July 31, 2011

Funding Mechanisms of Deposit Insurance Systems in the Asia-Pacific Region

Research Paper

Prepared by the Research Subcommittee of the Asia-Pacific Regional Committee

International Association of Deposit Insurers

C/O BANK FOR INTERNATIONAL SETTLEMENTS
CENTRALBAHNPLATZ 2, CH-4002 BASEL, SWITZERLAND
TEL: +41 0 61 280 9933 FAX: + 41 61 280 9554
WWW.IADI.ORG

Table of Contents

I. Executive Summary

An effective funding mechanism is an important component of a deposit insurer's financial stability toolkit. The 2008 global financial crisis has clearly shown that deposit insurers without the basic funding elements in place have found it challenging to maintain public confidence, particularly during a systemic crisis.

This paper is based on the results of a study, entitled "Sources of Liquidity for Deposit Insurance Funds," initiated by the Research Subcommittee of the Asia-Pacific Regional Committee (APRC)[1] of the International Association of Deposit Insurers (IADI), and organized by the Central Deposit Insurance Corporation (CDIC), Taiwan in 2005. It incorporates updates following the 2008 global financial crisis and changes made by Asia-Pacific deposit insurance systems from 2005 to 2011.

The paper offers a comparative analysis of deposit insurance systems in 16 jurisdictions[2] of the APRC as of July 31, 2011. It is hoped that this analysis will enhance understanding of the salient funding features and mechanisms of deposit insurers within the APRC, and provide useful information for future enhancements of these key funding elements.

A. Basic frameworks of deposit insurance systems (DIS)

Deposit insurers have mandates ranging from narrow ("paybox") systems to those with broader powers and responsibilities, such as loss or risk-minimization, with a variety of combinations in between. Among the 16 deposit insurers surveyed, the mandates are mostly "in-between" or "risk minimizers." The organization types are public corporation in the majority; there is no private corporation. In terms of membership approach, all have compulsory membership except Taiwan, where membership is by mandatory application and subject to CDIC's approval.

B. Uses of deposit insurance funds (DIF)

DIFs are generally utilized to meet five main purposes: reimbursement to depositors; financial assistance to sound financial institutions involved in purchase & assumption transactions; establishment and funding of bridge banks to temporarily take over a failed financial institution; financial assistance to

[1] The Asia-Pacific Regional Committee was renamed from Asia Regional Committee in January 2010.

[2] The 16 jurisdictions are Australia, Azerbaijan, Bangladesh, Hong Kong, India, Indonesia, Japan, Kazakhstan, Korea, Malaysia, Russia, Singapore, Taiwan, Thailand, the Philippines and Vietnam.

improve the operations of problem institutions; and provision of liquidity to depositors/creditors of failed institutions. According to the survey results, the deposit insurers with paybox systems mainly focus on reimbursement, while those with in-between or risk minimization systems have more resolution tools available. Just over half of the in-between and risk minimization systems provide financial assistance for problem financial institutions to resolve their liquidity needs. In addition, in-between and risk minimization systems do not differ significantly in terms of the resolution methods available.

C. Sources of deposit insurance funding

All of the 16 jurisdictions surveyed clearly stipulate the main sources of funding for a DIF to fulfill the above-stated functions. Such sources generally comprise the capital of the deposit insurer, premiums, earnings on investments, funds recovered after liquidation, and other sources of revenue. In terms of premium revenue, the premium assessment base is mostly either insured or insurable deposits. Azerbaijan, India, Indonesia, Japan, Korea, Russia, Thailand, the Philippines and Vietnam have all adopted a flat-rate premium system, while Bangladesh, Hong Kong, Kazakhstan, Malaysia, Singapore and Taiwan have a risk-based system. Comparing 2005 with 2011, there have been more and more deposit insurers adopting the risk-based premium system in recent years. A trend can be observed away from flat-rate and toward risk-based systems, since the former can lead to moral hazard and encourage financial institutions to take on excessive risk.

With reference to earnings on investments, the available fund investment vehicles of the deposit insurers surveyed showed that various investment instruments are used, and that there is no correlation among paybox, in-between and risk minimization systems in this area. For liquidity purposes, sources include outside financing and bond issuance.

Although deposit insurers with paybox mandates have fewer resolution methods available than those with in-between or risk minimization systems, as previously stated, the sources of DIF are not dependent on the type of deposit insurance system. In other words, all deposit insurers surveyed have various funding sources.

D. DIF administration

Of the 16 deposit insurers surveyed, more than half have set DIF target values as the benchmark of fund accumulation for the execution of insurance duties. The target value is usually either an amount or a percentage. Percentages range from 0.25 to 5. The numerator is the amount of the deposit insurance fund and the denominator is either insured or insurable deposits. Some deposit insurers set a number of years within which the target value is to be achieved, and some have a periodic review mechanism. Some deposit insurers also provide for a refund system if the fund reaches the target value. Some will refund the excess funds or decrease the premium rates once the fund exceeds a certain percentage of the target value. In addition, if the target value is decreased by a certain percentage, some deposit insurers can charge a special premium to cover the shortfall.

E. Handling of deposit insurer taxes and surpluses

Since deposit insurance systems serve a public welfare function, the deposit insurers in most of the jurisdictions surveyed are exempt from most taxes. Only some deposit insurers are still legally required to pay some taxes. In terms of the surplus, all of the jurisdictions surveyed require their deposit insurers to transfer their surplus to the DIF.

F. Funding mechanisms for dealing with systemic crisis

According to the Core Principles for Effective Deposit Insurance Systems jointly issued by IADI and the Basel Committee on Banking Supervision (BCBS) in June 2009, a deposit insurance system is not intended to deal, by itself, with systemically significant bank failures or a “systemic crisis”. In such cases, all financial system safety-net participants must work together effectively. In addition, the costs of dealing with systemic failures should not be borne solely by the deposit insurance system, but should also be dealt with through other means, such as coordinated efforts across various government departments and agencies. In general, the agencies responsible for dealing with a systemic crisis include the central bank, ministry of finance, financial supervisory agency and deposit insurer. However, deposit insurers with paybox systems do not jointly participate in dealing with a systemic crisis, due to the fact that their mandate is mainly to reimburse insured depositors.

Some jurisdictions stipulate the mechanism for dealing with a systemic crisis in the *Deposit Insurance Act/Law*, while some stipulate the mechanism in a special law. Most of them did not change deposit insurance premium rate during the global financial crisis in 2008, although potential liabilities were increased. The survey results showed that the competent authorities around the Asia-Pacific region did not make fund sufficiency their top priority while trying to maintain financial stability during the systemic crisis. Regarding the difference between funding sources for an individual failure and a systemic crisis, most responded that there was no difference in arrangements for an individual failure and a systemic crisis, except Japan, Kazakhstan, Russia and Taiwan.

G. Conclusions

1. Diversified funding vehicles are important to maintain sufficient/adequate funds and liquidity for deposit insurers.
2. Safety and liquidity are the main considerations of deposit insurers in fund investment.
3. There is a growing trend for Asia-Pacific deposit insurers to set fund target values or ratios.
4. Most deposit insurers in the Asia-Pacific region are exempt from most taxes and required to transfer their surplus to the deposit insurance fund, which can speed up fund accumulation.
5. Overall financial conditions need to be considered when adjusting deposit insurance premiums during a financial crisis.
6. The cost of handling a financial crisis should not be borne by the deposit insurance organization alone.

II. Introduction

An effective funding mechanism is an important component of a deposit insurer’s financial stability toolkit. The basic elements of an effective funding mechanism include the capacity and ability of the deposit insurer to make deposit payments promptly, availability and prompt access by the deposit insurer to sufficient and ready sources of funds to meet its obligations. The 2008 global financial crisis has clearly shown that deposit insurers without the basic funding elements in place have found it challenging to maintain public confidence, particularly during a systemic crisis.

