FSB FINANCIAL STABILITY BOARD

Press release

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FSB launches peer review on deposit insurance systems and invites feedback from stakeholders

The Financial Stability Board (FSB) has launched a review of deposit insurance systems in FSB member jurisdictions. The recent global financial crisis illustrated the importance of effective depositor compensation arrangements. In response, the Basel Committee on Banking Supervision and the International Association of Deposit Insurers jointly issued in June 2009 the *Core Principles for Effective Deposit Insurance Systems*. Using the Core Principles as a benchmark, the FSB's peer review will take stock of existing deposit insurance systems and of planned changes. It will also draw lessons about the effectiveness of reforms to systems in response to the crisis.

A questionnaire (attached) to collect information from national authorities has been distributed to FSB members. The responses will be analysed and discussed by the FSB later this year. The peer review report will be published in early 2012.

As part of this peer review, the FSB invites feedback from financial institutions, industry and consumer associations, as well as other stakeholders on experiences with deposit insurance systems, either in a particular country or across several countries. This could include comments on: the role of deposit insurance in the broader financial system safety net; lessons from, and the effectiveness of reforms undertaken in response to, the financial crisis; and potential gaps in the design of deposit insurance systems, such as in terms of coverage, cross-border cooperation, funding, public awareness and depositor reimbursement.

Feedback should be submitted by 26 August 2011 to fsb@bis.org under the subject heading "FSB Thematic Peer Review on Deposit Insurance Systems." Individual submissions will not be made public.

This is the second thematic peer review initiated by the FSB in 2011. The first is the follow-up peer review on compensation practices, which will be completed in late 2011.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB began a regular programme of peer reviews in 2010, consisting of thematic reviews and country reviews. Previously published reports comprise three thematic peer reviews – on compensation practices, risk disclosure practices relating to structured credit products, and residential mortgage underwriting and origination practices – and three country peer reviews – of Mexico, Spain and Italy. The reports are available on the FSB website.

The BCBS and IADI jointly issued the *Core Principles for Effective Deposit Insurance Systems* (http://www.bis.org/publ/bcbs156.pdf) in June 2009. Together with the IMF, World Bank, the European Commission, and the European Forum of Deposit Insurers, they developed a methodology to enable assessments of compliance with these principles, which was issued in December 2010 (http://www.bis.org/publ/bcbs192.pdf). The FSB in February 2011 included the Core Principles in the list of key standards for sound financial systems that deserve priority implementation depending on country circumstances (http://www.financialstabilityboard.org/cos/key_standards.htm).

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.

FSB FINANCIAL STABILITY BOARD

8 June 2011

Thematic peer review of deposit insurance systems

Questionnaire

The April 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience* (http://www.financialstabilityboard.org/publications/r_0804.pdf) 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 BCBS and IADI jointly issued in June 2009 *Core Principles for Effective Deposit Insurance Systems* (http://www.bis.org/publ/bcbs156.pdf). Together with the IMF, 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 (http://www.bis.org/publ/bcbs192.pdf).

The FSB Standing Committee on Standards Implementation (SCSI), in its conference call on 10 September 2010, agreed to undertake a peer review of deposit insurance systems in 2011. This peer review will take stock of FSB member jurisdictions' deposit insurance systems and of any planned changes using the *Core Principles* as a benchmark, and will seek to draw lessons of experience on the effectiveness of reforms implemented in response to the crisis.

The primary source of information for the peer review will be the responses provided to this questionnaire. The questionnaire is structured around three sections, focusing respectively on:

1. Key features of a jurisdiction's deposit insurance system(s);
2. Reforms undertaken in response to the financial crisis and any lessons learnt; and
3. National implementation of specific *Core Principles*.

FSB member jurisdictions are requested to provide a consolidated national response to the questionnaire, which should include descriptions of differences in deposit insurance arrangements within the jurisdiction (e.g. for different types of institutions and deposit guarantee schemes, whether public or private) where these exist. Where there is a degree of overlap, and the answer is adequately covered in another response, a cross reference is encouraged. In order to limit the burden on FSB members and to avoid unnecessary duplication of information collection efforts, authorities could make reference in their response to existing data sources (or to attach relevant documents) where available.

FSB member jurisdictions that do not currently have an explicit deposit insurance system in place are required to describe their current arrangements and future plans, and to complete the relevant parts of the questionnaire (including any relevant reforms undertaken in response to the financial crisis) as far as practicable.

Respondents are kindly requested to return the completed questionnaire to the FSB Secretariat (costas.stephanou@bis.org; +41 61 280 8037) by Friday, 26 August 2011, and to provide contact person(s) to facilitate any follow-up consultations with the peer review team.

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:

<table>
<tr><th></th><th>Local Currency (In ‘000)</th><th>In USD Equivalent (In ‘000)</th></tr>
<tr><td>(A) Total domestic banking sector deposits</td><td></td><td></td></tr>
<tr><td>Of which:
(B) Proportion of eligible domestic banking sector deposits to total domestic banking sector deposits</td><td colspan="2">%</td></tr>
<tr><td>(C) Proportion of covered domestic banking sector deposits to total domestic banking sector deposits</td><td colspan="2">%</td></tr>
</table>

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[1]	%
(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

1 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[2]

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 (e.g. on the role of the deposit insurer vis-à-vis other financial safety net participants in

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[2] 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.

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*[3]**

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*[4] *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?

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?

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

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

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?