



International Association
of Deposit Insurers

Overview of Deposit Insurance and the International Association of Deposit Insurers

**Presentation at the IADI Africa Regional Committee
Meeting and Conference**

Deposit Protection Fund of Uganda and Bank of Uganda
Kampala, Uganda: 16-19 September 2019

David Walker, Secretary General IADI
David.Walker@iadi.org

Presentation outline

- I. Background and rationale for deposit insurance**
- II. Deposit insurance around the world and in Africa**
- III. IADI overview and membership benefits**
- IV. IADI Core Principles for Effective Deposit Insurance Systems – focus on CP2 and CP3**
- V. Convergence, emerging issues and challenges for deposit insurers**

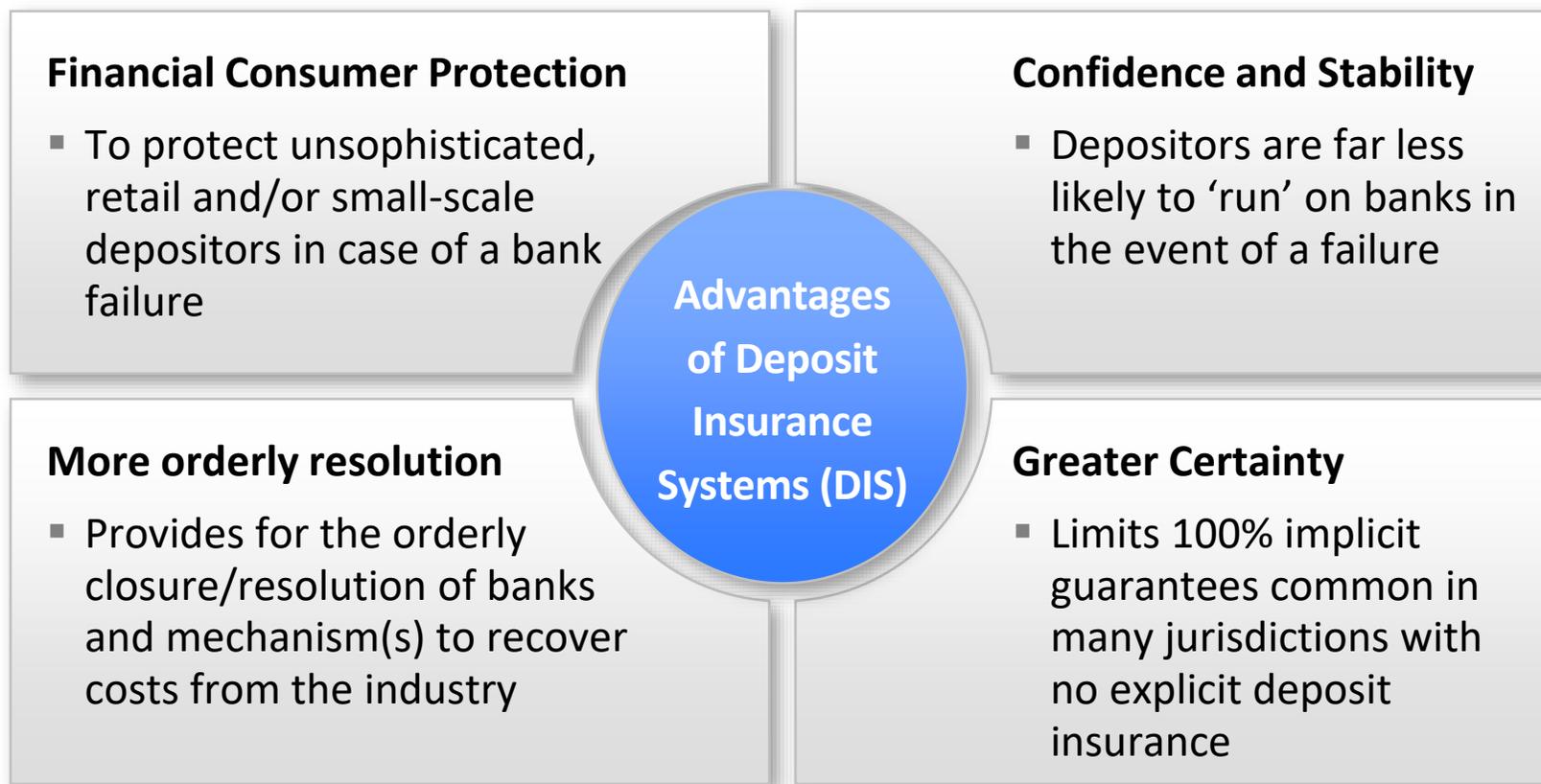


I. Background and Rationale for Deposit Insurance

WHAT IS DEPOSIT INSURANCE AND WHY IS IT IMPORTANT?



“**Deposit insurance**” is a system established to protect depositors against the loss of their insured deposits in the event that a bank is unable to meet its obligations to the depositors.



LIMITATIONS OF DEPOSIT INSURANCE

Systemic crises

- Although a DIS can reduce the incidence of retail “runs” it cannot by itself deal with a broad – based systemic banking crises

Moral Hazard

A DIS (as with other elements of the safety-net) contributes to stability. However, if poorly designed, it may increase risks – i.e. moral hazard.

Needs preconditions

- Preconditions for an effective DIS include sound legal frameworks, supervisory, regulatory and accounting systems

