
38 In Turkey, for example, the DIA has a Board of Directors appointed by the Council of Ministers. Board members must have a minimum of ten years of professional experience and they cannot accept work in another public or private entity during their tenure.

39 In the case of European Economic Area (EEA) member countries, the domestic DIS does not typically cover the deposits of domestic branches of credit institutions headquartered in other EEA countries since the home authority is responsible for providing deposit insurance coverage. However, domestic branches of credit institutions incorporated in countries outside the EEA should join the domestic DIS.

40 The FDIC only covers deposits collected by the foreign branches of domestic banks if these deposits are designated as being "payable in the United States". Australia has announced its intention to legislate to remove deposit coverage from foreign branches of domestic banks, credit unions and building societies.

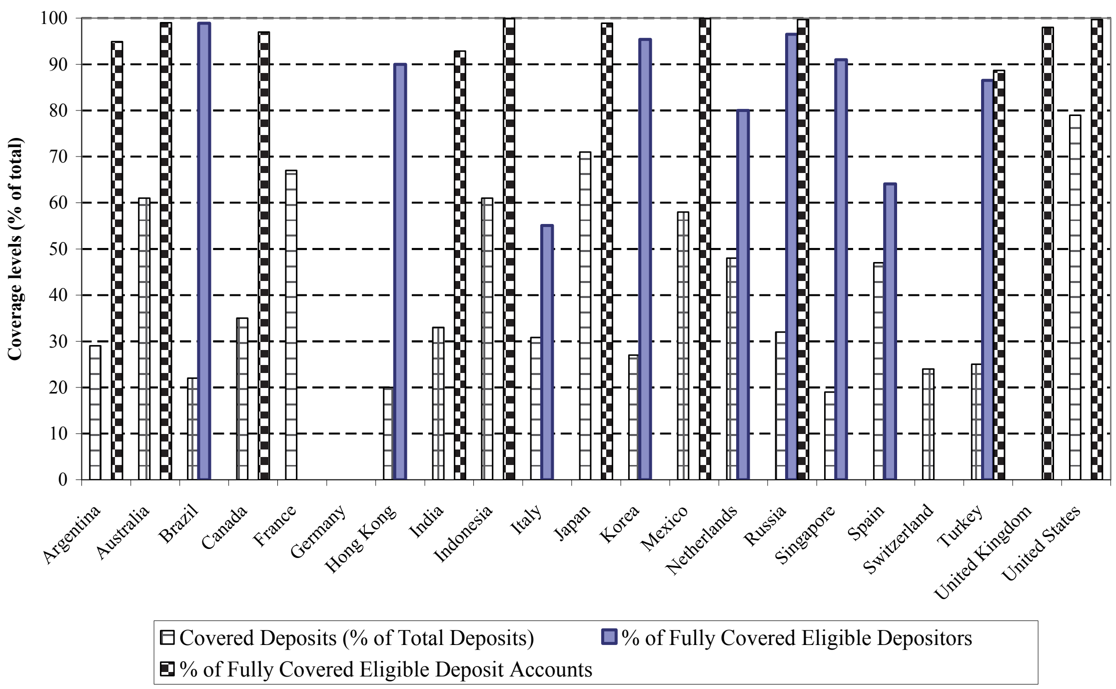
41 Australia's new FCS cap will be A$250,000 per account-holder per authorised deposit-taking institution. This new cap will apply from 1 February 2012.

Figure 1: Cross-Country Comparison of Coverage Levels at end-2010 (absolute level and % of per capita GDP)



Source: national authorities, World Bank.
Note: See Table 5 in Annex C for details. Figures for Germany only include the statutory DIS. The absolute coverage level for Australia was A$1 million per account-holder per authorised deposit-taking institution as of year-end 2010, but the authorities introduced a new ceiling of A$250,000 as from 1 February 2012.

Figure 2: Cross-Country Comparison of Coverage Levels at end-2010 (% of total deposits, fully covered eligible depositors, and fully covered eligible deposit accounts)



Source: national authorities.
Note: See Table 5 in Annex C for details. The bars that are not shown in this Figure are not available.

The adequacy of coverage is primarily a function of the proportion of covered deposits and depositors rather than of the absolute coverage level. A low level of coverage of deposits and depositors, as shown during the crisis, can be conducive to financial instability. Only about half of the respondents could provide statistics on the proportion of individual depositors receiving full coverage (see Figure 2). For those jurisdictions where such data are available, an average of 84% of total eligible depositors was fully covered[42], with the highest being Brazil (98.9%) and the lowest being Italy (55%).[43] In terms of value of deposits covered as a percentage of total deposits, nineteen jurisdictions provided figures with an average of 42%, with the highest being the United States (79%) and the lowest being Singapore (19%).[44]

Some FSB member jurisdictions – such as Japan, Germany[45] and the United States – exhibit relatively high levels of coverage. Although a high coverage level reduces the incentives for depositors to run, adequate compensatory controls are needed to ensure a proper balance between financial stability and market discipline.[46] As an example of a jurisdiction where an appropriate balance has been sought is Canada's DIS, which fully covers an estimated 97% of eligible deposit accounts but only 35% of the total value of deposit liabilities.

The coverage limit should apply equally to all banks in the DIS to avoid competitive distortions that reduce the effectiveness of the DIS in maintaining stability across the banking sector. In the case of some jurisdictions with multiple DISs (Italy, Japan, United States), no single type of financial institution is concurrently covered by more than one DIS, while the protection limits and types of covered deposits across different types of institutions in each of these jurisdictions are broadly similar. However, there are differences in depositor protection in Canada and Germany (as well as in Switzerland, even though it does not have multiple DISs) that can give rise to competitive distortions and may be problematic for the DIS. In Canada, the depositor coverage level for provincially-chartered credit unions varies depending on the province. In Germany, as previously mentioned, commercial banks can choose to "top up" depositor protection offered by the statutory schemes in order to counterbalance the full depositor protection offered by institutional protection schemes for cooperative and savings banks (see Annex B). In Switzerland, some cantonal banks have their liabilities fully guaranteed by their respective cantons in addition to participating in the domestic depositor protection scheme.

[42] Only the figure for the statutory schemes is taken into account in the case of Germany.

[43] Nine of the remaining 12 jurisdictions that did not have figures on the proportion of depositors fully covered, instead provided the percentage of eligible deposit accounts fully covered. The average coverage level of those jurisdictions was 97%, with the highest being Mexico (99.9%) and the lowest being Turkey (88.7%). Based on the public announcement of the Australian authorities, the new cap for the scheme to be introduced in early 2012 is expected to protect the savings held in around 99% of Australian deposit accounts in full.

[44] The level of coverage in Singapore fully insures 91% of eligible depositors under the scheme. The primary objective of the scheme is to protect the large majority of small depositors while keeping the cost of deposit insurance manageable and preserving incentives for large depositors to exercise market discipline.

[45] The coverage levels for Germany are very high if one takes into account the voluntary schemes for commercial banks that "top up" the statutory deposit guarantee schemes, as well the fact that the institutional protection schemes for cooperative and savings banks safeguard the viability of the institutions themselves.

[46] The *Core Principles* do not prescribe a preferred coverage level. However, the assessment methodology Handbook suggests that limits should be set so that the vast majority of small scale retail depositors are covered in full (so they have no incentive to run) but that a significant portion of the value of total deposit liabilities remains uncovered and exposed to market discipline.

Types of deposits covered

FSB members cover a broad variety of deposits (see Table 6 in Annex C). All jurisdictions surveyed provide coverage for demand deposits and fixed-term deposits as well as for deposits by non-residents. Most of them also cover foreign currency deposits (16), deposits of non-financial companies (19) and public sector entities (12). Interbank deposits are not generally covered (except in Australia, Canada, Indonesia and the United States), while around half of all jurisdictions surveyed cover the deposits of non-bank financial institutions.

Set-off and co-insurance

In half of the surveyed jurisdictions with explicit DIS, set-off is utilized (see Table 5 in Annex C).[47] Following the financial crisis, however, some jurisdictions (e.g. Netherlands, Singapore, United Kingdom) have replaced set-off arrangements with a gross payout mechanism, reflecting both depositor concerns about partial exposure to risk and efforts to expedite the payout process.

None of the jurisdictions surveyed currently use co-insurance[48] arrangements, with some jurisdictions – such as Germany, Russia and the United Kingdom – recently eliminating the co-insurance component in response to the lessons from the financial crisis.

4. Funding (CP 11)

The financial crisis showed that depositor confidence depended, in part, in knowing that adequate funds would always be available to ensure the prompt reimbursement of their claims (Core Principle 11). While the primary responsibility for paying the cost of deposit insurance should be borne by banks, adequate emergency funding arrangements were also important.

Funding structure

Policymakers can choose among a variety of ex-ante and ex-post funding mechanisms. Among FSB member jurisdictions with an explicit DIS, a considerable number (16) have built up an ex-ante fund (see Table 7 in Annex C) in response to a growing trend in funding patterns around the world. Five jurisdictions (Australia, Italy, Netherlands, Switzerland, United Kingdom[49]) are presently supported solely by an ex-post funding system, although the Netherlands will shift to an ex-ante system in 2012 and Italy and the United Kingdom are actively considering this option.

Most FSB member jurisdictions' DISs are supported by explicit emergency back-up funding arrangements. These arrangements vary widely among members: some DIAs have the ability to assess additional premiums or levies and receive the proceeds of liquidations, others have access to central bank or ministry of finance resources (although some of them need legislative approval to access such resources), while others can borrow from the market. It is considered good practice to ensure immediate access to emergency back-up funding to

[47] Set-off refers to the process whereby a depositor's deposits at a failed bank are set-off/netted against his/her liabilities owed to the failed bank when determining the depositor reimbursements.

[48] Co-insurance refers to an arrangement whereby depositors are insured for only a pre-specified portion of their funds (i.e. less than 100% of their insured deposits).

[49] The United Kingdom's deposit guarantee scheme (the FSCS) is funded on a pay-as-you-go basis. The FSCS will each year raise the funds needed to meet the claims it anticipates compensating in that year.

support the prompt reimbursement of depositors funds and to help bolster the credibility of the DIA. Examples of jurisdictions with such arrangements include Canada, Hong Kong, Japan, Korea and the United States.

Deposit insurance fund

Ex-ante funding structures are supported by a deposit insurance fund, financed by premiums paid by covered institutions. In some jurisdictions, there is more than one insurance fund corresponding to the multiple DISs in existence (e.g. Brazil, Canada, Germany, Italy, United States). On the other hand, in some jurisdictions (Korea, United Kingdom), one consolidated insurance fund covers different institutions (such as banks and insurance companies) or instruments (such as deposits, pensions and investments).[50]

The actual size of the deposit insurance fund varies among FSB members and is influenced by whether the jurisdiction has experienced problems in its financial system recently and has therefore incurred costs due to bank failures. At year-end 2010, coverage ratios of the deposit insurance fund varied across FSB members, with the lowest ratio (-0.12%) in the United States and the highest (6.2%) in Brazil.[51] Most FSB member jurisdictions have a target fund size specified by laws or regulations as a specific amount/ratio or (as in the case of Canada and Korea) set as a range. The fund resources are primarily used to finance depositor payout in the event of a bank failure, although they can be used for resolution-related or other purposes (including by other safety net members, e.g. India) as well.

The investment policies of deposit insurance funds are generally characterized by an emphasis on capital preservation and liquidity. Investments are restricted to government or central bank instruments in most jurisdictions, although the deposit insurance funds in France and Russia can invest in a wider set of instruments.

Premiums

Deposit insurers collecting premiums from member banks choose between a flat-rate premium or a system that differentiates premiums on the basis of individual-bank risk profiles. A flat-rate premium system is easier to understand and administer but does not differentiate among banks with different risk profiles.[52] A risk-adjusted premium system may help to mitigate moral hazard by having banks pay for adopting a higher risk profile, but it is also more procyclical.

The FSB membership is split evenly between those using flat-rate versus risk-based premium systems (see Table 8 in Annex C). Nine jurisdictions (Argentina, Canada, France, Germany, Hong Kong, Singapore, Spain, Turkey, United States) report that insurance premiums are differentiated based on risk profiles of individual banks, while eight jurisdictions (Brazil,

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[50] In the case of the United Kingdom, when the compensation costs in one sector (e.g. banking or insurance) reach a specified threshold, then insured firms in other sectors are also required to contribute; otherwise, the cost of a failure of a financial institution is borne by firms within the same sector. This is currently under review by the UK Financial Services Authority.

[51] Although the Mexican DIA (IPAB) has an ex-ante fund equal to 0.5% of covered deposits, it also carries a large amount of legacy debt associated with the bank bailouts from the tequila crisis of the mid-1990s. See the FSB peer review report of Mexico for details (September 2010, available at http://www.financialstabilityboard.org/publications/r_100927.pdf).

[52] See "General Guidance for Developing Differential Premium Systems" by IADI (February 2005, available at http://www.iadi.org/docs/IADI_Diff_prem_paper_Feb2005.pdf).

India, Indonesia, Japan, Korea, Mexico, Netherlands, Russia) rely on flat-rate premium system. Korea and the Netherlands report that they intend to adopt a risk-adjusted premium system in the future.

Risk-adjusted practices vary depending on the risk factors and calculation methodology. The size of covered deposits and the risk profile of the bank are the most common factors taken into account when calculating the banks' contributions to the fund, both on an ex-ante and on an ex-post basis. Other measures that are used to determine premiums are eligible deposits, total deposits, and total liabilities. A good practice of utilizing both quantitative and qualitative factors to determine the riskiness of banks can be found in premium systems used by Argentina, Canada, Turkey and the United States. When using a risk-adjusted premium system, the criteria used in differentiating across banks should be transparent to all participants.