This paper is based on the results of a study, entitled “Sources of Liquidity for Deposit Insurance Funds,” initiated by the Research Subcommittee of the Asia-Pacific Regional Committee (APRC) of the International Association of Deposit Insurers (IADI), and organized by the Central Deposit Insurance Corporation (CDIC), Taiwan in 2005. It incorporates updates following the 2008 global financial crisis and changes made by Asia-Pacific deposit insurance systems from 2005 to 2011.

The paper offers a comparative analysis of the deposit insurance systems in 16 jurisdictions[3] of the APRC as of July 31, 2011. This study focuses on the funding-related issues of deposit insurance mechanisms, including fund functions and funding sources, fund administration and loss-sharing, the handling of taxes and surpluses, and funding mechanisms when dealing with a systemic crisis, with a brief introduction of the general framework of the deposit insurance systems surveyed. It is hoped that this analysis will enhance understanding of the salient funding features and mechanisms of deposit insurers within the APRC, and provide useful information for future enhancements of these key funding elements.

[3] See footnote 2.

III. Basic Frameworks of Deposit Insurance Systems (DIS)

Generally speaking, the main public policy objectives of existing deposit insurance systems are to protect small depositors and maintain financial stability by maintaining public confidence in the financial system. Given the diverse policy objectives of different jurisdictions, there is no common mandate that is suitable for all deposit insurers. Deposit insurers have mandates ranging from narrow ("paybox") systems to those with broader powers and responsibilities, such as loss or risk-minimization/management, with a variety of combinations in between. Within the APRC, the deposit insurance systems in Azerbaijan, Hong Kong, India, Singapore and Thailand have narrow "paybox" mandates which are confined to paying the claims of depositors after a bank has been closed. Accordingly, such mandates normally do not provide the deposit insurer with regulatory or supervisory responsibilities or intervention powers. Nevertheless, in order for a paybox deposit insurance system to be effective, the minimum requisite powers include prompt access to adequate funding, timely and efficient reimbursement of insured depositors, access to deposit information, and clarity of mandate.[4]

Deposit insurers in Australia,[5] Bangladesh,[6] Korea, Malaysia, Taiwan and Vietnam have broader mandates which may include a mandate to minimize loss or risk (hereinafter referred to as risk minimizers). Their powers may include control of members' entry and exit from the deposit insurance system, the ability to assess and manage its own risks, conducting examinations of banks or requesting such examinations to be carried out by supervisors, and provision of financial assistance to troubled banks.[7] For instance, in the case of Taiwan, the power to conduct financial examinations was centralized under the Financial Supervisory Commission on July 1, 2004. However, beginning in January 2007, CDIC took on a risk minimizer mandate when it was vested with special inspection and investigation powers.

---

[4] Principles 3 and 4, *Core Principles for Effective Deposit Insurance Systems*, Basel Committee on Banking Supervision (BCBS) and IADI, June 2009.

[5] The deposit guarantee scheme in Australia, the Financial Claims Scheme (FCS), was established under the Banking Act and is administered by the Australian Prudential Regulation Authority (APRA), which is the national prudential regulator for all authorized deposit-taking institutions - comprising banks, building societies and credit unions. APRA's 'risk minimization' powers are a part of its prudential supervision function and are not tied to the FCS.

[6] The deposit insurance scheme in Bangladesh was established under the Bangladesh Bank, which is the main financial regulator.

[7] Principles 3 and 4, *Core Principles for Effective Deposit Insurance Systems*, Basel Committee on Banking Supervision (BCBS) and IADI, June 2009.

The deposit insurance mandate of Indonesia, Japan, Kazakhstan, the Philippines, and Russia is in-between that of a pure paybox and a risk minimizer (hereinafter referred to as “in-between”). In the case of Japan, the Deposit Insurance Corporation of Japan (DICJ) does not have some of the core functions of risk minimizers as described above. Nevertheless, DICJ has certain powers that a paybox deposit insurer does not have. This includes inspection of depositors’ records and special investigative powers to pursue legal action against persons responsible for the failure of a bank.

The survey showed that, among the 16 deposit insurers surveyed, the mandates are mostly “in-between” or “risk minimizers”. The organization types are public corporation in the majority; there is no private corporation. In terms of membership approach, all have compulsory membership except Taiwan, where membership is by mandatory application and subject to CDIC’s approval. The basic frameworks of deposit insurance systems are shown in the table below:

Table 1: Basic Framework of 16 Asia-Pacific Deposit Insurance Systems (DIS)

Jurisdiction	Date of DIS Implementation	Organization Type	Mandate	Membership Approach
Australia*	October 2008	Public corporation	Risk minimizer	Compulsory
Azerbaijan**	August 2007	Non-public corporation	Paybox	Compulsory
Bangladesh***	August 1984	Public corporation	Risk minimizer	Compulsory
Hong Kong	September 2006	Public corporation	Paybox	Compulsory
India	January 1962	Public corporation	Paybox	Compulsory
Indonesia****	September 2005	Public corporation	In-between	Compulsory
Japan	July 1971	Public corporation	In-between	Compulsory
Kazakhstan	November 1999	Public corporation	In-between	Compulsory
Korea*****	June 1996	Public corporation	Risk minimizer	Compulsory
Malaysia	September 2005	Public corporation	Risk minimizer	Compulsory
Russia	December 2003	Public corporation	In-between	Compulsory
Singapore	April 2006	Public corporation	Paybox	Compulsory
Taiwan	September 1985	Public corporation	Risk minimizer	Mandatory application, but

Jurisdiction	Date of DIS Implementation	Organization Type	Mandate	Membership Approach
				subject to CDIC’s approval
Thailand	August 2008	Public corporation	Paybox	Compulsory
The Philippines******	June 1963	Public corporation	In-between	Compulsory
Vietnam	July 2000	Public corporation	Risk minimizer	Compulsory

Notes: *The deposit guarantee scheme in Australia is administered by the Australian Prudential Regulation Authority (APRA). As noted in the footnote previously, APRA’s ‘risk minimization’ powers are a part of its prudential supervision function.

**“Law on deposit insurance” of the Republic of Azerbaijan was enacted in December 2006, and Azerbaijan Deposit Insurance Fund (ADIF) began full operation in August 2007. The ADIF is neither a state/government organization nor a private one.

***The deposit insurance scheme in Bangladesh was established under Bangladesh Bank.

*****Indonesia Deposit Insurance Corporation Law (IDIC Law)* was enacted in September 2004, and IDIC began full operation in September 2005.

*****In Korea, deposits subject to protection now include not only those of banks, but also those held by financial investment companies, insurance companies, merchant banks and mutual savings banks.

****** PDIC is a government agency. Under Philippine law, a "Government Agency" refers to any of the various units of the Government of the Republic of the Philippines, including a department, bureau, office, instrumentality or government-owned or controlled corporation, or a local government or a distinct unit therein. Thus, not all government agencies are public corporations. PDIC, even though it has the word "corporation" in its name, is not a government-owned and controlled corporation because it is not organized as a corporation, but is instead a government agency.

IV. Uses of Deposit Insurance Funds (DIF)

In the 16 deposit insurers surveyed, the DIFs can be utilized to support a range of functions of deposit insurance systems, including: reimbursement to depositors; financial assistance to sound financial institutions involved in purchase & assumption transactions; establishment and funding of bridge banks to temporarily take over a failed financial institution; financial assistance to improve the operations of problem institutions; and provision of liquidity to depositors/creditors of failed institutions. These functions are described in detail below.

A. Reimbursement

The main use of a DIF is to enable fulfillment of the insurance duties of the deposit insurer and uphold the rights of depositors. Such fulfillment may take the form of cash, check or remittance payments to depositors. In India, the Deposit Insurance and Credit Guarantee Corporation of India (DICGC) pays insured deposits to the liquidator of a failed bank, who is responsible for making deposit payments to depositors. In Hong Kong, Kazakhstan, Malaysia, Singapore, Taiwan and Vietnam, the deposit insurers may also transfer the insured deposits of the closed institution to a designated agent bank for reimbursement to depositors.