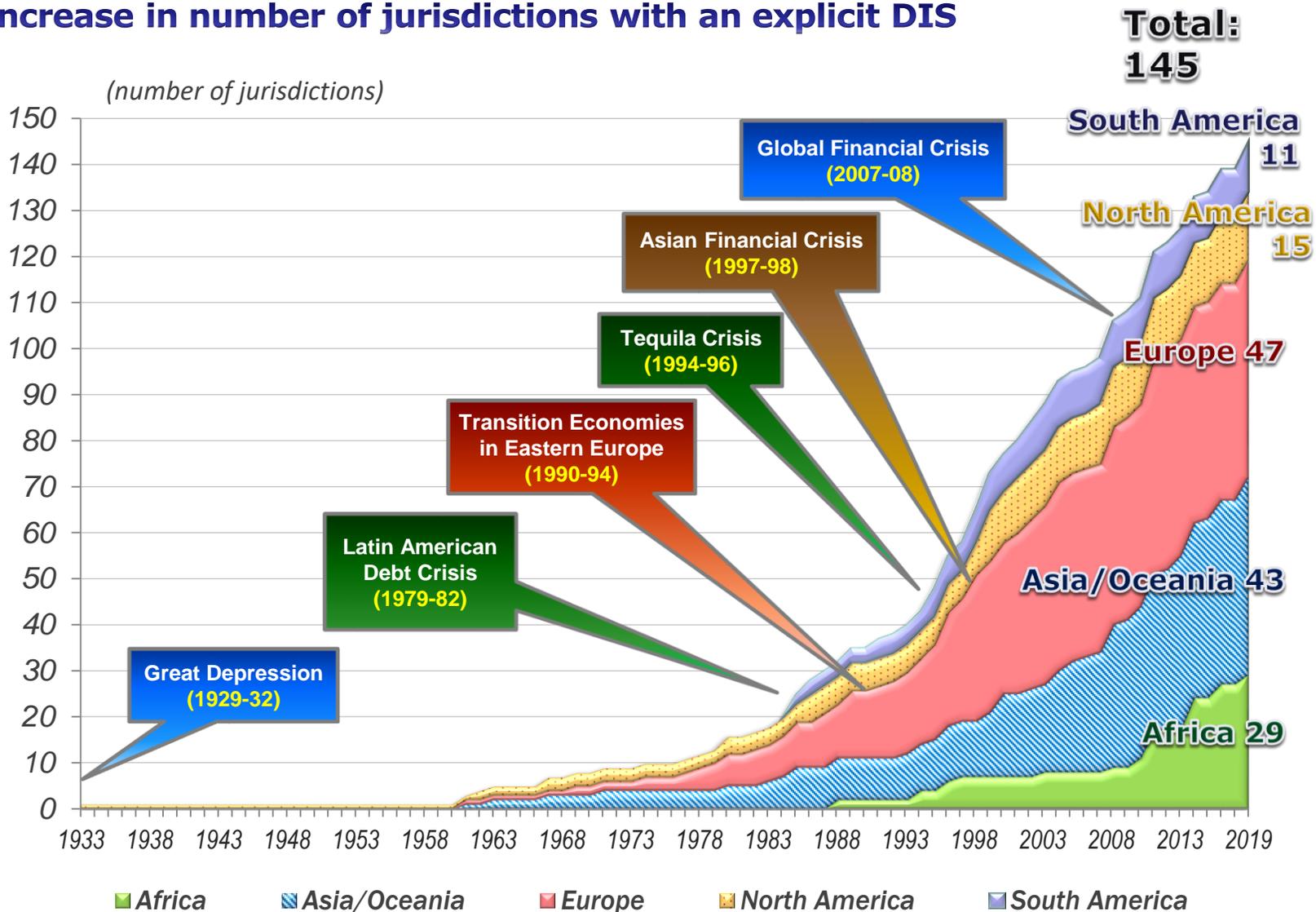
ALTERNATIVES TO DEPOSIT INSURANCE

	<i>Advantages</i>	<i>Disadvantages</i>
Reliance on Market Discipline	Relies entirely on markets	Greater propensity for bank runs and govt. bailouts
Depositor Preference	Depositors have a greater chance of recovering losses	Doesn't provide a mechanism to reimburse depositors quickly
Narrow Banks	Banks invest in risk free assets only	Major restructuring of banking system required
Governance Incentives	Very strong incentive for investors & governing minds to control risk	Discourages investment and directorships in banks
Subordinated Debt	Provides for more market discipline	Not all banks can participate

DEPOSIT INSURANCE SYSTEM (DIS) WORLDWIDE



Increase in number of jurisdictions with an explicit DIS



Source: World Bank, IADI (2019)

Mitigating Moral Hazard and Preconditions

- A well-designed financial safety-net contributes to the stability of the financial system. However, if poorly designed, it may increase risks, notably moral hazard.

Moral hazard arises when parties have incentives to accept more risk because the costs are borne, in whole or in part, by others.

- Deposit insurance, like any insurance system, must be designed to mitigate the impact of moral hazard on the behaviour of shareholders, bank management and depositors.
- Such mitigation is a function of the overall design of the system. Moral hazard is also mitigated by other safety-net participants.

Correcting Moral Hazard in Practice

- Key design features of the deposit insurance system aimed at mitigating moral hazard include:
 - limited coverage levels and scope;
 - differential premiums; and
 - timely intervention and resolution by the deposit insurer or other participants.
- The financial safety-net creates and supports appropriate incentives to mitigate moral hazard through several mechanisms, including meeting important pre-conditions such as:
 - the promotion of good corporate governance and sound risk management at individual banks;
 - holding parties at fault responsible for losses;
 - effective market discipline; and
 - the enforcement of strong prudential regulation, supervision, resolution, and laws and regulations.



II. Deposit Insurance around the World and in the Africa

Survey Results

IADI's 2018 global survey of deposit insurance and financial safety net frameworks received responses from 135 deposit insurers. Key highlights are:

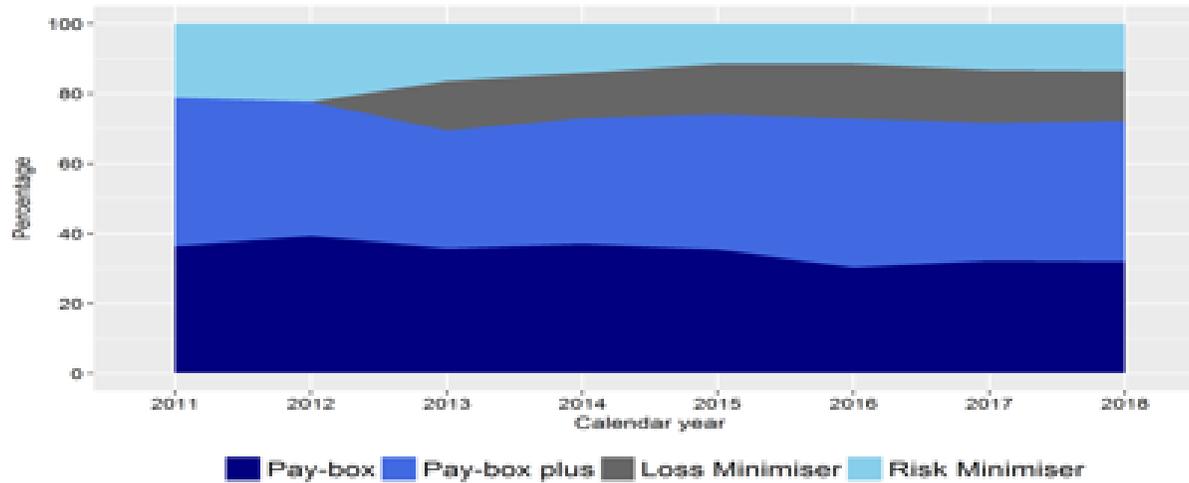
Governance and mandates of Deposit Insurers (DIs)

- The majority (75%) of DIs are legislated and **administered by the public** sector, although around 25% are privately administered.
- Three quarters of DIs are **legally independent** entities and remainder incorporated in the central bank or supervisory authority.
- Approximately 32% of DIs are assigned a "**pay box**" mandate – focusing only on payouts.
- Approximately 40% of DIs have a "**pay box plus**" mandate, which typically include resolution functions (e.g. financial support and purchase and assumption powers).
- About 28% function as "**loss- or risk-minimisers**" acting as resolution authorities and in some cases conducting supervision.