5. Resolution, payout, reimbursement and recoveries (CPs 15-18)

All reporting jurisdictions indicate that their financial safety nets provide a framework for the early detection, timely intervention and resolution of troubled banks. The role of the DIA in the failure resolution frameworks varies, primarily as a function of the specific mandate of the insurer and other safety net participants. As previously mentioned, FSB members where the DIA is provided with extensive failure resolution powers include Canada, France, Indonesia, Japan, Korea, Mexico, Russia, Spain, Turkey and the United States.

Of the 21 FSB member jurisdictions operating with an explicit DIS, 16 experienced bank failures in the last ten years resulting in the activation of their DIS (see Table 9 in Annex C). Germany, India, Japan, Russia, the United Kingdom and the United States reported the largest number of incidences utilizing their DIS, with many of them occurring as a result of the financial crisis.[53] Payouts tended to dominate in the case of India, Russia and the United Kingdom, while restructurings that did not involve a payout were more common in other jurisdictions. By contrast, Australia, Canada, France, Hong Kong and Singapore have not activated their DISs for the past ten years (or since the establishment of their systems, if created recently).

Payout and reimbursement

The payout systems of FSB member jurisdictions with explicit DISs vary significantly (see Table 10 in Annex C). In the case of Germany, the institutional protection schemes do not have any arrangements to reimburse depositors because they protect their member institutions against insolvency and liquidation.

As regards the institution that triggers a claim for payment by the DIA, the practices include court-declared bankruptcy (e.g. Netherlands), the supervisory agency (e.g. Argentina, Brazil, France, Germany, Indonesia, Italy, Russia, Switzerland, Turkey), the DIA (e.g. Korea) or a combination of these triggers (e.g. Australia, Canada, Hong Kong, Japan, Mexico, United Kingdom, United States).

[53] In the case of Germany, none of the incidences involving institutional protection schemes resulted in a payout; these schemes do not reimburse depositors since they protect their member institutions' existence. In the case of India, the vast majority of the failures involved urban cooperative banks (which constitute a very small segment of the financial system) and were not related to the financial crisis.

The legally required timeframe to reimburse depositors ranges from "as soon as possible" for Canada and the United States to a maximum of up to one year for Turkey. EU member states are legally obliged to reimburse depositors within 20 working days (extendable to 30 days by the regulator or the DIA). In some of the jurisdictions where the DIA is not legally obliged to reimburse depositors within a specific timeframe (Australia, Brazil, Canada, Hong Kong, Korea and Singapore), the authorities have publicly committed to timeframe targets to demonstrate their commitment. In the case of Switzerland, the depositor protection system has to pay the liquidator (or authorised agent in charge of the bank's recovery) who is responsible for reimbursing the depositors within 20 working days after the issuance of a decree by the supervisory/resolution authority FINMA (as opposed to the bank's actual failure).

The starting day used to set the timeframes also differs from one jurisdiction to the other, possibly leaving some DIS with extra time to prepare a payout.[54] Outside Europe, legal obligations generally include a specific timeframe following bank failure or the receipt of information from the liquidator following reconciliation and verification of deposits subject to payout (India and Indonesia), while others have established a timeframe from various triggers (Japan, Mexico and Russia). The different starting dates make it difficult to compare jurisdictions on the actual time it takes for depositors to regain access to their deposits, which is arguably a more relevant time period that the payout timeframe per se.

The actual average payout period across FSB members also varies significantly. In the United States, the average period is usually the next working day following the closure of the failed bank, while in Germany, India and Indonesia that period can extend to over a year. Relatively short average payout periods were reported by Canada (historically 1-8 weeks for full reimbursement but recent payout simulations were completed in 7 working days; and 24-48 hours for partial payments)[55], Hong Kong (14 days for interim payment), Mexico (7 working days), Russia (13 days), and the United Kingdom (7 working days).

Adequate and timely access to information

The majority of DIAs receive information from the supervisory authorities when the authority considers it necessary to trigger the reimbursement of insured depositors. This trigger can range from a determination of financial non-viability (e.g. Canada) to a court-determined insolvency (e.g. India). As soon as the DIS trigger is likely to take place, the insurer is expected to receive or request the information necessary from the bank to prepare for the reimbursement process. In Argentina, France and Switzerland, information is provided only upon the decision to intervene by the supervisor. In the United States (and prospectively in

54 In Brazil, the deadline for payment will start only on receipt of information from the liquidator. In Indonesia, the payout occurs five days after the process of reconciliation and verification of deposits started. In Japan, the DIA should decide whether to make payments and notify the details within one month after it is informed of trigger events. In Turkey, the payout period is defined as three months from the failure of the bank, which can be extended for a further three months up to one year with the decision of the DIA's board. By law, the FDIC in the United States is required to pay deposit insurance proceeds as soon as possible (typical practice is full reimbursement on the first business day following a bank failure), although its information collection process and involvement in resolution often allow it time to prepare for a payout prior to the trigger.

55 Canada is in the process of implementing a "single customer view" which is expected to reduce payout periods to a few days.

Australia as well), information is received on a regular basis directly from member banks and is used to construct a single customer view on an ongoing basis.[56]

Deposit insurers in Canada, Mexico and the United States receive information on the status of banks on a regular basis from supervisory authorities and/or directly. This good international practice provides such insurers with access to detailed data on deposit liabilities well in advance from any member banks facing a high risk of failure. In other cases, specific information is only obtained from banks, regulators or liquidators (Brazil, Germany, India and Italy) upon request by the DIS.

Some DIAs rely on preparatory examinations of bank data when there is a likely or imminent risk of failure/insolvency, which can be performed by the regulator or the deposit insurer itself (e.g. Indonesia, Japan, Korea, Mexico, United Kingdom, United States). A noteworthy good practice in certain jurisdictions is where the DIA or regulators have established rules or guidelines on the depositor information systems/databases to be followed by banks (Canada, Hong Kong, Netherlands, Russia, Singapore, United Kingdom, United States). Some jurisdictions also conduct regular audits on member banks' information and database systems to ensure a prompt payout process (e.g. Hong Kong, Mexico, Netherlands, Russia, Singapore and Turkey). All of these practices can assist in ensuring depositors have prompt access to their insured funds in the event of a failure.

Involvement of the DIA in recoveries

Most deposit insurers surveyed are not directly engaged in the recovery process (Australia, Brazil, Canada, Germany, Hong Kong, India, Italy, Netherlands, Singapore, South Africa, Spain, Switzerland). In countries such as Canada and France, the insurer may act as a bank liquidator or receiver under the law, but typically chooses not to do so due to concerns over its position as a large creditor. In other jurisdictions, the deposit insurer works closely with the liquidator in order to protect its interests (Brazil, Canada, Hong Kong).

Some deposit insurers are involved in the recovery process of a failed bank through a variety of mechanisms such as, for example, by acting as the liquidator/receiver (Japan, Mexico, Russia, Turkey, United States), as a member of a liquidation or creditor committee (United Kingdom), as a special administrator (Indonesia), or as a court trustee (Korea).

6. Links with broader safety net and cross-border issues (CPs 6-7)

Coordination among safety net players

The majority of DISs in FSB members reported that they have formal arrangements in place for coordination and information sharing among the deposit insurer and other safety net participants (see Table 11 in Annex C). Jurisdictions with formalised arrangements generally relied on a combination of legislation (e.g. Germany, Japan, Spain, United States) and Memorandums of Understanding (Australia, Canada, Hong Kong, Indonesia, Korea, Mexico, Russia, United Kingdom).

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[56] In the United Kingdom, the Financial Services Compensation Scheme (FSCS) can require banks to provide prescribed information about the aggregate protected deposits of each eligible claimant ('single customer view') within 72 hours of the request – although some accounts and/or depositors are excluded from this requirement (e.g. dormant accounts).

In the case of Canada, Mexico and the United States, there are additional coordination mechanisms involving participation in inter-agency committees for addressing macro-prudential and systemic risk issues (e.g. the Financial Stability Oversight Council in the United States, the Council for Financial System Stability in Mexico, and the Financial Institutions Supervisory Committee and Senior Advisory Committee in Canada). In the Netherlands, where the deposit insurer is contained within the central bank/supervisor, information sharing and coordination arrangements are formalized between departments.

In the case of a privately run DIS, it is important that formalised arrangements be established to ensure the effective sharing of confidential information between the deposit insurer and other safety net players for meeting the prompt payout objective. A few FSB jurisdictions with a private DIS rely on informal arrangements for sharing information with other relevant parties involved in a payout or resolution situation (Argentina, Brazil[57] and Switzerland).

Coordination on a cross-border basis

The close coordination and information sharing among safety net participants is also relevant from a cross-border perspective, particularly when a deposit insurer provides coverage to a domestic bank's branches or subsidiaries in a foreign (host) jurisdiction. Information sharing is also beneficial where a host country provides deposit insurance coverage to a foreign bank subsidiary or branch domestically. In these situations, opportunities exist for information sharing between jurisdictions for planning purposes as well as in crisis scenarios across different authorities.

An example of a good practice in this area is the establishment of bilateral arrangements between the Netherlands and the United Kingdom to share information relating to depositor reimbursement. Other EEA countries are still in the process of developing such arrangements, e.g. via a multilateral MOU being developed by the European Forum of Deposit Insurers.[58]

In those FSB jurisdictions where deposit insurance is provided across borders, provisions to ensure the adequacy of a foreign country's DIS coverage for domestic depositors vary. Presently in the EEA, it is discretionary for the foreign (home) deposit insurer to inform depositors in host jurisdictions whether and how they are protected by the home country scheme (e.g. coverage level, funding sources and reimbursement process).[59]

7. Public awareness (CP 12)

Core Principle 12 stresses that in order for a DIS to be more effective, the public must have adequate information about the benefits and limitations of the DIS on an ongoing basis. Several FSB members (Canada, Hong Kong, Indonesia, Japan, Korea, Mexico, Russia, Singapore, United Kingdom, United States) have comprehensive public awareness programs

[57] Brazil is in the process of mandating members of the governing board of the private DIA to be subject to a confidentiality commitment.

[58] See http://www.efdi.eu/documents.asp?Id=11&Cat=Efdi%20EU%20committee%20public%20documents.

[59] In accordance with EU Directive 94/19/EC on deposit guarantee schemes, deposits placed with branches of institutions established under the law of another member state of the EEA are covered by the protection scheme of the country of origin. Member states must ensure that deposit guarantee schemes cooperate with each other and that credit institutions make available to actual and prospective depositors the information necessary for the identification of the deposit guarantee scheme within the EU that it belongs to.

to inform depositors utilizing a wide range of instruments. Programs include making information available through brochures, bank staff, internet, telephone sources and advertising (see Table 12 in Annex C). In the wake of the financial crisis, Germany[60], Italy and the United Kingdom[61] undertook extensive enhancements to their systems to provide more comprehensive information on deposit insurance.

The responses indicate that the key messages conveyed in public awareness programs focus on the existence of deposit insurance, the terms and conditions of coverage and the process for making claims and receiving reimbursements. In jurisdictions transitioning from a full deposit guarantee to a lower fixed protection limit (e.g. Indonesia), the focus of messaging has been on explaining the transition process. Only nine jurisdictions reported evaluating the effectiveness of their public awareness programs on a regular basis (Canada, Hong Kong, Indonesia, Japan, Korea, Russia, Singapore, United Kingdom, United States). As an example of a good practice, Hong Kong conducts independent surveys of the public twice a year in order to gauge the effectiveness of its public awareness activities.

IV. Conclusions and recommendations

1. Conclusions

The global financial crisis provided many lessons for FSB member jurisdictions. The effectiveness of their DIS in protecting depositors and maintaining financial stability was tested, and several reforms were subsequently undertaken to enhance DISs where appropriate. The speedy adoption by many jurisdictions of extraordinary arrangements to enhance depositors' confidence signals the importance and necessity of having an effective DIS.

Some of the reforms reflect a change in the prevailing views about the role of deposit insurance in the overall safety net. Before the crisis, the functioning of DISs differed significantly across FSB members. The crisis resulted in greater convergence in practices across jurisdictions and an emerging consensus about appropriate design features. These include higher (and, in the case of the EU, more harmonised) coverage levels; the elimination of co-insurance; improvements in the payout process; greater depositor awareness; the adoption of ex-ante funding by more jurisdictions; and the strengthening of information sharing and coordination with other safety net participants. The mandates of deposit insurers also evolved, with more of them assuming responsibilities beyond a paybox function to include involvement in the resolution process.

The financial crisis demonstrated clearly that an effective DIS is an important pillar of a financial safety net that can help maintain depositors' confidence and avoid contagion. Explicit limited deposit insurance has become the preferred choice among FSB member

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60 On the other hand, it is worth noting that the size of the ex-ante deposit insurance funds in Germany is kept confidential even though the annual contributions of member institutions are publicly available. The authorities believe that the size of those funds is not a relevant factor for depositors in their assessment of the funds' credibility since the ex-post funding arrangements in place guarantee the compensation of depositors in line with their legal requirements, while depositors have always been fully compensated to date.

61 Lack of public awareness on the existence of a DIS was found to be one of the reasons for depositors queuing up for withdrawal of deposits from Northern Rock when it became clear that the bank was in trouble.

jurisdictions. In particular, 21 out of 24 FSB members (the latest being Australia during the financial crisis) have established an explicit DIS with objectives specified in law or regulations and publicly disclosed. Of the remaining jurisdictions, China and South Africa confirmed their plans to introduce a DIS and are actively considering its design features.

Saudi Arabia believes that its framework of conservative prudential regulations and proactive supervision can provide depositors with sufficient protection. However, such a framework implicitly relies on government support in the event of bank failures and does not appear prima facie consistent with the G20 Leaders' call on national authorities to make feasible the resolution of financial institutions without severe systemic disruption and without exposing taxpayers to loss. Saudi Arabia may therefore want to consider the introduction of an explicit but limited DIS in order to enhance market discipline and to facilitate the adoption of an effective failure resolution regime for financial institutions.

