International Association of Deposit Insurers

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# Financial Inclusion and Deposit Insurance

# Research Paper

**Prepared by Research and Guidance Committee**
**International Association of Deposit Insurers**

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# I. Introduction

In 2009 the Group of 20 (G-20) formally committed to focus on improving access to financial services for the poor, recognizing that "over two billion adults around the world do not have access to formal or semi-formal financial services, most residing in Africa, Latin America, Asia, and the Middle East." [1] In many regions of the world, lack of access to financial services among the poor is being addressed through new channels and technologies, including microfinance institutions (MFIs), branchless banking, and e-money. Through these and other developments, increasing numbers of small and low-income depositors are gaining access to financial services in emerging economies.

In 2010, in response to a request from the G-20 for the International Association of Deposit Insurers (IADI) to participate in G-20 financial inclusion activities as a standard setting body (SSB), IADI created a Financial Inclusion Subcommittee within its Research and Guidance Group to provide a forum for the association to study and engage with other organizations on issues related to deposit insurance and financial inclusion.[2] In June 2010 meetings, the G-20 further called for "relevant international standard setting bodies to consider how they can further contribute to encouraging financial inclusion, consistent with their respective mandates."[3]It was noted at the time that other SSBs, including the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS), had recently undertaken efforts to formally address financial inclusion within their mandates.[4]

The Financial Inclusion Subcommittee's work plan called for it to 1) identify issues that are raised for deposit insurance by the existence of unbanked populations; 2) explore the implications for deposit insurance due to financial inclusion innovations through technology, new channels, or other means; and 3) conduct research on topics relevant to deposit insurance and financial inclusion. In line with its work plan, during 2010 and through January 2011, the subcommittee conducted a literature review on financial inclusion and deposit insurance, identified issues related to deposit insurance and financial inclusion, and carried out a survey of deposit insurers to identify the range of practices related to deposit insurance and financial inclusion.

In 2011, IADI's Financial Inclusion Subcommittee was renamed the Financial Inclusion and Innovation Subcommittee (FIIS) in recognition of the role that innovation and technology is playing in expanding financial access among the poor, particularly in emerging economies.

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[1] See G-20 Leaders' Statement, The Pittsburgh Summit, September 24-25, 2009, item 41 and "Innovative Financial Inclusion, Principles and Report on Innovative Financial Inclusion from the Access through Innovation Sub-Group of the G20 Financial Inclusion Experts Group," 25 May 2010.

[2] Members of IADI's Financial Inclusion and Innovation Subcommittee represent deposit insurers located in the following jurisdictions: Albania, Canada, Colombia, India, Indonesia, Japan, Jordan, Kenya, Korea, Mexico, Philippines, Poland, Russia, Tanzania, Turkey, United States, United Kingdom, and Uruguay.

[3] See G-20 Communiqué, Meeting of Finance Ministers and Central Bank Governors, Busan, Republic of Korea, June 5, 2010.

[4] See, for example, BCBS "Microfinance Activities and the Core Principles for Effective Banking Supervision" August 2010, at http://www.bis.org/publ/bcbs175.htm and the Access Through Insurance Initiative, a global programme co-sponsored by the International Association of Insurance Supervisors (IAIS) to enhance the broad-based, demand-oriented, and sustainable access to insurance for low-income clients at http://www.access-to-insurance.org/.

This research paper presents the results of the work of the FIIS to date. Section II summarizes the results of the literature review, which is included as Appendix A, and discusses practical issues that have been identified for IADI and its members related to financial inclusion, innovations and initiatives to expand financial access. Section III presents the results of the FIIS's 2011 survey of deposit insurers. Section IV discusses key findings and includes several recommendations arising from these efforts. The survey instrument is attached as Appendix B.

## II. Issues Raised by Deposit Insurance and Financial Inclusion

This section summarizes the results of a literature review on financial inclusion and deposit insurance conducted by the FIIS and discusses a number of practical issues facing IADI and its members related to efforts to expand financial access globally.

### *Summary of Financial Inclusion and Deposit Insurance Literature Review*

Issues to consider when thinking about how IADI's mandate relates to financial inclusion include developing an understanding of how financial inclusion is defined, and how financial inclusion is related to economic growth and development, financial stability, and the role of deposit insurance. It is also instructive to understand emerging issues related to new business models being employed to deliver financial services to low income populations and approaches being taken in the regulation of activities designed to expand economic and financial services access. To develop an understanding of these issues, the FIIS undertook a literature review during 2010 and through January 2011 focusing on the following six areas:

- Defining financial inclusion and microfinance.
- Financial inclusion and economic growth.
- Financial inclusion and financial stability.
- Financial inclusion and deposit insurance.
- Emerging innovations in financial access delivery methods.
- Regulatory issues related to financial inclusion.

The purpose of the literature review is to summarize the financial inclusion literature most directly related to the work efforts of IADI's FIIS. The full literature review is contained in Appendix A. The following sections briefly summarize key findings of the review.

**Defining financial inclusion and microfinance:** While much work has been conducted on the topic of financial inclusion, and recognition of its importance appears to be gaining momentum, there is no single universally accepted definition of financial inclusion. The term is defined very broadly by some, referring to the provision of access to financial services for all without distinguishing between financial services offered by banks versus non-banks. In defining financial inclusion, some researchers focus on nuances related to the quality and safety of financial services provided to the underserved, whether the financial services are provided by the mainstream financial sector (i.e., banks), and the extent to which basic consumer protections exist for the financial services provided to the poor. Various definitions of the term reflect differing recognition of the importance of these variables. The term "microfinance" is used broadly, in a complementary manner to the term financial inclusion, and may refer to the full range of financial services provided to the poor, which may include insurance, transactional services, and savings.

**Financial inclusion and economic growth:** A numberof researchers have investigated the link between financial inclusion and economic growth, focusing primarily on whether there is a positive relationship between the two concepts. Consistent with economic theory that would suggest that financial inclusion should promote economic growth, existing research generally demonstrates a positive correlation between financial development, economic growth, and the alleviation of income inequality. Financial development has typically accompanied economic growth and broader participation in the mainstream financial sector by all segments of the population and generally strengthens this connection. The security of a savings account, access to credit, and lower costs of basic financial transactions tend to increase households' abilities to insulate themselves from a variety of shocks and may enhance consumer confidence. Wider access to financial services also tends to distribute economic opportunities more broadly, particularly among poorer households and businesses.

**Financial inclusion and financial stability:** Whether there is a positive relationship between financial inclusion and financial stability is of interest when considering how financial inclusion relates to IADI's mandate, since one of IADI's primary objectives is to contribute to the stability of financial systems. An argument that has been made in the years since the 2008 financial crisis is that financial inclusion may help to promote a more stable retail base of bank deposits, which can reduce reliance on more volatile funding sources and enhance the safety and soundness of financial institutions.[5] This argument would seemingly be limited to financial inclusion initiatives focused on the traditional banking sector. Actual academic research on this topic is limited and suggests that whether a positive relationship between financial inclusion and financial stability exists likely depends on the existence of an independent and non-corrupt institutional, legal, and regulatory infrastructure to support the financial system along with efforts to expand financial access. (See Appendix A.)The promotion of financial access may enhance financial stability in the short and long term provided that the central bank and other regulatory authorities play a key role in ensuring that the institutional framework promotes this objective and does not undermine financial stability. This includes prioritizing policies to allow for financial access in a safe and sustainable manner.

**Financial inclusion and deposit insurance:** It stands to reason that deposit insurance should promote financial inclusion by bolstering confidence in financial institutions and potentially leading to greater savings among the poor. Access to deposit insurance should provide a measure of protection to small savers, provided they are informed about safe places to store their money. Indeed, many deposit insurance systems have as a public policy objective the protection of small depositors in recognition of this benefit of deposit insurance, and those that do frequently carry this objective out through efforts related to financial literacy and public awareness efforts designed to ensure that small depositors are informed about safe methods of storing their money and promoting their use of the mainstream banking system.

Research on the role of deposit insurance in promoting financial inclusion, however, suggests that the link between the two is at most indirect. Most explicit deposit insurance systems are not designed to have a direct effect on the poorest segments of society. Although most deposit insurance systems are designed to protect small depositors, the poorest segments of the population are often not participants in the

[5] See, for example, H R Khan: Financial inclusion and financial stability: are they two sides of the same coin? Remarks of Mr. H.R. Khan, Deputy Governor of the Reserve Bank of India, 4 November 2011, athttp://www.bis.org/review/r111229f.pdf.

formal financial sector and they do not fall within the set of small depositors most likely to benefit from deposit insurance.

Some researchers have investigated whether deposit insurance can play a meaningful direct role in expanding financial access through the extension of deposit insurance protections to microfinance institutions (MFIs) or non-banks that provide financial services to the poor. The argument is that small savers should find the protection of deposit insurance appealing, provided there is public awareness and understanding of its benefits. However, concerns have been identified related to the extension of deposit insurance to non-banks such as MFIs, including risks related to inadequate regulatory oversight and funding arrangements, difficulties customers may have in assessing and monitoring the safety and soundness of MFI operations, and the possibility of moral hazard.

**Emerging innovations in financial access delivery methods:** Current research on emerging developments and innovations in the delivery of financial services to the poor is largely focused on delivery of financial services through branchless banking and technological innovations such as mobile payments and e-money. Branchless banking is defined as the provision of financial services through any channel other than a branch.There are two basic models of branchless banking – the bank based model and the non-bank based model. Both rely on information and communication technologies, such as cell phones and debit and prepaid cards.Branchless banking is considered an alternative to conventional branch-based banking because customers conduct their financial transactions with retail agents and/or mobile phones instead of at bank branches. The branchless banking model appeals to some policymakers and regulators because it has the potential to provide financial services to unbanked communities in remote areas not served by traditional bank branches. It also appeals to some consumers who may otherwise be intimidated by traditional banks.

E-money has been defined by the European Union as "all situations where the payment service provider issues a pre-paid stored value in exchange for funds, which can be used for payment purposes because it is accepted by third persons as a payment." Not all countries that have branchless banking or e-money subscribe to this definition or have a working definition of e-money.

While there is little research on the implications of these emerging developments to date, some have noted concerns related to the fact that most mobile payments projects designed to extend reach to financially excluded populations had been led by mobile operators rather than banks. It appears that mobile operators may have certain advantages in the provision of branchless banking services in remote rural areas, or areas where there are no branch banks. Mobile operators generally run a national infrastructure and are more accustomed than banks to marketing to a broad array of clientele. Mobile operators have experience running networks of third-party operators and high-volume, low-value transactional engines and also control the interface for mobile banking through the mobile phone delivery services and the SIM card. Concerns focus on the implication of these developments for regulatory oversight and competition, both of which are needed to benefit consumers and small savers.

**Regulatory issues related to financial inclusion:** A fairly rich history of research exists related to the regulation of microfinance and MFIs and more recently to the regulation of emerging activities and innovations, particularly branchless banking and e-money. Generally, with respect to the regulation of MFIs, most research has argued that regulatory approaches need to be balanced in order to promote financial access, while limiting significant risk-taking; and many have argued in favor of tiered and sector-specific regulatory approaches.

The regulatory approach to branchless banking and e-money is an emerging topic due to the rapid adoption of this business model and the numerous forms it is taking where employed around the world. Branchless banking, both the bank-led and non-bank-led models, raise operational, legal, liquidity, reputational, consumer protection, and anti-money laundering risks. Furthermore, the non-bank-led branchless banking model introduces significant additional e-money related risks, including the risk that a non-supervised non-bank will steal the deposited funds or use them imprudently, or will become insolvent and unable to honor the claims of customers. Studies point to the different approaches taken by different countries in oversight of these developments, which raise further concerns about consistency and potential regulatory arbitrage. Numerous policy questions have been raised, including how the issuance and use of banking services relying on mobile phones should be regulated, how to provide for adequate consumer protections, how to avoid money laundering concerns, and how the supervisory process should function.

The principle of proportionality is a recurring theme in recent research on the regulation of branchless banking and/or e-money. The notion is that the market should be provided with a clear and balanced prudential and legal framework but without unnecessary or disproportionate barriers to market entry. An important emerging regulatory issue of special concern to deposit insurers is whether to treat e-money as a savings product or simply as a fund transfer; and determining where the liability for payment resides at all points in the funds transfer process. While most branchless banking and e-money accounts are used to make simple payments, increasingly it appears as though branchless banking operations and clients aspire to expand the scope of financial services offered. In addition, in some regions e-money is reportedly beginning to be viewed as a savings as well as a fund transfer vehicle, and an emerging issue is whether e-money issuers should be permitted to pay interest and/or required to cover the funds backing the e-money float with deposit insurance or matching capital.[6] An important area for future research includes the viability of pass-through deposit insurance for branchless banking, including non-bank-led mobile banking operations.[7]

## *Practical Issues for IADI and Deposit Insurers*

From a practical standpoint, financial inclusion raises a number of issues for IADI and its members.[8] These are discussed below.

[6] See Michael Tarazi and Paul Breloff, "Nonbank E-Money Issuers: Regulatory Approaches to Protecting Customer Funds," CGAP Issue Note, July 2010, at http://www.cgap.org/gm/document-1.9.45715/FN_63_Rev.pdf.

[7] "Pass-through deposit insurance" as used herein and in the Survey is defined as coverage for the ultimate retail customer instead of an intermediary.

[8] For further discussion of issues raised for deposit insurance by financial inclusion, see "Toward Proportionate Standards and Guidance, A White Paper Prepared by CGAP on Behalf of the G-20's Global Partnership for Financial Inclusion," 2011.

**Financial Stability Mandate:** IADI's mandate is to contribute to the stability of financial systems by promoting international cooperation in the field of deposit insurance and to encourage wide international contact among deposit insurers and other interested parties.[9] Consistent with this mandate, consideration of financial inclusion initiatives by IADI should recognize the importance of striking the right balance between controlling risks and encouraging and embracing innovation among the approaches of IADI members to financial inclusion. Regulators and deposit insurers need to ensure that the institutional framework and regulatory oversight supporting an expansion of financial inclusion promotes and does not undermine financial stability. A deposit insurance system is most effective if a number of external elements or preconditions are in place, including a sound banking system with strong prudential regulation and supervision and a supportive legal framework.

Moreover, IADI's members represent only one part of a comprehensive financial 'safety net' in any given country. The involvement of deposit insurance in the promotion of financial inclusion would need to be undertaken along with the strong engagement of the banking supervisory authorities and other financial 'safety net' participants. In many emerging market and developing economies, where financial innovations are developing most rapidly, the relevant prudential supervisors may lack adequate capacity to appropriately safeguard the financial system. In such cases, widening of the financial safety net to include innovations and new covered entities could pose a threat to financial stability.

**Protection of Small Depositors as a Public Policy Objective**: While IADI's mandate and that of most of its members is primarily focused on financial stability, it is not uncommon for the public policy objectives of individual deposit insurers to also include the protection of less-financially-sophisticated depositors, who are often distinguished by the small size of their deposits. Such depositors are frequently at an informational disadvantage compared to more financially sophisticated depositors. Since most deposit insurance systems limit membership to deposit-taking institutions that are supervised as banks under the meaning of the Basel Core Principles, they tend to view this public policy objective from the context of small depositors' participation in the mainstream banking sector. Thus, when viewed from the perspective of deposit insurers' mandates, the protection of small depositors as a public policy objective typically refers to small depositors in the traditional, supervised financial sector, although it may include innovative deposit products offered by traditional banks.

**IADI's role as an association:** As an association, which members join voluntarily, IADI has limited ability to directly influence the practices and public policy objectives of its members. IADI is not a rulemaking body and lacks direct authority to influence its members to alter their public policy objectives or adopt new practices or positions with respect to financial inclusion or other matters. However, IADI can facilitate a dialogue among its members to discuss the various policy and operational issues that may arise from financial inclusion initiatives and innovations both within and outside of the traditional banking sector, and the implications of such developments for deposit insurers.

[9] See Article 3 of IADI's Statutes.

**Membership of entities in the deposit insurance system:** Financial inclusion initiatives are frequently focused on the role of non-bank deposit-taking institutions in providing financial services to the poor. Issues for IADI to consider include 1) current practices of deposit insurers with respect to including such entities as members in the deposit insurance system; 2) preconditions and licensing requirements that apply to such entities if eligible to become members of the deposit insurance system; and 3) the prudential and supervisory framework within which such institutions are regulated and the adequacy of the institutional framework to support such oversight.

**Coverage of innovations:** Mobile banking, e-money, and pre-paid cards are examples of financial innovations that are growing rapidly and often cited for holding great potential for the expansion of financial inclusion globally. Issues for IADI to consider include 1) to what extent these services are offered by the commercial banking sector and covered by existing deposit insurance systems; and 2) the existence of opportunities for deposit insurers to clarify coverage with regard to these innovations.

**Public awareness:** Public awareness among the poor about the benefits and limitations of deposit insurance is an important aspect of financial inclusion initiatives, particularly those focused on financial innovations and non-banks. An important question is whether there are opportunities for deposit insurers to engage in public awareness initiatives to enhance depositors' understanding about which transactions and deposits are covered by deposit insurance and which are not. In an environment of rapid change and growth in innovation, it is particularly important that consumers understand whether their deposits are protected and what it means if their deposits are not covered by the deposit insurance system. Public awareness campaigns can play a potentially significant role in ensuring that all depositors are informed about safe methods of storing their money and which providers and products are and are not covered under the deposit insurance system.

**Funding:** Funding issues arise when non-bank deposit-taking institutions are eligible to become members of the deposit insurance system or when financial innovations are covered, but different assessment methods are used to fund the new activities. Deposit insurance systems are required to have available adequate funding mechanisms to ensure the prompt reimbursement of insured depositor claims, including a means of obtaining supplementary back-up funding. The primary cost of such insurance is borne by the insured depository institutions, since they and their customers benefit from the insurance. Issues for IADI to examine include 1) whether to establish a separate deposit insurance fund for non-commercial bank members if they are eligible to join the deposit insurance system, and 2) whether to calculate assessments for financial innovations separately, while taking into account the funding costs of such protection.