EVOLUTION OF MANDATES: 2011-2018

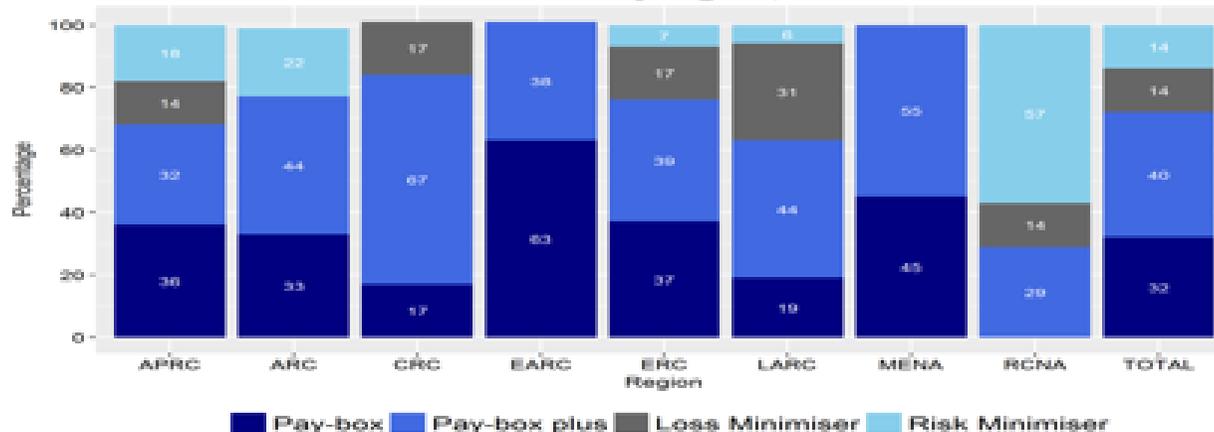


System mandates over time



Source: IADI Annual Survey

Mandate by region, 2018



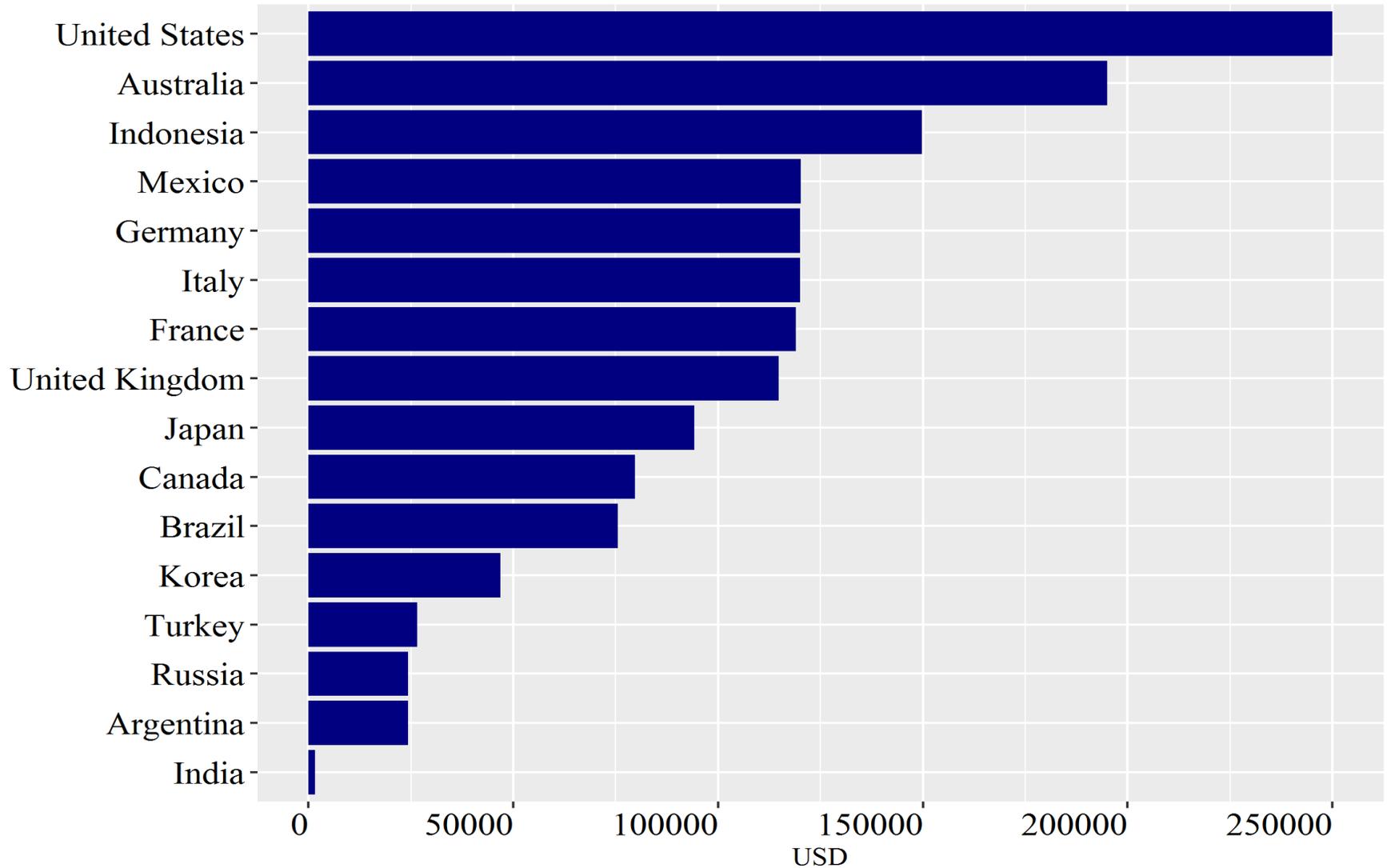
Membership and coverage

- Membership is mandatory for institutions in almost all jurisdictions, with banks being the dominant institutions.
- Coverage limits range from below 1,000 USD to still a few systems with blanket guarantees.
- Average level of Coverage was around 75,000 USD per depositor per institution (median around 54,482 USD) and has risen substantially over the last ten years.