B. Financial assistance for P&A transactions

Since the closure of a financial institution may trigger a domino effect in other institutions, some governments may not want to liquidate particular problem institutions, but rather transfer the business, assets and liabilities to sound institutions, thereby minimizing the economic and social impact of the closure of a financial institution. Japan, Kazakhstan, Korea, Malaysia, Russia, Taiwan and the Philippines all stipulate that their deposit insurers may provide financial assistance to sound institutions to purchase and assume the failed insured institutions. However, the forms of such assistance vary from country to country. In the Philippines, the Philippine Deposit Insurance Corporation (PDIC) may extend financial assistance to any corporation merging with or acquiring a distressed bank in the form of deposits, direct loans, purchase of assets, assumption of liabilities and subscription to equity. Financial assistance is granted by the PDIC as long as the cost of financial assistance does not exceed the estimated cost of payout and liquidation if the distressed bank is closed. In Japan, the DICJ may provide financial assistance in the forms of monetary grants, loan or deposit of funds, purchase of assets, guarantee or assumption of debts, and subscription of preferred stock or loss-sharing. In India, the legislation provides for the DICGC to assist the restructuring or merger of banks on the verge of failure with another bank. Such assistance is in the form of a partial payout to depositors, within the insured limits. In Korea, the Korea Deposit Insurance Corporation (KDIC) may inject funds through stock participation, cash grants, purchase and assumption of assets, and loans. And in Taiwan, CDIC's assistance may be provided through deposits, loans, guarantees, or purchase of the subordinated debts issued by acquiring institutions. In Kazakhstan, financial assistance may be provided through deposits and loans, but the cost of the assistance should not exceed the estimated cost of payouts if the distressed bank is closed. In the case of Malaysia, the Malaysia Deposit Insurance Corporation (MDIC) may acquire assets or make loans or advances to a member bank for the purpose of reducing or averting a risk to the financial system or a threatened loss to MDIC.

C. Establishment of bridge banks

As noted above, some governments arrange or facilitate the purchase or assumption of problem financial institutions by sound institutions in order to maintain social stability. Since a willing buyer or a suitable receiver may be lacking, some jurisdictions, including Japan, Korea and Taiwan, allow their deposit insurers to use DIFs to establish bridge banks to temporarily assume the assets, liabilities and business of a failed institution. Kazakhstani banking legislation also permits establishment of bridge banks. In Japan and Korea, such banks are designed to be maintained until a sound financial institution is found to purchase or assume the failed institution. In Taiwan, a bridge bank may be established for the purpose of handling a systemic crisis. Malaysia is currently considering amendments to the MDIC Act to enable MDIC to establish a bridge bank.

D. Financial assistance to improve the operation of problem institutions

Jurisdictions in which the deposit insurer acts as a risk minimizer or has an in-between mandate clearly stipulate that the deposit insurer may provide financial assistance to improve the operation of problem institutions. Such an approach aims to effectively control insurance risk and prevent losses to the insurance fund. In the Philippines, PDIC may extend financial assistance in any or a combination of direct loans, purchase of assets, assumption of liabilities, placement of deposits, and equity. In Korea, assistance can come in the form of stock purchases, purchase and assumption of assets, and loans. If the KDIC deems that a problem institution is viable, the assistance may minimize the economic and social losses from a problem institution. In Taiwan, comparable support is provided through deposits and loans. However, the financial assistance can be provided only when strict prerequisites are met: namely, that there is the possibility of triggering a systemic crisis, the problem bank is taken over by CDIC, and full collateral is rendered by the financial holding company of the problem bank. In Vietnam, support takes the form of loans and guarantees.

In the case of Malaysia, upon written notification by the central bank (which is also the supervisor) that a bank has ceased or is likely to cease to be viable, MDIC may provide financial assistance to the bank if such a method of resolution will minimize costs to the financial system. Such assistance is expected to be accompanied by necessary controls, such as the appointment of new senior management and new board members, and a requirement for the bank to submit a plan of action to strengthen the operation and risk management of the bank.

In Indonesia, as regards the resolution of failed banks, the Indonesia Deposit Insurance Corporation (IDIC) Law sets out two categories of failed banks: non-systemic and systemic. If Bank Indonesia, as supervisor, considers that a failed bank has no systemic impact on other banks or the banking system, Bank Indonesia sends written notification to IDIC so that the latter can decide whether to rescue or pay insured deposits of the failed bank based on the lower-cost test. Otherwise, if Bank Indonesia indicates that the bank has a systemic impact, it will invite the Coordinating Committee for a meeting to confirm that it is a systemic failed bank and decide on the resolution method. If the Coordinating Committee decides that the bank has a systemic impact, it will be rescued. IDIC may provide financial assistance by injecting new capital into the bank until it meets the financial soundness standards set by Bank Indonesia, along with other measures such as appointing new management.

E. Advance payments to depositors/creditors of failed institutions

A number of deposit insurers also have the power to make advance payments to depositors, such as Japan, Korea, Malaysia, Singapore and Taiwan. In Japan, advance payments are allowed up to the amount of JPY 600,000 against a maximum of JPY 10 million coverage per depositor's account, per financial institution. In addition, an estimated proceeds payment for non-covered amounts may be made on the basis of an estimate of the depositor's settlement payout ratio. In Taiwan, CDIC may make advance payments against claims filed by depositors beyond the maximum insurance coverage, and by non-deposit creditors based on the anticipated reimbursement ratio derived from a valuation of the closed insured institution's assets, so long as such advance payments do not increase the cost of fulfilling insurance obligations.

In short, of the 16 jurisdictions in the Asia-Pacific region, the deposit insurers with paybox systems mainly use DIFs for reimbursement, while those with in-between or risk minimization systems have more resolution tools available, and in a number of cases provide financial assistance for problem financial institutions to resolve their liquidity needs. In addition, in-between and risk minimization systems do not differ significantly in terms of the resolution methods available.

Table 2: Uses of Deposit Insurance Funds of 16 Asia-Pacific DIS

Purpose / Jurisdiction	Meeting Insurance Obligations			Financial assistance to improve the operations of problem institutions	Advance payments to depositors/ creditors of failed institutions
	Reimburse-ment	Financial assistance for the sound financial institutions to P&A the failed insured institutions	Establish-ment of bridge banks		
Australia	V	V*-	V*	-	-
Azerbaijan	V	-	-	-	-
Bangladesh	V	-	-	-	-
Hong Kong	V	-	-	-	-
India	V	-	-	-	-
Indonesia	V	-	-	V	-
Japan	V	V	V	V	V
Kazakhstan	V	V	V	-	-
Korea	V	V	V	V	V
Malaysia	V	V	-	V	V
Russia	V	V	-	V	-
Singapore	V	-	-	-	V
Taiwan	V	V	V	V	V
Thailand	V	-	-	-	-
The Philippines	V	V	-	V	-
Vietnam	V	-	-	V	-

Note: *Australia has access to these resolution mechanisms, outside its deposit guarantee function.

V. Sources of Deposit Insurance Funding

All of the 16 jurisdictions surveyed clearly stipulate the main sources of funding for a DIF to fulfill the above-stated functions. Such sources generally comprise the capital of the deposit insurer, premiums, earnings on investments, funds recovered after liquidation, and other sources of revenue. For liquidity purposes, sources include outside financing and bond issuance.

A. Capital

In India, Indonesia, Kazakhstan, Russia, Taiwan, the Philippines and Vietnam, either the government or central bank provided the initial capital for their deposit insurers to rapidly build up a fund to handle claims for reimbursement. In India, Kazakhstan, Taiwan and the Philippines, either the government or central bank injected the deposit insurers' capital several times. In Japan, private financial institutions provided the initial capital for DICJ together with the government and central bank. However, although the aforesaid deposit insurers were given an initial capital injection, this is usually used for working capital and not incorporated into the DIF, such as in Taiwan and Vietnam. Moreover, in India capital is held in a separate "General Fund" which does not form part of the DIF, and in Kazakhstan 50% of the capital is included in the special reserve for payouts.