**Resolution authorities:** Regardless of the form financial inclusion initiatives assume, whether it involves non-traditional providers or financial innovations, the deposit insurer with resolution authorities must maintain its ability to effectively resolve a failed institution in a timely manner while protecting depositors.

## III. Results of IADI's Financial Inclusion and Innovation Survey

During 2011, the FIIS conducted a survey of IADI and EFDI members to identify the range of practices among deposit insurers related to financial inclusion issues. The survey was administered during June – August 2011 and sent to 109 deposit insurers. The survey instrument, attached as Appendix B, asked a number of questions on a variety of related topics, including: whether the deposit insurers mandate relates to financial inclusion; observed trends in microfinance activity; and deposit insurer response to microfinance activities, including membership, coverage, public awareness, funding, and resolution. IADI received 58 responses to the Financial Inclusion and Innovation Survey. Discussion of tabulated results follows. See Box 1 for definitions used in the survey instrument.

**Box 1: Definitions Used in IADI's Financial Inclusion and Innovation Survey**

**Banks:** Institutions that are subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision

- **Commercial Banks:** Financial institutions that are legally licensed as banks. Their primary line of business is not microfinance, and they are not considered primarily microfinance institutions (MFIs). As banks, these institutions are subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.
- **Bank Microfinance Institutions (Bank MFIs):** Licensed banks that are primarily engaged in the provision of financial products to low-income individuals. MFI banks are subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.
- **Credit Unions/Financial Cooperatives that are Regulated as Banks (Bank CUs):** Non-profit financial institutions owned and managed by their members that are regulated like banks. These institutions accept deposits from their members and make loans from those deposits. These institutions are subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.

**Other Deposit-Taking Institutions (ODTIs):** Institutions that are not classified as banks and are not subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision

- **Non-Bank Microfinance Institutions (Non-Bank MFIs):** Institutions that are primarily engaged in the provision of financial products to low income individuals. As ODTIs, Non-Bank MFIs are not legally considered banks and are not subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.
- **Credit Unions/Financial Cooperatives that are Not Regulated as Banks (Non-Bank CUs):** Non-profit financial institutions owned and managed by their members. These institutions accept deposits from their members and make loans from those deposits. As ODTIs, these institutions are not subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.
- **Postal Banks:** Institutions that operate in post offices and are often managed by the postal system.

**Innovations in Microfinance:**

**Branchless Banking:** The provision of financial services by a bank through any channel other than a branch. Agent/correspondent banking and mobile banking are examples of branchless banking.

- **Agent/Correspondent Banking:** Partnership between banks and other channels, often retail outlets, to provide financial services through non-branch physical channels.
- **Mobile Banking / M-Banking / Cell Phone Banking:** The use of cellular technology to provide financial services.

**E-money:** Electronically recorded funds that can be moved electronically and used and accepted by a third person as payment.

**Prepaid Cards/Smart Cards:** A card on which value is stored, and for which the holder has paid the issuer in advance. Funds can be increased as well as decreased.

## A. Deposit Insurance Mandate as it May Relate to Financial Inclusion

**1. Does the mandate of your deposit insurance system implicitly or explicitly recognize the role that deposit insurance may play in promoting financial inclusion?**

| Answer | Number of Responses | % of Total Respondents |
|---|---|---|
| Yes* | 22 | 38% |
| No | 33 | 57% |
| No Answer | 3 | 5% |
| **Total** | **58** | **100%** |

*yes answers include both 'Yes, Explicitly' (9) and 'Yes, Implicitly' (13) responses.

Summary: Almost 60 percent of respondents state their DI mandates do not implicitly or explicitly recognize the role that deposit insurance may play in promoting financial inclusion. Comments revealed that of the nine respondents who state that their mandate explicitly recognizes their role in promoting financial inclusion, many do not actually have the term "financial inclusion" in their mandate. Still, the financial inclusion function of serving to protect small depositors was reported by most respondents and several referenced their programs of providing financial education and outreach to ensure that small depositors are informed about safe methods of storing their money and knowledgeable about the mainstream financial sector. Performing such functions demonstrates that the existence of a deposit insurance system may at least implicitly promote financial inclusion by assuring that those households with limited savings have their deposits protected at participating depository institutions, most typically in the mainstream banking sector. One such example of a DI in promoting financial inclusion in this manner was offered by Armenia: "The Deposit Guarantee Fund of Armenia plays a role in financial inclusion by protecting mainly small and unsophisticated depositors (coverage is limited), and ensuring that they are informed about safe methods of storing their money by regularly conducting public awareness activities as one of the obligatory functions defined by the law".

Further, many respondents report specific financial inclusion activities performed instead by associated safety net members such as central banks. For instance, Argentina: "The DIS does not promote financial inclusion, yet the Central Bank has taken certain measures such as the 'Free Universal Account', established in October 2010 by the Central Bank. Its main feature is that it has no associated maintenance costs; it is available to all persons over 21 who do not have another opened account and it also provides a debit card with no additional costs for the usage of ATMs of the bank where the account was opened. The account also holds the benefit of being a means to pay for any services on line and cheques can be deposited into it".

## B. Trends in Microfinance

**2. Other than commercial banks, do deposit-taking institutions (bank or non-bank) currently operate in your country?**

| Answer | Number of Responses | % of Total Respondents |
|---|---|---|
| Yes | 48 | 83% |
| No | 7 | 12% |
| Information Not Available | 2 | 3% |
| No Answer | 1 | 2% |
| **Total** | **58** | **100%** |

Summary: The majority of respondents state they have deposit-taking institutions – other than commercial banks – operating in their country. Some of the respondents answering 'No' or 'No Answer' may in fact have other deposit-taking institutions (ODTIs) in their countries, according to reviews of secondary sources. The negative responses may therefore stem from lack of data or awareness of unregulated entities.

**3. Other than commercial banks, which of the following types of deposit-taking institutions (bank or non-bank) currently operate in your country?**

| | Number of Responses | | | | % of Total Respondents | | | |
|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | No Answer | Yes | No | Info Not Available | No Answer |
| **Bank MFIs** | 19 | 31 | 1 | 7 | 33% | 53% | 2% | 12% |
| **Bank CUs** | 32 | 18 | 2 | 6 | 55% | 31% | 3% | 10% |
| **Non-Bank MFIs** | 17 | 28 | 3 | 10 | 29% | 48% | 5% | 17% |
| **Non-Bank CUs** | 20 | 30 | 2 | 6 | 34% | 52% | 3% | 10% |
| **Postal Banks** | 13 | 35 | 1 | 9 | 22% | 60% | 2% | 16% |
| **Other** | 9 | 0 | 0 | 0 | 16% | 0% | 0% | 0% |

Summary: Countries with non-commercial bank deposit-taking institutions have a broad range of other deposit-taking type entities. About half have institutions that are not regulated as banks. Of those ODTIs, the majority are non-bank credit unions, followed closely in number by non-bank MFIs. Thailand reports "Non-bank MFIs categorized as informal financial institutions are not supervised by any government authority. They are self-regulated."

Several respondents indicated that only regulated firms in their jurisdictions can accept deposits, and others stated that MFI entities do not exist in their countries, but their commercial banks provide microfinance lending. In Jamaica: "There are currently no bank MFIs in Jamaica. Some of the supervised licensed deposit-taking entities (i.e. commercial banks, building societies and merchant banks) would however have microfinance customers".

The ‘Other’ category includes leasing companies, finance companies, trust companies, and payday lenders, among others.

**4. Other than in commercial banks, is there evidence of recent growth (over a period of at least six months) in the number of customers or size of the following types of deposit-taking institutions (bank or non-bank) in your country?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Bank MFIs** | 8 | 5 | 12 | 21 | 12 | 14% | 9% | 21% | 36% | 21% |
| **Bank CUs** | 13 | 6 | 7 | 17 | 15 | 22% | 10% | 12% | 29% | 26% |
| **Non-Bank MFIs** | 4 | 5 | 11 | 20 | 18 | 7% | 9% | 19% | 34% | 31% |
| **Non-Bank CUs** | 6 | 3 | 11 | 20 | 18 | 10% | 5% | 19% | 34% | 31% |
| **Postal Banks** | 3 | 5 | 13 | 23 | 14 | 5% | 9% | 22% | 40% | 24% |
| **Other** | 2 | 0 | 0 | 0 | 0 | 3% | 0% | 0% | 0% | 0% |

Summary: While several respondents reported growth in both Bank MFIs, and Bank CUs, most report a lack of information - or no access to information - for assessing whether or not there has been any recent growth in the number of ODTI customers or ODTI institutions. For example, Kazakhstan reports: “The ODTIs are not members of the Deposit Insurance System, that is why the KDIF does not monitor their activity. These institutions activities are controlled by the Central Bank.” Similarly, Mexico reports: “This information should be available at the CNBV (supervisor)”.

**5. Are any of the following innovations currently available in your country?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Mobile** | 51 | 2 | 2 | 0 | 3 | 88% | 3% | 3% | 0% | 5% |
| **Agent** | 40 | 8 | 4 | 1 | 5 | 69% | 14% | 7% | 2% | 9% |
| **Other Branchless** | 42 | 6 | 3 | 0 | 7 | 72% | 10% | 5% | 0% | 12% |
| **E-Money** | 48 | 7 | 2 | 0 | 1 | 83% | 12% | 3% | 0% | 2% |
| **Cards** | 49 | 4 | 2 | 1 | 2 | 84% | 7% | 3% | 2% | 3% |
| **Other** | 6 | 0 | 0 | 0 | 0 | 10% | 0% | 0% | 0% | 0% |

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mobile | Agent | Other Branchless | E-Money | Cards | Mobile | Agent | Other Branchless | E-Money | Cards |
| **Africa** | 2 | 2 | 2 | 2 | 2 | 3% | 3% | 3% | 3% | 3% |
| **Asia** | 12 | 10 | 8 | 10 | 12 | 21% | 17% | 14% | 17% | 21% |
| **Caribbean** | 3 | 1 | 0 | 0 | 3 | 5% | 2% | 0% | 0% | 5% |
| **Europe** | 22 | 16 | 20 | 25 | 22 | 38% | 28% | 34% | 43% | 38% |
| **Latin America** | 7 | 7 | 7 | 7 | 6 | 12% | 12% | 12% | 12% | 10% |
| **Middle East** | 1 | 1 | 1 | 1 | 1 | 2% | 2% | 2% | 2% | 2% |
| **North America** | 4 | 3 | 4 | 3 | 3 | 7% | 5% | 7% | 5% | 5% |
| **Total** | 51 | 40 | 42 | 48 | 49 | 88% | 69% | 72% | 83% | 84% |

Summary: Virtually all respondents report the availability of several types of innovations in their countries.[10] Most countries reported the availability of mobile/correspondent banking, agent banking, E-money and prepaid/smart cards. The innovations reported on by the majority of respondents, however are occurring in their regulated commercial banks. This result is likely consistent with the responses to question number four in which the DI's report a lack of access to information on institutions outside the realm of their individual DI fund. Survey responses included: Bangladesh: "Recently Bangladesh Bank gave permission to twelve commercial banks to do M-Banking. Besides this, at present some banks are allowed to issue prepaid Cards/Smart Cards"; and in Korea: "For E-Money, there is K-cash, an electronic money system jointly operated by Korean commercial banks. The Association of German Banks commented "We understand the term 'branchless banking' in the way of direct banking via internet. M-banking is a tool to do branchless banking."

**6. What types of institutions currently provide the following innovations in your country?**

| Mobile Banking | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | N/A | Info Not Available | No Answer | Yes | No | N/A | Info Not Available | No Answer |
| **Telecom** | 7 | 1 | 0 | 2 | 48 | 12% | 2% | 0% | 3% | 83% |
| **Commercial Banks** | 44 | 0 | 0 | 2 | 12 | 76% | 0% | 0% | 3% | 21% |
| **Bank MFIs** | 3 | 1 | 0 | 2 | 52 | 5% | 2% | 0% | 3% | 90% |
| **Bank CUs** | 12 | 0 | 1 | 2 | 43 | 21% | 0% | 2% | 3% | 74% |
| **Non-Bank MFIs** | 0 | 1 | 1 | 2 | 54 | 0% | 2% | 2% | 3% | 93% |
| **Non-Bank CUs** | 3 | 0 | 0 | 3 | 52 | 5% | 0% | 0% | 5% | 90% |
| **Postal Banks** | 2 | 1 | 1 | 2 | 52 | 3% | 2% | 2% | 3% | 90% |

| Agent Banking | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | N/A | Info Not Available | No Answer | Yes | No | N/A | Info Not Available | No Answer |
| **Telecom** | 2 | 1 | 2 | 3 | 49 | 3% | 2% | 3% | 5% | 84% |
| **Commercial Banks** | 37 | 0 | 2 | 3 | 16 | 64% | 0% | 3% | 5% | 28% |
| **Bank MFIs** | 3 | 1 | 2 | 3 | 49 | 5% | 2% | 3% | 5% | 84% |
| **Bank CUs** | 14 | 0 | 3 | 3 | 37 | 24% | 0% | 5% | 5% | 64% |
| **Non-Bank MFIs** | 2 | 1 | 3 | 3 | 49 | 3% | 2% | 5% | 5% | 84% |
| **Non-Bank CUs** | 4 | 0 | 2 | 4 | 48 | 7% | 0% | 3% | 7% | 83% |
| **Postal Banks** | 2 | 1 | 3 | 3 | 48 | 3% | 2% | 5% | 5% | 83% |

[10] The 'Other' category includes payment providers such as Western Union and Moneygram, internet, and gift cards that were reported separately by some respondents.

| Other Branchless | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | N/A | Info Not Available | No Answer | Yes | No | N/A | Info Not Available | No Answer |
| **Telecom** | 2 | 1 | 2 | 3 | 49 | 3% | 2% | 3% | 5% | 84% |
| **Commercial Banks** | 37 | 0 | 2 | 3 | 16 | 64% | 0% | 3% | 5% | 28% |
| **Bank MFIs** | 3 | 1 | 2 | 3 | 49 | 5% | 2% | 3% | 5% | 84% |
| **Bank CUs** | 14 | 0 | 3 | 3 | 37 | 24% | 0% | 5% | 5% | 64% |
| **Non-Bank MFIs** | 2 | 1 | 3 | 3 | 49 | 3% | 2% | 5% | 5% | 84% |
| **Non-Bank CUs** | 4 | 0 | 2 | 4 | 48 | 7% | 0% | 3% | 7% | 83% |
| **Postal Banks** | 2 | 1 | 3 | 3 | 48 | 3% | 2% | 5% | 5% | 83% |

| E-Money | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | N/A | Info Not Available | No Answer | Yes | No | N/A | Info Not Available | No Answer |
| **Telecom** | 6 | 1 | 0 | 3 | 47 | 10% | 2% | 0% | 5% | 81% |
| **Commercial Banks** | 35 | 0 | 0 | 3 | 20 | 60% | 0% | 0% | 5% | 34% |
| **Bank MFIs** | 3 | 1 | 0 | 3 | 51 | 5% | 2% | 0% | 5% | 88% |
| **Bank CUs** | 12 | 0 | 1 | 3 | 42 | 21% | 0% | 2% | 5% | 72% |
| **Non-Bank MFIs** | 1 | 1 | 1 | 3 | 52 | 2% | 2% | 2% | 5% | 90% |
| **Non-Bank CUs** | 4 | 0 | 0 | 3 | 51 | 7% | 0% | 0% | 5% | 88% |
| **Postal Banks** | 2 | 1 | 1 | 3 | 51 | 3% | 2% | 2% | 5% | 88% |

| Cards | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | N/A | Info Not Available | No Answer | Yes | No | N/A | Info Not Available | No Answer |
| **Telecom** | 12 | 1 | 1 | 1 | 43 | 21% | 2% | 2% | 2% | 74% |
| **Commercial Banks** | 40 | 0 | 1 | 1 | 16 | 69% | 0% | 2% | 2% | 28% |
| **Bank MFIs** | 1 | 1 | 1 | 1 | 54 | 2% | 2% | 2% | 2% | 93% |
| **Bank CUs** | 12 | 0 | 2 | 1 | 43 | 21% | 0% | 3% | 2% | 74% |
| **Non-Bank MFIs** | 1 | 1 | 2 | 1 | 53 | 2% | 2% | 3% | 2% | 91% |
| **Non-Bank CUs** | 4 | 0 | 1 | 1 | 52 | 7% | 0% | 2% | 2% | 90% |
| **Postal Banks** | 1 | 1 | 2 | 1 | 53 | 2% | 2% | 3% | 2% | 91% |

Summary: Respondents report that commercial banks and credit unions regulated as banks are the greatest sources of innovations in their countries, with the exception of prepaid cards where telecommunications companies also play a significant role. The preponderance of the answers from the DI'ssurveyed - in which they indicate that commercial banks, regulated bank MFIs, and regulated Bank CUs are the greatest providers of innovations - may reflect a lack of awareness of the activities of non-regulated entities. One respondent commented that "one telecommunications company (telco) participates as a service provider; another telco created a subsidiary to be the e-money issuer." This comment suggests that in some cases telecommunications companies and banks provide these innovations jointly.