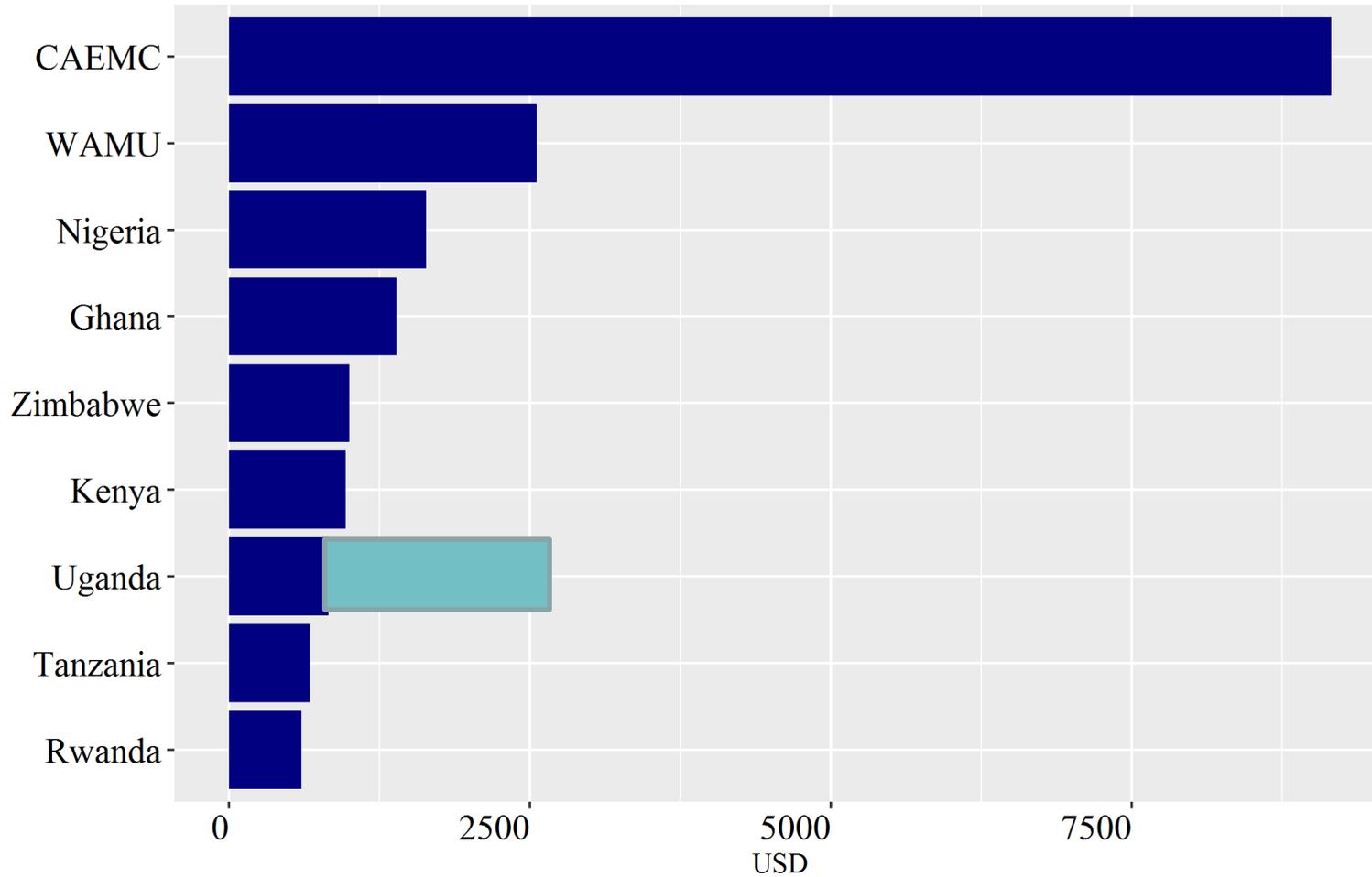
Funding

- Nearly 90% of DIS are funded by ex ante contributions.
- Of remaining jurisdictions relying on ex post funding, a number are in the process of implementing an ex ante funding.
- An increasing number of ex ante funded DIS have the authority under certain conditions to raise additional ex post contributions.

Coverage Limits for selected G20 jurisdictions



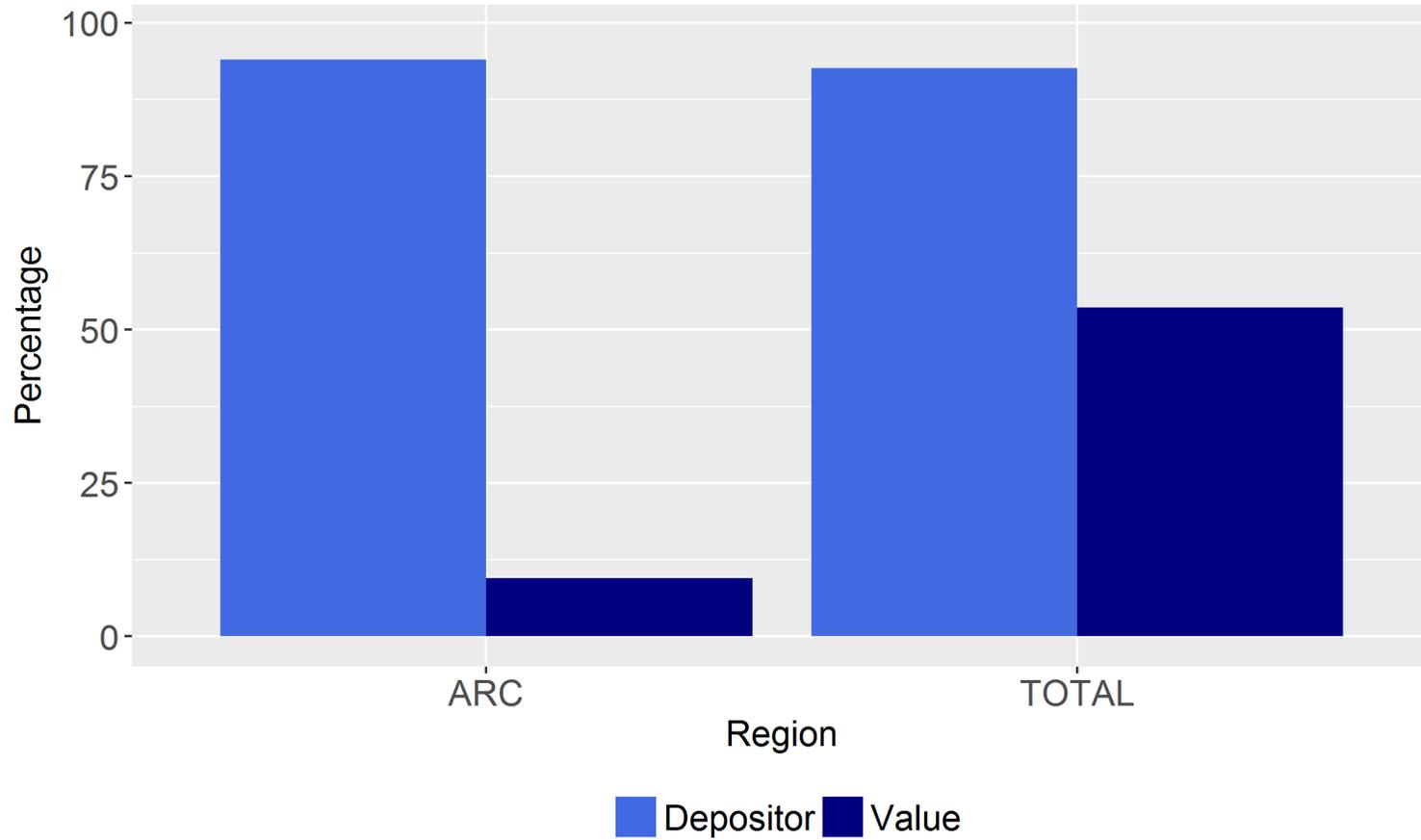
Coverage Limits for African Jurisdictions (Selected)