In Azerbaijan, Bangladesh, Hong Kong, Korea, Malaysia, Singapore and Thailand, the government does not provide capital for the deposit insurers, under the principle that the deposit insurance scheme should be funded by premiums levied on the member institutions. However, the Korean government contributed 10 billion won at the time of KDIC's establishment in 1996. In Australia, the Financial Claims Scheme (FCS) does not have startup capital, but has access to a government appropriation when an authorized deposit-taking institution is declared by the Treasurer/Minister to be subject to the FCS. At such time, the declaration will specify the amount to be funded to the FCS Special Account for the purpose of paying out depositors as well as the amount to be credited to the Australian Prudential Regulation Authority (APRA) Special Account in relation to the administration costs for the FCS. Until October 2011, the appropriation in relation to the scheme was unlimited; thereafter, the standing appropriation was reduced to AUD 20 billion per authorized deposit-taking institution. The AUD 20 billion government appropriation would be the first source of funding for FCS needs. Should that be insufficient, APRA and the Australian Government would consider seeking an increase in the appropriation and would also take into account the most appropriate method of securing additional funding according to the circumstances, such as other borrowing sources.

The current capitalization, capital sources and any subsequent capital adjustments of the 16 surveyed deposit insurers are summarized in the following table:

Table 3: Capital of 16 Asia-Pacific DIS

Jurisdictions	Capital Amount	Source	Notes
Australia	No startup capital	Government	The Financial Claims Scheme (FCS) has access to a government appropriation. Until October 2011, the appropriation in relation to the scheme is unlimited, after which the standing appropriation reduces to AUD$20 billion per authorized deposit taking institution. Any amount above this figure would require the approval of parliament.
Azerbaijan	No start-up capital	-	-
Bangladesh	No start-up capital	-	-
Hong Kong	No start-up capital	-	-
India	INR 0.5 billion (US$ 11 million)	Central Bank	Capital of INR 10 million provided in 1961, increased subsequently in phases, finally to INR 500 million in 1984.
Indonesia	IDR 4 trillion (US$ 438 million)	Government (MOF)	Initial capital provided in 2005. *IDIC Law* stated that once the IDIC capital drop below its initial capital, the Government will recapitalize it.
Japan	JPY 455 million (US$ 4.92 million)	Government (MOF), Central Bank, Private financial institutions	Initially capitalized at JPY450 million in 1971; expanded to JPY455 million in 1986.
Kazakhstan	KZT 121 billion (US$ 825 million)	Central Bank	Initially capitalized at KZT1 billion in 1999, increased to KZT 16 billion in 2007, and in 2008 to KZT 100 billion, in 2009 to KZT 110 billion. (from 2008 to 2012 the capital will be increasing by 10% each year)
Korea	No start-up capital	-	Government contributed an initial fund of KRW10 billion in 1996

Jurisdictions	Capital Amount	Source	Notes
Malaysia	No start-up capital	-	-
Russia	RUR 8.4 billion (US$ 284 million)	Government (MOF)	In addition to the initial property contribution, in November 2008 the Government made an additional special property contribution for its using by the Deposit Insurance Agency for bank bankruptcies prevention – 200 billion rubles (approx. US$6.6 billion)
Singapore	No start-up capital	-	-
Taiwan	NT$ 10 billion (US$ 313 million)	Government (MOF), Central Bank	Initially capitalized at NT$2 billion in 1985; increased to NT$5 billion in 1992; and increased to NT$10 billion in 1995
Thailand	No start-up capital	-	-
The Philippines	PHP 3 billion (US$ 66 million)	Government (national government)	PHP5 million provided in 1963; the government's capital was subsequently raised by law to PHP20 million in 1973; to PHP2 billion in 1985; and to PHP 3 billion in 1992[8].
Vietnam	VND 5 trillion (US$ 261 million)	Government (MOF)	The capital amount VND 5 trillion was approved by the Prime Minister of Vietnam in 2008 but was not yet realized in DIV's budget; therefore, the paid-in capital was VND 1 trillion by the end of 2010.

Note: The basis date of exchange rate was March 26, 2010.

B. Revenue

1. Premium revenue

(1) General premiums

Premiums are the main source of revenue for most deposit insurers. In a small number of jurisdictions, funds are raised from sound institutions on a cost-sharing basis to meet reimbursement needs arising from bank failures. However, the vast majority of the jurisdictions surveyed in this paper, except

[8] The PHP 3 billion government capital (Permanent Insurance Fund) is only one component of PDIC's capital account. The Deposit Insurance Fund (DIF) is the capital account of the Corporation and is composed of: (1) the Permanent Insurance Fund (PIF); (2) assessment collections less charges; (3) reserves for insurance and financial assistance losses; and (4) retained earnings.

Australia, have adopted ex ante funding systems[9] to levy regular premiums on insured institutions to build up a DIF reserve.

The premium assessment base is mostly either insured or insurable deposits. In Bangladesh, Hong Kong, Malaysia, Singapore and Vietnam, premiums are assessed based on the amount of insured deposits. In Azerbaijan, India, Indonesia, Japan, Kazakhstan, Korea, Russia, Taiwan, and Thailand, premium assessment is based on the total amount of insurable deposits.[10] In the Philippines, the assessment base is the total deposit liabilities of banks. The latter two assessment methods are based on the deposit insurance objective of upholding orderly lending and promoting the sound development of the financial industry. Although the coverage is limited, insured institutions gain overall from the financial stability achieved through the confidence in a deposit insurer, which protects deposits up to the coverage limit.

With regard to premium rates, Azerbaijan, India, Indonesia, Japan, Korea, Russia, Thailand, the Philippines and Vietnam have all adopted a flat-rate premium system, while Bangladesh, Hong Kong, Kazakhstan, Malaysia, Singapore and Taiwan have a risk-based system. Comparing 2005 with 2009,[11] there have been more and more deposit insurers adopting the risk-based premium system in recent years. A trend can be observed away from flat rate and toward risk-based systems, since the former can lead to moral hazard and encourage financial institutions to take on excessive risk.

(2) Special premiums

In Australia, Azerbaijan, Hong Kong, Kazakhstan, Malaysia, Russia and Singapore, a special premium may be levied on insured institutions when the DIF is insufficient, while in Japan, Korea and Taiwan, the special premium can only be charged when there is a systemic crisis. In Australia, although there is no legislated ex ante premium, authorized deposit-taking institutions would be subject to a levy should the Financial Claims Scheme not be able to recover all funds paid out from the liquidation process of the failed authorized deposit-taking institution. In Azerbaijan and Kazakhstan, if the Azerbaijan Deposit Insurance

---

[9] An ex ante funding system involves the advance accumulation and maintenance of a fund to cover deposit insurance claims. The fund consists primarily of premiums collected from the members of the deposit insurance system. In ex post funding systems, funds to cover claims are only collected from members when a member institution fails and there is a need to cover deposit insurance claims. A hybrid funding system combines elements of ex ante and ex post funding.

[10] In India, premium assessment is based on the total assessable deposits.

[11] Bangladesh, Kazakhstan, and Malaysia implemented risk-based premium systems after 2005. Korea passed an amendment to the Deposit Protection Act in February 2009, and plans to introduce a differential premium system in 2014. Other deposit insurers, such as India and Indonesia, are considering changing from a flat-rate to a risk-based premium system.

Fund and Kazakhstan Deposit Insurance Fund have to borrow money to pay compensation as a result of insufficient funds, member banks must pay supplementary (extraordinary) fees in addition to calendar fees (quarterly premiums), until the Fund can once again fully meet its obligations. Supplementary fees are calculated and paid depending on the amount and repayment terms of the Fund's borrowings. In the case of Azerbaijan, these supplementary fees should not exceed 0.2% of the quarterly average daily balance of protected deposits. In Kazakhstan, the annual amount of extraordinary premiums levied on a member bank should not exceed the annual amount of mandatory calendar premiums paid by the member bank to the KDIF.

In Japan, during the last financial crisis, in addition to the general premium of 0.048%, special premium of 0.036% was charged temporarily between FY 1996 and 2001 to fund the blanket guarantee scheme. In Russia, the premium rate can be increased to 0.3% per quarter for no more than two quarters in any 18 months. In Taiwan, when there is a concern about a systemic crisis, the limit on payout costs may be removed. In the event of DIF insufficiency as a result of the removal of the limit on payout costs, CDIC can levy a special insurance premium on insured institutions, subject to approval by the Financial Supervisory Commission.