**7. Is there evidence of recent growth in the number of users or transaction volume handled by the following innovations in your country?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Mobile** | 15 | 2 | 26 | 7 | 8 | 26% | 3% | 45% | 12% | 14% |
| **Agent** | 13 | 2 | 21 | 13 | 9 | 22% | 3% | 36% | 22% | 16% |
| **Branchless** | 13 | 3 | 18 | 8 | 16 | 22% | 5% | 31% | 14% | 28% |
| **E-Money** | 12 | 2 | 26 | 10 | 8 | 21% | 3% | 45% | 17% | 14% |
| **Cards** | 14 | 3 | 28 | 6 | 7 | 24% | 5% | 48% | 10% | 12% |
| **Other** | 2 | 0 | 0 | 0 | 0 | 3% | 0% | 0% | 0% | 0% |

Summary: Most respondents were unable to gauge if there had been recent growth in the number of users or transaction volume by innovation types in their countries. In their corresponding narrative answers, several respondents indicated that they do not maintain the required information. For example, Greece: "The HDIGF does not monitor growth in the aforementioned innovations"; and Chinese Taipei: "We think the answer should be yes, however, we have not yet found concrete numbers to support this." Still, despite the lack of data, several respondents reported anecdotal information suggesting such growth is occurring. Additionally, a few respondents reported affirmatively they have experienced innovation growth in each of Branchless, E-Money and Cards usages. Kenya reports "Agent/Correspondent Banking is a new concept that is gaining popularity in our country."

**8. Do you believe that your country's deposit insurance system has heightened exposure due to growth in the following types of institutions (bank or non-bank) and innovations?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Bank MFIs** | 3 | 13 | 9 | 20 | 12 | 5% | 22% | 16% | 34% | 21% |
| **Bank CUs** | 5 | 21 | 5 | 15 | 12 | 9% | 36% | 9% | 26% | 21% |
| **Non-Bank MFIs** | 1 | 10 | 10 | 23 | 14 | 2% | 17% | 17% | 40% | 24% |
| **Non-Bank CUs** | 2 | 11 | 8 | 24 | 13 | 3% | 19% | 14% | 41% | 22% |
| **Postal Banks** | 1 | 13 | 5 | 23 | 16 | 2% | 22% | 9% | 40% | 28% |
| **Mobile** | 5 | 18 | 15 | 6 | 13 | 9% | 31% | 26% | 10% | 22% |
| **Agent** | 4 | 13 | 14 | 11 | 15 | 7% | 22% | 24% | 19% | 26% |
| **Other Branchless** | 6 | 14 | 14 | 8 | 15 | 10% | 24% | 24% | 14% | 26% |
| **E-Money** | 1 | 20 | 14 | 10 | 12 | 2% | 34% | 24% | 17% | 21% |
| **Cards** | 2 | 17 | 16 | 9 | 13 | 3% | 29% | 28% | 16% | 22% |

Summary: The majority of respondents do not perceive heightened deposit insurance system risk arising from either growth in innovations or by growth in non-bank type entities. For example, the narrative response from the U.S. National Credit Union Association (NCUA): "Increased complexity of services has no material impact of deposit insurance exposure"; and Montenegro: "The influence of the following types of institutions and innovations is not huge"; and Kenya with: "More customers have been included in the financial system due to the new innovations".

For the responders indicating DI exposure risks heightening as a result of the growth of the specific types of institutions, many reflect perceived direct as well as indirect higher risks. " Quebec, Canada: "Branchless Banking could be an accelerator factor of cash withdrawals notably in bank run events"; and Chinese Taipei: "Based on CDIC's past experience, if other deposit-taking institutions are not highly regulated as banks, it may heighten exposure to the deposit insurer". The U.K. observed in their response that "E-money is not covered by the FSCS and therefore the growth in this market does not increase FSCS exposure but will increase consumers' exposure to possible loss in the event of the failure of the provider".

## C. Deposit Insurer Response to Microfinance

### Section A. Membership

**9. Are any of the following types of non-commercial bank institutions eligible to become members of your country's deposit insurance system?**

| | Number of Responses | | | | | | | % of Total Respondents | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Yes, This Agency | Yes, Different Agency | No | Info Not Available | N/A | Under Consideration | No Answer | Yes, This Agency | Yes, Different Agency | No | Info Not Available | N/A | Under Consideration | No Answer |
| **Bank MFIs** | 18 | 0 | 11 | 2 | 20 | 0 | 7 | 31% | 0% | 19% | 3% | 34% | 0% | 12% |
| **Bank CUs** | 18 | 6 | 13 | 2 | 14 | 0 | 5 | 31% | 10% | 22% | 3% | 24% | 0% | 9% |
| **Non-Bank MFIs** | 3 | 1 | 22 | 2 | 16 | 0 | 13 | 5% | 2% | 38% | 3% | 28% | 0% | 22% |
| **Non-Bank CUs** | 0 | 3 | 21 | 0 | 18 | 2 | 13 | 0% | 5% | 36% | 0% | 31% | 3% | 22% |
| **Postal Banks** | 5 | 1 | 17 | 1 | 22 | 0 | 12 | 9% | 2% | 29% | 2% | 38% | 0% | 21% |

Summary: Relatively few jurisdictions accept non-banks as members in the deposit insurance system. Bank MFIs and bank credit unions are more commonly accepted as members. Eighteen jurisdictions accept bank MFIs as members; 24 accept bank credit unions; four accept non-bank MFIs; three accept non-bank credit unions; and five accept postal banks. A few countries indicated that Non-bank MFIs are now, or are under consideration for eligibility to be members of the country's deposit insurance system. Mexico: "Regarding Cooperatives and Non-bank MFIs, it is worth mentioning that there is a protection fund (administered by a trust), created by the Federal Government through the Ministry of Finance and Public Credit"; and Albania: "The issue is still under consideration. They might be included in the same agency i.e. ADIA but kept as separate fund, providing the same coverage but there may be different premiums and initial contributions".

One country reports that all financial institutions authorized to operate in the country are obliged to be a part of the deposit insurance system, and several jurisdictions reported that only commercial banks are members of the fund: Turkey: "There are no non-commercial bank institutions"; and Serbia: "There are no other deposit-taking institutions besides commercial banks".

**10. Are any of the following types of non-commercial bank institutions currently members of your country's deposit insurance system.**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | N/A | Under Consideration | No Answer | Yes | No | N/A | Under Consideration | No Answer |
| **Bank MFIs** | 13 | 15 | 22 | 0 | 8 | 22% | 26% | 38% | 0% | 14% |
| **Bank CUs** | 22 | 18 | 16 | 0 | 3 | 38% | 31% | 28% | 0% | 5% |
| **Non-Bank MFIs** | 4 | 23 | 20 | 0 | 11 | 7% | 40% | 34% | 0% | 19% |
| **Non-Bank CUs** | 3 | 23 | 20 | 1 | 11 | 5% | 40% | 34% | 2% | 19% |
| **Postal Banks** | 7 | 18 | 23 | 0 | 10 | 12% | 31% | 40% | 0% | 17% |

Summary: Only 12 of 58 respondents (with some responding Yes to more than one type) indicate that ODTIs are already members of their country's deposit insurance system – and seven of these are postal operations. The majority of narrative replies indicated similar responses to those for question #9 such as Kazakhstan: "According to the Kazakhstani legislation, only commercial banks that are licensed by the Central Bank to accept individuals' deposits are eligible to become members of the Deposit Insurance system.

**11. If the following types of non-commercial bank institutions are not eligible for deposit insurance coverage, can such an institutions' funds gain access to deposit insurance through other means (e.g. if the funds are deposited in an insured commercial bank)?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Bank MFIs** | 8 | 12 | 4 | 20 | 14 | 14% | 21% | 7% | 34% | 24% |
| **Bank CUs** | 11 | 9 | 4 | 24 | 10 | 19% | 16% | 7% | 41% | 17% |
| **Non-Bank MFIs** | 12 | 16 | 3 | 17 | 11 | 21% | 28% | 5% | 29% | 19% |
| **Non-Bank CUs** | 13 | 15 | 2 | 16 | 13 | 22% | 26% | 3% | 28% | 22% |
| **Postal Banks** | 12 | 13 | 3 | 18 | 12 | 21% | 22% | 5% | 31% | 21% |

Summary: Several respondents indicate that ODTIs can gain eligibility for deposit insurance coverage through "other means". However, the majority of narrative responses make clear that the coverage exists solely as insurance for the account holder and does not constitute pass-through coverage, as found in the response from the Bahamas: "Coverage is limited to a maximum of B$50,000 to that institution and not to its underlying customers." Four countries indicate the lack of eligibility for other institutions funds with the descriptions stating that the funds cover deposits only of physical persons placed with commercial banks and several otherwise specifically preclude covering deposits for other financial institutions. Zimbabwe: "The postal bank does its own banking for its clients. If it banks its money with commercial banks, it's not covered as this is an interbank deposit. As a postal bank, deposits are guaranteed by the government"; and similarly Mexico with: "In accordance to the law, the IPAB does not guarantee the deposits from any financial institution other than commercial banks (including Bank MFIs)".

**12. Is membership in the deposit insurance system mandatory for the following types of institutions?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Commercial Banks** | 51 | 0 | 0 | 2 | 5 | 88% | 0% | 0% | 3% | 9% |
| **Bank MFIs** | 19 | 5 | 2 | 21 | 11 | 33% | 9% | 3% | 36% | 19% |
| **Bank CUs** | 24 | 7 | 3 | 19 | 7 | 41% | 12% | 5% | 33% | 12% |
| **Non-Bank MFIs** | 5 | 7 | 1 | 32 | 13 | 9% | 12% | 2% | 55% | 22% |
| **Non-Bank CUs** | 4 | 9 | 1 | 30 | 14 | 7% | 16% | 2% | 52% | 24% |
| **Postal Banks** | 8 | 7 | 2 | 26 | 15 | 14% | 12% | 3% | 45% | 26% |
| **Other** | 3 | 0 | 0 | 0 | 0 | 5% | 0% | 0% | 0% | 0% |

Summary: Respondents generally indicate that deposit insurance system membership is mandatory for all regulated deposit-taking institution types existing within their jurisdictions, with commercial banks being the overwhelming majority. Also, several jurisdictions indicate membership in their deposit insurance system is mandatory for all financial institutions that accept deposits. Commercial banks are more likely to be required to participate in the deposit insurance system than MFIs and credit unions regulated as banks. Mandatory membership for non-bank ODTIs is rare or not permissible, for example in the Philippines: "PDIC membership is compulsory for all banks. These are commercial banks, thrift banks and rural banks. Non-banks are not eligible".

**13. Are deposit insurance membership requirements for the following types of non-commercial bank institutions different from those for commercial banks?**

| | Number of Responses | | | | | | % of Total Respondents | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | Under Consideration | No Answer | Yes | No | Info Not Available | N/A | Under Consideration | No Answer |
| **Bank MFIs** | 2 | 17 | 1 | 27 | 1 | 10 | 3% | 29% | 2% | 47% | 2% | 17% |
| **Bank CUs** | 5 | 20 | 1 | 25 | 0 | 8 | 9% | 34% | 2% | 43% | 0% | 14% |
| **Non-Bank MFIs** | 1 | 3 | 0 | 40 | 0 | 14 | 2% | 5% | 0% | 69% | 0% | 24% |
| **Non-Bank CUs** | 2 | 4 | 0 | 38 | 0 | 14 | 3% | 7% | 0% | 66% | 0% | 24% |
| **Postal Banks** | 1 | 9 | 2 | 31 | 0 | 15 | 2% | 16% | 3% | 53% | 0% | 26% |

Summary: Respondents generally indicate that deposit insurance system membership requirements do not differ between commercial bank and non-commercial bank institutions, but some indicate the existence of separate funds, for instance Mexico: "There is no distinction between Commercial Banks and Bank MFIs. Regarding Cooperatives and non-bank MFIs, it is worth mentioning that there is a protection fund (administered by a trust), created by the Federal Government through the Ministry of Finance and Public Credit whose objective is to carry out preventive operations aimed at avoiding financial problems, as well as to ensure compliance with obligations concerning the savings deposits of its members". Several countries indicate that all financial institutions authorized to operate in their country are part of the deposit insurance system. For example in the U.K.: "All firms authorized by the FSA to accept deposits are automatically members of the FSCS with the same cover available to their members."; and Chinese Taipei: "According to the Deposit Insurance Act, all the deposit-taking institutions are required to apply for the membership of CDIC, but CDIC has the right to approve or reject the application".

**14. If your deposit insurance system accepts any of the following types of non-commercial bank institutions as members, are the preconditions for deposit insurance the same as those that apply to commercial banks?**

| | Number of Responses | | | | | | % of Total Respondents | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | Under Consideration | No Answer | Yes | No | Info Not Available | N/A | Under Consideration | No Answer |
| **Bank MFIs** | 19 | 2 | 1 | 23 | 1 | 11 | 33% | 3% | 2% | 40% | 2% | 19% |
| **Bank CUs** | 5 | 2 | 1 | 25 | 0 | 10 | 9% | 3% | 2% | 43% | 0% | 17% |
| **Non-Bank MFIs** | 3 | 2 | 0 | 38 | 0 | 15 | 5% | 3% | 0% | 66% | 0% | 26% |
| **Non-Bank CUs** | 1 | 3 | 0 | 38 | 0 | 16 | 2% | 5% | 0% | 66% | 0% | 28% |
| **Postal Banks** | 7 | 1 | 2 | 32 | 0 | 16 | 12% | 2% | 3% | 55% | 0% | 28% |

Summary: For the few respondents indicating their deposit insurance system may accept non-commercial bank institutions as members, fewer still indicated that pre-conditions for deposit insurance differ from those for commercial banks.

## C. Deposit Insurer Response to Microfinance (Continued)

### Section B. Coverage

**15. Does your deposit insurance system formally define the types of the deposits that are covered?**

| Answer | Number of Responses | % of Total Respondents |
|---|---|---|
| Yes | 54 | 93% |
| No | 1 | 2% |
| No Answer | 3 | 5% |
| **Total** | **58** | **100%** |

Summary: All but one respondent indicates the existence of formal definitions for the type(s) of deposits covered by their systems.[11] Several of the narrative responses to the question provide full descriptions of the covered deposits of the DI system with a few indicating that deposit coverage does not extend fully to all entity types (similar to answers in question number 11). For example, Bangladesh: "Deposit is defined as the aggregate sum of the unpaid balance due to its depositors, other than the Government,

[11] In fact, the sole responder indicating their DI system has no formal definition of the types of deposits covered must have misinterpreted this question, because in their narrative answer provided to a subsequent question, this country's definition of a covered deposit is fully described.

a foreign Government, or a financial institution, in respect to all their accounts, by whatever name called, including credit balance in any cash credit account, but does not include any amount due outside Bangladesh. – For the purpose of premium calculation, deposit is defined as all demand and time liabilities in Bangladesh to be taken into account. – However, deposits from the Government of Peoples Republic of Bangladesh, any foreign Government, and any other financial institution (except bank) as well as all interbank items and other deposits (which are not depositors' deposits) will be excluded".

**16. Has your formal definition of a deposit changed in response to financial inclusion innovations or activities?**

| Answer | Number of Responses | % of Total Respondents |
|---|---:|---:|
| Yes | 5 | 9% |
| No | 49 | 84% |
| Info Not Available | 1 | 2% |
| No Answer | 3 | 5% |
| **Total** | **58** | **100%** |

Summary: Five respondents report that their deposit insurance systems have changed their definitions of deposits in response to financial inclusion innovations or activities. One of these is Kazakhstan: "As the banking sector and its various banking products developed the definition of the terms "deposit" and "insurable deposit" used in banking legislation underwent periodic reviews. For example, funds placed on card accounts in banks were included in the definition of the term 'deposit'". Of the remaining four responders indicating that their formal definition of a deposit has changed in response to financial inclusion innovations or activities, it appears that each of these four are referring to an *exclusionary* change in coverage which serves to identify that E-Money is not to be considered a deposit by a bank, but is instead to be considered as a payable liability. These four are the DI systems in Austria and the change came through in their Austrian Banking Act of 30 April 2011 and in response to a directive concerning E-Money put forth by the European Commission in 2008. The FDIC reports that: "FIL 129/General Counsel opinion letter clarified that pass-through accounts, such as stored value cards with accounts in insured financial institutions would be eligible for deposit insurance coverage as long as they meet the mandatory disclosure required. General Counsel opinion letters do not reflect a change in the law; rather it provides clarification and guidance for the application of existing law."

**17. Is your deposit insurance system planning to change the definition of a deposit in response to recent financial inclusion innovations or activities?**

| Answer | Number of Responses | % of Total Respondents |
|---|---:|---:|
| Yes | 2 | 3% |
| No | 47 | 81% |
| Info Not Available | 5 | 9% |
| No Answer | 4 | 7% |
| **Total** | **58** | **100%** |

Summary: Only two deposit insurance systems report plans to change their definition of a deposit in response to recent financial inclusion innovations or activities. For example, Ukraine: "The draft legislation on deposit insurance is expected to be adopted soon. It may provide for some minor changes"; and Vietnam: "DIV is planning to change types of money insured and subjects insured". Many respondents refer to changes expected due to a new EU Directive on Deposit Guarantee Schemes such as the response from Greece: "The definition of deposits might change as a consequence to the new EU Directive on Deposit Guarantee Schemes".