CAEMC: Central African Economic and Monetary Community

WAMU: West African Monetary Union

Coverage levels



Source: IADI Annual Survey

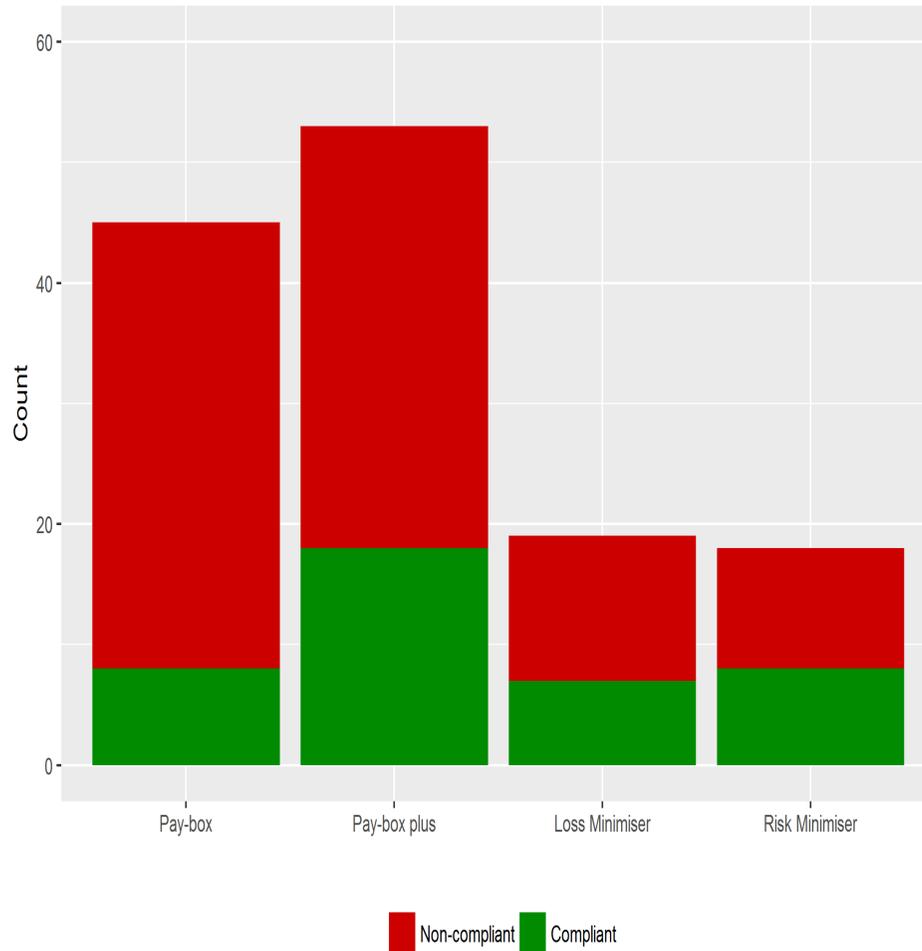
Depositor Reimbursement

- **Depositor payout** and liquidation are the most common resolution tools – 85%
- **Next most common are purchase and assumption** (P&A), bridge bank and open bank assistance tools
- **Payout time frames are being reduced** -- but 7-working day payout a challenge for many systems
 - ✓ - within 7 working days = 50% of respondents
 - ✓ - from 7-15 working days = 15%
 - ✓ - from 15-30 working days = 25%
 - ✓ - more than 30 days = 15%

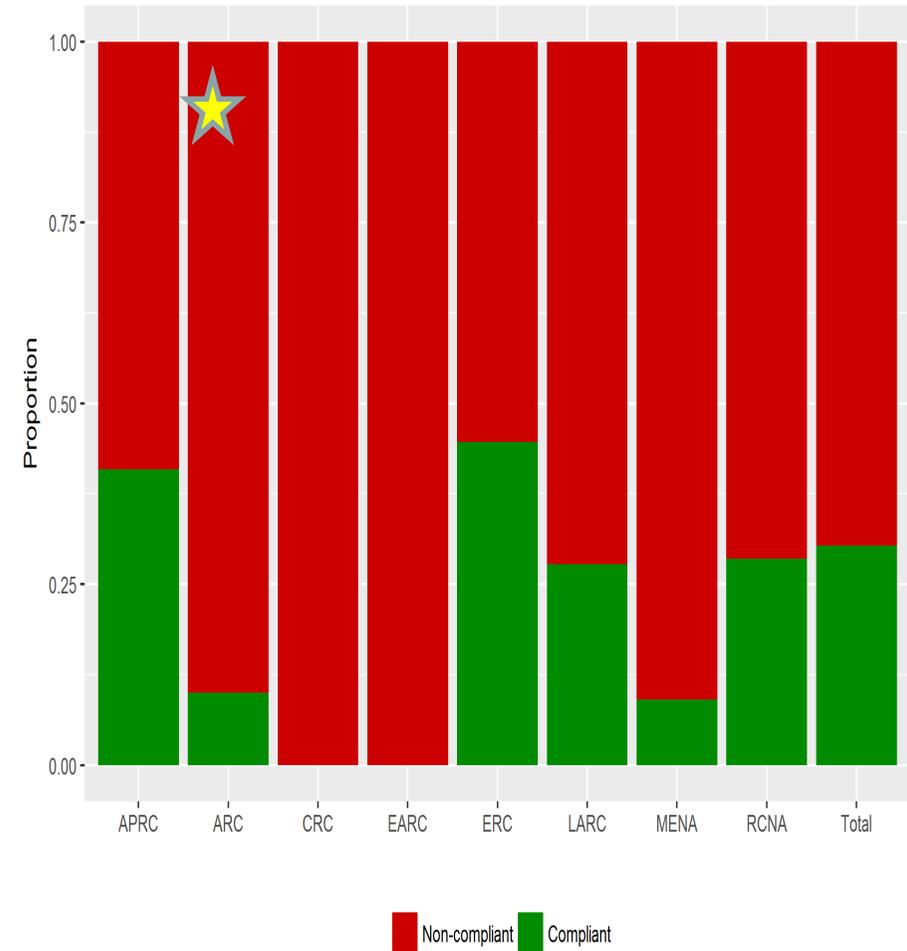
REIMBURSEMENT SPEED



Compliance with 7-day Payout Target by Mandate, 2017



Compliance with 7-day Payout Target by Region, 2017



- ❑ On average around 50% of DIAs are able initiate pay out within 7 days; loss and risk minimisers more compliant; Europe and Asia more compliant (IADI Survey 2018).



III. International Association of Deposit Insurers

Mission

- To contribute to the enhancement of deposit insurance system effectiveness by promoting guidance and international cooperation

History

- Established in Basel in 2002 with 25 Founding Members
- Membership in 2019 – 91 Members, 8 Associates and 14 Partners

Key Advancements

- IADI *Core Principles for Effective Deposit Insurance Systems* (CPs) – issued in 2009 and revised in 2014
- CPs have been incorporated into IMF/WB FSAPs and FSB Peer Reviews
- CP Handbook for Assessors published in 2016