Table 4: Deposit Insurance Premium Systems of 16 Asia-Pacific DIS

Jurisdiction	General Premium			Special Premium
	Premium Assessment Base	Rate System	Premium Rate	
Australia	-	-	-	V In the case that Financial Claims Scheme is not able to recover all funds paid out from the liquidation process of the failed authorized deposit-taking institution. The levy on any deposit-taking institution cannot be more than 0.5% of the amount of its deposit liabilities. It is not a risk-based levy.

Jurisdiction	General Premium			Special Premium
	Premium Assessment Base	Rate System	Premium Rate	
Azerbaijan	Insurable deposits/all eligible deposits/ protected deposits	Flat rate	At the rate of 0.15% of the quarterly average daily balance of protected deposits in the first year and 0.125% in subsequent years, starting from the day of recording in the Azerbaijan Deposit Insurance Fund's registry of member banks. Premiums are paid to the Fund on the quarterly basis.	V Member banks shall pay supplementary fees in addition to quarterly premium until the Fund fully performs its obligations on borrowed funds for payout purposes. Supplementary fees shall not exceed 0.2% of the quarterly average daily balance of protected deposits.
Bangladesh	Insured deposits	Risk-based rate	Risk group rates set at 0.07% & 0.09% according to bank's supervisory rating	-
Hong Kong*	Insured deposits	Risk-based rate	Risk group rates set at 0.0175%, 0.028%, 0.0385%, and 0.049%* according to bank's supervisory rating, until the fund's target fund size is reached. Respective rates will fall to 0.0075%, 0.01%, 0.015%, and 0.02% after the target fund size is reached.	V Member banks are required to pay a special premium to cover the shortfalls when the fund size falls below 70% of the target fund size.
India	Insurable deposits	Flat rate	0.1% of assessable deposits	-
Indonesia	Insurable deposits	Flat rate	0.2% of average insurable deposits	-
Japan	Insurable deposits	Flat rate	0.107% on settlement and payment deposits; 0.081% on other deposits; the weighted average of the insurance premium rates is maintained at 0.084%	V During the financial crisis, in addition to general premium of 0.048%, special premium of 0.036% was charged temporally between FY 1996 and 2001 to fund

Jurisdiction	General Premium			Special Premium
	Premium Assessment Base	Rate System	Premium Rate	
				especially under the blanket guarantee scheme
Kazakhstan	Insurable deposits	Risk-based rate	Risk group rates set at 0.04%, 0.08%, 0.11%, 0.19% and 0.38% according to the five classification groups of the Differential Premium System.	V (additional+ extraordinary premiums)
Korea	Insurable deposits	Flat rate	For banks: 0.08% For financial investment companies, insurance companies, merchant banks: 0.15% For mutual savings bank: 0.4%	V Special assessments: contributions mandated by law that insured financial institutions are required to pay for 25 years from 2003 to 2027 in accordance with the Public Fund Redemption Plan to repay the public fund assistance they received for financial restructuring Special Assessment Rates: 0.1% (except for credit unions (0.05%))
Malaysia	Insured deposits	Risk-based from 2008 onwards	Differential premium rates are: Category 1: 0.03% on total insured deposits (TID); Category 2: 0.06% on TID Category 3: 0.12% on TID Category 4: 0.24% on TID	V

Jurisdiction	General Premium			Special Premium
	Premium Assessment Base	Rate System	Premium Rate	
Russia	Insurable deposits	Flat rate	0.40% (actually 0.10% per quarter) Premium rate can be increased to 0.3% per quarter for no more than two quarters in any 18 months.	-
Singapore	Insured deposits	Risk-based rate	▪ A Scheme member which is (*a*) incorporated in Singapore; or (*b*) a foreign bank with an asset maintenance ratio of more than 5: 0.02% ▪ A Scheme member which is a foreign bank with an asset maintenance ratio of more than 2 but not more than 5: 0.03% ▪ 3. A Scheme member which is a foreign bank with an asset maintenance ratio of 2 or less: 0.07%	V
Taiwan	Insurable deposits	Risk-based rate	▪ A differential premium rate for insured deposits; a flat premium rate for deposits exceeding the maximum insurance coverage. ▪ For banks, five-tiered differential premium rates are 0.05%, 0.06%, 0.08%, 0.011% and 0.015% based on the capital adequacy ratio and the Composite Score of the Examination Data Rating System; and the flat premium rate is 0.005%. ▪ For credit	V

Jurisdiction	General Premium			Special Premium
	Premium Assessment Base	Rate System	Premium Rate	
			cooperatives, five-tiered differential premium rates are 0.04%, 0.05%, 0.07%, 0.10% and 0.14%; the flat premium rate is 0.005%. ▪ For the credit departments of farmers' and fishermen's associations, the risk-based premium rates are 0.02%, 0.03%, 0.04%, 0.05% and 0.06%; the flat premium rate is 0.0025%.	
Thailand	Insurable deposits	Flat rate	0.4%	-
The Philippines	Total deposit liabilities of banks	Flat rate	0.2%	-
Vietnam	Insured deposits	Flat rate	0.15%	-

Notes: *Since January 2011, the premium rates in Hong Kong were decreased by 65% in concurrence with an increase of insured deposit limit.

** The 2009 revision of the Depositor Protection Act (DPA) and its Enforcement Decree mandated the implementation of the differential premium system in 2014. The system will affect all member institutions. The range of differentiation will be within plus, minus ten percent of the standard premium rates. The plan including detailed methods and procedures to assess the risk profile of each financial institution and calculate risk-based premium rates will be developed by 2012 to ensure the system's successful launch in 2014.

2. Earnings on investments

A DIF surplus may, within legal bounds, be invested and the income derived may be added to the DIF. A deposit insurer's investment policy should balance higher rates of return against the certainty of funds being available when needed. Such a policy should not be too aggressive, as that may erode public confidence. To ensure the safety and liquidity of such investments, most of the jurisdictions surveyed require their deposit insurers to invest in principal-guaranteed and highly liquid vehicles, such as government bonds, bank debentures,[12] short-term notes, or deposits in the central bank or other sound financial institutions. Very few deposit insurers may invest in other instruments. In Azerbaijan, the Azerbaijan Deposit Insurance Fund can invest in foreign financial bonds and bonds of mortgage funds. In Hong Kong, the Hong Kong Deposit Protection Board (HKDPB) can invest in risk-hedging derivative financial products to hedge against foreign currency risks; in Kazakhstan, the Central Bank of Kazakhstan establishes the list of financial instruments according to which the Kazakhstan Deposit Insurance Fund (KDIF) carries out its investment policy. The instruments include agent debt securities, government securities, foreign government securities, deposits with the Central Bank, derivative securities, repos and reverse repos. In Russia, the Deposit Insurance Agency (DIA) may invest in corporate bonds, corporate shares and foreign financial securities.

From the responses, the available fund investment vehicles of the deposit insurers surveyed showed that there is no correlation among paybox, in-between and risk minimization systems in this area. In general, various investment instruments are used, as summarized in the following table:

Table 5: Deposit Insurance Fund Investment Tools of 16 Asia-Pacific DIS

Jurisdiction	Bonds					Deposits		
	Gov. Bonds*	Bank Debentures	Corporate Bonds	U.S. Gov. Bonds	Foreign Financial Bonds	Central Bank Deposits	Deposits in Sound Financial Institutions	Other
Australia	-	-	-	-	-	-	-	N/A as ex post funded scheme
Azerbaijan**	V	-	-	V	V	V	V	Bonds of Mortgage Fund
Bangladesh	V	-	-	-	-	-	-	-
Hong Kong	V	-	-	V	-	V	V	Risk-hedging derivative financial products
India	V	-	-	-	-	V	-	-
Indonesia	V	-	-	-	-	-	-	Securities Issued by Central Bank
Japan	V	-	-	-	-	-	V	-
Kazakhstan	V	V***	V	V***	V***	V	-	Derivative securities, REPO and reverse REPO transactions

[12] A bank debenture is an acknowledgment of debt issued by a bank, and is a legitimate form of investment.