**18. Does your country's deposit insurance system provide deposit insurance covering the following innovations?**

| | Number of Responses | | | | | | | % of Total Respondents | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No, Not Addressed | No, Specifically Excluded | Info Not Available | N/A | Under Consideration | No Answer | Yes | No, Not Addressed | No, Specifically Excluded | Info Not Available | N/A | Under Consideration | No Answer |
| **Mobile** | 24 | 15 | 0 | 4 | 6 | 0 | 9 | 41% | 26% | 0% | 7% | 10% | 0% | 16% |
| **Agent** | 19 | 14 | 0 | 5 | 10 | 0 | 10 | 33% | 24% | 0% | 9% | 17% | 0% | 17% |
| **Other Branchless** | 23 | 11 | 0 | 2 | 4 | 0 | 18 | 40% | 19% | 0% | 3% | 7% | 0% | 31% |
| **E-Money** | 12 | 20 | 3 | 4 | 6 | 1 | 12 | 21% | 34% | 5% | 7% | 10% | 2% | 21% |
| **Cards** | 14 | 21 | 2 | 3 | 5 | 1 | 12 | 24% | 36% | 3% | 5% | 9% | 2% | 21% |
| **Other** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0% | 0% | 0% | 0% | 0% | 0% | 0% |

Summary: Most respondents answering 'Yes' indicate innovations may be covered via traditional deposit definitions. For example, Malaysia: "MDIC does not provide deposit insurance protection especially for innovations offered by the commercial banks. MDIC provides deposit insurance protection for eligible deposit products of the commercial banks. The deposit product may be offered through the listed innovations; Jamaica: "If the innovation falls within the definition of an 'insurable deposit', it is eligible for deposit insurance coverage under the Deposit Insurance Act."; and Zimbabwe: "As long as a service is offered by a member institution and fits our definition of an insured deposit, it is covered." Some indicate the existence of E-money and pre-paid cards falling into this category. For example Canada: "CDIC insures some types of pre-paid cards – for example, cards issued by credit card companies that are fully backed by cash deposited by the cardholders. The moneys backing up these accounts must be registered as deposit liabilities in the name of the cardholders on the records of the CDIC member institutions, and the cardholder herself must establish the banking relationship with the member institution." Several others indicate that E-money is excluded as it is not classed as a deposit, such as the U.K.: "M-Banking and agent/correspondent banking can only be conducted by authorized deposit takers and all e-money is excluded as it is not classed as a deposit.

**19. Are there differences in the level of coverage or the types of products covered by your deposit insurance system for commercial banks vs. other institutions eligible to become members of the deposit insurance system?**

| Answer | Number of Responses | % of Total Respondents |
|---|---|---|
| Yes | 2 | 3% |
| No | 44 | 76% |
| Under Consideration | 1 | 2% |
| Info Not Available | 4 | 7% |
| N/A | 1 | 2% |
| No Answer | 6 | 10% |
| **Total** | **58** | **100%** |

Summary: Most respondents state only commercial banks can accept individuals' deposits and they alone are the members of the deposit insurance system. Only two respondents indicate that there are differences in the level of coverage or the types of products covered by their deposit insurance system. For example, Colombia: "Fogafin's deposit insurance system covers up to COP 20.000.000(financial institutions insured). Fogacoop's deposit insurance system covers up to COP 8.000.000 (financial cooperatives insured.) One other respondent indicates that it is under consideration.

**20. Does your deposit insurance system allow for pass-through coverage (i.e., providing deposit insurance coverage for the ultimate retail customer instead of an intermediary)?**

| Answer | Number of Responses | % of Total Respondents |
|---|---|---|
| Yes | 9 | 16% |
| No | 40 | 69% |
| Yes and No | 1 | 2% |
| Under Consideration | 1 | 2% |
| Info Not Available | 3 | 5% |
| N/A | 1 | 2% |
| No Answer | 3 | 5% |
| **Total** | **58** | **100%** |

Summary: The bulk of respondents (69 percent) indicate that their deposit insurance systems do not allow for pass-through insurance coverage for the ultimate retail customers. For instance, Greece: "There is no provision to the law referring to pooled, custodial, or omnibus accounts"; and Bangladesh: "DITF deals only with individual customers accounts. No omnibus accounts are considered". Respondents indicating the existence of pass-through coverage varied in their beneficiaries of this coverage; for example Estonia: "Money belonging to third persons deposited in accounts open for the official operations of notaries and bailiffs are treated as deposits separately for each person in the compensation case of deposits"; compared to Jamaica: "The beneficiaries of a trust account or nominee account are covered separately under the deposit insurance system.

## C. Deposit Insurer Response to Microfinance (Continued)

### Section C. Public Awareness

**21. Does your deposit insurance system conduct public awareness campaigns aimed at raising the level of awareness for all households, including the unbanked households, of the benefits of insured deposits?**

| Answer | Number of Responses | % of Total Respondents |
|---|---|---|
| Yes | 38 | 66% |
| No | 12 | 21% |
| Under Consideration | 5 | 9% |
| No Answer | 3 | 5% |
| **Total** | **58** | **100%** |

Summary: The majority of respondents (66 percent) report conducting public awareness campaigns to raise the awareness of the benefits of deposit insurance such as Albania: "ADIA public awareness policy is to address the public in compliance with its public policy objective i.e. through its mandate to protect the small depositors for the final aim of providing financial stability. Our targeted audience are all depositors of the banking system, employees of the public and private sector, students, emigrants, etc." and the Philippines: "PDIC has a Financial Literacy Project for high school students in collaboration with the Department of Education. It also has a 'Be a Wise Saver Campaign' in collaboration with the Central Bank and the major bank groups for college students and employees". Several respondents report that their campaigns are not aimed at the "unbanked". The Association of German Banks reports that advertisement campaigns are not allowed: "Any kind of 'advertisement/campaigns' for deposit protection are not allowed. The different systems are only allowed to inform their customers 'on demand' and when they open a deposit account".

**22. If your response to Question 21 is "Yes" which of the following channels of communication and mechanisms does your deposit insurance system employ to expand public awareness of the benefits of insured deposits?**

| | Number of Responses | % of Responses (38) |
|---|---|---|
| **Print** | 36 | 95% |
| **Electronic** | 27 | 71% |
| **Internet** | 37 | 97% |
| **Point of Purchase** | 19 | 50% |
| **Billboards** | 19 | 50% |
| **Other** | 19 | 50% |

Summary: Print, electronic and internet communications are the most widely used methods of expanding public awareness of the benefits of insured deposits. Most respondents used multiple forms of communication and many used innovative outreach activities to specific groups. El Salvador reports they hold "Conferences open to all households"; and in Zimbabwe there are "Business Trade Fairs where information is disseminated to the public". Uruguay reports "The Central Bank has just considered to include this kind of topics as part of Economic and Financial Education Plans".

**23. If your deposit insurance system uses any of the channels of communication and mechanisms identified in Question 22, do you use different channels for different types of institutions?**

| Answer | Number of Responses | % of Total Respondents |
|---|---|---|
| Yes | 3 | 5% |
| No | 32 | 55% |
| Under Consideration | 1 | 2% |
| N/A | 1 | 2% |
| No Answer | 1 | 2% |
| **Total** | 38 | **66%** |

Summary: The vast majority of respondents report that they do not use different channels of public awareness communications for different institution types to raise awareness of the benefits of insured deposits, with many respondents indicating the reason being that there are not different types of institutions. For instance Jordan: "We do not actually have different types of institutions"; and Kenya: "It is all the same for all the institutions that are members of the deposit insurance scheme".

**24. If your response to Question 21 is "Yes", does your deposit insurance system conduct special assessments to evaluate the effectiveness of your public awareness campaigns?**

| Answer | Number of Responses | % of Responses (38) |
|---|---|---|
| Yes | 24 | 63% |
| No | 10 | 26% |
| Under Consideration | 3 | 8% |
| Info Not Available | 1 | 3% |
| **Total** | **38** | **100%** |

Summary: The majority of respondents indicate that they conduct special assessments to evaluate the effectiveness of their public awareness campaigns. Some respondents indicate they use quarterly or annual surveys. For instance in Armenia: "The Deposit Guarantee Fund regularly conducts social surveys on public awareness and uses their results to more effectively design its further PR campaigns"; and Colombia: "Fogafin applies yearly a survey in order to assess the effectiveness of our campaigns". The Philippines reported that evaluation of the Financial Literacy Project for high school students will be undertaken in collaboration with the Department of Education. For the 'Be A Wise Saver Campaign' surveys are conducted after presentation during road shows". The Ukraine reports utilizing an indirect evaluation method: "Through analyzing the needs and level of knowledge of the 'hotline' clients and the web-site audience".

**25. If your response to Question 21 is "Yes", are public awareness campaigns focused on any of the following specific types of institutions?**

| | Number of Responses | | | | | % of Responses (38) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Commercial Banks** | 26 | 9 | 0 | 0 | 3 | 68% | 24% | 0% | 0% | 8% |
| **Bank MFIs** | 6 | 8 | 2 | 14 | 8 | 16% | 21% | 5% | 37% | 21% |
| **Bank CUs** | 5 | 13 | 2 | 15 | 3 | 13% | 34% | 5% | 39% | 8% |
| **Non-Bank MFIs** | 1 | 9 | 0 | 21 | 7 | 3% | 24% | 0% | 55% | 18% |
| **Non-Bank CUs** | 0 | 7 | 1 | 22 | 8 | 0% | 18% | 3% | 58% | 21% |
| **Postal Banks** | 2 | 11 | 2 | 17 | 6 | 5% | 29% | 5% | 45% | 16% |
| **Other** | 3 | 0 | 0 | 0 | 0 | 8% | 0% | 0% | 0% | 0% |

Summary: The majority of respondents indicate their public awareness campaigns are focused on the benefits of deposit insurance for deposits held at commercial banks. For example, Russia: "The target audience is the population in general and bank depositors in particular". Jamaica indicates their public awareness campaign seeks to educate regarding distinctions in products: "Our public awareness campaign seeks to distinguish deposit-taking institutions from non-deposit-taking institutions." Several respondents also indicated they had campaigns focused on raising the awareness of benefits of deposit insurance from Bank MFIs, Credit Unions and at non-bank MFIs but there were no further narrative comments provided by these respondents describing the extent, nature or scope of these campaigns.

**26. If your response to Question 21 is "Yes", are public awareness campaigns focused on any of the following innovations?**

| | Number of Responses | | | | | | % of Total Respondents | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Under Consideration | Info Not Available | N/A | No Answer | Yes | No | Under Consideration | Info Not Available | N/A | No Answer |
| **Mobile** | 1 | 29 | 1 | 0 | 5 | 2 | 2% | 50% | 2% | 0% | 9% | 3% |
| **Agent** | 1 | 25 | 1 | 1 | 8 | 2 | 2% | 43% | 2% | 2% | 14% | 3% |
| **Other Branchless** | 2 | 25 | 1 | 0 | 4 | 6 | 3% | 43% | 2% | 0% | 7% | 10% |
| **E-Money** | 2 | 27 | 1 | 0 | 6 | 2 | 3% | 47% | 2% | 0% | 10% | 3% |
| **Cards** | 1 | 27 | 0 | 1 | 7 | 2 | 2% | 47% | 0% | 2% | 12% | 3% |
| **Other** | 2 | 0 | 0 | 0 | 0 | 0 | 3% | 0% | 0% | 0% | 0% | 0% |

Summary: The vast majority of respondents indicate they have no public awareness campaigns focused on the existence of any deposit insurance systems that may be associated with any of the innovation types. Jamaica reports their public awareness campaign seeks to educate regarding the distinction between products that are eligible for deposit insurance versus those that are not insurable (see their answer in number 25 above). Kenya reports campaigns are focused on "All innovations which have a deposit account in nature."

## C. Deposit Insurer Response to Microfinance (Continued)

### Section D. Funding

**27. If your deposit insurance system covers the following type of non-commercial bank institutions, are premium assessments for them calculated differently than premium assessments for commercial banks?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Bank MFIs** | 0 | 16 | 3 | 26 | 13 | 0% | 28% | 5% | 45% | 22% |
| **Bank CUs** | 6 | 19 | 1 | 25 | 8 | 10% | 33% | 2% | 43% | 14% |
| **Non-Bank MFIs** | 1 | 3 | 0 | 38 | 16 | 2% | 5% | 0% | 66% | 28% |
| **Non-Bank CUs** | 0 | 3 | 0 | 39 | 16 | 0% | 5% | 0% | 67% | 28% |
| **Postal Banks** | 1 | 7 | 1 | 30 | 19 | 2% | 12% | 2% | 52% | 33% |
| **Other** | 1 | 0 | 0 | 0 | 0 | 2% | 0% | 0% | 0% | 0% |

Summary: Only a few respondents whose deposit insurance systems cover non-commercial banks report using different premium assessment calculations for other deposit-taking entities.For example Quebec (Canada): "Please note that Financial Cooperatives benefit from a 50 percent reduction of their premium assessments."

**28. If your response to Question 27 is "Yes", how are the premium assessments for the following types of institutions calculated?**

| | Number of Responses | | | | % of Responses (6) | | | |
|---|---|---|---|---|---|---|---|---|
| | Flat | Risk | N/A | No Answer | Flat | Risk | N/A | No Answer |
| **Commercial Banks** | 2 | 2 | 0 | 2 | 33% | 33% | 0% | 33% |
| **Bank MFIs** | 1 | 1 | 2 | 2 | 17% | 17% | 33% | 33% |
| **Bank CUs** | 4 | 2 | 1 | 0 | 67% | 33% | 17% | 0% |
| **Non-Bank MFIs** | 0 | 1 | 2 | 3 | 0% | 17% | 33% | 50% |
| **Non-Bank CUs** | 0 | 0 | 2 | 4 | 0% | 0% | 33% | 67% |
| **Postal Banks** | 0 | 1 | 1 | 4 | 0% | 17% | 17% | 67% |

Summary: Only six respondents indicated that different premium assessment calculations are used for non-commercial bank entities. All six reported that different premiums are calculated for Bank CUs, and four of the six use a flat-rate system. Only two of six respondents report premium assessments made for ODTIs and both use a risk-based system. For example El Salvador: "Premium assessments are based on Risk Ratings provided by a Risk Rating Agency. Cooperative banks do not have rating agency ratings so we apply the higher premium rate."

**29. If your deposit insurance system covers the following types of institutions, what are the sources of funding?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Premium | Government | Other | N/A | No Answer | Premium | Government | Other | N/A | No Answer |
| **Commercial Banks** | 51 | 11 | 5 | 0 | 6 | 88% | 19% | 9% | 0% | 10% |
| **Bank MFIs** | 17 | 4 | 1 | 24 | 14 | 29% | 7% | 2% | 41% | 24% |
| **Bank CUs** | 22 | 3 | 0 | 25 | 11 | 38% | 5% | 0% | 43% | 19% |
| **Non-Bank MFIs** | 3 | 1 | 0 | 38 | 17 | 5% | 2% | 0% | 66% | 29% |
| **Non-Bank CUs** | 2 | 0 | 0 | 38 | 18 | 3% | 0% | 0% | 66% | 31% |
| **Postal Banks** | 7 | 3 | 0 | 31 | 18 | 12% | 5% | 0% | 53% | 31% |

Summary: The vast majority of respondents report making premium assessments on insured institutions as the funding sources for their regulated banks and for ODTIs, where applicable. Many respondents indicated that government back-up support would be utilized in the event of a shortfall of primary funds. For example, Estonia: "If the assets of deposit guarantee fund are not sufficient to perform obligations, the Fund may take loans from credit unions; apply for a state loan or a state guarantee for a loan taken by the Fund."; Poland: In the case of a lack of financial means while operating a payout, the extraordinary source of funding exist as a budgetary loan or a donation from the central bank."; and in Chinese Taipei: "Due to handling of the previous domestic system crisis, the deposit insurance fund of CDIC is in deficit now. To solve the fund deficiency, beginning from 2011, bank business tax revenues were injected into the deposit Insurance Fund to share the resolution cost of handling the systemic crisis. We consider this to be government contributions".

As noted previously under question 9, relatively few jurisdictions accept non-banks as members in the deposit insurance system, while bank MFIs and bank credit unions are more commonly accepted as members. Funding sources and methods relied upon by different jurisdictions for different types of institutions are as follows.

- Of the 18 jurisdictions that accept bank MFIs as members, all apply the same or similar funding and premium methods to all member institutions.
- Of the 24 jurisdictions that accept bank credit unions as members, 12 use the same funding and premium method as applied to commercial bank members; six jurisdictions use a different fund; and the remainder use separate funds, including four that insure the deposits of bank credit unions through separate deposit insurance agencies.
- Of the four jurisdictions that accept non-bank MFIs as members, two apply the same fund/premium system to the non-bank MFIs, one uses a different fund, and one has a separate deposit insurance system, fund, and premium system for the non-bank MFIS.
- Of the three jurisdictions that accept non-bank credit unions as members, at least one uses a different deposit insurance agency and fund.
- Of the five jurisdictions that accept postal banks as members, at least four use the same deposit insurance agency, fund, and premium method, but the remainder differs.

**30. If your deposit insurance system covers the following innovations, what are the sources of funding?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Premium | Government | Info Not Available | N/A | No Answer | Premium | Government | Info Not Available | N/A | No Answer |
| **Mobile** | 18 | 1 | 4 | 22 | 14 | 31% | 2% | 7% | 38% | 24% |
| **Agent** | 18 | 1 | 4 | 22 | 14 | 31% | 2% | 7% | 38% | 24% |
| **Other Branchless** | 18 | 1 | 4 | 18 | 18 | 31% | 2% | 7% | 31% | 31% |
| **E-Money** | 14 | 0 | 4 | 26 | 14 | 24% | 0% | 7% | 45% | 24% |
| **Cards** | 13 | 2 | 3 | 25 | 16 | 22% | 3% | 5% | 43% | 28% |

Summary: For deposit insurance systems that cover innovations, premium assessments are the primary source of funding. Most narrative respondents pointed out that their deposit coverage of innovations - when it exists – does so as an indirect effect of their coverage of deposits. For example, Malaysia: "MDIC does not provide deposit insurance protection especially for innovations offered by the commercial banks. MDIC provides deposit insurance protection for eligible deposit products of the commercial banks. The deposit product may be offered through the innovations mentioned. Premium is assessed based on the total insured deposits of a commercial bank". And in a further note from the U.K.: "Electronic money including prepaid cards are not covered by the FSCS, however the European Payment Services Directive does detail the regulatory requirements for such firms including requirements relating to consumer protection. These are contained in the FSA's payment services regulation."