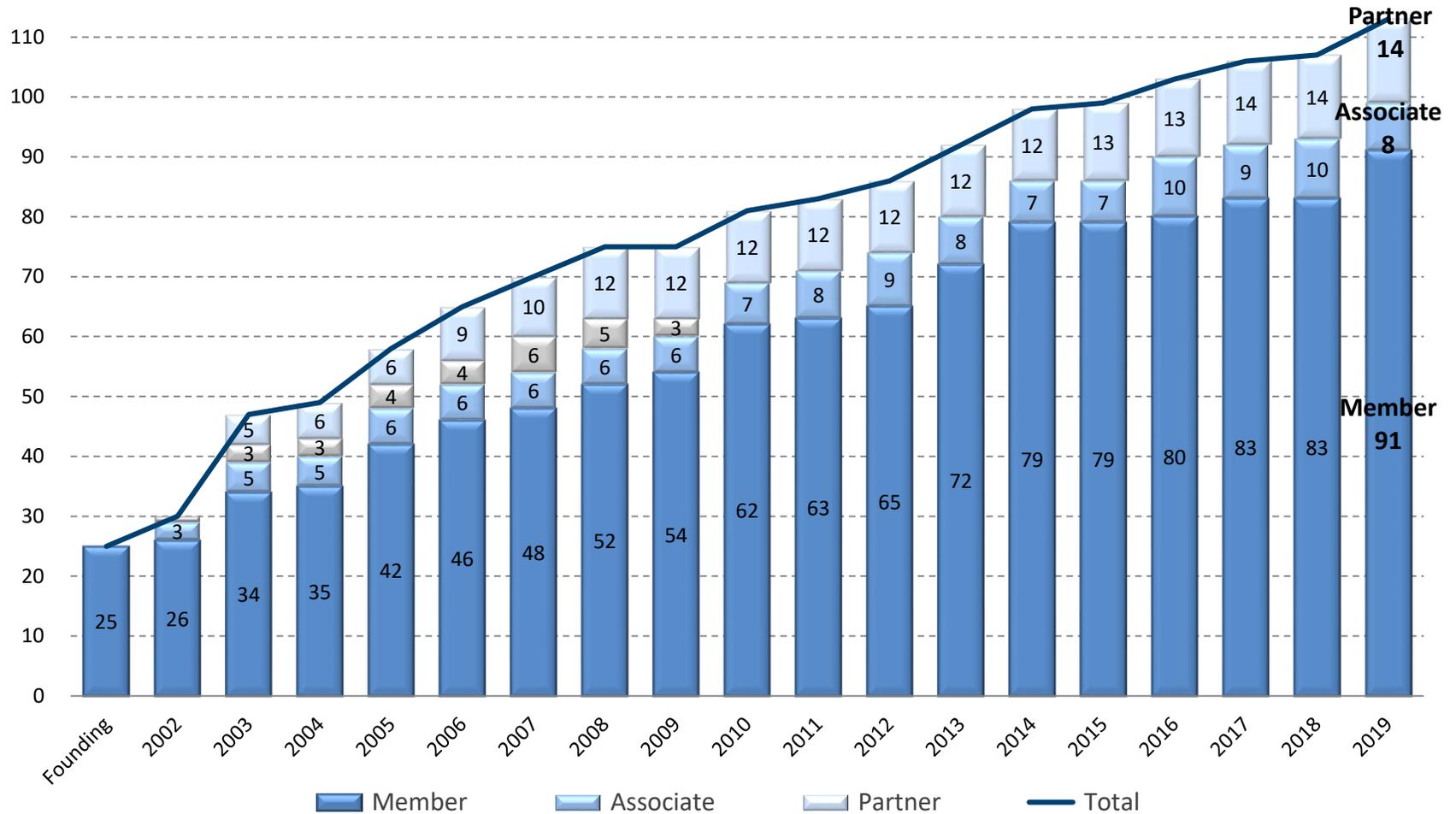
Research & Guidance

- Research and guidance under development in areas such as: funding; financial inclusion, crisis management and asset recoveries
- IADI Biennial Research Conference in Basel – May 2019
- IADI Annual survey and database

Training & Capacity Building

- Global/Regional conferences, seminars and technical workshops
- Joint FSI-IADI conferences and policy implementation meetings
- Website and on-line tutorials

GROWTH IN IADI MEMBERSHIP: 2002-19 YTD



2. IADI STRATEGIC PRIORITIES



1

Promoting deposit insurance compliance with the IADI Core Principles (implementation)

2

Advancing deposit insurance research and policy development

3

Providing members with technical support to modernize and upgrade their systems in accordance with the Core Principles

I. Promoting deposit insurance compliance with the IADI Core Principles (CPs)

- 1) Promote Self-Assessment Technical Assistance Program (SATAP) and knowledge of Core Principles through conferences, workshops and assessor training programs.
 - » Vietnam (2018), Brazil (2017), Korea (2015), Philippines (2013).
 - » SATAPs are underway for Ecuador and Trinidad and Tobago (2019).
- 2) Enhance collaboration with Bank for International Settlements (BIS), Financial Stability Board (FSB), International Monetary Fund (IMF) and World Bank in promoting the CPs and financial stability.
 - » FSB Resolution Steering Group and support for implementation monitoring on deposit insurance – IADI participating in FSB South Africa Peer Review.
 - » Joint FSI-IADI conferences and policy implementation meetings.
 - » Development of Islamic Deposit Insurance Core Principles with the Islamic Financial Standards Board.
 - » Upcoming FSAPs and Technical Assistance missions with the IMF/ WB.
- 3) Develop an improved compliance assessment program utilizing regular surveys of members to benchmark compliance and information from FSAPs, SATAPs and other sources.
 - Planned for phase II of the Strategic Plan implementation.

II. Progress advancing deposit insurance research and policy development

Core Principles and Research Council Committee and Secretariat Research Unit (RU) are developing an enhanced capacity to:

- 1) Ensure IADI is the key source of deposit insurance data by improving its database and making it more available for Members and researchers.
 - 2018 IADI Surveys released – record of 135 respondents.
 - New IADI Survey and Data Management System (ISDMS) under development.
 - Working on the 2018/19 IADI International DIS Survey underway.

- 2) Develop policy positions to support IADI’s participation and dialogue with international financial institutions.
 - Development of policy briefs (e.g. Least-cost resolution, FINTECH).
 - IADI Research Conference 23-24 May 2019 looked at challenges faced by deposit insurers and resolution authorities in building financial resiliency.

- 3) **Conduct research on emerging issues in deposit insurance, for example:**
 - Deposit Insurance System Risk Management and Internal Controls;
 - Joint FSI-IADI INSIGHT Paper on the Use of Deposit Insurance Funds in Resolution
 - Role of deposit insurers’ in Contingency Planning and System-wide Crisis Preparedness and Management.
 - Target Funding and differential premium systems.

III. Progress on enhancing technical assistance and training to promote the value of IADI membership

- 1) Customised IADI technical assistance to address “gaps” in the design and implementation of deposit insurance reforms.
 - Since 2017, 17 Technical Assistance Workshops (TAWs) completed in Africa, Asia, Europe, Eurasia, Latin America, North America, Caribbean and the Middle East involving over 600 people.
 - CP workshop programs are being initiated (e.g. high level, general, specific and expert training workshops).
 - First high level CP training workshop took place in Basel on 19 October 2018.
- 2) Conduct TAWs and seminars for new deposit insurers and jurisdictions considering the establishment of deposit insurance. Outreach sessions regularly included in events.
- 3) New IADI knowledge management system (Repository Project) implemented.
- 4) Enhancing technical assistance and capacity building by developing better processes to match Member needs with expert consultants.
 - E.g. Expert consultancy assignment and technical assistance program

Key Member Benefits

Below are just some of the many benefits of Membership in IADI:

- 1) **IADI is an international standard-setting body for deposit insurance**, with our standards recognised and utilised around the world and by international organisations;
- 2) **Participate in developing IADI Core Principles, guidance and assessment methodologies** to enhance the effectiveness of deposit insurance systems;
- 3) **Share expertise and information** on deposit insurance issues through training, development and educational programs;
- 4) **Participate in Capacity Building, Conferences, Executive Training and E-learning events;**
- 5) **Engage in Regional TAWs**, to address Member challenges, capacity building, and help in improving compliance with the Core Principles;
- 6) **Access to, and cooperation with, other international organisations**, particularly those involved in issues related to financial markets and the promotion of financial stability (e.g. the Financial Stability Institute, IMF, World Bank, etc.);

- 7) **Participation in joint IADI and Financial Stability Institute (FSI) conferences and the FSI-Connect e-learning tool;**
- 8) **Access to IADI's Member-only web site**, including comprehensive data on deposit insurers from IADI Annual Surveys for benchmarking and other purposes;
- 9) **Create awareness for, and highlight the importance of, deposit insurance** in maintaining financial stability among safety-net partners and deposit taking institutions within a Member's jurisdiction;
- 10) **Access to ongoing, timely IADI research** *on emerging trends in deposit insurance and bank resolution;*
- 11) **Unique Member-only access to the Self-Assessment Technical Assistance Program (SATAP)**, of importance in preparation for IMF/World Bank FSAPs, Technical Assistance and FSB Peer Reviews.