The responses from FSB members with explicit DISs suggest that their systems are broadly consistent with the *Core Principles*. Consistency is particularly high in areas such as mandates, membership arrangements and adequacy of coverage. Section III highlights good practices by FSB members in a number of areas covered by the *Core Principles*, which can serve as useful references to other deposit insurers.

At the same time, however, there remain some areas where there appear to be divergences from, or inconsistencies with, the *Core Principles* that need more time and effort to address. In addition, there are certain other areas in the *Core Principles* where more precise guidance may be needed to achieve effective compliance or to better reflect leading practices. Additional guidance in these areas by IADI, in consultation with the BCBS and other relevant bodies where appropriate, would help to further enhance the effectiveness of DISs. The rest of this section sets out conclusions in respect of areas where further enhancement of national DISs, or additional guidance by relevant international bodies, may be necessary.

1. DIS membership

In some FSB member jurisdictions (e.g. Switzerland), certain non-bank institutions taking deposits from the public and participating in the national payment system are not covered by the domestic DIS. This may have adverse implications on the DIS effectiveness in times of stress, so it is important to ensure that these institutions either do not take deposits from those that are deemed most in need of protection or are included as members of the DIS.[62]

2. Coverage

Since the financial crisis, the role of deposit insurance in promoting financial stability has taken precedence over concerns about contributing to moral hazard. In some jurisdictions (e.g. Germany, Japan, United States), the coverage limits – both in terms of the proportion of depositors covered and the value of deposits covered – are relatively high.[63] Although a high

[62] Core Principle 8 states that "membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (e.g. retail and small business depositors) to avoid adverse selection."

[63] There may be a need to provide higher protection for temporary balances of specific types of deposits, such as those arising from a consumer's house sale, pension lump sum or a personal injury/accident award.

coverage level reduces the incentives for depositors to run, adequate controls are needed to ensure a proper balance between financial stability and market discipline. National authorities that have not done so should consider adopting compensatory measures that are commensurate to the level of coverage in order to mitigate the risk of moral hazard. Such measures could include, for example, more intensive supervision, the introduction of risk-based premiums, the exclusion of certain categories of deposits from coverage (e.g. deposits held by more sophisticated depositors such as financial institutions), and timely intervention and resolution by deposit insurers or other safety net participants. IADI and other relevant bodies should provide more guidance on the types of instruments and good practices that can help mitigate moral hazard.

In addition, unlimited deposit coverage – whether via the complete protection of eligible deposits in some institutions (e.g. some provincially-chartered Canadian credit unions) or the existence of guarantee arrangements protecting the institution itself (e.g. German cooperative and savings banks, some Swiss cantonal banks) – could lead to greater risk-taking and adversely affect the DIS effectiveness, and should therefore be avoided.

In the case of Switzerland, the existence of a system-wide limit of CHF 6 billion on the total amount of contributions by participating members in the (ex-post) depositor guarantee system could create the perception in time of stress that some insured deposits would not be reimbursed in the event of a (large) bank failure. Although the limit is useful in terms of limiting the DIS's exposure and in mitigating moral hazard, its efficiency in case of a bank run is debatable. The limit may therefore need to be removed or complemented by explicit arrangements to deal with a payout above that amount.

Finally, while all FSB member jurisdictions with an explicit DIS provide coverage on a "per depositor per institution" basis, relatively few of them regularly collect and assess the statistics necessary for monitoring the adequacy of coverage levels. It would be helpful if the *Core Principles* included an objective benchmark for the ongoing monitoring of the effectiveness and adequacy of coverage levels.

3. Payout capacity and back-up funding

Payout is not the only choice to deal with a bank failure situation. However, where it is decided to trigger depositor reimbursement, it is important for the DIS to respond quickly as demonstrated by the experience during the crisis. The speed of depositor reimbursement varies significantly across DISs in FSB member jurisdictions, both in terms of legal commitments and in practice. While there is no agreed maximum target timeframe at the international level for implementing a payout process, there is room for improvement (both legal and practical) in this area.

In order for the DIS to be able to respond promptly to a crisis situation, it must have comprehensive and prompt access to bank data, especially when the bank has been identified as troubled. The operational capacity of deposit insurers in some FSB members to meet the commitment of prompt depositor reimbursement was a challenge during the crisis. Adequate payout arrangements – such as early information access (for example, via a single customer view as in the United States)[64], robust information technology infrastructure, sufficient staff resources or the engagement of outside agents – have to be put in place to handle depositor reimbursement. The reform of certain DIS design features to improve the payout efficiency – e.g. shifting from a net to a gross payout basis (i.e. the insured deposits will not be offset against the depositor's liabilities owed to the failed bank)[65] as in the case of the Netherlands, Singapore and the United Kingdom following the crisis – can also be helpful to improve the timeliness and efficiency of payouts.

Some FSB jurisdictions (e.g. Hong Kong) found that secondary funding sources (e.g. standby liquidity facility from the government or the central bank) helped ensure the deposit insurer to meet its funding needs. In contrast, unclear or informal standby funding arrangements that may require additional approval before draw-down is effected could jeopardise the speed of handling a depositor payout or bank resolution, impede the effectiveness of the DIS in maintaining financial stability and would not be consistent with the *Core Principles*.

4. Mandate and integration with safety net

The long period of financial stability that preceded the recent financial crisis had left deposit insurers in many FSB member jurisdictions to assume a relatively minor role in the safety net. The crisis experience highlighted the important role of deposit insurance in promoting financial stability in addition to reimbursing the depositors of individual failed banks. With a clear focus on protecting depositor funds and ensuring effective and rapid resolution, deposit insurers now have a more prominent role among safety net participants. The mandates of certain DISs have also been expanded or clarified by, for example, the more explicit specification of the new role of the deposit insurer in the statutes, the establishment of special purpose committees to enhance operational efficiency, and clearer rules for using the deposit insurance fund by the DIA or other safety net players for resolution actions. As a result, more DIAs are now performing functions that are closer to a "loss minimiser". The expansion in mandates will likely continue in the future as a result of the increased attention being given at the international level to developing effective resolution regimes. National authorities will therefore need to strengthen the degree of coordination between the DIA (irrespective of its mandate) and other safety net players to ensure effective resolution planning and prompt depositor reimbursement.

5. Governance

The legal constitution, accountability and public oversight arrangements in the governance structure are important safeguards for maintaining the operational independence of deposit insurers and fending off undue political and industry influence. The composition of the governing body varies across jurisdictions and generally reflects a variety of safety net

64 According to the October 2011 FSB *Key Attributes of Effective Resolution Regimes*, "Resolution authorities should have at their disposal a broad range of resolution powers, which should include powers to... effect the closure and orderly wind-down (liquidation) of the whole or part of a failing firm with timely payout or transfer of insured deposits and prompt (for example, within seven days) access to transaction accounts".

65 One of the advantages of the gross approach is that it is easier for depositors to understand the entitled compensation amount than the net approach, thereby further enhancing the depositors' confidence in the DIS.

participants and relevant stakeholders. However, some DIAs are dominated by representatives from the government (e.g. Russia), the banking industry (e.g. Argentina, Brazil, Germany, Italy, Switzerland), or the supervisor. In the absence of adequate checks-and-balances, such an arrangement may not be conducive to the fulfilment of the public policy objectives of the DIS. For example, in the case of privately-administered DIAs with an expanded mandate, there could be obstacles in sharing confidential information or in cooperating effectively with the banking supervisor or resolution authorities in the event of banking problems.

In addition, in jurisdictions with multiple DISs covering largely the same institutions but not subject to the same public oversight (e.g. the privately-administered statutory and voluntary schemes in Germany), there needs to be separate administration or appropriate firewalls in place concerning the sharing of sensitive bank-specific information.

6. Cross-border cooperation and information sharing

The crisis experience indicates that international cooperation can make policy responses more effective and efficient.[66] While the extraordinary depositor protection measures by most FSB members were introduced in a largely uncoordinated manner, the subsequent unwinding of some of them (e.g. by the Tripartite Working Group by Malaysia, Hong Kong and Singapore), or their harmonisation (e.g. by EU member states), took place in consultation with relevant jurisdictions. Such efforts are to be commended and need to be adopted more broadly.

Practical problems encountered in the reimbursement to overseas depositors of international banks revealed the inadequacy of information sharing and coordination between the home and host deposit insurers. The provision of cross-border deposit insurance among FSB members is concentrated primarily in those jurisdictions within the EEA. However, even in jurisdictions not extending protection to overseas deposits, some local depositors in foreign-owned bank branches may still be eligible for protection by the foreign (home authority) DIS. The provision of relevant information would therefore be beneficial to the effectiveness of domestic deposit protection arrangements.

7. Multiple deposit insurance systems

Six FSB members run multiple DISs (Brazil, Canada, Germany, Italy, Japan, United States). In some of these jurisdictions (e.g. Canada and Germany), there are differences in depositor coverage across DISs that could give rise to competitive distortions and that may impede the effectiveness of these systems in maintaining stability in the event of banking sector problems. In the case of Germany, there is also an overlap in terms of member institutions and administration across different DISs. IADI should provide guidance to ensure that any differences in depositor coverage across institutions operating within the same jurisdiction as a result of multiple DISs do not adversely affect the systems' effectiveness.

The existence of multiple DISs presents organisational complexities that could lead to inefficiencies in addition to the aforementioned potential competitive concerns. There could

[66] See the "Discussion Paper on Cross-Border Deposit Insurance Issues Raised by the Global Financial Crisis" by the IADI Research and Guidance Committee (March 2011, available at http://www.iadi.org/docs/IADI_CBDI_Paper_29_Mar_2011_(Final_for_publication).pdf).

be benefits from streamlining such an arrangement where possible by consolidating the various systems (as has recently taken place in Spain) or, at least, by improving the coordination between them. IADI should provide guidance to ensure effective coordination in jurisdictions with multiple DISs.

8. Payout readiness

Of the 21 FSB member jurisdictions operating with an explicit DIS, only Australia, Canada, France, Hong Kong and Singapore have not activated it for the past ten years (or since the establishment of there systems, if created recently). For better contingency planning, IADI should advocate the conduct of simulation exercises to ensure the readiness and effectiveness of the payout process, particularly if a jurisdiction has not triggered its DIS for some time.

9. Ex-ante funding

The experience of the financial crisis highlighted the importance of DIS having unambiguous and immediate access to reliable funding sources. The majority of FSB jurisdictions already have in place ex-ante funding arrangements. Only five FSB jurisdictions (Australia, Italy, Netherlands, Switzerland, the United Kingdom) are presently supported solely by an ex-post funding system, while there is a general trend towards the establishment of an ex-ante fund.[67]

The availability of ex-ante funding may ensure faster payout, provide greater reassurance to depositors on the DIS's ability to meet its payout commitments, help avoid the procyclicality arising from raising premiums for surviving banks following a bank failure, and contribute to perceived fairness by imposing a cost burden on the failed bank. On the other hand, ex-ante funding implies higher administrative costs associated with the collection of premiums and fund management; its size is also not intended to cover all banks in the system. The type of funding structure may depend on the features (e.g. size and structure) of a banking system, since they affect the extent to which the failure of a bank can put strain on other members of the DIS and on the authorities. There may be merits to the broader adoption of ex-ante funding arrangements, and IADI should consider whether a pre-funded DIS needs to be more explicitly advocated in its guidance.

10. Public awareness

Several FSB members (Canada, Hong Kong, Indonesia, Japan, Korea, Mexico, Russia, Singapore, United Kingdom, United States) have comprehensive public awareness programs using a wide range of tools to inform depositors. However, it is not yet a common practice for deposit insurers to conduct regular monitoring of public awareness levels, potential information gaps, or the perception of the DIS by depositors. Without an ongoing monitoring mechanism in place, it is difficult for the deposit insurer to assess the effectiveness of the DIS in maintaining depositor confidence. The need for public awareness is particularly acute in cases where the depositors are simultaneously protected by multiple DISs (whether a local or a foreign scheme) and where the same banking group operates with different franchises whose

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[67] The Netherlands will shift to an ex-ante funding system in 2012, while Italy and the United Kingdom are actively considering this option.

deposits come under a single maximum aggregate protection limit. Promoting greater transparency on the funding structure and the availability of back-up funding sources, including the size of any ex-ante funds, could also enhance the credibility of the DIS.

Updating existing IADI guidance

IADI has developed guidance papers on different dimensions of DISs, and it is updating those papers every five years.[68] However, most papers predate the financial crisis as well as some recent developments and trends in system design.[69] It would be useful for IADI to update its existing guidance that pre-dates the financial crisis in the light of the findings and lessons of the last few years as well as of the issuance of other relevant standards by international bodies (e.g. the FSB's *Key Attributes of Effective Resolution Regimes*).

Next Steps

In terms of next steps, the FSB should review and evaluate the actions taken by its members in response to the recommendations in this report. This could take place via a follow-up peer review on DISs or – given the links between DISs and resolution regimes – as part of future peer reviews on the implementation of the *Key Attributes* that will be undertaken by the FSB.

2. Recommendations

Based on the findings of the peer review, there are four recommendations for implementation by the FSB itself or relevant member jurisdictions. They involve the adoption of an explicit DIS for those jurisdictions that do not currently have one; revisions in the design of existing DISs to fully align them to the Core Principles; additional analysis and guidance by relevant international bodies (primarily IADI); and the follow-up of peer review recommendations.

Recommendation 1: Adoption of an explicit deposit insurance system

FSB member jurisdictions without an explicit DIS should establish one in order to maintain financial stability by protecting depositors and preventing bank runs.