**31. If the following types of non-commercial bank institutions are covered by your country's deposit insurance system, are they covered by a deposit insurance fund that is separate from the commercial bank's fund?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Bank MFIs** | 0 | 19 | 1 | 27 | 11 | 0% | 33% | 2% | 47% | 19% |
| **Bank CUs** | 8 | 18 | 1 | 25 | 8 | 14% | 31% | 2% | 43% | 14% |
| **Non-Bank MFIs** | 2 | 2 | 1 | 37 | 16 | 3% | 3% | 2% | 64% | 28% |
| **Non-Bank CUs** | 3 | 1 | 1 | 37 | 17 | 5% | 2% | 2% | 64% | 29% |
| **Postal Banks** | 1 | 8 | 2 | 32 | 15 | 2% | 14% | 3% | 55% | 26% |

Summary: Very few respondents indicate having deposit insurance funds that are separate from the deposit insurance funds for commercial banks. Four reported having separate deposit insurance funds for ODTIs**.** For instance, Mexico reported that for Cooperatives and non-bank MFIs: "There is a protection fund (administered by a trust), created by the Federal Government through the Ministry of Finance and Public Credit whose objective is to carry out preventive operations". El Salvador reports: "We have a separation at the accounting level, but the use of the funds is not explicit in the law. We are looking for a change in Bank law in order to clarify the use of the fund in case of a cooperative bank failure." And the U.K. describes the E-Money coverage as: "Not a deposit scheme but e-money providers are required to ring fence client funds".

**32. If a separate fund exists, can the following types of institutions graduate to the commercial banks' fund e.g. based on the achievement of certain milestones)?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Bank MFIs** | 2 | 5 | 2 | 24 | 25 | 3% | 9% | 3% | 41% | 43% |
| **Bank CUs** | 3 | 9 | 2 | 23 | 22 | 5% | 16% | 3% | 40% | 38% |
| **Non-Bank MFIs** | 1 | 5 | 1 | 27 | 24 | 2% | 9% | 2% | 47% | 41% |
| **Non-Bank CUs** | 1 | 2 | 2 | 28 | 25 | 2% | 3% | 3% | 48% | 43% |
| **Postal Banks** | 1 | 1 | 3 | 27 | 26 | 2% | 2% | 5% | 47% | 45% |

Summary: Of those respondents who report having separate deposit insurance funds, few indicate that some non-commercial bank type entities can graduate to the deposit insurance fund available to commercial banks. Only two instances of these were reported for ODTIs out of a total of eleven reported in all. No corresponding narrative descriptions for these two instances were provided by respondents.

**33. If the following innovations are covered by your country's deposit insurance system, are they covered by a deposit insurance fund that is separate from the commercial banks' fund?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Mobile** | 1 | 25 | 3 | 18 | 12 | 2% | 43% | 5% | 31% | 21% |
| **Agent** | 1 | 24 | 4 | 17 | 13 | 2% | 41% | 7% | 29% | 22% |
| **Other Branchless** | 1 | 23 | 3 | 13 | 19 | 2% | 40% | 5% | 22% | 33% |
| **E-Money** | 2 | 19 | 3 | 21 | 14 | 3% | 33% | 5% | 36% | 24% |
| **Cards** | 1 | 19 | 3 | 20 | 16 | 2% | 33% | 5% | 34% | 28% |

Summary: For deposit insurance systems where innovations are covered, the vast majority of respondents indicate that there are no separate funds for the innovation beyond the commercial banks' fund. For example, Malaysia reported: "MDIC does not provide deposit insurance protection especially for innovations offered by the commercial banks. MDIC provides deposit insurance protection for eligible deposit products of the commercial banks. The deposit product may be offered through the listed innovations."

## C. Deposit Insurer Response to Microfinance (Continued)

### Section E: Resolution

**34. In your country, is there a difference between the closure and resolution process for commercial banks vs. the following types of institutions?**

| | Number of Responses | | | | | % of Total Respondents | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Info Not Available | N/A | No Answer | Yes | No | Info Not Available | N/A | No Answer |
| **Bank MFIs** | 4 | 16 | 1 | 23 | 14 | 7% | 28% | 2% | 40% | 24% |
| **Bank CUs** | 8 | 20 | 2 | 19 | 11 | 14% | 34% | 3% | 33% | 19% |
| **Non-Bank MFIs** | 6 | 4 | 0 | 27 | 21 | 10% | 7% | 0% | 47% | 36% |
| **Non-Bank CUs** | 12 | 4 | 1 | 26 | 15 | 21% | 7% | 2% | 45% | 26% |
| **Postal Banks** | 2 | 4 | 4 | 27 | 21 | 3% | 7% | 7% | 47% | 36% |

Summary: More respondents indicate the existence of a different resolution process for their ODTIs than the process for their commercial banks. The FDIC reported: "Bankruptcy laws apply for non-banks and the resolution process for the FDIC and NCUA are similar." Different resolution authorities were reported by several respondents: "Argentina: non-bank MFIs are regulated by the Central Bank, in the event of a failure they proceed according to Section 35 from the Financial Institutions Law"; Jamaica: "The closure and resolution process for commercial banks; merchant banks and building societies is dictated by the respective governing legislation i.e. The Banking Act; The Financial Institutions Act and the Building Societies Act"; for Mexico: "Regarding cooperatives and non-bank MFIs, their resolution process is not under the purview of the IPAB, there is a Trust Committee that determines the implementation of any of the following: split up, merger, sale, dissolution and liquidation, and the commercial insolvency process"; and the Philippines: "In the event of failure, microfinance NGOs should file for bankruptcy petition for suspension of payment or rehabilitation with the regular courts, or file for voluntary dissolution with the Securities and Exchange Commission.

**35. In your country, in the event of a failure, which authority has the power to close the following types of institutions?**

| | Number of Responses | | | | | | | % of Responses (58) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Deposit Insurer | Central Bank | Supervisor/ Regulator | Other body* | None | Info Not Available | No Answer | Deposit Insurer | Central Bank | Supervisor /Regulator | Other body* | None | Info Not Available | No Answer |
| **Commercial Banks** | 2 | 26 | 14 | 8 | 0 | 0 | 8 | 3% | 45% | 24% | 14% | 0% | 0% | 14% |
| **Bank MFIs** | 0 | 11 | 6 | 5 | 6 | 11 | 19 | 0% | 19% | 10% | 9% | 10% | 19% | 33% |
| **Bank CUs** | 2 | 7 | 9 | 9 | 2 | 12 | 17 | 3% | 12% | 16% | 16% | 3% | 21% | 29% |
| **Non-Bank MFIs** | 0 | 4 | 5 | 6 | 8 | 13 | 22 | 0% | 7% | 9% | 10% | 14% | 22% | 38% |
| **Non-Bank CUs** | 0 | 2 | 5 | 11 | 4 | 14 | 22 | 0% | 3% | 9% | 19% | 7% | 24% | 38% |
| **Postal Banks** | 0 | 3 | 5 | 3 | 6 | 15 | 26 | 0% | 5% | 9% | 5% | 10% | 26% | 45% |

***Other body includes courts, other government agencies, courts in conjunction with other government agencies, or any combination of government agencies.**

Summary: The majority of respondents indicate that the central bank or banking supervisor/regulator has the authority to close institutions regulated as banks. Some jurisdictions have different authorities with the power to close regulated ODTIs. For example, in Bangladesh this authority is the Micro Credit Regulatory Authority and the Directorate of Co-Operatives, and in Thailand the entity is the Cooperative Promotion Department, the Ministry of Agriculture and Cooperative.

**36. In your country, in the event of a failure, which authority has the power to liquidate the estate and distribute payments to creditors for the following types of institutions?**

| | Number of Responses | | | | | | | % of Responses (58) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Deposit Insurer | Central Bank | Supervisor/ Regulator | Other body* | None | Info Not Available | No Answer | Deposit Insurer | Central Bank | Supervisor /Regulator | Other body* | None | Info Not Available | No Answer |
| **Commercial Banks** | 19 | 10 | 1 | 21 | 0 | 0 | 7 | 33% | 17% | 2% | 36% | 0% | 0% | 12% |
| **Bank MFIs** | 5 | 5 | 1 | 11 | 4 | 9 | 23 | 9% | 9% | 2% | 19% | 7% | 16% | 40% |
| **Bank CUs** | 7 | 5 | 1 | 11 | 4 | 12 | 18 | 12% | 9% | 2% | 19% | 7% | 21% | 31% |
| **Non-Bank MFIs** | 2 | 2 | 2 | 8 | 7 | 10 | 27 | 3% | 3% | 3% | 14% | 12% | 17% | 47% |
| **Non-Bank CUs** | 0 | 0 | 2 | 11 | 3 | 14 | 28 | 0% | 0% | 3% | 19% | 5% | 24% | 48% |
| **Postal Banks** | 2 | 0 | 2 | 7 | 4 | 13 | 30 | 3% | 0% | 3% | 12% | 7% | 22% | 52% |

***Other body includes courts, other government agencies, courts in conjunction with other government agencies, or any combination of government agencies.**

Summary: In the event of estate liquidation, many respondents indicated that the deposit insurer or the central bank has the authority to handle the process for institutions supervised as banks, although a number of other government bodies exist for this purpose, as noted above. For ODTIs the authority to liquidate the estate and distribute payments to creditors is primarily handled by other liquidators or courts. For instance in many jurisdictions, a similar use of specialized departments is indicated, as is the case for Thailand: "The Cooperative Auditing Department, Ministry of Agriculture and Cooperative, has an authority to liquidate Cooperatives not regulated as banks in the event of a failure."

**37. In your country, in the event of a failure, what is the required time period for deposit insurance reimbursements after closing the following types of institutions?**

| | Responses | | | | | | | % of Total Responses | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Less than two weeks | Less than one month | Less than one year | No set time period | N/A | Info not available | No Answer | Less than two weeks | Less than one month | Less than one year | No set time period | N/A | Info not available | No Answer |
| **Commercial Banks** | 3 | 18 | 18 | 9 | 1 | 0 | 9 | 5% | 31% | 31% | 16% | 2% | 0% | 16% |
| **Bank MFIs** | 0 | 7 | 6 | 5 | 18 | 3 | 18 | 0% | 12% | 10% | 9% | 31% | 5% | 31% |
| **Bank CUs** | 1 | 9 | 2 | 8 | 18 | 3 | 14 | 2% | 16% | 3% | 14% | 31% | 5% | 24% |
| **Non-Bank MFIs** | 0 | 0 | 3 | 2 | 33 | 2 | 17 | 0% | 0% | 5% | 3% | 57% | 3% | 29% |
| **Non-Bank CUs** | 0 | 0 | 0 | 2 | 31 | 5 | 18 | 0% | 0% | 0% | 3% | 53% | 9% | 31% |
| **Postal Banks** | 1 | 1 | 1 | 3 | 27 | 4 | 19 | 2% | 2% | 2% | 5% | 47% | 7% | 33% |

Summary: The allotted time period for payments of deposit insurance reimbursements for most respondents is less than one year for regulated banks and credit unions. There were virtually no designations shown for the time frames for payments to be made post-failure of ODTIs.

**38. Any added comments?**

Summary**:** One entity reports that financial inclusion has not been considered as a specific objective by the guarantee scheme. Another reports that their country has a very developed banking infrastructure and that "Financial inclusion, microfinance and innovations concerning this are therefore not a big issue."

# IV. Key Findings and Recommendations

## Key Findings

### *1. Role of deposit insurance in promoting financial inclusion*

**Most respondents do not formally recognize the role of deposit insurance in promoting financial inclusion in their respective mandate, although many appear to have a public policy objective to protect small depositors.**

- Most respondents report that the deposit insurer mandate does not implicitly or explicitly recognize the role that deposit insurance may play in promoting financial inclusion.

- Those deposit insurers that do report an implicit role appear to be referring to the common public policy objective of protecting less-financially-sophisticated (i.e., small) depositors. It should be noted that this typically takes the form of financial education and outreach activities designed to ensure that depositors are informed about safe methods of storing their money in the mainstream banking sector.

### *2. Growth and emerging issues in innovations and innovative providers*

**Most respondents have both bank and non-bank deposit takers operating in their jurisdictions and report growth in financial innovations such as mobile payments/banking and e-money, although many appear to lack information on these topics.**

- A significant proportion of respondents – over one third report that non-bank deposit-taking institutions operate in their country, with a lesser proportion reporting growth in such activities.

- Nearly all respondents report one or more innovations in their jurisdictions, provided by both banks and non-banks. Commercial banks and financial cooperatives/credit unions regulated as banks are the predominant providers.

- Close to half of respondents reported a lack of information and/or data on the growth of financial innovations such as mobile banking, agent banking, branchless banking, and e-money in their countries.

- Few countries reported concern that the deposit insurance system faces heightened risk due to such innovations. Some respondents noted that there could be heightened risk if the deposit-taking entity was insured and not regulated as a bank.

### *3. Membership*

**Most respondents report that membership in the deposit insurance system is limited to commercial banks and/or entities licensed by another authority and/or to types of entities specified by legislation or statute.**

- Most respondents reported that membership is limited to commercial banks. Relatively few jurisdictions accept non-banks as members in the deposit insurance system while bank MFIs and bank credit unions are more commonly accepted as members.

- A number of respondents commented that eligibility for membership in the deposit insurance system is dictated by legislation or statute, or that the Central Bank issues licenses, which are required for membership.

- Most respondents reported that membership criteria and preconditions for membership are the same for all institutions to be considered for membership.

**Limiting membership to commercial banks does not appear to limit coverage of financial innovations or participation in financial inclusion initiatives, as most innovative products are provided by commercial banks or institutions supervised as banks. Deposit insurers report that they do insure financial innovations provided by members, as long as the financial innovation meets the definition of a covered deposit.**

- Most respondents reported that financial innovations such as mobile banking, agent banking, branchless banking, e-money, and pre-paid cards are covered by the deposit insurance system, provided these services are offered by members, primarily commercial banks.

**There are few examples of a so-called tiered system where entities in one DIF can graduate into another.**

### *4. Types of deposits covered*

**Types of deposits covered by the deposit insurance system are typically formally defined, and definitions appear to provide sufficient flexibility to include financial innovations.**

- The vast majority of respondents indicated that their deposit insurance system formally defines the types of deposits covered.

- Most formal definitions appear to be broadly defined to potentially include innovations in delivery, provided the innovations are provided by eligible members of the deposit insurance system.

- Few respondents reported that the formal definition of a deposit had changed or that a change was under consideration, in response to financial inclusion innovations or activities. Some European Union respondents reported that changes in the definition of deposits may be expected due to the new EU Directive on Deposit Insurance Schemes.

**Provision of pass-through coverage is rare, and in the limited cases where it does exist, it is not formally codified or appears designed to satisfy narrow requirements.**

- Few (9 of 58) respondents reported that their deposit insurance system allows for pass-through deposit insurance coverage (i.e., providing coverage for the ultimate retail consumer provided through an intermediary).

- The few existing pass-through provisions cited appear to be limited in nature, not always codified in law or regulation, and designed to fit narrow situations.

## *5. Public Awareness*

**Most deposit insurance systems conduct public awareness campaigns aimed at raising the awareness of all households on the benefits of insured deposits.**

- The majority of respondents (66 percent) conduct public awareness campaigns aimed at raising the awareness for all households, including the unbanked, of the benefits of insured deposits.

- Such campaigns are conducted through a variety of media channels, including internet, print, electronic, point of purchase, and billboards.

- Most report that public awareness activities are primarily focused on commercial banks, types of advertising do not vary by institution, and that most that conduct public awareness campaigns evaluate the effectiveness of the campaign effort.

## *6. Funding*

**Funding sources and premium methods relied upon by different jurisdictions for different types of institutions vary, particularly for covered non-bank institutions which are more likely to use different funds/premium methods.**

- All jurisdictions that accept bank MFIs as members apply the same or similar funding and premium methods to all member institutions.

- About half of the jurisdictions that accept bank credit unions as members use a different agency, fund, and/or premium method for these institutions.

- Jurisdictions that accept non-bank MFIs/credit unions or postal banks as members are more likely to use a different fund or premium method for these institutions.

- Funding for coverage of innovations is generally not treated differently than that for traditional deposit accounts.

### *7. Resolution*

**In many jurisdictions there are different closure and resolution processes for commercial banks vs. non-banks.**

**Regulated banks and credit unions typically require reimbursement within one year or less, whereas there is no prescription for ODTIs.**

## Recommendations

1. **Conduct a financial inclusion review of the IADI Core Principles for Effective Deposit Insurance and methodology.**

IADI's Guidance Group should give consideration to undertaking a review of the Core Principles on Effective Deposit Insurance to determine whether additional guidance is needed with regard to specific core principles and to ensure that existing guidance does not unintentionally inhibit financial inclusion initiatives. Such a review could seek to address financial inclusion developments such as innovative financial products and methods of delivery and growth of non-bank providers of financial services to the poor. Core principles focused on the following would most likely benefit from such a review: public awareness, membership, coverage, funding, resolutions, and relationships with other safety net participants.

2. **Stay abreast of local financial inclusion initiatives and developments and potential implications for deposit insurers.**

Deposit insurers should make efforts to stay abreast of financial inclusion initiatives and technological innovations occurring in their jurisdictions, particularly those involving unsophisticated small savers, and identify the potential implications of such developments for deposit insurance and the safety of small depositors.

3. **Focus on the role of public awareness in financial inclusion initiatives.**

In jurisdictions with aggressive financial inclusion initiatives and significant proportions of unbanked populations, deposit insurers should examine whether their public awareness campaigns adequately address what types of deposits and money transfer vehicles are covered and what types are not, in order to minimize potential confusion among the public.

4. **Consider opportunities to promote information sharing among deposit insurers on financial inclusion best practices.**

Deposit insurers in jurisdictions with aggressive and ambitious financial inclusion initiatives and large proportions of unbanked populations would likely benefit from information sharing to identify best practices and strategies to avoid risk to the deposit insurance system that might arise from initiatives to expand coverage beyond traditional financial products and the mainstream banking sector.