How to Join IADI

Member: Members are entities that, under law or agreements, provide deposit insurance, depositor protection or deposit guarantee arrangements. Members are entitled to full participation in the Association and voting and are expected to actively participate in the Association's activities for the development of the Associational information on their deposit insurance system.

Associate: Associates are entities that do not fulfil all the criteria of Members, but who are considering the establishment of a deposit insurance system or other entities that are part of a financial safety net and have a direct interest in the effectiveness of a deposit insurance system. Associates are eligible to participate in the activities of the Association but shall not vote

Partner: Partners are not-for-profit entities that enter into a cooperative arrangement with the Association in the pursuit and furtherance of the Objects of the Association and pay no fees.

Observer: Observers are all other interested parties that are Not-for-Profit entities which do not fulfil the criteria to be an Associate but have a direct interest in the effectiveness of a DIS.

Annual Fees collected from each Participant in the Association are determined through a vote by the Members at a General Meeting upon recommendation of the Executive Council, and are currently as follows:

Participant	Annual Fee (CHF)	Initial Fund Contribution (CHF)
Member	17,650.00	11,390.00 payable over two years
Associate	13,240.00	N/a
Observer	8,825.00	N/a

Note: IADI is considering the introduction of a differential fee model in 2020.



IV. IADI Core Principles for Effective Deposit Insurance Systems

IADI Core Principles

- *Core Principles for Effective Deposit Insurance Systems* were approved by IADI and the BCBS in June 2009 and first *Methodology* completed in December 2010.
- IADI revised Core Principles (CP) completed and endorsed by the FSB in November 2014. Handbook completed in 2016.
- An assessment of compliance with the CPs is a useful tool for jurisdictions that are implementing, reviewing or actively reforming a DIS.

Key objectives:

- 1) *Improve the effectiveness of deposit insurance systems (DIS) in protecting depositors and contributing to financial stability...*
- 2) *...ensure the CPs are adaptable to a wide range of country circumstances, settings and structures, and*
- 3) *mitigate moral hazard.*

IADI CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

Key Characteristics

- **Developed in 2009 and revised in 2014.**
- **Incorporates best practices of deposit insurers and views of organizations such as the BIS, IMF, World Bank and European Forum of Deposit Insurers.**
- **Reflects lessons learned in past financial crises.**
- **Are being utilized in deposit insurer self-assessments, IMF-WB FSAPs and FSB peer reviews.**

16 Core Principles

- 1. Public policy objectives**
- 2. Mandate and powers**
- 3. Governance**
- 4. Relationships**
- 5. Cross-border issues**
- 6. Crisis management**
- 7. Membership**
- 8. Coverage**
- 9. Sources and uses of funds**
- 10. Public awareness**
- 11. Legal protection**
- 12. Dealing with parties at fault**
- 13. Early detection and intervention**
- 14. Failure resolution**
- 15. Reimbursing depositors**
- 16. Recoveries**

Focus on CP 2 – Mandate and Powers

The mandate and powers of the deposit insurer should support the public policy objectives and be clearly defined and formally specified in legislation.

Essential criteria

1. The mandate and powers of the deposit insurer are formally and clearly specified in legislation, and are consistent with stated public policy objectives.
2. The mandate clarifies the roles and responsibilities of the deposit insurer and is aligned with the mandates of other safety-net participants.⁹
3. The powers of the deposit insurer support its mandate and enable the deposit insurer to fulfil its roles and responsibilities.
4. The powers of the deposit insurer include, but are not limited to:
 - (a) assessing and collecting premiums, levies or other charges;
 - (b) transferring deposits to another bank;
 - (c) reimbursing insured depositors;
 - (d) obtaining directly from banks timely, accurate and comprehensive information necessary to fulfil its mandate;
 - (e) receiving and sharing timely, accurate and comprehensive information within the safety-net, and with applicable safety-net participants in other jurisdictions;
 - (f) compelling banks to comply with their legally enforceable obligations to the deposit insurer (e.g. provide access to depositor information), or requesting that another safety-net participant do so on behalf of the deposit insurer;
 - (g) setting operating budgets, policies, systems and practices; and
 - (h) entering into contracts.

CP 3 – Governance

The deposit insurer should be operationally independent, well-governed, transparent, accountable, and insulated from external interference.

Essential criteria

1. The deposit insurer is operationally independent. It is able to use its powers without interference from external parties to fulfil its mandate. There is no government, central bank, supervisory or industry interference that compromises the operational independence of the deposit insurer.
2. The governing body of the deposit insurer¹⁰ is held accountable to a higher authority.
3. The deposit insurer has the capacity and capability (e.g. human resources, operating budget, and salary scales sufficient to attract and retain qualified staff) to support its operational independence and the fulfilment of its mandate.
4. The deposit insurer is well-governed and subject to sound governance practices, including appropriate accountability, internal controls, transparency and disclosure regimes. The institutional structure of the deposit insurer minimises the potential for real or perceived conflicts of interest.
5. The deposit insurer operates in a transparent and responsible manner. It discloses and publishes appropriate information for stakeholders on a regular basis.

6. The governing statutes or other relevant laws and policies governing the deposit insurer specify that:

(a) the governing body and management are “fit and proper” persons;

(b) members of the governing body and the head(s) of the deposit insurer (with the exception of ex officio appointees) is/are subject to fixed terms and the fixed terms are staggered;

(c) there is a transparent process for the appointment and removal of the members of the governing body and head(s) of the deposit insurer. Members of the governing body and head(s) of the deposit insurer can be removed from office during their term only for reasons specified or defined in law, internal statutes or rules of professional conduct, and not without cause; and

(d) members of the governing body and employees are subject to high ethical standards and comprehensive codes of conduct to minimise the potential for real or perceived conflicts of interest.

7. The deposit insurer is regularly assessed on the extent to which it meets its mandate, and the deposit insurer is subject to regular internal and external audits.

8. The composition of the governing body minimises the potential for real or perceived conflicts of interest. In order to maintain operational independence, representatives of the other financial safety-net organisations that participate in the governing body do not serve as Chair or constitute a majority.

9. The governing body holds regular meetings to oversee and manage the affairs of the deposit insurer (e.g. on a quarterly basis and more frequently as deemed necessary).