Jurisdiction	Bonds					Deposits		
	Gov. Bonds*	Bank Debentures	Corporate Bonds	U.S. Gov. Bonds	Foreign Financial Bonds	Central Bank Deposits	Deposits in Sound Financial Institutions	Other
Korea	V	V***	-	-	-	-	V	Securities Issued by Central Bank
Malaysia	V	-	-	-	-	-	-	-
Russia	V	V	V	-	V	V	-	Corporate shares
Singapore	V	-	-	-	-	V	-	-
Taiwan	V	-	-	-	-	V	-	-
Thailand	V	-	-	-	-	V	-	Deposits in Specialized Financial Institutions
The Philippines	V	-	-	-	-	V	V****	-
Vietnam	V	-	-	-	-	V	V	-

Notes: *Government bonds include treasury bills or notes of central bank.

**According to the Investment policy of the Fund for the year 2011 the funds of the Fund can be invested in the following financial instruments only:

- In local currency internal debt financial instruments:
  . Government bonds issued by the Azerbaijan Republic.
  . Debt securities issued or guaranteed by the Central Bank of Azerbaijan Republic.
  . In deposits of the Central Bank or mortgage bonds of the Azerbaijan Republic.
- In debt securities issued by the government, international financial institutions and or government institutions in USD and EURO with minimum AAA rating.
- In the deposits of Central Banks of OECD countries.

*** With a specified rating.

**** Deposits can be placed with any other bank designated as depository or fiscal agent of the Philippine Government.

3. Recoveries and other sources of revenue

The funds recovered from failed institutions after liquidation provide another DIF funding source in all of the jurisdictions surveyed. Funding may also be raised through fines on late premium payment, although this is not a significant source of funding, and contributions.

Most jurisdictions surveyed clearly stipulate that the deposit insurer may fine insured institutions for late premium payment. India and Vietnam also permit such fines, and may even revoke the insurance qualifications of institutions in more serious cases.

With regard to contributions, the Korean government provided initial operating capital of KRW 10 billion for the KDIC through a contribution of state property (shares in state-run enterprises, etc.) in 1996. Moreover, in Azerbaijan, Indonesia and Korea, under the compulsory insurance system, financial institutions are required to make contributions equal to a certain amount or a certain ratio of their paid-in capital to the deposit insurer. In Azerbaijan, the initial contribution for each member institution is AZN 10,000. In Indonesia, the initial contribution is 0.1% of the paid-up capital or equity of insured institutions. In Korea, the ratio is 1% for insured institutions in the banking, financial investment and insurance sectors, and 5% for merchant banks and mutual savings banks.

Table 6: Recoveries and Other Sources of Revenue of 16 Asia-Pacific DIS

Jurisdiction	Recovery from Liquidation	Other Sources of Revenue	
		Penalties on Late Premium Payment (Fines)	Contributions
Australia	V	-	See special levy in Table 4
Azerbaijan	V	V Fines shall be assessed by multiplying the premiums paid by the member bank in question during the previous reporting period by the Central Bank's refinancing rate (currently 5.25%), for each day of delay of premiums.	Membership contribution: 10 000 manats (AZN)
Bangladesh	V	-	-
Hong Kong	V	V 10% of unpaid premium amount or HKD 5,000, whichever is higher	-
India	V	V Bank Rate (currently 6%) + up to 8% p.a. (currently 8 %) on unpaid premium amount for the period of default	-
Indonesia	V	V 0.5% of unpaid premium	Member banks initial contribution: 0.1% of

Jurisdiction	Recovery from Liquidation	Other Sources of Revenue	
		Penalties on Late Premium Payment (Fines)	**Contributions**
		amount per each day overdue, at maximum 150% of unpaid premium	their paid up capital/equities
Japan	V	V 14.5% p.a. of unpaid premium amount per each day overdue	-
Kazakhstan	V	V 0.1% (not p.a.) of unpaid premium amount per each day overdue	-
Korea	V	V Unpaid premium amount × interest rate on arrears × number of days overdue/365	Government or insured institutions
Malaysia	V	V MDIC has power to charge a penalty	-
Russia	V	V Unpaid premium amount × Central bank discount rate × (number of days overdue /360)	Government (initial and additional)
Singapore	V	V Singapore Interbank Offer Rate + 10% on unpaid premium	-
Taiwan	V	V If an insured institution does not pay its premium on time as stipulated under CDIC regulations, CDIC may increase the risk-based premium rate of the violator by 0.01%.	-
Thailand	V	V Pay a surcharge not exceed 2% per month of the unpaid amount	-
The Philippines	V	V Assessment collection due ×12% × (number of days overdue/360)	-
Vietnam	V	V	-

Jurisdiction	Recovery from Liquidation	Other Sources of Revenue	
		Penalties on Late Premium Payment (Fines)	Contributions
		0.1% of unpaid premium amount per each day overdue	

C. Outside funding for liquidity needs

In addition to the above sources, there are some funding tools used for deposit insurers' liquidity needs, including outside financing and bond issuance.

1. Borrowing

In all of the 16 jurisdictions surveyed, the deposit insurers are authorized to raise outside funding by borrowing. Such sources include the central bank, as in Azerbaijan, Hong Kong, India, Japan, Kazakhstan, Korea, Russia, Singapore, Taiwan, the Philippines and Vietnam; the government, as in Australia, Azerbaijan, Hong Kong, Indonesia, Korea, Malaysia, Russia, Singapore and Vietnam; or private financial institutions, as in Australia, Azerbaijan, Hong Kong, Japan, Korea, Singapore, Taiwan, Thailand and Vietnam. However, in Azerbaijan, borrowing from financial institutions excludes the member institutions. In the Philippines, borrowing is authorized from any bank designated as a depository or fiscal agent of the Philippine Government.

Guarantees for financial accommodation are provided by the government in Japan, Korea, Taiwan and Vietnam. In the case of Taiwan, CDIC may borrow funds from financial institutions without a government guarantee.

With regard to the credit risk weight when deposit insurers borrow from financial institutions, in general this may influence the lending and interest rate policy of financial institutions toward deposit insurers. In Japan, Korea, Thailand, the Philippines and Vietnam, the credit risk weight is 0% under the BIS capital requirements, because the loans carry an explicit or implicit guarantee from the government. In the Philippines, a 0% risk weight is assigned if the loan is collateralized by securities issued by the national government and BSP. If the loan is granted clean or is an unsecured credit accommodation, it is assigned a risk weight of 100%, or deducted from capital. In Taiwan, the credit risk weight is 20% when the lender calculates its BIS ratio, while in Azerbaijan and Hong Kong, the credit risk weight is 100%. In Singapore, the credit risk weight depends on whether the government provides a guarantee for the loan or not. In the Philippines, if the borrowing is denominated in foreign currency, the risk weight will be around 100%.