## Appendix A: Financial Inclusion and Deposit Insurance Literature Review

Over two billion adults around the world do not have access to formal or semi-formal financial services, most residing in Africa, Latin America, Asia, and the Middle East (G-20, 2010). In many regions of the world, lack of access to financial services among the poor is being addressed through new channels and technologies, including microfinance institutions (MFIs), branchless banking, and e-money. Through these and other developments, increasing numbers of small and low-income depositors are gaining access to financial services in emerging economies.

IADI's Financial Inclusion and Innovation Subcommittee (FIIS) is focused on developing an understanding of how emerging trends and issues related to financial inclusion interact with IADI's mandate. Broadly speaking, IADI's objectives and those of many explicit deposit insurers are to promote financial stability and to protect small and unsophisticated depositors. According to IADI's Statutes, "The objects of the Association are to contribute to the stability of financial systems by promoting international cooperation in the field of deposit insurance and to encourage wide international contact among deposit insurers and other interested parties" (IADI, 2002). Issues to consider when thinking about how IADI's mandate relates to financial inclusion include developing an understanding of how financial inclusion is defined and how financial inclusion is related to economic growth and development, financial stability, and the role of deposit insurance. It is also instructive to understand emerging issues related to new business models being employed to deliver financial services to low income populations and approaches being taken in the regulation of activities designed to expand economic and financial services access.

As an initial step in the efforts of IADI's FIIS, the subcommittee undertook a literature review during 2010 and through January 2011 focusing on the following topics:

- Defining financial inclusion and microfinance.
- Financial inclusion and economic growth.
- Financial inclusion and financial stability.
- Financial inclusion and deposit insurance.
- Emerging financial access delivery developments.
- Regulatory issues related to financial inclusion.

The purpose of this literature review is not to provide an exhaustive summary of financial inclusion literature and surveys. Numerous wide-ranging studies exist that pull together existing research, data, and analysis (see, for example, World Bank (2008), Kendall et. al. (2010), World Bank (2009), CGAP (2010). Each of these studies provides a good basic overview on the topic of financial inclusion around the world. The purpose of the following sections is to summarize the financial inclusion literature that is most directly related to the work efforts of IADI's FIIS.

Defining Financial Inclusion and Microfinance

*Defining "financial inclusion"*

While much work has been conducted on the topic of financial inclusion and recognition of its importance is gaining momentum, there is no single universally accepted definition of financial inclusion. The term is very broadly defined by CGAP (2009) as "the provision of access to financial services for all." Many observers, however, focus on nuances related to the quality and safety of financial services provided to the underserved, whether the financial services are provided by the mainstream financial sector, and the extent to which basic consumer protections exist for the financial services provided to the poor. Various definitions of the term reflect differing degrees of recognition of the importance of these variables.

The World Bank (2008), for example, focuses on the importance of fair pricing in promoting financial inclusion:

Financial inclusion, or broad access to financial services, is defined here as an absence of price or non-price barriers in the use of financial services…improving access…means improving the degree to which financial services are available to all at a fair price.

ACCION International (date unknown) defines the term in a multidimensional sense, focusing on what services are provided, how they are provided, who receives the services, and who provides them:

> Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.

H.R.H. Princess Máxima of the Netherlands, the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development, proposes a definition of financial inclusion that encompasses many of these concepts (H.R.H. Princess Máxima (2010)):

> Financial inclusion is universal access, at a reasonable cost, to a wide range of financial services for everyone needing them, provided by a diversity of sound and sustainable institutions. Such financial services include savings accounts, loans, insurance, payment services, pension plans, and remittance facilities that can help people generate income, build assets, manage cash flow, invest in opportunities, and strengthen resilience to setbacks.

The notion of safety in the delivery of financial services, and specifically the involvement of mainstream financial institutions, as opposed to the informal financial sector, has been an increasing area of emphasis. In a 2010 speech for example (The Economic Times (2010), Reserve Bank of India Deputy Governor K C Chakrabarty emphasizes that in promoting financial inclusion, the financial services should be provided by the mainstream financial sector:

> The definition of financial inclusion is providing access to appropriate financial products and services to the most vulnerable group of the society in a fair, transparent and cost-effective manner by the mainstream financial institutions.

*Defining "microfinance"*

The term "microfinance" is used broadly, in a complementary manner to the term financial inclusion. Microfinance and microcredit became prominent with the advent of innovative programs such as Bangladesh's Grameen Bank, founded by Mohammed Yunas. Microfinance institutions such as Grameen Bank have traditionally provided credit services but the term is increasingly used more broadly to include the provision of all financial services to lower income populations.

Today, the term "microfinance" is often used to refer to the full range of financial services provided to the poor, which may include insurance, transactional services, and savings. Barr (2005) defines microfinance as "a form of financial development that has as its primary aim poverty alleviation." CGAP (2003) defines microfinance as "the provision of banking services to lower income people, especially the poor and the very poor." The Basel Committee on Banking Supervision (BCBS) (2010) distinguishes between microfinance and other financial services in terms of the transaction size, defining microfinance as "the provision of financial services in limited amounts to low-income persons and small, informal businesses."

<u>Financial Inclusion and Economic Growth</u>

As a fundamental starting point, many researchers have investigated the link between financial inclusion and economic growth, focusing primarily on whether there is a positive relationship between the two concepts. This section provides an overview of research exploring the links between financial inclusion and economic growth and development.

Generally speaking, economic theory suggests that financial inclusion should promote economic growth. Financial development has typically accompanied economic growth and broader participation in the mainstream financial sector by all segments of the population should strengthen this connection. The security of a savings account, access to credit, and lower costs of basic financial transactions all would seem likely to increase households' abilities to insulate themselves from a variety of shocks and enhance overall consumer confidence. Wider access to financial services should distribute economic opportunities more broadly, particularly among poorer households and businesses.

The empirical evidence linking financial inclusion and economic development has for some time strongly supported the notion that financial development generally leads to economic growth. As stated by Levin (1997), "[a]lthough conclusions must be stated hesitantly and with ample qualifications, the preponderance of theoretical reasoning and empirical evidence suggests a positive, first-order relationship between financial development and economic growth." Empirical studies examining data at the firm level, industry-level, country-level, and cross country comparisons all reveal a strong positive correlation between financial development and economic growth. For instance, using data from 44 African countries, Andrianaivo and Kpodar (2010) found empirical evidence supporting that "greater financial inclusion is associated with higher economic growth in

African economies". Similarly, based on household survey data from Kenya and Tanzania, Ellis, Lemma and Rud (2010) conclude that "access to financial services enables households to invest in activities that are likely to contribute to higher future income and, therefore, to growth."

As Barr (2005) notes, moving from the link between financial development and economic growth to financial development and the alleviation of poverty is a bit more challenging. On a theoretical basis, financial development and economic growth should both improve benefits for the poor and, as Barr notes, empirical evidence has demonstrated that financial development can reduce income inequality. Beck *et. al*. (2007) find that financial development does boost the income of the poorest and reduces income inequality. They empirically document the impact of financial development on income growth among the poorest as well as the reduction of income inequality, and find that financial development is associated with a drop in the percentage of the population living on less than $1 a day. These results provide strong empirical evidence of a positive link between financial development and the financial well-being of the poorest segments of society (see also Clarke et al. 2006).

Several researchers have analyzed the link between financial inclusion and the alleviation of poverty from more narrow angles or with respect to particular regions. Honohan (2004) examines whether it makes a difference if financial access is provided by the mainstream financial sector or less traditional venues such as microfinance organizations. He presents empirical evidence revealing that a strong mainstream financial system can promote income equality as effectively as one based on the development of specialized microfinance institutions and that the two should be viewed as complementary rather than competing alternatives. Burgess and Pande (2003) examine the impact of bank branch expansion in rural areas in India and find that it significantly reduced rural poverty.

<u>Financial Inclusion and Financial Stability</u>

As noted above, a preponderance of evidence suggests that there is a positive correlation between financial development and economic growth. The next question to consider is whether there is a positive relationship between financial inclusion and financial stability. The question is particularly important when considering how financial inclusion relates to IADI's mandate since one of IADI's primary objectives is to contribute to the stability of financial systems.

In a conference paper exploring the links between financial inclusion and financial stability, Hawkins (2006) suggests that whether such a positive relationship exists is likely to depend on the existence of an independent and non-corrupt institutional, legal, and regulatory infrastructure. Hawkins asserts that the promotion of financial access is likely to enhance financial stability in the short and long term, but that the central bank and other regulatory authorities play a key role in ensuring that the institutional framework promotes this objective and does not undermine financial stability.

For example, economic growth without equal access to the growing financial sector among all strata of society can result in widening gaps in income equality. Financial development without proper attention to the institutional, regulatory, legal, and governance framework and mechanisms for maintaining market discipline has the potential to make poor households worse off. These adverse developments can promote financial instability by adding to domestic turmoil and social unrest.

Hawkins provides an overview of the role of the central bank in enhancing both financial access and financial stability. This includes prioritizing policies to allow for financial access in a safe and sustainable manner. For example, central banks may allow for different tiers of banking with different levels of permissible activities to limit credit risk exposures and to provide a mechanism for regulating informal financial service providers. The national payment system can play a significant role in the promotion of financial access, and Hawkins argues that the central bank can play a role in balancing the interests of larger and smaller banks and encouraging appropriate innovation to expand reach to rural areas.

Hawkins also argues that central banks can play a role in ensuring sufficient competition among financial service providers by allowing adequate flexibility in licensing and other entry requirements. In many countries, specialized microfinance institutions are as important or in some cases more important than the mainstream financial sector in the expansion of financial access.

Bester et al (2008) found that effective financial inclusion and anti-money laundering and combating the financing of terrorism (AML/CFT) regimes are complementary and not conflicting financial sector policy objectives. A country's AML/CFT system safeguards the integrity of only a part of its financial system – the formally registered part – leaving the informal and unregistered components vulnerable to abuse. Measures that ensure greater use of formal financial services therefore increase the reach and effectiveness of the AML/CFT controls.

Financial Inclusion and Deposit Insurance

The next question to consider relates to links between financial inclusion and deposit insurance. An explicit deposit insurance system is a key component of the financial safety net for many countries, which also includes prudential supervision and a lender of last resort. Deposit insurance contributes to financial stability and can promote competition in the financial sector, which can lead to a reduction in poverty. Potential depositors may have greater trust in banks if they believe their savings are insured and this may lead more individuals to open bank accounts. Deposit insurance also can promote confidence in financial institutions and thus potentially promote savings among the poor.

*The role of deposit insurance in promoting financial inclusion*

Despite the apparent connection between financial inclusion and deposit insurance, researchers have argued that the role of deposit insurance in promoting financial inclusion through financial stability and confidence-building is at most indirect. Most explicit deposit insurance systems are not designed to have a direct effect on the poorest segments of society. Although most deposit insurance systems are designed to protect small depositors, the poorest segments of the population are often not participants in the formal financial sector and do not fall within the set of small depositors that benefit from deposit insurance.

Indeed, as noted by Demaestri*et. al* (2006), poverty reduction is not an explicit objective of any known deposit insurance system. "Deposit insurance systems can provide benefits to the very poor *indirectly* by contributing to the stability of the financial system and by ensuring that the banking sector funds the cost of financial rescues, rather than taxpayers." Most deposit insurers do not have an explicit objective to promote financial inclusion. Rather, the most common objectives of deposit insurers are to: 1) contribute to financial stability; 2) protect less financially sophisticated depositors; 3) improve competition in the financial system by leveling the playing field for smaller banks or enhancing contestability; and 4) reduce the use of public funds in financial rescues. Certainly all of these objectives indirectly affect or benefit the poorest of society, but they do not necessarily contribute directly to the furtherance of financial access.

In a comment to the Demaestri paper, Isoard y Viesca (2006) also asserts that a sound deposit insurance system can contribute to poverty alleviation indirectly by fostering financial stability and the sound functioning of the payments system. Although deposit insurance systems have increased greatly in recent years, the mandates of explicit systems vary widely. Also, deposit insurance cannot create financial stability alone; it operates as one part of the financial safety net. Addressing financial inclusion requires that public policy encourage the existence of simple and accessible financial intermediation services to promote savings among the poor and generate their confidence in financial institutions. They suggest that deposit insurance should be extended to other financial intermediaries such as savings institutions, credit unions, mutual funds, and informal MFIs, but that separate funds should be established for each type of intermediary covered.

*Can deposit insurance directly influence financial inclusion?*

Can deposit insurance play a more *direct* role in promoting financial inclusion? From a practical standpoint, deposit insurance policies and procedures as expressed in the Core Principles for Effective Deposit Insurance Systems and individual deposit insurer mandates may directly affect financial inclusion, primarily through policies and practices governing membership, coverage, funding, and public awareness.[12] For example,

- Whether membership is compulsory or voluntary and whether it includes specialized microfinance providers as well as mainstream banks (as noted in Isoard y Viesca (2006) as stated above, also see other references below);

- The level and scope of coverage and whether very small deposits and/or small depositors are offered the benefits of insurance;

- The types of funding systems employed and how the deposit insurance system is financed. The funding treatment of specialized microfinance institutions as compared to mainstream banks may have an impact on risk-taking in the financial

[12]See IADI and BCBS "Core Principles for Effective Deposit Insurance Systems" June 2009, at http://www.iadi.org/cms/secure/docs/JWGDI%20CBRG%20core%20principles_18_June.pdf.

sector and the evolution of the industry as well as the cost of serving the poor if the costs of deposit insurance are passed along to consumers; and

- Finally, how the deposit insurer conducts public awareness and the extent to which the public, particularly the lower-income segments, are aware of important nuances in deposit insurance protections may make a difference in the degree of confidence and trust poor populations have in the mainstream banking system.

Several researchers also have asked whether deposit insurance can play a meaningful direct role in expanding financial access through the promotion of savings among the poor. Generally, small savers should find the protection of deposit insurance appealing, provided there is public awareness and understanding of its benefits. This research begins with the premise that policies that promote broad access to simple savings services can have a measurable positive impact on the lives of the poor, and that formal savings services generally offer households benefits over informal forms of savings, including security in the form of deposit insurance.

In Latin America, Portocarrero et al (2006) argue that MFI success in mobilizing savings could be attributed to three factors: favorable macro-economic conditions and financial reform, improved public confidence in MFIs and higher than average interest rates paid on MFI savings. Specifically, the authors maintain that, public confidence on MFIs was driven by the consolidation of the MFI industry, and in some countries like Peru, also by the support provided by deposit insurers which substantially reduced MFI depositor's risk.

Kendall *et. al* (2010) conduct an empirical analysis to measure financial access in 139 countries, finding a positive relationship between deposit insurance and deposit account penetration after controlling for per capita income and population density. It should be noted that this analysis does not address causation, which may have an effect on the results. In a comprehensive review of empirical studies related to the impact of savings on the poor, Kendall (2010) concludes that data to support the impact of savings on the poor is sparse, but the simple fact that great numbers of the poor actually do save suggests that better quality savings services are likely to improve their lives.

Counts and Meriweather (2008) argue that expanding access to safe savings is critical to the alleviation of poverty and that deposit insurance can play a potentially catalytic role in the mobilization of savings if it is offered more widely to qualified microfinance organizations. Green and Bruett (2008) argue that making the benefits of deposit insurance more widely available to the world's poor is an important component of mobilizing their savings activity.

One recent paper, however, calls into question the direct role that deposit insurance may play in promoting small savers among the poor. Beck and Brown (2010), in an empirical study of 29,000 households from 29 transitional economies focus on how the use of banking services is related to household characteristics, bank ownership structure, and the development of the financial infrastructure. Their research concludes that higher income and wealthier households rather than poor households typically benefit the most from deposit insurance and that "attempts to broaden the use of financial services through…deposit insurance do not increase the likelihood that poorer, less wealthy and socially less included segments of the population use formal financial services." The authors note that their results do not imply that the policies do not broaden financial access, rather, that it is difficult to target the impact to certain groups.

*Enhancing financial inclusion by introducing or extending explicit deposit insurance protection*

Proposals for enhancing financial inclusion through deposit insurance have included recommendations for introducing deposit insurance systems in countries that lack explicit systems and/or extending deposit insurance protections to MFIs or non-banks that provide financial services to the poor. Many countries that have poor and unbanked populations do not have explicit deposit insurance systems, or the informal institutions such as MFIs that provide such services to the poor are not included in the deposit insurance systems. Consequently, many of the world's poorest households do not have any opportunity to enjoy the benefits of deposit insurance protection.

As part of the initiatives that governments and donors can implement to help MFI attract deposits, Portocarreo et al (2006) propose the creation of deposit insurance funds that can improve bank crisis resolutions and encourage deposits, especially among small-savers. Deposit insurance funds would eliminate or mitigate information asymmetries and increase public confidence in MFIs. The authors also put forth three principles to consider when establishing deposit insurance funds: 1)1 deposit insurance coverage should not be unlimited, 2) premiums should be risk based to encourage less risky behaviors, and 3) deposit insurance coverage should not be extended where prudential supervision is weak.

Green and Bruett (2008) suggest several ways to promote the objective of providing global deposit insurance on a large scale to impact small depositors. These include setting up a privately funded deposit insurance fund for banks and non-banks in countries that do not have explicit deposit insurance systems or countries with limited deposit insurance systems, addressing policy questions raised by stored value deposits, and developing systems to protect small depositors through agent models that include deposit insurance system-covered banks.

Other ideas put forth to use deposit insurance to further financial access include permitting MFIs to join the national deposit insurance system provided one exists, establishing a national or super-national deposit insurance fund for MFIs funded by a non-governmental organization allowing MFIs to deposit funds into insured commercial banks,, setting up tiered deposit insurance systems with a special fund for MFIs, and providing for government subsidization of MFI fund dues (see Isoard y Viesca (2006), Staschen (1999), Kirkpatrick and Maimbo (2002), Green and Bruett (2008) and Christen and Rosenberg (2000)).