V. Convergence, Emerging Issues and Challenges

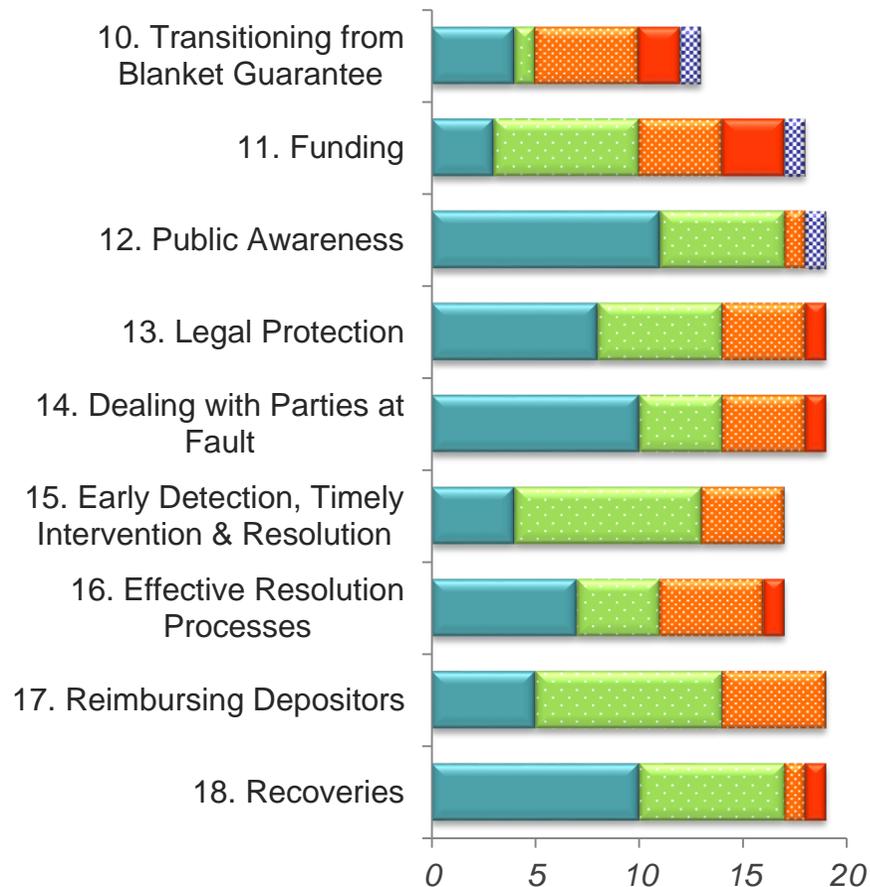
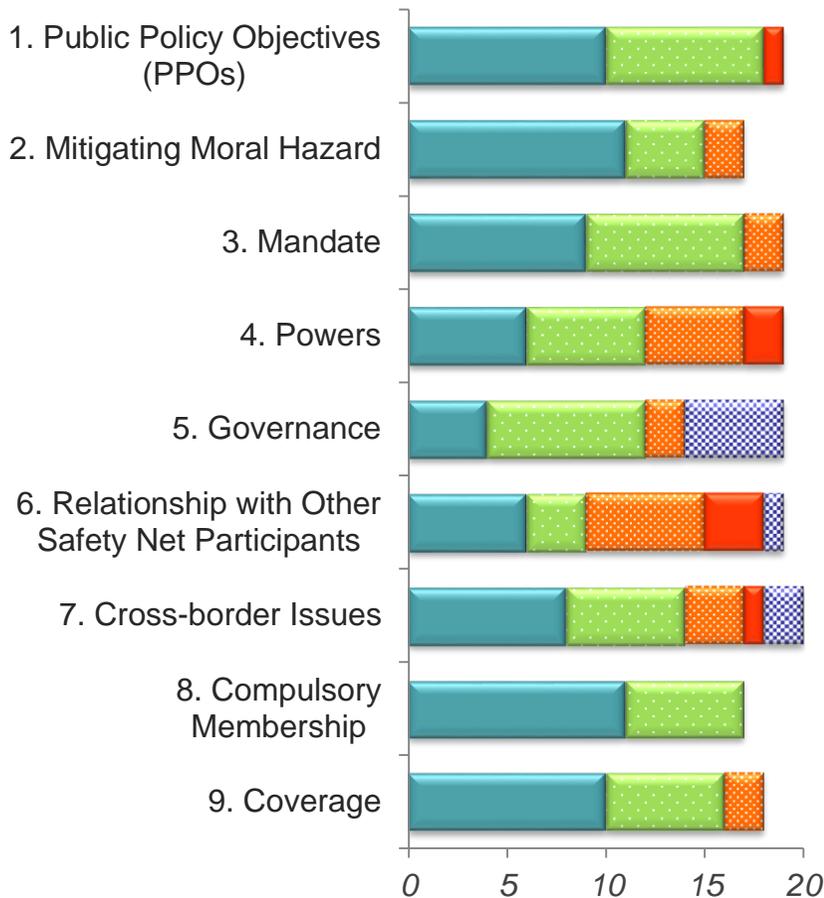
IDENTIFYING “GAPS” AND IMPROVING SYSTEMS



- *Compliant*
- *Largely Compliant*
- *Materially Non-compliant*

(Number of jurisdictions with the assessment result)

*Based on 2014/09 CPs



Convergence, emerging issues and challenges

1) Increases in coverage limits

- » Less emphasis on moral hazard control through low coverage, elimination of coinsurance.

2) Expansion in mandates/powers

- » Increase in “pay-box plus” and “loss-minimizer” systems.
- » Most pronounced in Europe, Middle-East and Africa.
- » Increase in number of deposit insurer with systemic bank resolution roles.
- > (e.g. FDIC-USA, CDIC-Canada, MDIC-Malaysia, IPAB-Mexico, NDIC-Nigeria, BGF-Poland, KDIC-Korea, KDIC-Kenya).

3) Increased emphasis on faster payout speeds

- 30-day (and sometimes longer) standard no longer acceptable.
- 7-days the new standard but difficult to meet.

4) Enhancements in information sharing and coordination

- » More formal arrangements developed for domestic and cross-border arrangements.
- » New focus on contingency planning and crisis management.

5) More robust funding arrangements

- » Shift towards increased use of ex-ante funding and differential premium systems.
- » Quest for more effective sources of back-up funding (liquidity).
- » Establishment of specific resolution funds in many jurisdictions.

- 6) Powers:** Assured legal access by the deposit insurer to depositor information on an ongoing basis still not widespread.
- 7) Contingency planning and crisis preparedness:** Many insurers still not included in system-wide crisis preparedness and planning frameworks.
- 8) Evaluating effectiveness of reforms to-date uneven.**
- 9) Innovation:** Financial innovation (e.g. FINTECH) impacts:
 - Payment systems => lending => funding => Deposit taking?
 - > Insured deposit-taking (e.g. mobile money, DSPs, MPESA)
 - > Cryptocurrency
 - > Open banking models

SPOTLIGHT ON DIGITAL STORED VALUE PRODUCTS (DSPS)

Key issue for IADI is financial inclusion and innovation and the need to develop guidance for the insurance of DSPs and related issues.

- a) Membership in deposit insurance systems of entities (e.g. banks and non-banks) providing DSPs.**
- b) Supervision and regulation of such entities.**
- c) Deposit insurance coverage of DSPs and related products.**
- d) Funding and risk-based premium system collection in an environment with DSPs.**
- e) Resolving banks (and non-bank entities) offering insured DSPs.**
- f) Creditor hierarchy implications for DSPs.**

➤ Explore possible guidance/standards to develop in the areas of: membership, coverage, funding and resolution related to financial inclusion and DSPs in particular.

THANK YOU FOR YOUR ATTENTION

**David Walker
Secretary General**

International Association of Deposit Insurers
c/o Bank for International Settlements
Centralbahnplatz 2, CH 4002 Basel, Switzerland

E-mail: David.Walker@iadi.org