The financing sources, guarantors, agency in charge of setting interest rates, and conditions of financing for the various deposit insurers surveyed are summarized in the following table:

Table 7: Borrowing from Government or Central Bank in 16 Asia-Pacific DIS

Jurisdiction	Financing Source	Guarantor	Agency in Charge of Setting Interest Rate	Financing Conditions
Australia	Government*	-	-	-
Azerbaijan	1. Government	-	Agreed between deposit insurer and financing source organization	-
	2. Central Bank			
Bangladesh	Government	-	Central Bank	-
Hong Kong	1. Government	-	-	-
	2. Central Bank		Agreed between deposit insurer and the Central Bank	
India	Central Bank	-	Central Bank	Accommodation ceiling set at INR 50 million
Indonesia	Government	-	Government	Further arrangements will be ruled in the Government Regulation. There is no ceiling limit for these facilities.
Japan	Central Bank	Government	Central Bank	-
Kazakhstan	Central Bank	-	Agreed between the Central Bank and KDIF	-
Korea	1. Government	-	Government	-
	2. Central Bank	Government	Central Bank	

Jurisdiction	Financing Source	Guarantor	Agency in Charge of Setting Interest Rate	Financing Conditions
Malaysia	1. Government	-	Government	Terms and conditions set by Minister of Finance if loan is from the government
Russia	1. Government	-	Government	-
	2. Central Bank	-	Central Bank	-
Singapore	1. Government	-	Jointly set by deposit insurer and Lender	-
	2. Central Bank	-	-	-
Taiwan	Central Bank	CDIC/ Government	Central Bank	-
Thailand	-	-	-	-
The Philippines	Central Bank	-	Central Bank	Interest rate may not exceed rate on treasury bills
Vietnam	1.Central Bank	Government	-	-
	2. Special lending or financial support from Government	-	-	-

Note: *Financing is provided by the government in the first instance, in accordance with the appropriation mentioned in Table 3. This funding would be repaid through recoveries from the liquidation of the failed deposit-taking institution and topped up, if necessary, with monies received from a levy on the industry. Funding/borrowing amounts in excess of the figure stated are not catered for and therefore approval of parliament would be required, should it be insufficient.

Table 8: Borrowing from Financial Institutions in 16 Asia-Pacific DIS

Jurisdiction	Accommodation from Financial Institutions	Guarantor	Agency in Charge of Setting Interest Rate	Financing perquisite or Conditions	Credit Risk weight
Australia	V	-	Negotiation but on terms and conditions specified in, or consistent with, the approval	Requires the Finance Minister's written approval	-
Azerbaijan	V Excluding member institutions*	-	Agreed between deposit insurer and financial institution	-	100%
Bangladesh	-	-	-	-	-
Hong Kong	V	-	Negotiation by deposit insurer and financial institutions	-	100%
India	-	-	-	-	-
Indonesia	-	-	-	-	-
Japan	V	Govern-ment	Decided by auction at the market	Financial conditions must be approved by the Commissioner of FSA and Minister of Finance within the limited amount stipulated by Cabinet Order	0%
Kazakhstan	-	-	-	-	-
Korea	V	-	Financial institutions	Prior approval by the Ministry of Strategy and Finance	0%
Malaysia	-	-	-	-	-
Russia	-	-	-	-	-
Singapore	V	-	Negotiation by deposit insurer and financial institutions	-	Depending on whether there is a government guarantee

Jurisdiction	Accommodation from Financial Institutions	Guarantor	Agency in Charge of Setting Interest Rate	Financing perquisite or Conditions	Credit Risk weight
Taiwan	V	-	Decided by auction at the market	In case of emergency and before obtaining approval from Central Bank for financial accommodation	20%
Thailand	V	-	Negotiation by deposit insurer and financial institutions	-	0%
The Philippines	V Banks designated as depository or fiscal agents of the Philippine government	-	Negotiation by deposit insurer and financial institutions	Limited to short-term accommodation and government-owned financial institutions designated by the government	If guaranteed by or collateralized by securities issued by the Philippine government or Bangko Sentral ng Pilipinas , 0%; If loan is unsecured, 100%
Vietnam	V	Govern-ment	Negotiation by deposit insurer and financial institutions	Prior approval by the prime minister	0%

Note: *Other financial markets excluding member institutions include internal and external financial markets as well as international financial institutions.

2. Bond issuance

The other main source of external financing is bond issuance. Among the 16 jurisdictions surveyed, more than half are allowed to raise funds through debt issuance, such as Australia, Azerbaijan, Japan, Korea, Malaysia, Russia, Singapore, Thailand, the Philippines and Vietnam. In the Philippines, the PDIC may, with the prior approval of the President of the Philippines, issue bonds, debentures, and other obligations. The Board of Directors sets the interest rate, maturity and other requirements of said obligations. In such cases, an appropriate reserve should be provided for the redemption or retirement of the obligations. Under the amended PDIC Charter (effective June 1, 2009), notes, debentures, bonds, and other obligations issued by the PDIC are fully guaranteed by the government of the Republic of the Philippines. In Japan, the DICJ may issue, by public offering, deposit insurance bonds (including issuance for refunding bonds) guaranteed by the government up to the amount approved by parliament. Such bonds are given the same credit rating as government bonds, generally enabling the DICJ to raise funds stably and effectively.

In Korea, KDIC is legally authorized to issue government-secured DIF bonds and DIF Bond Redemption Fund bonds through public or private offerings subscribed by financial institutions. In Thailand, the Deposit Protection Agency (DPA) may issue deposit insurance bonds, bills or other financial instruments according to rules, procedures and conditions as prescribed by the Board and approved by the Minister of Finance. In Australia, according to the APRA Act, and subject to ministerial approval, APRA's ability to borrow includes raising money or obtaining credit for the purposes of the FCS, whether by dealing in securities or otherwise, but does not include obtaining credit in a transaction forming part of the day-to-day operations of APRA.

Of those deposit insurers who can use bond issuance as a funding source, most do not need to obtain a credit rating because deposit insurance bonds usually carry an explicit or implicit government guarantee, and investors treat such bonds as having the same sound credit as government bonds. In Thailand, according to the Securities and Exchange Act, if the DPA issues bonds through a private placement (i.e. for no more than 10 investors), a credit rating from a credit rating agency is not required. However, a credit rating is required if the DPA issues bonds through a public offering.

Table 9: Bond Issuance of 16 Asia-Pacific DIS

Jurisdiction	Debt-based Financing	Credit rating required
Australia	Any debt instruments	Terms and conditions would be specified in, or consistent with, the approval
Azerbaijan	Long-term debt instruments (government guarantee is not specified in *Deposit Insurance Law*)	Not specified
Bangladesh	-	-
Hong Kong	-	-
India	-	-
Indonesia	-	-
Japan	Government-guaranteed deposit insurance bonds	No
Kazakhstan	-	-
Korea	Government-guaranteed DIF bonds and DIF Bond Redemption Fund bonds	No
Malaysia	Any Debt Instruments with the government guarantee	-
Russia	DIA Russia can issue its bonds (the *Deposit Insurance Law* does not contain any provisions concerning government guarantees)	Not specified
Singapore	Any debt instruments	-
Taiwan	-	-
Thailand	Deposit insurance bonds, bills or other financial instruments according to rules, procedures and conditions as prescribed by the Board and approved by the Minister of Finance	V (for public offering)
The Philippines	Bonds, debentures or other obligations	Not specified
Vietnam	Bonds with Government guarantee	-

D. Comparison of sources of deposit insurance funding

According to the Core Principles for Effective Deposit Insurance Systems jointly issued by IADI and the Basel Committee on Banking Supervision (BCBS) in June 2009, a deposit insurance system should have all available funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims, including a means of obtaining supplementary back-up funding for liquidity purposes when required. As noted above, DIF funding in the 16 surveyed jurisdictions is derived from eight major sources. Although, as stated above, deposit insurers with paybox mandates have fewer resolution methods than those with in-between or risk minimization systems, the sources of funding are not much different in terms of the type of deposit insurance system; this means that all deposit insurers surveyed have various funding sources. Based on the survey responses, the major source of funds is premium income, as shown in the table below.

Table 10: Comparison of Funding Sources of 16 Asia-Pacific DIS

Jurisdiction	Capital	Revenue						Liquidity		
		Premium		Earnings on Invest-ment	Recovery from Liquidation	Other		Accommodation		Bond Issuance
		Premium Income	Special Premium			Fine	Contribution	Accommodation from Government / Central Bank	Loans from Financial Institutions	
Australia	-	-	V	-	V	-	-	V	V	V
Azerbaijan	-	V	V	V	V	V	V	V	V	V
Bangladesh	-	V	-	V	V	-	-	V	-	-
Hong Kong	-	V	V	V	V	V	-	V	V	-
India	-	V	-	V	V	V	-	V	-	-
Indonesia	V	V	-	V	V	V	V	V	-	-
Japan	V	V	V	V	V	V	-	V	V	V
Kazakhstan	V	V	V	V	V	V	-	V	-	-
Korea	-	V	V	V	V	V	V	V	V	V
Malaysia	-	V	V	V	V	V	-	V	-	V
Russia	V	V	V	V	V	V	-	V	-	V
Singapore	-	V	V	V	V	V	-	V	V	V
Taiwan*	-	V	V	V	V	V	-	V	V	-
Thailand	-	V	-	V	V	V	-	-	V	V
The Philippines	V	V	-	V	V	V	-	V	V	V
Vietnam*	-	V	-	V	V	V	V	V	V	V

* In Taiwan and Vietnam, although the deposit insurers were injected with initial capital, it is usually used for working capital and not incorporated into DIF, so in this table, such capital is not regarded as the funding source.