Recommendation 2: Full implementation of the Core Principles

FSB member jurisdictions with an explicit DIS should undertake actions to fully align their DIS with the Core Principles. Such actions include:

- *including as members in the DIS all financial institutions accepting deposits from those deemed most in need of protection.*
- *reviewing the DIS coverage level to ensure that it strikes an appropriate balance between depositor protection and market discipline and that it promotes financial stability. In those jurisdictions where depositor protection levels are high, compensatory measures should be in place to mitigate the risk of moral hazard. Unlimited deposit*

[68] See http://www.iadi.org/Research.aspx?id=55 for details.

[69] IADI is currently updating its guidance on resolution and differential premium systems, and it is drafting papers on depositor payout, transitioning from blanket guarantees, and early warning systems.

coverage, whether via the complete protection of eligible deposits or the existence of guarantee arrangements protecting the institution itself, could adversely affect the effectiveness of the DIS and should be avoided.

- *ensuring that the current resources (including any back-up funding options) of their DIA are adequate and immediately available to meet the financing requirements arising from its mandate.*
- *removing any banking system-wide coverage limit by the DIS that could create the perception in times of stress that some insured deposits would not be reimbursed in the event of a (large) bank failure, or complementing such a limit with explicit arrangements to deal with a payout above that amount.*
- *establishing and publicly communicating a prompt target timeframe for reimbursing depositors, and making all necessary arrangements to meet the payout target.*
- *adjusting the DIA governance arrangements to ensure adequate public oversight and to mitigate the potential for conflicts of interest.*
- *formalising information sharing and coordination arrangements between the DIA, other safety-net participants and foreign DIAs. Sufficient information on cross-border protection by foreign DIAs should be made available to relevant domestic depositors.*

Recommendation 3: Additional analysis and guidance by relevant standard-setters

IADI should, in consultation with the BCBS and other relevant bodies where appropriate, update its guidance that pre-dates the financial crisis. It should also consider developing additional guidance to address areas where the Core Principles may need more precision to achieve effective compliance or to better reflect leading practices, such as:

- *developing benchmarks to monitor the effectiveness and adequacy of coverage levels;*
- *identifying instruments and good practices that can help mitigate moral hazard;*
- *ensuring that there is effective coordination across systems in jurisdictions with multiple DISs and that any differences in depositor coverage across institutions operating within that jurisdiction do not adversely affect the systems' effectiveness;*
- *conducting regular scenario planning and simulations to assess the capability of making prompt payout;*
- *exploring the feasibility and desirability of greater use of ex-ante funding; and*
- *developing appropriate mechanisms to regularly monitor public awareness of the DIS.*

Recommendation 4: Follow-up of peer review recommendations

The FSB should review and evaluate the actions taken by its members in response to the recommendations in this report. This could take place via a follow-up peer review on DISs or as part of the series of peer reviews on the implementation of the Key Attributes for Effective Resolution Regimes.

Annex A: Cross-country comparison of deposit insurance measures taken during the financial crisis

Table 1: Extraordinary depositor protection measures introduced during the crisis

Country	No extraordinary measures	Coverage limit increase	Premium rate/system change	Coverage expansion	Full deposit guarantee	Extension of DIS powers and other measures
Argentina	x					
Australia		x[1]			x[2]	
Brazil				x[3]		x[4]
Canada	x					
China	x					
France		x[13]			x[5]	x[13]
Germany		x[13]			x[6]	x[13]
Hong Kong					x[7]	
India	x					
Indonesia		x				
Italy						x[8,13]
Japan	x					
Korea				x[9]		x[10]
Mexico	x					
Netherlands		x[13]				x[13]
Russia		x	x[11]			x
Saudi Arabia	x					
Singapore					x[7]	
South Africa	x					
Spain		x[12,13]				x[13]
Switzerland		x		x		x[14]
Turkey	x					
United Kingdom		x[13]				x[13]
United States		x	x[15]		x[16]	x[17]

[1] Australia introduced its Financial Claims Scheme (deposit guarantee system) in October 2008 with a coverage limit of A$1 million per depositor per authorised deposit-taking institution.

[2] In addition to the Financial Claims Scheme, Australia introduced a separate guarantee scheme for deposits over A$1 million that was voluntary (for a fee).

[3] The National Monetary Council allowed banks to issue a special time deposit guaranteed by the deposit insurance agency (FGC) for the issues of securities.

[4] The National Monetary Council increased the limit for the application of FGC funds on loan acquisitions and on receivables-backed investments from 20% to 50% of the FGC's equity. The FGC also performed some special liquidity assistance operations to facilitate capitalization, asset restructuring, corporate restructuring in some member institutions, or orderly exit from the banking system.

[5] Political declaration that depositors would not lose money deposited in licensed banks in October 2008, not transposed into law.

[6] Political declaration in October 2008, not transposed into law.

[7] Expired at the end of 2010.

[8] The Ministry of Finance may grant a guarantee should a deposit guarantee scheme is unable to reimburse depositors – expired in October 2011.

[9] Coverage extended to foreign currency deposits – since November 2008.

[10] Implementation of the Integrated Resolution Information System (to facilitate provisional insurance payouts online); adoption of the Estimated Payment System (to facilitate advance payment to depositors).

[11] Insurance premium rate was decreased to support liquidity of DIS member banks.

[12] Coverage was increased both for deposits (DIS) and investments (investor protection scheme).

[13] Higher depositor coverage, faster depositor compensation, and more comprehensive and timely information to depositors (revised EU Directive).

[14] Accelerated disbursement to depositors; requiring banks to hold assets in Switzerland of an amount equal to 125% of the amount of deposits protected by the bankruptcy privilege; privileged deposits are paid out from the available liquidity reserve at a failing bank in priority of claims of the bankruptcy proceedings.

[15] FDIC modified its deposit insurance assessment system – changed assessment base; eliminated constraints on the size of the Fund; granted the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends when the reserve ratio reaches 1.5%.

[16] Full guarantee for noninterest-bearing transaction accounts until December 31, 2012.

[17] FDIC in October 2008 established the Temporary Liquidity Guarantee Program that included two components: the Debt Guarantee Program (to enable institutions to rollover their maturing debt with FDIC guaranteed debt – expired on October 31, 2009) and the Transaction Account Guarantee Program (full guarantee for noninterest-bearing transaction accounts through December 2010). FDIC modified its deposit insurance assessment system – changed assessment base; eliminated constrains on the size of the Fund; granted the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends when the reserve ratio reaches 1.5%.

Table 2: Unwinding Plans

Jurisdiction	Unwinding Plans
Australia	New permanent cap of A$250,000 will apply from 1 February 2012; coverage of foreign currency deposits ended in October 2011; the Government is proposing that pass-through coverage on certain pooled trusts be added.
Brazil	Temporary guarantee of special time deposits issued by banks is being phased out by Jan. 1, 2016.
France	EU coverage changes made permanent; public declaration not transposed into law.
Germany	EU coverage changes made permanent; public declaration not transposed into law but still valid.
Hong Kong	Public well-informed about duration of full guarantee as expiration at end-2010 was announced at the onset of the crisis. Formed a tripartite working group with Malaysia and Singapore to coordinate on exit strategy.
Indonesia	Coverage limit was increased in 2008 – unwinding plans to be announced.
Italy	System-wide stabilization measures adopted were not activated and expired in October 2011. No specific exit strategy is needed.
Netherlands	None. Increased coverage limit was made permanent as a result of the EU Directive.
Korea	None. The coverage limit has been kept unchanged at KRW 50 million.
Russia	None. The increase in the deposit insurance coverage in October 2008 was made permanent.
Singapore	Expiration date of end-2010 was announced when the guarantee was introduced. No phased transition.
Spain	Coverage changes were made permanent as a result of the EU Directive.
Switzerland	Enhancements to coverage have been made permanent as of 1 September 2011.
United Kingdom	The protection guaranteed by the Government (not by the deposit insurer) above the compensation limit for depositors in five deposit takers was intended to be temporary and was removed in May 2010.
United States	The increase in deposit insurance coverage for banks and credit unions became permanent in July 2010 (Dodd-Frank Act). The FDIC ended the Transaction Account Guarantee Program when Congress extended full coverage for noninterest-bearing deposits through 31 December 2012. The DGP was closed by the FDIC after considering economic conditions and following rule-making procedures.

Annex B: FSB members with multiple deposit insurance systems

Brazil

The Brazilian deposit insurance system comprises four separate insurance systems. The Credit Guarantee Fund (FGC) is an explicit DIS, established in 1995 for the banking system. It is a private, nonprofit association with a primary mandate of protecting depositors against financial institution failure. In response to the crisis, the FGC was also authorized to provide special liquidity assistance to associated institutions. The FGC has no supervision or resolution powers.

There are 3 other explicit, privately-run deposit insurance funds for credit unions; together, they hold deposits corresponding to only 0.45% of deposits in the national financial system. All three funds are non-profit associations run by credit union federations. Like the FGC, they are primarily pay boxes, although they are authorized to perform some special liquidity assistance operations in order to fund corporate reorganizations such as mergers and acquisitions or ownership transfer. They vary in terms of coverage limit, participation and insurance premium calculation.

Canada

Depositors are insured either at the national level by the Canada Deposit Insurance Corporation (CDIC) or at the provincial level by local DISs.

The CDIC insures deposits in federally chartered banks, trust companies, loan companies, cooperative credit associations and credit unions, and provincially chartered trust companies and loan companies up to CAD$100,000 per depositor and institution. Membership in CDIC is compulsory for all such institutions accepting retail deposits. CDIC is a state-owned enterprise owned by the federal government.

Deposits in provincially chartered credit unions and caisses populaires (corresponding to around 13% of total banking system deposits) are restricted to operating within their province and are insured by deposit insurers at the provincial level. Provincially chartered credit unions cannot become members of CDIC. Coverage in those DISs varies by province, ranging from a CAD$100,000 coverage limit (Ontario, Quebec) to full deposit coverage (Alberta, British Columbia, Manitoba and Saskatchewan). These systems all have ex-ante funds (often called stabilization funds) built up from premiums assessed against member institutions.

Italy

The Italian DIS consists of two deposit protection schemes. Banks incorporated as joint-stock companies and cooperative banks are covered by the Interbank Deposit Guarantee Fund (FITD). Mutual banks are covered by the Mutual Bank Depositor Guarantee Fund (FGDCC). Approximately 47% of the value of deposits are covered by the systems: 42 % under the FITD and 5 % under the FGDCC. The systems have the same coverage levels and are funded by ex-post contributions by their respective member banks.

The two funds were initially established as voluntary systems but became compulsory with the passage of EU Directive 94/19/EC. The systems are private-law consortia among banks administered by representatives of the member banks. The systems are primarily entrusted with depositor payout in liquidation. They may also facilitate a restructuring process and avoid liquidation, provided that alternative interventions are less costly than depositors' payout. Any intervention of the systems is subject to the approval of the Bank of Italy.

Germany

The German DIS is organized along the traditional banking pillars. Commercial banks are covered by two statutory protection systems, one for private banks and one for public banks. These banks may also join a voluntary and privately-run protection system that effectively "tops up" the statutory system. The statutory and voluntary systems represent about half of total deposits (about US$3.4 trillion out of a total of US$7.2 trillion). Savings banks and cooperative banks are members of an institutional protection system (one for savings banks and one for cooperative banks) that fully safeguards the viability of its member institutions.

***Statutory systems for commercial banks*:** There are two statutory DGS, one covering public banks and one covering private banks. The systems are privately-run but supervised by the German Federal Financial Supervisory Authority (BaFin), and are compliant with the EU Directive on Deposit Insurance.

Voluntary systems for commercial banks: The Association of Private German Banks and the Association of German Public Sector Banks each offer voluntary funds for their members. The protection offered by these systems supplements the legal protection from the statutory systems. They offer a higher protection level than EUR100,000 and cover more types of depositors and deposits. For the Association of Private German Banks, the total coverage limit for each creditor is set at the equivalent of 30% of a bank's capital, while there is no coverage limit for the Association of German Public Sector Banks. These voluntary systems do not have administrative powers or legal claim to compensation and are not supervised by BaFin.

Institutional protection systems for cooperative and savings banks: These systems protect German cooperative banks and savings banks, rather than just depositors, by safeguarding the viability of the institutions. Such protection is provided through various arrangements and guarantees. The member institutions of these two systems do not participate in the statutory DGS. BaFin only determines whether these systems fulfil required conditions. If such conditions are not fulfilled, the member institutions will have to shift to a statutory DGS. The two systems operate with partial ex-ante funding (risk-based) and additional ex-post burden sharing provisions. In the case of the savings banks, this is done under regulated regional arrangements. In exceptional cases, local governments can contribute to the ex-post burden sharing as the public owner of the savings banks.

Japan

In addition to the Deposit Insurance Corporation of Japan (DICJ) for banks and credit cooperatives, there exists the Agricultural and Fishery Cooperative Savings Insurance Corporation (AFCSIC). The AFCSIC's establishment was based on the Savings Insurance Act with the objective of protecting depositors and maintaining orderly credit conditions in agricultural and fishery cooperatives. These cooperatives pay premiums to the AFCSIC with the aim of protecting a certain amount of savings should they fail. The amount of deposits covered by the AFCSIC is relatively small (approximately 90 trillion Yen) and the insurance system is similar to that of the DICJ – for example, the AFCSIC's coverage of protected deposits is the same as that of the DICJ.

United States

The United States has two federally mandated DISs depending on the type of institution: (1) deposits in banks and savings associations (thrifts) are insured by the Federal Deposit Insurance Corporation (FDIC); and (2) deposits in credit unions are insured under a separate legislative mandate by the National Credit Union Administration (NCUA).