A number of researchers have identified concerns associated with extending deposit insurance to MFIs. These include difficulties customers may have in monitoring the safety and soundness of MFI operations, the possibility of moral hazard, the risk that reliance on non-governmental organizations (NGOs) may circumvent state regulation, and concerns related to the viability, funding, and liquidity of a national insurance fund specifically for MFIs (see Kirkpatrick and Maimbo (2002), Christen and Rosenberg (2000), and Staschen (1999)).

Emerging Financial Access Delivery Developments and Implications

This section presents an overview of emerging financial access delivery developments of interest to deposit insurers and the implications. AITSG (2010) discusses the implications of evolving innovations in providing financial access for the world's poor and identifies a set of Principles for Innovative Financial Inclusion. Broadly speaking, emerging developments relate to developments in the area of branchless banking and e-money.

*What is branchless banking and e-money?*

Branchless banking is defined as the provision of financial services through any channel other than a branch. Most commonly it is conducted through retail agents. It is considered an alternative to conventional branch-based banking because customers conduct their financial transactions with retail agents instead of at bank branches. Mas (2009) argues that "the minimum criteria" for what constitutes branchless banking are the following:

- Non-bank retail outlets are used as customer touch-points, at least for cashing in or out of the accounts;
- Technology, such as payment cards or mobile phones, is used to identify customers and authorize transactions electronically and, in some cases, to allow customers to initiate transactions on their own;
- Transactions can be processed against an electronic store of value (although cash-based services for non-customers may also be offered in addition); and
- Accounts are issued by institutions recognized and explicitly or implicitly authorized by the banking regulator, although they may not be formally licensed and regulated.

E-money has been defined by the European Union as "all situations where the payment service provider issues a pre-paid stored value in exchange for funds, which can be used for payment purposes because it is accepted by third persons as a payment." (European Union, 2009) However, it is worth noting that not all countries that have branchless banking or e-money subscribe to this definition or have a working definition of e-money.

*What is the appeal of branchless banking?*

The branchless banking model appeals to some policymakers and regulators because it has the potential to provide financial services to unbanked communities in remote areas not served by traditional bank branches. It has been employed with some success in Brazil for some time (Kumar et al (2006)). A 2010 CGAP survey on branchless banking initiatives in Brazil, India, the Philippines, South Africa, Cambodia, Kenya and Tanzania finds that although in some countries establishing branchless banking has been challenging, where in use, it has been effective in reaching previously unbanked populations and that increasingly clients are using branchless banking for financial services beyond just payments (McKay and Pickens, 2010). The study also finds that branchless banking has been increasingly more effective in serving unbanked individuals than the largest MFIs.

Some studies have documented branchless banking challenges in attracting the poorest populations and gaining trust among the groups most likely to be unbanked. For example, Ivatury and Pickens (2006) share insights from South Africa's experience with WIZZIT, a startup mobile banking provider that offers a transaction bank account via mobile phones and debit cards. Their results reveal that early adopters have low incomes, but are not among the poorest in the country and that m-banking suffers from lack of awareness and trust among the targeted unbanked population (also see Porteous 2007).

*What forms does branchless banking take?*

Branchless banking can take a variety of forms. CGAP (2006) notes two basic models of branchless banking – the bank based model and the non-bank based model. Both rely on information and communication technologies, such as cell phones and debit and prepaid cards. CGAP reviews the branchless banking experiences of five countries. Brazil, India, and South Africa employ the bank-led model of branchless banking, in which banks rely on retail agents to provide banking services in areas where traditional branches are not profitable. Kenya and the Philippines have employed mobile telecom operators to offer e-money accounts tied to mobile phone subscriber information modules (SIM cards). These accounts are loaded and unloaded by depositing or withdrawing cash at retail locations. Customers can transfer payments and store cash in their SIM card accounts.

Ivatury and Mas (2008) note that most mobile banking projects as of 2008 designed to extend reach to financially excluded populations had been led by mobile operators rather than banks and that mobile operators have a number of inherent advantages in the provision of branchless banking services. Mobile operators generally run a national infrastructure and are more accustomed than banks to marketing to a broad array of clientele. They have experience running networks of third-party operators and high-volume, low-value transactional engines. They also control the interface for mobile banking through the mobile phone delivery services and the SIM card. Warning that "[h]aving these players dominate the branchless banking market may not be a palatable option for banking regulators and competition authorities alike," they advocate the creation of "shared agent networks" to ensure the viability and sustainability of the branchless banking model. Under a shared agent network system, financial service providers can lower costs through reliance on shared retail agents and pooled liquidity arrangements. Ivatury and Mas recognize that "[m]akingthis a possibility will require changes in bank regulation, industry business models, and commercial strategies by individual financial service providers."

<u>Regulatory Issues Raised by Financial Inclusion</u>

The following discussion of literature related to the regulation of financial inclusion first discuses regulation of microfinance and MFIs followed by a discussion of more recent developments related specifically to the regulation of branchless banking and e-money activities.

*Regulation of microfinance and MFIs*

The growth in microfinance institutions (MFIs) during the 1990s led a number of researchers to explore possible regulatory and supervisory options, including no regulation, self-regulation, application of banking regulation, and special regulation tailored to MFIs (see, for example, Berenbach and Churchill (1997), Staschen (1999), Christen and Rosenberg (2000), and Kirkpatrick and Maimbo (2002). Areas of research included the rationale for regulating MFIs, whether regulation of MFIs could be a tool to promote the growth of the industry and financial access for the poor, and what form and scope of regulation is appropriate for MFIs. Regulation that is too stringent may deter MFI development and financial access. Regulation that is too permissive may lead to MFIs engaging in risky or unsound behavior.

Most authors focusing on the regulation of MFIs have argued that regulatory approaches need to be balanced in order to promote financial access while limiting significant risk-taking. Christen, Lyman, and Rosenberg (2003) provide what appear to be one of the first sets of general guiding principles on the regulation and supervision of microfinance, identifying regulatory areas of concern, providing concrete guidance on areas of consensus, and a framework for those areas where consensus did not exist. The guidelines provide a number of key policy recommendations on the regulation of MFIs designed to balance the continued development of MFIs without unduly burdensome and restrictive prudential regulation.

By the mid-2000s consensus appears to have been reached that MFIs are effective in expanding financial access and that flexible and less costly forms of regulation for the sector were needed. Arun (2005) argues that as MFIs move into deposit-taking, a tiered and sector-specific regulatory approach is appropriate. Gallardo *et. al.* (2005) argue that a tiered regulatory system can be effective in facilitating MFI development and promoting financial access after examining the experiences of three African countries. Their main findings are that formal prudential regulation does not necessarily affect the growth of MFIs, that the development of a new regulatory framework for MFIs can create significant resource, legal, and public awareness requirements and needs that must be met, and that regulators should distinguish between deposit-taking MFIs (which should be prudentially supervised) and other MFIs that can be licensed and subjected to non-prudential regulations since they do not pose the same financial risks to the government or general public [or, customers].

The United Nations (2006) points out that regulation needs to strike a balance between protection and inclusion, observing that authorities should consider financial inclusion when designing and implementing regulatory regimes. The United Nations stresses that considering financial inclusion when regulating need not compromise the goals of systemic stability and consumer protection.

More recently, focus on regulatory issues related to financial inclusion has evolved beyond questions concerning prudential regulation of MFIs to consumer protection, regulation of microfinance activities by banks as well as non-banks, and regulatory approaches toward technological financial innovations such as branchless banking (which is further discussed in the next section).

Brix and McKee (2010) discuss the rationale for focusing on consumer protections in low-access environments and describe current practices and options for designing basic consumer protections. Transparency, fair treatment, and effective recourse are the three broad principles that should govern consumer protection policy and regulation. These must be supported by clear enforcement authority on the part of regulators and rulemaking and industry standards where needed.

The BCBS (2010) provides comprehensive guidance to supervisors on how to apply the Core Principles for Effective Banking Supervision to depository microfinance activities. The document is intended to "highlight key differences between the application of each Core Principle to conventional retail banking and microfinance in banks and non-banks, pointing out areas that may require tailoring." It includes the results of a survey designed to identify the range of practices in regulating and supervising microfinance in deposit-taking and non-depository institutions. Four general themes in the report are: 1) supervisors should allocate resources effectively, especially where depository microfinance does not represent a large portion of the financial system but comprises a large number of small institutions; 2) the need for supervisors to develop specialized knowledge to evaluate the risks of microfinance activities; 3) to recognize that control and managerial practices may differ between conventional retail banking and microfinance businesses; and 4) that clarity should be provided in regulations applying to microfinance activities, while maintaining flexibility.

Recent developments in microfinance in the Indian State of Andhra Pradesh in the fall of 2010 have given rise to new concerns about MFIs, the role of for-profit enterprises, and microfinance oversight generally (see CGAP, November 2010 and Yunas, 2011). Allegations of overzealous MFI practices in Andhra Pradesh led to the recent adoption of more restrictive conditions on MFIs. The situation is evolving, and has placed a new spotlight on high-growth microfinance markets.

*Regulation of branchless banking and e-money activities*

The regulatory approach to branchless banking is an emerging topic due to the rapid adoption of this business model and the numerous forms it is taking where employed around the world. Branchless banking, both the bank-led and non-bank-led models, raise a number of agent-related risks that arise primarily from the reliance on third-party retail agents to interface with customers. These include operational, legal, liquidity, reputational, consumer protection, and anti-money laundering risks (CGAP 2006). Furthermore, the non-bank-led branchless banking model introduces significant additional e-money related risks, including the risk that a non-supervised non-bank will steal the deposited funds or use them imprudently, or will become insolvent and unable to honor the claims of customers.

Studies on the topic of branchless banking point to the different approaches taken by different countries in oversight of these developments and highlight issues raised by branchless banking. The five countries examined by CGAP in its 2006 review had adopted different approaches to address these risks, which raise further concerns about consistency and potential regulatory arbitrage. CGAP makes a number of concluding observations, including that the bank-led branchless banking model presents fewer risks than might be expected and is likely to spread quickly, that regulators should be cautious about the non-bank-led model, and that e-money could have massive systemic implications if widely adopted.

A 2010 policy paper by the Alliance for Financial Inclusion (AFI) argues that branchless banking should be distinguished between those services that provide mobile banking services through a bank and those that provide mobile payment services, which may not be offered by a bank but always involve one in some capacity (AFI, November 2010). Operational risks, when properly managed and regulated, are assessed as no greater than internet banking and may be reduced if the size of the transaction is limited. The dilemma faced by regulators is deciding which types of entities should be permitted to fulfill the role of creating and issuing new payment instruments such as e-money. Some countries limit this to banks; others have permitted non-bank providers such as telecom companies to issue e-money. Regardless of which entities are involved, a number of policy questions must be addressed, including how the issuance and use of banking services relying on mobile phones should be regulated, how to provide for adequate consumer protections, how to avoid money laundering concerns, and how the supervisory process should function.

An illustrative AFI case study of Kenya's telecom-led M-Pesa branchless banking system describes how the rapid growth of M-Pesa quickly led to a perceived gap in the country's regulatory oversight of the non-bank-led branchless banking system and the actions that had to be taken by supervisory authorities to restore confidence (AFI February 2010). In late 2008, less than two years after the initial launch of M-Pesa, Kenyan supervisory authorities embarked on a public message campaign to clarify M-Pesa's regulatory and supervisory environment and to bolster market confidence in M-Pesa's supervisory oversight and legal mandate.

Weber and Darbellay (2010) view the development of branchless banking from a legal perspective, arguing that a suitable legal framework needs to be in place for mobile banking and that mobile financial services have essentially developed outside of the regulated arena. "The enormous social and economic benefits resulting from mobile banking might induce regulators to allow mobile banking to grow besides the regulated banking segment, which is without formal regulatory approval." They argue that regulators should not allow unregulated entities to circumvent existing rules. Adequate regulatory and legal frameworks must be created to protect customers and nurture consumer trust of innovative technologies. In particular, they believe there needs to be a clear demarcation between mobile payments, which may necessitate a lesser degree of regulatory scrutiny, and fuller-scope mobile banking.

A number of proposals for the regulation of branchless banking and/or e-money have been published in the last few years. Among these, the principle of proportionality is a recurring theme. The European Union E-Money Directive released in April 2009 is designed to provide the market with a clear and balanced prudential and legal framework and remove unnecessary or disproportionate barriers to market entry (European Union, 2009). It introduces proportionate prudential requirements facilitating market entry and reductions in capital requirements, making it easier for telecom companies to develop innovative services into the payments market while protecting consumers.

The principle of proportionality is also discussed by Dias and McKee (2010), who suggest that regulation of branchless banking should obey the two principles of proportionality and efficiency. They suggest seven policy objectives: 1) protecting client electronically stored funds; 2) ensuring safety and reliability of services; 3) reducing opportunities for agent fraud and other harmful conduct; 4) ensuring clear and effective disclosure; 5) protecting client's personal information, 6) ensuring clients have knowledge of and access to effective redress and complaint procedures; and 7) keeping providers liable for agents with regulatory compliance.

An important emerging regulatory issue of special concern to deposit insurers is whether to treat e-money as a savings product or simply as a fund transfer, and where the liability for payment resides at all points in the funds transfer process. While most branchless banking and e-money accounts are used to make simple payments, increasingly it appears as though branchless banking operations and clients aspire to expand the scope of financial services offered. There is evidence that e-money is increasingly being used as a savings vehicle and some have asked if e-money issuers should be permitted to pay interest and/or required to cover the funds backing the e-money float with deposit insurance (Tarazi and Breloff, 2010). An important area for future research includes the viability of pass-through deposit insurance for branchless banking; including non-bank-led mobile banking operations.

Looking forward, Ivatury and Mas (2008) argue that in order for branchless banking to be successful in expanding access to financial services will require changes to bank regulations, industry business models, and commercial strategies. Alexandre et al (2010) suggest that banking regulations need to be adapted to address branchless banking possibilities, recommending five areas where bank regulations should be modified to maximize new opportunities: 1) create more flexible branch regulations that would distinguish between pure transaction outlets and full service bank branches; 2) allow banks to engage third-party retail outlets as cash merchants; 3) create consumer protection regulations to help consumers navigate more complex service delivery chains while not further burdening banks; 4) allow for tiered know-your-customer regulations to permit immediate account opening for poor people; and 5) create regulatory space for a class of non-bank e-money issuers to allow them to engage in deposit raising and payments processing.

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# Appendix B: Financial Inclusion and Innovation Survey

## Questionnaire on deposit insurance, financial inclusion, and financial access innovations

### Introduction and Objectives

The purpose of this questionnaire is to gather information on the range of practices that relate to deposit insurance (DI) and financial inclusion (FI) as well as financial innovations designed to promote financial access.

IADI's Financial Inclusion and Innovation Subcommittee, under the Research and Guidance Committee, will use information gathered from this survey to develop further understanding of deposit insurance issues raised by developments in the area of financial inclusion.

Your response will be shared with the deposit insurance community on the IADI internal website, which can only be accessed by IADI members.

**Please send your response to IADISurvey@iadi.org. We would appreciate your kind response to the survey by 1 August 2011.**

This questionnaire is divided into 4 sections:
I. Background information;
II. Deposit insurance mandate as it may relate to financial inclusion;
III. Trends in microfinance activities;
IV. Deposit insurer response to microfinance:
   A. Membership;
   B. Coverage;
   C. Public awareness;
   D. Funding;
   E. Resolution.

### Glossary

**Financial Inclusion:** Providing access to appropriate financial products and services to traditionally underserved populations, including the most vulnerable groups, in a fair, transparent, and cost-effective manner by mainstream financial institutions.

**Microfinance:** Provision of financial services such as loans, savings, money transfer services, payments, leasing, and micro-insurance to poor and low-income individuals. These services can be offered by banks and non-bank institutions.

**Types of Institutions:**
The focus of this questionnaire is on institutions that accept deposits from the public. Institutions are divided between banks and other deposit-taking institutions (ODTIs). Banks are institutions which are subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision. ODTIs are not classified as banks and are not subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision. Within these two categories, institutions are classified as follows:

**Banks:**

- **Commercial Banks:** Financial institutions that are legally licensed as banks. Their primary line of business is not microfinance, and they are not considered primarily microfinance institutions (MFIs). As banks, these institutions are subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.
- **Bank Microfinance Institutions (Bank MFIs):** Licensed banks that are primarily engaged in the provision of financial products to low-income individuals. MFI banks are subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.
- **Credit Unions/Financial Cooperatives that are Regulated as Banks:** Non-profit financial institutions owned and managed by their members that are regulated like banks. These institutions accept deposits from their members and make loans from those deposits. These institutions are subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.

**Other Deposit-Taking Institutions (ODTIs):**

- **Non-Bank Microfinance Institutions (Non-Bank MFIs):** Institutions that are primarily engaged in the provision of financial products to low income individuals. As ODTIs, Non-Bank MFIs are not legally considered banks and are not subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.
- **Credit Unions/Financial Cooperatives that are Not Regulated as Banks:** Non-profit financial institutions owned and managed by their members. These institutions accept deposits from their members and make loans from those deposits. As ODTIs, these institutions are not subject to supervision in the meaning of the Basel Core Principles for Effective Banking Supervision.
- **Postal Banks:** Institutions that operate in post offices and are often managed by the postal system.

**Innovations in Microfinance:**

**Branchless Banking:** The provision of financial services by a bank through any channel other than a branch. Agent/correspondent banking and mobile banking are examples of branchless banking.