The FDIC covers deposits up to $250,000. At that level, approximately 80% of the value of all deposits and 99.7% of the number of depositors are fully covered. The FDIC is the primary federal regulator of state-chartered banks and is the back-up supervisor for the remaining depository institutions that it insures. It examines and supervises banks for operational safety and soundness and for compliance with consumer protection laws. It also resolves failed banks outside of bankruptcy under special resolution legislation. As receiver of failed banks (and thrifts), the FDIC is mandated to maximize the return on failed-bank assets and to minimize the cost to its deposit insurance fund. The FDIC manages an ex-ante deposit insurance fund and is backed by the "full faith and credit of the United States Government."

Deposits in federal credit unions are protected by the NCUA, which is an independent agency of the United States government that regulates and supervises the credit union system. The NCUA insures deposits at federally-insured credit unions up to the statutory limit of $250,000 for each account ownership category, per depositor and institution. The NCUA also administers the National Credit Union Share Insurance Fund (NCUSIF), which is funded on an ex-ante basis by federally insured credit unions. The NCUSIF is funded by premiums of 1% of their insured shares in the NCUSIF. The NCUSIF is also backed by the "full faith and credit of the United States Government." As with the FDIC, the NCUA can pay off insured depositors and liquidate the credit union's assets, arrange a merger with another credit union, sell the credit union in whole or in part (a purchase-and-assumption transaction), or establish a bridge institution—a temporary federally chartered credit union—to maintain the functions of the failed bank during the process of marketing the credit union's franchise.

Annex C: Cross-country comparison of deposit insurance system features

Table 1: Current Structure of Explicit Protection Arrangements

Jurisdiction	Administration	Organization Structure	Multiple Systems	Membership	
				Compulsory or Voluntary	Timing of Entry in DIS
Argentina	Private (fund trustee)	Autonomous	No	Compulsory	On license
Australia	Public	In supervisor	No	Compulsory	On license
Brazil 1/	Private	Nonprofit assoc.	Yes	Compulsory	On license
Canada 2/	Public	Autonomous	Yes	Compulsory	On license
France	Mixed	Autonomous	No	Compulsory	On license
Germany 3/	Mixed	Autonomous	Yes	Compulsory	On license
Hong Kong	Public (non-govt)	Autonomous	No	Compulsory 4/	On license
India	Public	Wholly owned public subsidiary	No	Compulsory	On license
Indonesia	Public	Autonomous	No	Compulsory	On license
Italy 5/	Private	Autonomous	Yes	Compulsory	On license
Japan 6/	Mixed	Autonomous	Yes	Compulsory	On license
Korea	Public	Autonomous	No 7/	Compulsory	On license
Mexico	Public	Decentralized agency	No	Compulsory	On license
Netherlands	Public	Managed by central bank	No	Compulsory	On license
Russia	Public	Autonomous - state corporation	No	Compulsory	On license
Singapore	Public	Autonomous	No	Compulsory	On license
Spain	Private	Autonomous	No	Compulsory	On license
Switzerland	Private	Autonomous	No	Compulsory	On license
Turkey	Public	Autonomous	No	Compulsory	On license
United Kingdom	Public (non-government)	Autonomous 8/	No	Compulsory	On license
United States 9/	Public	Autonomous	Yes	Compulsory	On DIA approval

1/ Information shown in this table (and in the rest of the Annex, unless otherwise noted) relates to the *Fundo Garantidor de Crédito* (FGC), which covers banks. There are also three private DISs for credit unions.

2/ Information shown in this table (and in the rest of the Annex, unless otherwise noted) relates to the CDIC, which covers federally chartered credit institutions. There are also provincial DISs for provincially chartered credit unions and caisses populaires.

3/ Information shown in this table (and in the rest of the Annex, unless otherwise noted) relates to the two statutory Deposit Guarantee Schemes (DGSs). There are six systems in total: two statutory DGSs supervised by the German Federal Financial Supervisory Authority (one for private banks and one for public sector banks); two additional depositor protection funds offering supplemental coverage for the same credit institutions on a voluntary basis; and two institutional protection schemes safeguarding the viability of cooperative banks and savings banks (in conformity with the EU Directive, members of these schemes are exempt from compulsory membership in the DGSs).

4/ Unless exempted. Exemptions are granted to banks that: (i) are incorporated outside Hong Kong; (ii) the deposits are protected by an overseas DIS; and (iii) the scope and level of protection available to the depositors under the overseas DIS are not narrower or lower than that provided by the scheme in Hong Kong. Only two banks are currently exempted.

5/ Information shown in this table (and in the rest of the Annex, unless otherwise noted) relates to the Interbank Deposit Guarantee Fund (FITD), which covers banks incorporated as joint-stock companies and cooperative banks. There is also the Mutual Bank Depositor Guarantee Fund (FGDCC), which covers mutual small cooperative banks.

6/ Information shown in this table (and in the rest of the Annex, unless otherwise noted) relates to the Deposit Insurance Corporation of Japan, which covers banks and credit cooperatives. There is another DIS for agricultural and fishery cooperatives.

7/ The KDIC is an integrated deposit insurer that provides protection to financial institutions of six different types – banks, life insurers, non-life insurers, financial investment companies (e.g. securities firms and asset management companies), merchant banks and mutual savings banks.

8/ The deposit insurer (FSCS) is operationally independent but is accountable to the supervisory authority (FSA) under the legislative framework that governs the FSCS.

9/ Information shown in this table (and in the rest of the Annex, unless otherwise noted) relates to the FIDC, which covers banks and thrifts. There is another DIS for credit unions.

Table 2: Public Policy Objectives

Jurisdiction	Formal Objectives	How Formalised	Description
Argentina	Yes	Law	Protect bank deposits and capitalize or facilitate restructuring
Australia	Yes	In annex to law	Depositors of failed authorised deposit-taking institutions have timely access to deposit funds up to the defined limit
Brazil	Yes	In statutes	Provide "credit guarantees" up to limit and provide financial assistance
Canada	Yes	In law	Insurance against loss of all or part of deposits, contribute to financial stability, and minimise CDIC's exposure to loss
France	Yes	Law and regulation	Enhance confidence in banking system and prevent depositor loss up to a limit
Germany	Yes	In law	Guarantee a harmonized protection for depositors and enhance financial stability
Hong Kong	Yes	In law	Provide compensation in event of a failure, which promotes or contributes to financial stability
India	Yes	Preamble of law, Annual report	Insurance of deposits and credit guarantee to promote financial stability
Indonesia	Yes	In law	Ensures deposit funds and financial sector stability through limited coverage, temporary capital injections, liquidation
Italy	Yes	In law	Guarantee depositors
Japan	Yes	In law	Protect depositors and ensure settlement of funds as well as maintain an orderly financial system. Regarding the resolution of failed banks, provide financial assistance to facilitate mergers and other resolution options.
Korea	Yes	In law	Protect depositors and maintain stability of financial system
Mexico	Yes	In law	Guarantee bank deposits, resolve at the least possible cost banks with solvency problems, contribute to the stability of the banking system and safeguard the national payments system
Netherlands	Yes	In law	Compensate depositors when bank cannot fulfil its commitments
Russia	Yes	In law	Protection of household depositors, strengthening public confidence in the banking system, and encouraging the flow of savings to the banking system
Singapore	Yes	Ministerial statement, preamble of law	Protect small depositors and provide limited compensation to insured depositors
Spain	Yes	In law	Guarantee deposits held in banks, savings banks and credit cooperatives, and carry other necessary actions to reinforce solvency of institutions
Switzerland	Yes	In law and statutes	Insurer provides limited coverage to depositors, commitment to fast payout and insurance of adequate funds for payouts
Turkey	Yes	In law	Protect the rights and interests of depositors and ensure confidence and financial stability. Strengthen and restructure financial standing of banks by transferring, merging, selling or liquidating banks, and executing collection transactions of receivables of the deposit insurance fund.
United Kingdom	Yes	In law, regulations, MOU between the FSA and FSCS, and the FSCS's Memorandum and Articles of Association.	Compensate depositors when a bank is unable to satisfy claims
United States	Yes	In law	Maintain public confidence in the financial system by 1) insuring deposits; 2) serving as receiver and liquidator for failed banks and certain failed systemically important financial companies; and 3) examining and supervising financial institutions for safety and soundness and consumer protection.

Table 3: Mandate 1/

Jurisdiction	Formal Objectives	How Formalised	Classification 2/	Description
Argentina	Yes	In law	Paybox plus	
Australia	Yes	In law	Paybox	The Financial Claims Scheme (FCS) is administered by the Australian Prudential Regulation Authority (APRA). While the FCS is a paybox, APRA has extensive powers in its capacity as the resolution authority.
Brazil	Yes	In statutes	Paybox plus	It provides financial assistance to banks by buying loans and offering special liquidity functions.
Canada	Yes	In law	Loss minimiser	In addition to a payout, CDIC investigates possible going concern solutions as it prepares for the liquidation and payment. It has at its disposal the ability to conduct off-site risk assessment and a wide range of failure resolution tools (e.g. assisted transactions, agency agreements, bridge institution etc.) to contribute to financial stability and minimise CDIC's exposure to loss.
France	Yes	In law	Loss minimiser	In addition to payout, the DIA can take preventative action, including the granting of liquidity lines or guarantees and the purchase of shares in a credit institution.
Germany	Yes	In law	Paybox	In addition to payout, the DGSs are empowered to carry out audits of member credit institutions in order to assess the risk of a compensation case. If issues are identified, the supervisor is informed. The Institutional Protection Schemes protect their member institutions by safeguarding their liquidity and solvency. They may take all appropriate actions, also preventive ones.
Hong Kong	Yes	In law	Paybox	
India	Yes	In law	Paybox	It includes option of financing mergers and restructuring.
Indonesia	Yes	In law	Loss minimiser	Conducts deposit payout, rescues non-systemic failed banks based on least cost, and rescues systemic failed banks designated by Financial Stability Committee.
Italy	Yes	In statute and by-laws	Loss minimiser	In addition to payout, the DIA can take preventative action, including the granting of liquidity lines or guarantees and the purchase of shares in a credit institution.
Japan	Yes	In law	Loss minimiser	The DIA represents depositors in court procedures, maintains the failed institutions, manages the bridge bank, repurchases uninsured deposits according to the quality of the assets of the failed financial institution, and implements measures to deal with a financial crisis (e.g. financial assistance whose amount exceeds the insurance payout cost, and special crisis management such as the acquisition of all outstanding shares of an institution).
Korea	Yes	In law	Risk minimiser	The KDIC checks on an on-going basis the financial health of member institutions by conducting joint examinations and sharing information with financial supervisory authorities. It also performs failure resolution functions ranging from arranging a merger and acquisition or a purchase and acquisition deal for a failed financial institution, to making a transfer of contracts, establishing a resolution financial corporation (e.g. bridge bank) and providing financial assistance. The KDIC also acts as receiver of the failed financial institutions.

Mexico	Yes	In law	Loss minimiser	IPAB has the responsibility of executing the payout of insured deposits. In addition, the law empowers IPAB to guarantee the deposits of small and mid-sized depositors and to resolve banks with solvency problems at the least possible cost.
Netherlands	Yes	In law	Paybox	It will soon also be able to finance deposit transfers
Russia	Yes	In law	Loss minimiser	Liquidates banks and implements bankruptcy prevention measures. Powers of resolution using state funds. Tools include purchase-and-assumption, assisted rehabilitation, mergers and recapitalization.
Singapore	Yes	In law	Paybox	
Spain	Yes	In law and statutes	Loss minimiser	The DIA will be obliged to pay deposits, decide to finance early intervention or bank resolution measures in order to restore the financial viability or to finally liquidate the institution.
Switzerland	Yes	In law and statutes	Paybox	
Turkey	Yes	In law	Loss minimiser	In addition to payout, the DIA is responsible for resolution of deposit taking banks with the transfer of shareholder rights and management and control of the banks to DIA. In case of transfer of bank's management and control, the DIA may transfer assets to another bank, take over assets, provide financial support and transfer/merge/sell the bank or request the regulator to revoke the bank's license.
United Kingdom	Yes	In law, regulations, MOU between the FSA and FSCS, and the FSCS's Memorandum and Articles of Association.	Paybox plus	In addition to payout, the FSCS plays several roles in the special resolution regime, including informing decisions on the selection of tools, supporting the implementation of the bank insolvency procedure, and making contributions towards the cost of resolution.
United States	Yes	In law and regulations	Risk minimiser	The FDIC insures deposits, serves as the receiver and liquidator of failed banks and certain failed systemically important financial companies, and it examines and supervises financial institutions for safety and soundness and consumer protection.

1/ The mandate refers to the set of official instructions describing its roles and responsibilities. In the case of multiple systems, it refers to protection to bank depositors.

2/ A paybox merely pays out deposits in event of a failure; a paybox plus has extended but still limited roles and powers in bank resolution (from financing to implementing resolution options); a loss minimiser actively engages in the selection of appropriate least cost resolution strategies; and a risk minimizer engages in payout, resolution and supervision.

Table 4: Governance

Jurisdiction	Governing Structure		Budgetary Independence 1/
	Governing Body	Members	
Argentina	Management Committee	Representative of the Central Bank acting as chairman, 4-7 members from financial institutions contributing to the Management Committee	Yes
Australia	Part of the prudential regulator	Members from prudential regulator	No
Brazil	Board of Directors	5-9 representatives from member institutions	Yes
Canada	Board of Directors	11-member Board: heads of regulatory agencies, Governor of the Central Bank, Ministry of Finance and private non-ex-officio directors	Yes
France	Supervisory Board / Executive Board 2/	Elected private bankers for the Supervisory Board / Specific agreement of the Ministry of Finance for the Chairperson of Executive Board	Yes
Germany	Board of Directors	Members from banking associations. The DGS are legal persons under private law and are supervised by BaFin, which also checks the qualification and work of their directors.	No
Hong Kong	Board of Directors	8-member Board, including two ex-officio members from central bank and the government	Yes
India	Board	12-member Board; 2 from RBI, one from government, and 9 independents	Yes
Indonesia	Board of Commissioners	Six members, appointed by the President including private and state bankers, one ex-officio of central bank and one ex-officio of ministry of finance.	Yes
Italy	Board of Directors	24 members including the President of Italian Banking Association and officials of member banks. A representative from the Bank of Italy in its capacity as supervisor attends without vote.	Yes
Japan	Policy Board	Governor of the DICJ, representatives of Bankers Association, Regional Banks Association, Association of Regional Banks, National Association of Shinkin Banks, Community Bank, advisor of non-financial institution, news commentator ,professor of University, and four DICJ executives	Yes
Korea	Deposit Insurance Committee	7 members: the President of the KDIC (Chairman), 3 ex officio members from the government and the central bank, and 3 others from the private sector	Yes
Mexico	Governing Board	7 members: 3 officio members (Minister of Finance, Governor of the Central Bank, President of the Supervisory Commission) each of which can designate an alternate, and 4 independent members appointed by the President and ratified by 2/3 of the Senate (or by the same proportion of members of the Congressional Standing Committee when the Senate is in recess)	Yes
Netherlands	Part of central bank/supervisor	Not applicable	No
Russia	Board of Directors	13 members (7 from government, 5 from central bank, and CEO)	Yes
Singapore	Board of Directors	5 members, with experience in public sector, banking, insurance, law and accounting	Yes

Spain	Board of Directors	12 members (6 from industry and 6 from central bank)	Yes
Switzerland	Board of Directors	Bankers and securities dealers	Yes
Turkey	Board of Directors	7 members (chairman, vice chairman and five appointees with experience in relevant disciplines)	Yes
United Kingdom	Board of Directors	13 appointed by FSA, nine nonexecutive and four executive directors (Chief Executive and the Directors of Corporate Affairs, Operations and Central Services)	Yes
United States	Board of Directors	5 members (Chairman of the FDIC, Vice Chairman of the FDIC, Comptroller of the Currency, Director Consumer Financial Protection Bureau, and an independent director)	Yes

1/ Budgetary independence implies that the agency can determine on its own how it will spend its budget.

2/ Within a regime specifically established by law including checks and balances between the public authorities, the banking supervisor and the private sector.

Table 5: Coverage Levels (year-end 2010)

Jurisdiction	Deposit Coverage Level [1/]			Provision of Coverage			Total Domestic Deposit Base (US$ billion) [4/]	Deposit Value (% of total)		Number of Fully Covered Eligible Depositors / Accounts (% of total)	
	US$	Set-off	Indexed	By depositor and institution	Local branches of foreign banks [2/]	Foreign branches of domestic banks [3/]		Eligible [5/]	Covered [6/]	Depositors [7/]	Deposit Accounts [8/]
Argentina	7,545	No	No	Yes	Yes	No	95	N/A	29	N/A	94.9
Australia	1,016,300	No	No	Yes	No	Yes [9/]	1,336	95	61	N/A	>99
Brazil	42,000	No	No	Yes [10/]	No	No	933	77	22	98.9	N/A
Canada	100,000	No	No	Yes	No	No	1,803	64	35	N/A	97
France	136,920	No	No	Yes	Yes [11/]	Yes [12/]	1,742	92	67	N/A	N/A
Germany [13/]	136,920	Yes	No	Yes	Yes [11/]	Yes [12/]	3,395	~40	N/A	N/A	N/A
Hong Kong	64,000	Yes	No	Yes	Yes	No	877	98	20	90	N/A
India	2,240	Yes	No	Yes	Yes	No	1,166	95	33	N/A	92.9
Indonesia	235,294	Yes	No	Yes	Yes	No	279	90	61	N/A	99.9
Italy [14/]	136,920	Yes	No	Yes	Yes [11/]	Yes [12/]	2,050	45	31	55.1 [15/]	N/A
Japan	122,775	Yes [16/]	No	Yes	No	No	11,101	90	71 [17/]	NA	98.9
Korea	43,902	Yes	No	Yes	Yes	Yes	951	68	27	95.4	N/A
Mexico	146,606	No	Yes	Yes	Not applicable	Not applicable	178	100	58	N/A	99.9
Netherlands	136,920	No	No	Yes	Yes [11/]	Yes [12/]	1,202	59	48	80	N/A
Russia	23,064	Yes	No	Yes	Not applicable	No	692	47	32	96.5	99.7
Singapore	38,835	No	No	Yes	Yes	No	456	70	19	91	N/A
Spain [18/]	136,920	No	No	Yes	Yes [11/]	Yes [12/]	1,963	65	47	64.1	N/A
Switzerland	96,830	No	No	Yes	Yes	No	1,481 [19/]	73	24	N/A	N/A
Turkey	32,341	No	No	Yes	Yes	No	399	59	25	86.5	88.7
United Kingdom	133,068	No	No	Yes	Yes [11/]	Yes [12/]	N/A	N/A	N/A	N/A	98
United States	250,000	Yes [20/]	Yes	Yes	No	Yes [21/]	7,888	100	79	N/A	99.7

N/A = not available.

1/ Using the exchange rate as of end-2010. Setoff is where the deposit is first used to pay off any claims the bank has on the depositor before payout. Indexation is to inflation.

2/ Whether the domestic DIS covers deposits held by local branches of foreign banks (the deposits of locally-incorporated subsidiaries of foreign banks are covered by the domestic DIS across all FSB member jurisdictions).

3/ Whether the domestic DIS covers deposits held by foreign branches of domestically-incorporated banks.

4/ Total domestic banking sector deposits held by relevant institutions (whether domestic- or foreign-owned) within a jurisdiction. In the case of jurisdictions with multiple DISs, only the deposits covered by the main statutory DIS are shown (unless otherwise noted below).

5/ Proportion of eligible domestic banking sector deposits to total domestic banking sector deposits. Eligible deposits are those deposits that fall within the scope of a domestic DIS, i.e. they meet the requirements for coverage under a DIS, which are based typically on the type(s) of depositor or deposit.

6/ Proportion of covered domestic banking sector deposits to total domestic banking sector deposits. Covered deposits are those eligible deposits that are actually covered or insured by a domestic DIS, i.e. they comply with the eligibility criteria for inclusion and the value of the deposits fall within the maximum coverage limit.

7/ Proportion of domestic banking sector depositors whose eligible deposits were fully covered by a domestic DIS. A depositor is considered fully covered if his/her total eligible deposits, aggregated across all deposit accounts in each institution, are within the protection limit of the DIS.

8/ Proportion of eligible domestic bank deposit accounts that were fully covered by a domestic DIS.

9/ Australia has announced its intention to legislate to remove deposit coverage from foreign branches of domestic banks, credit unions and building societies.

10/ By depositor for the entire conglomerate, no matter how many accounts are held in each bank in group.

11/ In the case of EEA member countries, the domestic DIS does not typically cover the deposits of domestic branches of credit institutions headquartered in other EEA countries since the home authority is responsible for providing deposit insurance coverage. However, domestic branches of credit institutions incorporated in countries outside the EEA must join the domestic DIS.

12/ Only the branches of domestically-incorporated banks in other EEA countries are covered by the domestic DIS.

13/ The figures for the deposit coverage level, total domestic deposit base and the proportion of eligible deposits in Germany represent only institutions that are covered by the statutory deposit protection schemes (private and public sector banks). Those institutions can also take advantage of a voluntary "top up" depositor protection offered by their banking associations (not included in the table). There are also two institutional protection schemes that safeguard the viability of their member institutions (cooperative and savings banks), so all of their deposits (about US$3,368 billion - not included in the table) are protected.

14/ The figures for the total domestic deposit base and for the proportion of eligible and covered deposits in Italy represent those banks covered by the main DIS (FITD). The corresponding figures for the DIS for mutual banks (FGDCC) are as follows: USD 131 billion in total deposits, and eligible and covered ratios of 83% and 61% respectively.

15/ The proportion of fully covered eligible deposits for Italy is an estimated average across both DISs (FITD and FGDCC).

16/ Deposits are set off only upon the request of depositors.

17/ If the Agricultural and Fishery Cooperative Savings Insurance Corporation of Japan is included in the calculations, then the overall deposit coverage rate drops to 65%.

18/ The figures for Spain cover the total of the previously separate DISs for banks, savings banks and credit cooperative banks (total deposits of US$846 billion, US$992 billion and US$125 billion respectively).

19/ The deposit base includes only non-bank deposits. Transaction account deposits by other financial institutions and interbank placements/borrowings are not included.

20/ Set-off is only applied to deposits above the coverage limits or in the case of a loan default.

21/ The FDIC only covers deposits collected by the foreign branches of domestic banks if these deposits are designated as being "payable in the United States".

Table 6: Extent of Coverage

Jurisdiction	Types of Deposits Covered							
	Demand	**Fixed term**	**Foreign currency**	**Interbank**	**Non-financial companies**	**Public sector**	**Nonbank financial institutions**	**Non-residents**
Argentina	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Australia	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Brazil	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Canada	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
France	Yes	Yes	Yes 1/	No	Yes	No	No	Yes
Germany 2/	Yes	Yes	Yes 1/	No	Yes 3/	No	No	Yes
Hong Kong	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
India	Yes	Yes	Yes	No	Yes	Yes	No	Yes
Indonesia	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Italy	Yes	Yes	Yes	No	Yes	No	No	Yes
Japan	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Korea	Yes	Yes	Yes	No	Yes	No 4/	No 5/	Yes
Mexico	Yes	Yes	Yes	No	Yes	Yes	No	Yes
Netherlands	Yes	Yes	Yes	No	Yes	No	No	Yes
Russia	Yes	Yes	Yes	No	No	No	No	Yes
Singapore	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Spain	Yes	Yes	Yes	No	Yes	No	No	Yes
Switzerland	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Turkey	Yes	Yes	Yes	No	No	No	No	Yes
United Kingdom	Yes	Yes	Yes	No	Yes 6/	No	No	Yes
United States	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

1/ Only currencies of countries in the European Economic Area for France and in the European Union for Germany (in addition to deposits in Euro).

2/ The responses in each category correspond to the statutory guarantee schemes. As the institutional protection schemes safeguard the existence of their member institutions, all their deposits are completely protected.

3/ Only small non-financial companies are covered.

4/ The KDIC does not protect deposits made by government, local governments, the Bank of Korea, the Financial Supervisory Service and the KDIC. However, it protects deposits made by other public agencies.

5/ The KDIC does not protect deposits made by non-bank member institutions (i.e. securities firms, insurers, merchant banks). However, it protects deposits made by non-bank, non-member institutions (i.e. credit unions, Saemaul community banks etc.).

6/ The FSCS does not cover the deposits of non-financial companies if they are ‘large’ (as defined in FSA rules).

Table 7: Funding Structure (year-end 2010) 1/

Jurisdiction	Type of Financing	Size of Fund		Target Size 2/
		In US$ million	% of Covered Deposits	
Argentina	Ex-ante	950	4.4	US$0.5 billion or 5% of total deposits (whichever is higher)
Australia	Ex-post			
Brazil	Ex-ante	12,675	6.2	2% of insured deposits
Canada	Ex-ante	2,100	0.32	40-50 basis points of insured deposits
France	Ex-ante	2,519	0.21	None
Germany	Ex-ante	Confidential	0.15 3/	None
Hong Kong	Ex-ante	167	0.1	0.25% of insured deposits
India	Ex-ante	5,490	1.4	None
Indonesia	Ex-ante	6,700	1.2	2.5% of total deposits
Italy	Ex-post			
Japan	Ex-ante	1,600	0.04	None
Korea 4/	Ex-ante	4,141	1.61	0.825 - 1.1% of insured deposits
Mexico	Ex-ante	551	0.5	None
Netherlands	Ex-post 5/			
Russia	Ex-ante	4,000	1.8 6/	None
Singapore	Ex-ante	61	0.13	0.3% of insured deposits
Spain	Ex-ante	4,010	0.37 7/	None
Switzerland	Ex-post			
Turkey	Ex-ante	5,300	5.41	None
United Kingdom	Ex-post			
United States	Ex-ante	–$7,350 8/	-0.12	1.35% of insured deposits

1/ In jurisdictions with multiple DISs, the figures only include the fund of the main statutory DIS unless otherwise noted.

2/ Target size of ex-ante fund.

3/ This figure includes both statutory DGS and Institutional Protection Schemes.

4/ The figures concern the bank account of the Deposit Insurance Fund only. In total, the Fund has assets of US$5.9 billion with a coverage ratio of 1.04%. The target size differs from account to account within the limit of 0.660% to 1.925% of insured deposits.

5/ The Netherlands will introduce ex-ante financing as of July 2012.

6/ The figure is 4.7% if one excludes deposits in Sberbank.

7/ The figure for Spain is an average of the previously separate DISs for banks, savings banks and credit cooperative banks, and it includes both covered deposits and securities in the denominator (the DIS is also an investor compensation scheme for investors whose securities are held by credit institutions).

8/ After reserving for probable losses for anticipated bank failures, as of 31 December 2010, the FDIC held working capital (cash and cash equivalents) of US$27.1 billion and another US$12.4 billion in Treasury securities available to handle bank failures.