- **Agent/Correspondent Banking:** Partnership between banks and other channels, often retail outlets, to provide financial services through non-branch physical channels.
- **Mobile Banking / M-Banking / Cell Phone Banking:** The use of cellular technology to provide financial services.

**E-money:** Electronically recorded funds that can be moved electronically and used and accepted by a third person as payment.

**Prepaid Cards/Smart Cards:** A card on which value is stored, and for which the holder has paid the issuer in advance. Funds can be increased as well as decreased.

## I. Background Information

**Information on the deposit insurance system (DIS)**

Deposit Insurer's name and country:

Information on the contact person

Title:

Mr./Ms./Dr.: First Name: Last Name:

Function/Department:

Phone: Fax: E-mail:

## II. Deposit Insurance Mandate as It May Relate to Financial Inclusion

1. Does the mandate of your deposit insurance system implicitly or explicitly recognize the role that deposit insurance may play in promoting financial inclusion? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes, Implicitly | |
| (B) | Yes, Explicitly | |
| (C) | No | |
| (D) | Information Not Available | |

If your response to Question 1 is "Yes", please include the explicit or implicit reference from your mandate and explain how it relates to financial inclusion.

## III. Trends in Microfinance

2. Other than commercial banks, do deposit-taking institutions (bank or non-bank) currently operate in your country? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Information Not Available | |

3. Other than commercial banks, which of the following types of deposit-taking institutions (bank or non-bank) currently operate in your country? Refer to the Glossary for definitions. Check the appropriate box for each category.

| | | Yes | No | Information Not Available |
|---|---|---|---|---|
| | Banks: | | | |
| (A) | • Bank MFIs | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | |
| | ODTIs: | | | |
| (C) | • Non-Bank MFIs | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | |
| (E) | • Postal Banks | | | |
| (F) | Other, Specify: | | | |
| (G) | Other, Specify: | | | |

Please explain further if necessary:

4. Other than in commercial banks, is there evidence of recent growth (over a period of at least six months) in the number of customers or size of the following types of deposit-taking institutions (bank or non-bank) in your country? Check the appropriate box for each category.

| | | Yes | No | Information Not Available | N/A |
|---|---|---|---|---|---|
| | Banks: | | | | |
| (A) | • Bank MFIs | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | |
| | ODTIs: | | | | |
| (C) | • Non-Bank MFIs | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | |
| (E) | • Postal Banks | | | | |
| (F) | Other, Specify: | | | | |
| (G) | Other, Specify: | | | | |

Please explain further if necessary:

5. Are any of the following innovations currently available in your country? Refer to the Glossary for definitions. Check all that apply. Multiple responses are acceptable.

| | | Yes | No | Information Not Available |
|---|---|---|---|---|
| (A) | Branchless Banking | | | |
| (B) | • M-Banking | | | |
| (C) | • Agent/Correspondent Banking | | | |
| (D) | E-Money | | | |
| (E) | Prepaid Cards/Smart Cards | | | |
| (F) | Other, Specify: | | | |
| (G) | Other, Specify: | | | |

Please explain further if necessary:

6. What types of institutions currently provide the following innovations in your country? Refer to the Glossary for definitions. Check all that apply. Multiple responses are acceptable.

| | | Branchless Banking | M-Banking | Agent/Corre-spondent Banking | E-Money | Prepaid Cards/Smart Cards | Other, Specify: |
|---|---|---|---|---|---|---|---|
| (A) | Telecommunications Companies | | | | | | |
| | Banks: | | | | | | |
| (B) | • Commercial Banks | | | | | | |
| (C) | • Bank MFIs | | | | | | |
| (D) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | | |
| | ODTIs: | | | | | | |
| (E) | • Non-Bank MFIs | | | | | | |
| (F) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | | |
| (G) | • Postal Banks | | | | | | |
| (H) | Other, Specify: | | | | | | |
| (I) | Other, Specify: | | | | | | |
| (J) | Information Not Available | | | | | | |
| (K) | N/A | | | | | | |

Please explain further if necessary:

7. Is there evidence of recent growth in the number of users or transaction volume handled by the following innovations in your country? Check the appropriate box for each category.

| | | Yes | No | Information Not Available | N/A |
|---|---|---|---|---|---|
| (A) | Branchless Banking | | | | |
| (B) | • M-Banking | | | | |
| (C) | • Agent/Correspondent Banking | | | | |
| (D) | E-Money | | | | |
| (E) | Prepaid Cards/Smart Cards | | | | |
| (F) | Other, Specify: | | | | |
| (G) | Other, Specify: | | | | |

Please explain further if necessary:

8. Do you believe that your country's deposit insurance system has heightened exposure due to growth in the following types of institutions (bank or non-bank) and innovations? Check the appropriate box for each category.

| | | Yes | No | Information Not Available | N/A |
|---|---|---|---|---|---|
| | **Types of Institutions:** | | | | |
| | Banks: | | | | |
| (A) | • Bank MFIs | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | |
| | ODTIs: | | | | |
| (C) | • Non-Bank MFIs | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | |
| (E) | • Postal Banks | | | | |
| (F) | Other, Specify: | | | | |
| | **Types of Innovations:** | | | | |
| (G) | Branchless Banking | | | | |
| (H) | • M-Banking | | | | |
| (I) | • Agent/Correspondent Banking | | | | |
| (J) | E-Money | | | | |
| (K) | Prepaid Cards/Smart Cards | | | | |
| (L) | Other, Specify: | | | | |

Please explain further if necessary:

## IV. Deposit Insurer Response to Microfinance

### A. Membership

9. Are any of the following types of non-commercial bank institutions eligible to become members of your country's deposit insurance system? Check the appropriate box for each category.

| | | Yes, with This Agency Providing Coverage | Yes, with a Different Agency Providing Coverage | No | Under Consideration | Information Not Available | N/A |
|---|---|---|---|---|---|---|---|
| | Banks: | | | | | | |
| (A) | • Bank MFIs | | | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | | |
| | ODTIs: | | | | | | |
| (C) | • Non-Bank MFIs | | | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | | |
| (E) | • Postal Banks | | | | | | |
| (F) | Other, Specify: | | | | | | |
| (G) | Other, Specify: | | | | | | |

Please explain further if necessary:

10. Are any of the following types of non-commercial bank institutions currently members of your country's deposit insurance system? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Bank MFIs | | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (C) | • Non-Bank MFIs | | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (E) | • Postal Banks | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

Please explain further if necessary:

11. If the following types of non-commercial bank institutions are *not* eligible for deposit insurance coverage, can such an institutions' funds gain access to deposit insurance through other means (e.g., if the funds are deposited in an insured commercial bank)? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Bank MFIs | | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (C) | • Non-Bank MFIs | | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (E) | • Postal Banks | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

Please explain further if necessary:

12. Is membership in the deposit insurance system mandatory for the following types of institutions? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Commercial Banks | | | | | |
| (B) | • Bank MFIs | | | | | |
| (C) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (D) | • Non-Bank MFIs | | | | | |
| (E) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (F) | • Postal Banks | | | | | |
| (G) | Other, Specify: | | | | | |
| (H) | Other, Specify: | | | | | |

Please explain further if necessary:

13. Are deposit insurance membership requirements for the following types of non-commercial bank institutions different from those for commercial banks? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Bank MFIs | | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (C) | • Non-Bank MFIs | | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (E) | • Postal Banks | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

If your response to Question 13 is "Yes", please describe the special requirements for membership in your country's deposit insurance system.

14. If your deposit insurance system accepts any of the following types of non-commercial bank institutions as members, are the preconditions for deposit insurance the same as those that apply to commercial banks? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Bank MFIs | | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (C) | • Non-Bank MFIs | | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (E) | • Postal Banks | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

If your response to Question 14 is "No", please describe the difference in preconditions.

## B. Coverage

15. Does your deposit insurance system formally define the types of the deposits that are covered? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Information Not Available | |

If your response to Question 15 is "Yes", please provide the deposit definition(s):

16. Has your formal definition of a deposit changed in response to financial inclusion innovations or activities? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Information Not Available | |

If your response to Question 16 is "Yes", please describe how the definition has changed and provide the rationale for the change.

17. Is your deposit insurance system planning to change the definition of a deposit in response to recent financial inclusion innovations or activities? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Information Not Available | |

Please explain further if necessary:

18. Does your country's deposit insurance system provide deposit insurance covering the following innovations? Check the appropriate box for each category.

| | | Yes | No, Not Addressed | No, Specifically Excluded | Under Consideration | Information Not Available | N/A |
|---|---|---|---|---|---|---|---|
| (A) | Branchless Banking | | | | | | |
| (B) | • M-Banking | | | | | | |
| (C) | • Agent/Correspondent Banking | | | | | | |
| (D) | E-Money | | | | | | |
| (E) | Prepaid Cards/Smart Cards | | | | | | |
| (F) | Other, Specify: | | | | | | |
| (G) | Other, Specify: | | | | | | |

Please explain further if necessary:

19. Are there differences in the level of coverage or the types of products covered by your deposit insurance system for commercial banks vs. other institutions eligible to become members of the deposit insurance system? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Under Consideration | |
| (D) | Information Not Available | |

Please explain further if necessary:

20. Does your deposit insurance system allow for pass-through coverage (i.e., providing deposit insurance coverage for the ultimate retail customer instead of an intermediary)? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Under Consideration | |
| (D) | Information Not Available | |

If your response to Question 20 is "Yes", please describe how the pass-through coverage is implemented for pooled/custodial/omnibus accounts and provide an internet link for the relevant regulation, if available.

## C. Public Awareness

21. Does your deposit insurance system conduct public awareness campaigns aimed at raising the level of awareness for all households, including unbanked households, of the benefits of insured deposits? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Under Consideration | |
| (D) | Information Not Available | |

Please explain further if necessary:

22. If your response to Question 21 is "Yes", which of the following channels of communication and mechanisms does your deposit insurance system employ to expand public awareness of the benefits of insured deposits? Check all that apply.

| | | |
|---|---|---|
| (A) | Print Media | |
| (B) | Electronic Media | |
| (C) | Internet | |
| (D) | Point of Purchase | |
| (E) | Billboards | |
| (F) | Other, Specify: | |
| (G) | Information Not Available | |

Please explain further if necessary:

23. If your deposit insurance system uses any of the channels of communication and mechanisms identified in Question 22, do you use different channels for different types of institutions? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Under Consideration | |
| (D) | Information Not Available | |

Please explain further if necessary:

24. If your response to Question 21 is "Yes", does your deposit insurance system conduct special assessments to evaluate the effectiveness of your public awareness campaigns? Check the appropriate box.

| | | |
|---|---|---|
| (A) | Yes | |
| (B) | No | |
| (C) | Under Consideration | |
| (D) | Information Not Available | |

Please explain further if necessary:

25. If your response to Question 21 is "Yes", are public awareness campaigns focused on any of the following specific types of institutions? Check the appropriate box.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Commercial Banks | | | | | |
| (B) | • Bank MFIs | | | | | |
| (C) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (D) | • Non-Bank MFIs | | | | | |
| (E) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (F) | • Postal Banks | | | | | |
| (G) | Other, Specify: | | | | | |
| (H) | Other, Specify: | | | | | |

Please explain further if necessary:

26. If your response to Question 21 is "Yes", are public awareness campaigns focused on any of the following innovations? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| (A) | Branchless Banking | | | | | |
| (B) | • M-Banking | | | | | |
| (C) | • Agent/Correspondent Banking | | | | | |
| (D) | E-Money | | | | | |
| (E) | Prepaid Cards/Smart Cards | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

Please explain further if necessary:

## D. Funding

27. If your deposit insurance system covers the following types of non-commercial bank institutions, are premium assessments for them calculated differently than premium assessments for commercial banks? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Bank MFIs | | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (C) | • Non-Bank MFIs | | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (E) | • Postal Banks | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

28. If your response to Question 27 is "Yes", how are the premium assessments for the following types of institutions calculated? Check the appropriate box for each category.

| | | Flat Rate | Risk Based | Other Calculation | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Commercial Banks | | | | | |
| (B) | • Bank MFIs | | | | | |
| (C) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (D) | • Non-Bank MFIs | | | | | |
| (E) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (F) | • Postal Banks | | | | | |
| (G) | Other, Specify: | | | | | |
| (H) | Other, Specify: | | | | | |

Please explain further if necessary:

29. If your deposit insurance system covers the following types of institutions, what are the sources of funding? Check the appropriate box for each category.

| | | Premium Assessments on Insured Institutions | Government Contributions | Other Sources, Specify: | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Commercial Banks | | | | | |
| (B) | • Bank MFIs | | | | | |
| (C) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (D) | • Non-Bank MFIs | | | | | |
| (E) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (F) | • Postal Banks | | | | | |
| (G) | Other, Specify: | | | | | |
| (H) | Other, Specify: | | | | | |

Please explain further if necessary:

30. If your deposit insurance system covers the following innovations, what are the sources of funding? Check the appropriate box for each category.

| | | Premium Assessments on Innovation Providers | Government Contributions | Other Sources, Specify: | Information Not Available | N/A (not covered) |
|---|---|---|---|---|---|---|
| (A) | Branchless Banking | | | | | |
| (B) | • M-Banking | | | | | |
| (C) | • Agent/Correspondent Banking | | | | | |
| (D) | E-Money | | | | | |
| (E) | Prepaid Cards/Smart Cards | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

Please explain further if necessary:

31. If the following types of non-commercial bank institutions are covered by your country's deposit insurance system, are they covered by a deposit insurance fund that is separate from the commercial banks' fund? Check the appropriate box for each category.

| | | Yes | No | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|
| | Banks: | | | | |
| (A) | • Bank MFIs | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | |
| | ODTIs: | | | | |
| (C) | • Non-Bank MFIs | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | |
| (E) | • Postal Banks | | | | |
| (F) | Other, Specify: | | | | |
| (G) | Other, Specify: | | | | |

Please explain further if necessary:

32. If a separate fund exists, can the following types of institutions "graduate" to the commercial banks' fund (e.g., based on the achievement of certain milestones)? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Bank MFIs | | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (C) | • Non-Bank MFIs | | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (E) | • Postal Banks | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

If your response to Question 32 is "Yes", please explain further and describe the process by which institutions "graduate" to the commercial banks' fund.

33. If the following innovations are covered by your country's deposit insurance system, are they covered by a deposit insurance fund that is separate from the commercial banks' fund? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|
| (A) | Branchless Banking | | | | | |
| (B) | • M-Banking | | | | | |
| (C) | • Agent/Correspondent Banking | | | | | |
| (D) | E-Money | | | | | |
| (E) | Prepaid Cards/Smart Cards | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

Please explain further if necessary:

## E. Resolution

34. In your country, is there a difference between the closure and resolution process for commercial banks vs. the following types of institutions? Check the appropriate box for each category.

| | | Yes | No | Under Consideration | Information Not Available | N/A |
|---|---|---|---|---|---|---|
| | Banks: | | | | | |
| (A) | • Bank MFIs | | | | | |
| (B) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | |
| | ODTIs: | | | | | |
| (C) | • Non-Bank MFIs | | | | | |
| (D) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | |
| (E) | • Postal Banks | | | | | |
| (F) | Other, Specify: | | | | | |
| (G) | Other, Specify: | | | | | |

If your response to Question 34 is "Yes", please describe the difference in the closure and resolution processes.

35. In your country, in the event of a failure, which authority has the power to close the following types of institutions? Check the appropriate box for each category.

| | | Deposit Insurer | Central Bank | Bank Supervisory Agency | Other, Specify: | None | Information Not Available |
|---|---|---|---|---|---|---|---|
| | Banks: | | | | | | |
| (A) | • Commercial Banks | | | | | | |
| (B) | • Bank MFIs | | | | | | |
| (C) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | | |
| | ODTIs: | | | | | | |
| (D) | • Non-Bank MFIs | | | | | | |
| (E) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | | |
| (F) | • Postal Banks | | | | | | |
| (G) | Other, Specify: | | | | | | |
| (H) | Other, Specify: | | | | | | |

Please explain further if necessary:

36. In your country, in the event of a failure, which authority has the power to liquidate the estate and distribute payments to creditors for the following types of institutions (i.e., dissolve a closed bank)? Check the appropriate box for each category.

| | | Deposit Insurer | Central Bank | Bank Supervisory Agency | Other, Specify: | None | Information Not Available |
|---|---|---|---|---|---|---|---|
| | Banks: | | | | | | |
| (A) | • Commercial Banks | | | | | | |
| (B) | • Bank MFIs | | | | | | |
| (C) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | | |
| | ODTIs: | | | | | | |
| (D) | • Non-Bank MFIs | | | | | | |
| (E) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | | |
| (F) | • Postal Banks | | | | | | |
| (G) | Other, Specify: | | | | | | |
| (H) | Other, Specify: | | | | | | |

37. In your country, in the event of a failure, what is the required time period for deposit insurance reimbursements after closing the following types of institutions? Check the appropriate box for each category. Check the appropriate box for each category.

| | | Less Than 2 Weeks | Less Than 1 Month | Less Than 1 Year | No Set Time Period | Information Not Available | N/A (Not Covered) |
|---|---|---|---|---|---|---|---|
| | Banks: | | | | | | |
| (A) | • Commercial Banks | | | | | | |
| (B) | • Bank MFIs | | | | | | |
| (C) | • Credit Unions/Financial Cooperatives Regulated as Banks | | | | | | |
| | ODTIs: | | | | | | |
| (D) | • Non-Bank MFIs | | | | | | |
| (E) | • Credit Unions/Financial Cooperatives *Not* Regulated as Banks | | | | | | |
| (F) | • Postal Banks | | | | | | |
| (G) | Other, Specify: | | | | | | |
| (H) | Other, Specify: | | | | | | |

Please explain further if necessary:

38. Please provide any additional comments you may have:

**Thank you very much for your participation. Please send your response to IADISurvey@iadi.org. We would appreciate your kind response to the survey by 1 August 2011.**