Table 8: Funding Sources

Jurisdiction	Premiums		Assessment Basis	Back-Up Funding
	Risk-based	Rate		
Argentina	Yes	0.015-0.3% 1/	Eligible deposits	Borrow in market and require advanced premium payments
Australia	N/A	N/A	N/A	FCS is a post-funded scheme with no ex-ante fee. Standing appropriation from Parliament for up to A$20.1 billion per failure (A$20 billion to meet payout costs and A$100 million for administrative fees), supported by a power to borrow funds.
Brazil	No	0.0125% of average monthly balances	Covered deposits	Special premiums, advances, loans from private sectors
Canada	Yes	2.8 , 5.6, 11.1, and 22.2 basis points	Covered deposits	It can borrow CAD 17 billion from the Government or markets (the limit increases annually in proportion to the growth in insured deposits). Additional borrowing requires a special Act.
France	Yes		Eligible deposits	Borrowing in market and additional premiums
Germany	Yes	0.016%	Liabilities of protected depositors	Extraordinary contributions from institutions; borrowing in market
Hong Kong	Yes	0.0175-0.049%	Covered deposits	Stand-by credit facility of HK120 billion (US$15.4 billion) from the Exchange Fund
India	No	0.1%	Eligible deposits	RBI supplementary financing INR 50 m
Indonesia	No	0.2%	Average monthly deposits	Government lending facility and recapitalization facility
Italy	N/A 2/	N/A	N/A	
Japan	No		Eligible deposits	Borrowing from central bank, in market or issuing bonds
Korea	No		Eligible deposits	Borrowing from the market, or issuing bonds, borrowings from the government or the central bank
Mexico	No	0.4%	A proxy of total bank liabilities	Ability to impose extraordinary premiums up to 0.3% of total bank liabilities; the sum of ordinary and extraordinary premiums must not exceed 0.8 % of total bank liabilities. Borrowing up to 6 %, every three years, of total bank's liabilities.
Netherlands	N/A	N/A	N/A	The central bank apportions costs ex-post over the banks.
Russia	No	0.1% of average quarterly balances (~0.4% annually)	Eligible deposits	Bond issuance, authority to temporary increase premiums by 0.3% (per quarter); unlimited federal budget support
Singapore	Yes	0.02-0.07%	Covered deposits	Private sources or central bank
Spain	Yes	0.002 basis points	Eligible deposits	Central bank can provide funding but requires passage of a law
Switzerland	No			Banking sector sources; all banks are members. They are required to hold 50% of their contingent liability in liquid assets. The DIA can borrow from the market.
Turkey	Yes	11, 13, 15, or 19 basis points; 1-2 additional basis	Insured deposits	Advance payments from banks can be sought; may borrow from the Treasury, central bank may give advances

		points may be imposed based on a firm's size		
United Kingdom	N/A	N/A	N/A	The initial primary source of funding for the FSCS is levies on other deposit takers. The FSCS can also borrow from the market, and has the ability to apply to the National Loans Fund for support.
United States	Yes	2.5 - 45 basis points	Average consolidated total assets minus average tangible equity	$100 billion line of credit from Treasury. Authority to borrow from Federal Financing Bank, Federal Home Loan Banks and insured depository institutions

N/A = Not Applicable.

1/ The standard contribution, which applies to all banks, can range between 0.015% (which is the current level) and 0.06%. In addition, there is a risk-based add-on for some banks, as a result of which the total premium can be twice as large as the standard contribution.

2/ Italian banks have to set aside capital against the commitments towards the DGS and to this end they apply a risk-based methodology.

Table 9: Activation of DIS for Payouts and other Resolutions During Past 10 Years

Jurisdiction	Frequency of Use	Number of Payouts	Number of Restructurings
Argentina	16	0	16
Australia	None	N/A	N/A
Brazil	15	8	7
Canada	None	N/A	N/A
France	None	N/A	N/A
Germany	133 1/	9	124
Hong Kong	None	N/A	N/A
India	238	238 2/	0
Indonesia	44	43	1
Italy	43	0	43
Japan	84	0	84
Korea	39	11	28
Mexico	1	1	0
Netherlands	4	4	0
Russia	117	99	18
Singapore	None	N/A	N/A
Spain	2	0	2
Switzerland	6	5	1
Turkey	10	1	9
United Kingdom	65 3/	65	0
United States	347	21	326

N/A = Not applicable.

1/ Nine payouts were made by the Statutory Compensation Scheme of Private Bankers; 124 supporting measures of the institutional protection schemes.

2/ 237 of these payouts involved urban cooperative banks that constitute a small segment of the financial system.

3/ Seven bank failures involved either payment of compensation or transfers of accounts to other banks. Payment of compensation was made in the case of 58 credit unions.

Table 10: Reimbursements

Jurisdiction	Payout Trigger 1/	Payout Process		When Does DIA Receive Deposit Data
		Legally Required Payout Period	Average Payout Period	
Argentina	Supervisor	30 working days from the date of revocation of the operating license	N/A	On decision to intervene
Australia	Supervisors, Courts	No 2/	N/A	Authorised deposit-taking institutions will be required to generate single customer view information within 48 hours of a request. Data will not be required to be provided to APRA.
Brazil	Supervisor	No	50 days	After intervention or liquidation by intervener/liquidator
Canada	Supervisor / DIA	As soon as possible	Historically 1-8 weeks for full reimbursement (emergency interim payments can be made within 24-48 hours)	May undertake special and preparatory exams. A system equivalent to a "single customer view" is being implemented which will reduce payout periods to a few days.
France	Supervisor	20-30 days		On decision to intervene
Germany	Supervisors	20-30 days	Historically 41 – 437 working days	Data provided in course of failure
Hong Kong	Supervisor or court	No	14 days for interim payment	Access when failure is imminent for payout preparation
India	Central bank	3 months to get data, 2 months to pay out.	361 days between deregistration of a bank and claim settlement (for 2009-10)	A claims list is prepared by the liquidator and submitted to the DIA
Indonesia	Supervisor	Begin 5 days after verification / aggregation, for a maximum of 5 years	5 days-5 years (average of 90 days)	When the bank is classified as a problem bank
Italy	Supervisor	20-30 days	N/A	Banks submit regularly data on covered and eligible deposits and provide data on decision to intervene
Japan	Supervisors, Courts	No	N/A	Through on-site inspections, the DICJ requires each financial institution to prepare for providing depositor data at all times. In the event of an insurable contingency, depositor data is provided to the DICJ without delay.
Korea	DIA	No	N/A	Special inspections when a bank faces distress
Mexico	Supervisor / DIA	90 days	7 working days in the past	On a regular basis through inspection visits by the supervisor
Netherlands	courts	20-30 days	N/A	Banks provide central bank/supervisor with data

Russia	Central bank on license withdrawal	Starts in 14 days from triggering event	13 days	A bank's provisional administration provides such information within 7 days of the bank closure
Singapore	Supervisor or court	No	N/A	Scheme member maintains specified data in prescribed format on an ongoing basis, and submits data to DIA on trigger of payout
Spain	Court and supervisor	20-30 days	3 months	Annual collection, quarterly for high interest rate deposits
Switzerland	Supervisor	20 days 3/	Up to 3 months	When supervisors decides to close bank
Turkey	Supervisor	3 months, extended up to one year in extraordinary cases	25 days 4/	Receives data (non-client-specific) on a regular basis from supervisor; banks submit client-specific data upon decision to intervene
United Kingdom	Supervisors or courts	20 working days	7 working days	Within 72 hours of a request made by FSCS at any time, including when a bank is in default
United States	Chartering authority and DIA	As soon as possible	Over a weekend (next working day)	FDIC receives information from all banks

1/ Which institution initiates the payout process?

2/ APRA's intention is for basic account types which are non complex in nature to be paid within 7 days. Other accounts may take longer to pay out.

3/ The legally required payout period only concerns the payment from the DIS to the liquidator of the failed bank (or authorised agent in charge of the bank's recovery).

4/ Imarbank (an extreme case) is excluded from this calculation.

Table 11: Relationship with Other Safety Net Participants

	Coordination Agreements	
	With CB and Supervisors	With Foreign DIAs
Argentina	Informal	No
Australia	Is part of the supervisory authority; MOU with CB 2/	No
Brazil	Informal	No
Canada	In law, MOUs and meetings	No
France	Informal	MOU 1/
Germany	In law	MOU 1/
Hong Kong	MOUs	No 3/
India	Quarterly meetings with supervisors	No
Indonesia	MOU and meetings	No
Italy	Both in law and informal	MOU 1/
Japan	In law	No
Korea	MOUs	No
Mexico	MOU	MOU
Netherlands	Is part of the central bank/supervisor	MOU 1/
Russia	MOU	No
Singapore	Informal (being formalised)	No
Spain	In law	MOU 1/
Switzerland	Informal	No
Turkey	Law and Protocol	MOU
United Kingdom	Law and MOUs	MOU
United States	In law	MOU

1/ The DIA covers all credit institutions incorporated in the country and its branches in the European Economic Area (EEA). Cross-border MOUs sometimes exist with non-EEA countries.

2/ While there are MOUs in place, these pre-date the creation of the FCS and were about cooperation between APRA as the prudential regulator and other authorities for various purposes.

Table 12: Public Awareness

Jurisdiction	Type of Communication Program	Evaluation
Argentina	Websites, bank documents, and advertising by banks	None
Australia	APRA website; ASIC website (Moneymatters)	None
Brazil	Website, media reports	None
Canada	Web site, TV and print advertising, outreach, call centers, brochures, and membership decals posted in banks	Quarterly surveys
France	FGD websites, banks provide information, FGD provides oral and written information	None
Germany	Through credit institutions (legal obligation), DGS websites, supervisors' website	Federal Financial Supervisory authority controls how financial institutions provide information and analyzes complaints from depositors.
Hong Kong	Integrated public awareness program through mass media advertising campaigns and public education and outreach programs	Opinion surveys conducted twice a year
India	Annual reports, booklets, website information	None
Indonesia	Communication policies, website information, advertising, brochures and stickers	Annual surveys
Italy	Member banks, pamphlets	None
Japan	Pamphlets, information posters in banks, websites, mass media announcements, official speeches, university lectures	Annual surveys
Korea	Advertisements in media, public places, public transportation and websites, other PR materials	Telephone survey every year
Mexico	Website, public awareness campaigns, booklets, media outreach, advertising, call center.	Surveys in June and November 2011
Netherlands	website and publications from consumer organizations	Ad hoc research
Russia	Public awareness, website, monitoring media, written information for distribution, press releases, toll-free calls, letter to depositors	Regular (annual) public surveys, monitoring of media for assessing positive and negative comments
Singapore	Media announcements and conferences, advertising, scheme member platforms, consumer guides, DIA website, call centers, community platforms.	Public surveys every two years
Spain	Central bank website	None
Switzerland	Official website and information provided by banks	Ad hoc surveys
Turkey	Notices in banks, websites, quarterly reports	None
United Kingdom	Advisory panel for banks, advertising, leaflets, annual report, websites, information published in banks	Regular research and evaluations of market reactions
United States	Information posted in banks, FDIC website, call centers, public awareness campaigns, online consumer assistance, FDIC consumer news, participation in seminars and videos.	FDIC monitors the effectiveness of campaigns on an on-going basis

Annex D: Core Principles for Effective Deposit Insurance Systems

Setting objectives

Principle 1 – Public policy objectives: The first step in adopting a deposit insurance system or reforming an existing system is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the deposit insurance system. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and protect depositors.

Principle 2 – Mitigating moral hazard: Moral hazard should be mitigated by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety net.

Mandates and powers

Principle 3 – Mandate: It is critical that the mandate selected for a deposit insurer be clear and formally specified and that there be consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer.

Principle 4 – Powers: A deposit insurer should have all powers necessary to fulfill its mandate and these powers should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, set internal operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.

Governance

Principle 5 – Governance: The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry influence.

Relationships with other safety net participants and cross-border issues

Principle 6 – Relationships with other safety net participants: A framework should be in place for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety net participants. Such information should be accurate and timely (subject to confidentiality when required). Information-sharing and coordination arrangements should be formalised.

Principle 7 – Cross-border issues: Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognised in the determination of levies and premiums.

Membership and coverage

Principle 8 – Compulsory membership: Membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (eg retail and small business depositors) to avoid adverse selection.

Principle 9 – Coverage: Policymakers should define clearly in law, prudential regulations or by-laws what an insurable deposit is. The level of coverage should be limited but credible and be capable of being quickly determined. It should cover adequately the large majority of depositors to meet the public policy objectives of the system and be internally consistent with other deposit insurance system design features.

Principle 10 – Transitioning from a blanket guarantee to a limited coverage deposit insurance system: When a country decides to transition from a blanket guarantee to a limited coverage deposit insurance system, or to change a given blanket guarantee, the transition should be as rapid as a country's circumstances permit. Blanket guarantees can have a number of adverse effects if retained too long, notably moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period.

Funding

Principle 11 – Funding: A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by banks since they and their clients directly benefit from having an effective deposit insurance system.

For deposit insurance systems (whether ex-ante, ex-post or hybrid) utilising risk-adjusted differential premium systems, the criteria used in the risk-adjusted differential premium system should be transparent to all participants. As well, all necessary resources should be in place to administer the risk-adjusted differential premium system appropriately.

Public awareness

Principle 12 – Public awareness: In order for a deposit insurance system to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.

Selected legal issues

Principle 13 – Legal protection: The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in "good faith" while discharging their mandates. However, individuals must be required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable**.** Legal protection should be defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified.

Principle 14 – Dealing with parties at fault in a bank failure: A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.

Failure resolution

Principle 15 – Early detection and timely intervention and resolution: The deposit insurer should be part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks**.** The determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and on the basis of well defined criteria by safety net participants with the operational independence and power to act.

Principle 16 – Effective resolution processes: Effective failure-resolution processes should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and accurately and on an equitable basis; minimise resolution costs and disruption of markets; maximise recoveries on assets; and, reinforce discipline through legal actions in cases of negligence or other wrongdoings. In addition, the deposit insurer or other relevant financial system safety net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank (eg providing depositors with continuous access to their funds and maintaining clearing and settlement activities).

Reimbursing depositors and recoveries

Principle 17 – Reimbursing depositors: The deposit insurance system should give depositors prompt access to their insured funds. Therefore, the deposit insurer should be notified or informed sufficiently in advance of the conditions under which a reimbursement may be required and be provided with access to depositor information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits.

Principle 18 – Recoveries: The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. The management of the assets of the failed bank and the recovery process (by the deposit insurer or other party carrying out this role) should be guided by commercial considerations and their economic merits.

Annex E: Questionnaire - Thematic review on deposit insurance systems

1. Key features of the deposit insurance system

1.1. Is there an explicit deposit insurance system in your country? Please describe briefly its structure (i.e. responsibility for carrying out the deposit insurance function, existence of multiple systems covering different institutions, mandatory vs. voluntary schemes, private vs. public ownership etc.). If there is no explicit deposit insurance system for banks in your country, please explain the rationale for the current arrangements as well as any future plans that may exist in this area.

1.2. Aside from deposit insurance, please describe other current arrangements and future plans that may exist to provide protection to bank depositors (e.g. statutory priority in bank liquidation, limits to covered bond issuance etc.)?

Please use the following definitions for information requested in questions 1.3 to 1.6:

- *Total domestic banking sector deposits comprise all deposits held by relevant institutions (whether domestic- or foreign-owned) within a jurisdiction;*
- *Eligible deposits are those deposits that fall within the scope of a deposit insurance scheme (i.e. they meet the requirements for coverage under a deposit insurance scheme, which are based typically on the type(s) of depositor or deposit); and*
- *Covered deposits are those eligible deposits that are actually covered or insured by a deposit insurance scheme (i.e. they comply with the eligibility criteria for inclusion and the value of the deposits fall within the maximum coverage limit).*

1.3. Please provide the following information (or an estimate if there are no available figures) on the coverage of each domestic deposit insurance scheme in terms of value at year-end 2010. If there are multiple deposit insurance schemes in your jurisdiction, please provide a breakdown for each scheme:

	Local Currency (In '000)	In USD Equivalent (In '000)
(A) Total domestic banking sector deposits		
Of which: (B) Proportion of eligible domestic banking sector deposits to total domestic banking sector deposits	%	
(C) Proportion of covered domestic banking sector deposits to total domestic banking sector deposits	%	

1.4. Please provide the following information (or an estimate if there are no available figures) on the coverage of each domestic deposit insurance scheme in terms of number of depositors or deposit accounts at year-end 2010. If there are multiple deposit insurance schemes in your jurisdiction, please provide a breakdown for each scheme:

(A) Proportion of domestic banking sector depositors whose eligible deposits were fully covered by a domestic deposit insurance scheme[70]	%
(B) Where the information requested in the above question is not readily available, please provide the proportion of eligible domestic bank deposit accounts that were fully covered by a deposit insurance scheme	%

1.5. If deposits of domestically incorporated banks that were held in branches and/or subsidiaries abroad fall within the scope of the domestic deposit insurance scheme, please provide the following information (or an estimate if there are no available figures) at year-end 2010:

	Held in	
(A) Proportion of total eligible deposits of the domestic insurance scheme that was held in overseas branches and subsidiaries of domestically incorporated banks. If available, please provide also the proportion of total covered (insured) deposits of the domestic insurance scheme that was held in overseas branches and subsidiaries of domestically incorporated banks.	Overseas Branches	Overseas Subsidiaries
	%	%

Conversely, if domestic banking sector deposits held by local branches and/or subsidiaries of foreign banks fall within the scope of a foreign deposit insurance scheme (home authority), please provide the following information at year-end 2010:

(B) Proportion of total domestic banking sector deposits eligible for protection by a foreign deposit insurer. If available, please provide also the proportion of total domestic banking sector deposits that is actually covered (insured) by a foreign deposit insurer.	%

1.6. What was the actual ex-ante coverage ratio, i.e. the size of the accumulated deposit insurance fund as a proportion of total covered deposits, at year-end 2010? What was the total amount of funds available to deposit insurance (whether funded on an ex-ante

[70] A depositor may not have all of his/her deposits covered because they may exceed the maximum level of coverage. A depositor is considered fully covered if his/her total eligible deposits, aggregated across all deposit accounts in each institution, are within the protection limit of the domestic deposit insurance scheme.

or ex-post basis, in the form of regular or extraordinary contribution or other funding mechanisms) as a proportion of total covered deposits at year-end 2010?

1.7. How often was the deposit insurance system activated in order to protect depositors (e.g. by payout, resolution etc.) during the last 10 years, including in the recent financial crisis? What were the main characteristics of those interventions (e.g. trigger events, amounts, number of accounts/depositors, length of process etc.)?

2. Reforms undertaken in response to the financial crisis[71]

See also question 1.7 above.

2.1. What extraordinary depositor protection enhancement measures were introduced during the financial crisis? Please describe their main features and clarify whether they were introduced in conjunction with other crisis measures (e.g. bank debt guarantee schemes), as well as whether they were firm-specific or system-wide in nature.

2.2. Why were those depositor protection enhancement measures introduced? Were they solely a prudential response to reassure bank depositors, or were they also a competitive response to similar moves by other countries (e.g. to level the playing field)? Did any consultation with other countries take place prior to introducing those measures?

2.3. If the deposit insurance system was activated during the crisis (see question 1.7), please provide any lessons learnt, such as on the interaction with other safety net participants, public communication, speed of reimbursement, funding arrangements, etc. Which of the preconditions mentioned in the *Core Principles* have been particularly relevant in the deposit insurance system's performance during the crisis?

2.4. Please describe any actions taken to unwind temporary deposit insurance coverage measures, including any current plans that may be in effect. What types of analysis are used to determine the speed and sequencing of such plans? What communication strategies are employed?

2.5. Has there been any coordination with other jurisdictions, either on a bilateral basis or via regional/international fora, for unwinding temporary deposit insurance measures introduced during the crisis? Please provide details.

2.6. Which of the enhanced depositor protection measures introduced during the crisis, or other additional measures have been made permanent or which are intended to be made permanent? Please describe their main features and the motivation for making them permanent. What controls are being used to ensure that these measures do not promote moral hazard or unduly increase the government's contingent liabilities (as the ultimate deposit insurance backstop)?

2.7. What lessons can be drawn about the role of the deposit insurance system in the financial stability framework, particularly in terms of crisis management arrangements

[71] This section is intended to cover policy actions and lessons undertaken in response to the recent financial crisis. If that crisis did not have a major impact on the utilisation or reform of your deposit insurance system, please respond to these questions also on the basis of other previous crises that you may have experienced.

(e.g. on the role of the deposit insurer vis-à-vis other financial safety net participants in adopting relevant policy measures during a financial crisis, and on how to ensure that the deposit insurance system could perform this role in times of stress)?

3. National implementation of specific *Core Principles*

***Principle 1: Public policy objectives*[72]**

3.1. Does your deposit insurance system have formally specified objectives? If so, please provide them, describe how they are formalised (e.g. legislation, regulation, or other instruments), and specify whether they are publicly disclosed.

Principle 2: Mitigating moral hazard

See also question 2.6 above.

3.2. What specific design features in your deposit insurance system (e.g. limited coverage, risk-based insurance premiums, early intervention tools etc.) mitigate against the risk of moral hazard?

3.3. How is moral hazard, both in the deposit insurance system and in the wider financial system safety net, assessed so that it can be appropriately mitigated?

Principles 3 & 4: Mandate*[73] *and powers

3.4. Does the deposit insurer have a formal mandate, consistent with the stated public policy objectives, that specifies its role, responsibilities and specific powers? Does it extend beyond a "paybox" function to include supervision of member institutions, preventative action and risk/loss-minimisation responsibilities? Please describe the mandate.

Principle 5: Governance

3.5. Please describe the main governance features to ensure that the deposit insurer is operationally independent and insulated from undue influence from the government, industry, and regulatory/supervisory authorities.

3.6. What specific elements of the governance structure of the deposit insurer facilitated the effective performance of its functions during the financial crisis? Is there a need for possible enhancements to the governance structure in light of the crisis experience?

Principle 6: Relationship with other safety net participants

3.7. Please provide details on the framework in place for coordination and information sharing between the deposit insurer and other financial system safety net participants during normal and crisis times. Is this framework formalised through legislation, regulation or other instruments?

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[72] The public policy objectives of the deposit insurance system refer to the objectives or goals the system is expected to achieve.

[73] The mandate of the deposit insurer refers to the set of official instructions describing its roles and responsibilities.

3.8. How, and at what moment, does the deposit insurer receive information on banks that are (or are expected to be) in financial difficulty?

Principle 7: Cross-border issues

See also question 2.2 above.

3.9. Are there any cross-border bilateral/multilateral agreements in place to ensure that home and host deposit insurance systems are well-coordinated in the case where a deposit insurer is responsible for providing cross-border coverage of deposits? What specific arrangements do these agreements include (e.g. information-sharing, host involvement in information provision to domestic depositors covered by foreign/home deposit insurance scheme, or as agent in any cross-border reimbursement process)?

3.10. What criteria are used to ensure the adequacy of a home country's deposit insurance system to provide coverage for domestic depositors (e.g. for deposits in branches of foreign banks operating in your jurisdiction)?

3.11. How are domestic depositors covered by a foreign deposit insurance system informed about coverage levels, funding sources, and claims/reimbursement procedures?

Principle 8: Compulsory membership

3.12. Is participation in the deposit insurance system compulsory for all financial institutions accepting deposits domestically (e.g. as part of the licensing process), or is it subject to the discretion (e.g. based on specific criteria) of the deposit insurer?

Principle 9: Coverage

See also questions 1.3-1.5 and 2.6 above.

3.13. Please complete the following table regarding the coverage of each deposit insurance scheme in your jurisdiction:

Types of deposits covered:	Y – Covered; N – Not covered
• Demand deposits	(Y/N)
• Fixed term deposits	(Y/N, and the maximum term if applicable)
• Foreign currency deposits	(Y/N)
• Interbank deposits	(Y/N)
• Deposits by non-financial companies	(Y/N)
• Public sector deposits	(Y/N)
• Deposits by non-bank financial entities (e.g. mutual funds)	(Y/N)

• Deposits by non-residents	(Y/N)
• Other main categories (please specify)	

3.14. Does coverage include the domestic operations of foreign banks (whether in the form of subsidiaries or branches) and the foreign operations of domestic banks (whether in the form of subsidiaries or branches)? Is supplementary coverage ("topping-up") provided for the domestic operations of foreign banks (whether in the form of subsidiaries or branches)?

3.15. How is coverage provided (e.g. by depositor, by deposit account, by depositor and institution etc.)?

3.16. What is the current deposit coverage limit (in local currency and converted into US$ equivalent using the exchange rate as of year-end 2010) and how does it differ by type of deposit-taking institution, deposit, and/or depositor? Are there co-insurance or set-off arrangements?

3.17. Is the coverage limit indexed? How often is the coverage limit reviewed? Does the deposit insurer have the ability to modify the coverage limit?

Principle 10: Transitioning from a blanket guarantee to a limited coverage deposit insurance system

See questions 2.4 and 2.5 above.

Principle 11: Funding

See also question 1.6 above.

3.18. Please describe briefly the funding framework in place for the deposit insurance system (ex-ante vs. ex-post, combined ex-ante and ex-post, types of funding mechanisms etc.). Is the funding framework based on risk analysis or related to specific operational features of the deposit insurance system? What source(s) of supplementary back-up funding (e.g. borrowing) are available to the deposit insurer and how are they activated?

3.19. If an ex-ante deposit insurance fund exists, what is its target size and how is the target determined? Where is the fund invested? Can it be used by the deposit insurer or other safety net participants for functions other than depositor reimbursement (e.g. liquidity provision, bank recapitalisation, failure resolution)? If so, please explain. For ex-post funded systems, please respond with reference to the available funding mechanism(s).

3.20. Are deposit insurance premiums risk-adjusted? If so, please describe the system for assessing risks and calculating risk-adjusted premiums, as well as the range of premiums applied to the assessed base.

3.21. Is the premium assessed on a participating bank's covered deposits or on a different base (e.g. total deposits, eligible deposits, total assets etc.)? Please explain. Is there any mechanism for adjusting the premiums of new entrants - if so, how is the adjustment made (e.g. the new entrant is allowed to pay the premium on a time pro-rata basis when it joins the deposit insurance system)? How are the premiums adjusted to deal with deviations from target size? For ex-post funded systems, please respond also with reference to any payout recovery mechanisms used by the scheme.

Principle 12: Public awareness

3.22. What types of public awareness programmes and communication do you have in place? What are the key messages conveyed to depositors and the public at-large (e.g. existence of deposit insurance, expiry of any temporary coverage measures etc.)?

3.23. How, and how often, is the effectiveness of such activities at informing the public about the benefits and limitations of the deposit insurance system evaluated?

Principles 15 & 16: Failure resolution

3.24. Does the financial system safety net provide a framework for the early detection and timely intervention and resolution of troubled banks? What is the role of the deposit insurer in failure resolution and how is the insurer integrated into this framework?

Principle 17: Reimbursing depositors

3.25. What event triggers a claim for payment by the deposit insurance system (e.g. court-declared bank bankruptcy, supervisory agency or deposit insurer decision etc.)?

3.26. From the time of the event's trigger, within how many days is the deposit insurance scheme legally obliged to reimburse depositors? Is that timeframe publicly known and does the deposit insurer have the resources and ability to meet its legal obligations?

3.27. How does the deposit insurance system ensure adequate and timely access to necessary bank data in order to reimburse depositors promptly (e.g. preparatory examination prior to a bank closure, certain requirements to bank records such as eligibility account flagging or single customer view etc.)?

Principle 18: Recoveries

3.28. Does the deposit insurer share in the proceeds of recoveries arising from the failure of a member bank? What is its status/priority vis-à-vis other bank creditors?

3.29. Is the deposit insurer involved in the recovery process (e.g. as receiver/liquidator of a failed bank)? If so, what is it its role under the relevant law or regulation and how long does it take in practice to complete a liquidation/receivership process?