VI. DIF Administration

A. Setting DIF target values

Azerbaijan, Hong Kong, Indonesia, Kazakhstan, Korea, Russia, Singapore, Taiwan and the Philippines have set DIF target values for deposit insurers as the benchmark of fund accumulation for the execution of insurance duties. The target value is usually an amount or a percentage. Percentages range from 0.25 to 5. The numerator is the amount of the deposit insurance fund and the denominator is either insured or insurable deposits. In the Philippines, the current DIF target value of PHP 75.5 billion estimated at the end of 2010 was based on anticipated losses from banks with the highest risk of closure and unanticipated losses from other banks. In Azerbaijan and Kazakhstan, the target is 5% of total insured deposits and insurable deposits, respectively. In Hong Kong and Singapore, the targets are 0.25% and 0.3% of insured deposits, respectively. Singapore aims to achieve the target in 14 years, and the target for the DIF in Hong Kong is expected to be reached by 2018. In Taiwan, the target is 2% of insured deposits, and in Indonesia the target is 2.5% of insurable deposits.

In Korea, there are three target ranges for DIFs. For banks, financial investment companies, and non-life insurance companies, the target value is 0.825% to 1.1% of insured deposits. For life insurance companies, it is 0.66% to 0.935%, and for mutual savings banks, it is 1.65% to 1.925%. In Russia, the target ratio is set at 5% of insured deposits, excluding banks with ratings equal to or higher than the Russian Federation rating, as they are “too big to fail” or “too important to fail” (in most cases, the Government is a major shareholder), which means that the DIA will not have to spend any money from the deposit insurance fund to pay compensation to their depositors.

B. Administration of DIF target values

Some deposit insurers set a number of years within which the target value is to be achieved, and some have a periodic review mechanism. In the Philippines, under the current PDIC policy, the DIF target is updated annually to reflect current risks posed to the deposit insurance fund. Hong Kong has mechanisms in place to govern the administration of the fund in order to maintain the fund size within a range of values. It is expected that the DIF in Hong Kong will reach its target fund size by 2018.

Some deposit insurers also provide for a refund system if the fund reaches the target value. Some will refund the excess funds or decrease the premium rates once the fund exceeds a certain percentage of the target value. In addition, if the target value is missed by a certain percentage, a special premium can be charged to cover the shortfall. In Azerbaijan, if the DIF's insurance reserves reach up to 5% of protected/insurable/eligible deposits, the Board may decide to reduce the premiums paid by member banks or to suspend the payment of premiums. In Hong Kong, if the target value is exceeded by over 15%, the Deposit Protection Board refunds excess funds to the insured institutions. Meanwhile, it requires the institutions to pay a special premium to cover shortfalls when the target value is missed by over 30%. In Indonesia, if the target is over 2.5% of insurable deposits, excess funds will be submitted as non-tax revenue to the Government, or premium rate will be lowered. In Korea, if the DIF reaches the target floor, premium rates may be reduced; if it reaches the target cap, premiums may be exempt or refunded. In Russia, if the DIF exceeds 5% of insurable deposits, the premium rate should not exceed 0.05% per quarter; if the DIF exceeds 10% of insurable deposits, payment of premiums is suspended. DIF sufficiency is reviewed by the DIA Board annually, based on econometric and market-based models used by the DIA.

Table 11: Setting and Administration of DIF Target Value of 16 Asia-Pacific DIS

Jurisdiction	DIF Target Value		Administration of DIF Target Values	Periodical review
Australia	-	-	-	-
Azerbaijan		5% of protected/ insurable/ eligible deposits	If the DIF's insurance reserves reach up to 5% of protected deposits, the Board may decide to reduce the premiums paid by member banks or to suspend the payment of premiums.	-
Bangladesh	-	-	-	-
Hong Kong	V	0.25% of the insured deposits	▪ The target fund size is expected to be reached by 2018. ▪ If the target value > 15%, excess funds will be refunded. ▪ If the target value is missed by over 30%, a special premium will be charged to cover the shortfalls.	-
India	-	-	-	-
Indonesia	V	2.5% of the insurable deposits	▪ Once the target reached, excess funds will be submitted as non-tax revenue to the Government or the premium rate will be lowered.	-
Japan	-	-	-	-

Jurisdiction	DIF Target Value		Administration of DIF Target Values	Periodical review
Kazakhstan	V	Not less than 5% of the insurable deposits	-	-
Korea	V	▪ Banks, financial investment companies, non-life insurance companies: 0.825%~ 1.1% ▪ Life insurance companies: 0.66%~ 0.935% ▪ Mutual savings banks: 1.65%~ 1.925%	▪ Reaching target floor: reduction of premium rates ▪ Reaching target cap: exemption or refund of premiums.	-
Malaysia	-	MDIC is currently developing a target fund framework		
Russia	V	5% of insured deposits (excluding banks with ratings equal or higher than the Russian Federation's rating)	The premium rate can be increased to 0.3% per quarter in case the DIF is facing deficit (for two quarters in any 18 months); if the DIF size exceeds 5% of insurable deposits the premium rate should not exceed 0.05% per quarter; if the DIF size exceeds 10% of insurable deposits payment of premiums is terminated.	V 1 year The DIF sufficiency is reviewed by DIA Board annually based on econometrical and market based models used by DIA.
Singapore	V	0.3% of the insured deposits	Aim is to achieve the target in 14 years.	-
Taiwan	V	2% of the insured deposits	-	-
Thailand	-	-	-	-
The Philippines*	V	P75.5 billion	-	Target for 2010; updated annually
Vietnam	-	-	-	-

Note: *In the Philippines, the new guidelines for insurance reserves targeting were approved in June 2008 to simplify the previous guidelines and adopt a risk-based approach to determine the level of PDIC's capital sufficient to cover anticipated and unanticipated losses from bank failure.

C. Methods for dealing with DIF deficits

If there is a deficit, legislation provides for measures that can be taken to help deposit insurers cover the DIF shortfall. If a DIF has a deficit, deposit insurers should make every effort to effectively make up the shortfall. In all of the jurisdictions studied, the main methods for covering a shortfall are: (1) funds provided by the government through capital injections or budget appropriation; (2) future premiums or an increase in premiums; and (3) special premiums levied on insured institutions by the deposit insurer. The following table shows the details for the 16 jurisdictions surveyed.

Table 12: Methods for Dealing with DIF Deficits of 16 Asia-Pacific DIS

Jurisdiction	Government	Premium	
		General	Special
Australia	V*	-	V
Azerbaijan	-	-	V
Bangladesh	V	-	-
Hong Kong	-	V	V
India	-	V	-
Indonesia	V	V	-
Japan	V	V	V**
Kazakhstan	V	-	V
Korea	V	-	V**
Malaysia	-	V	V
Russia	V	V	-
Singapore	-	-	V
Taiwan	V	V	V**
Thailand	-	-	-
The Philippines	V***	-	-
Vietnam	V	V	-

Note: *Australia has no standing DIF as such and therefore deficits do not arise. Under its post-funded system, payout and administrative costs are recovered from the liquidation of the institution. If there is a shortfall, then a special industry levy can be imposed.

**Special premium can be collected when there is a concern about a systemic crisis.

*** Not explicitly stated in the PDIC Charter but based on government action in previous case of DIF deficit.

VII. Handling of Deposit Insurer Taxes and Surpluses

A. Taxes

Since deposit insurance systems serve a public welfare function, over half of the deposit insurers in the jurisdictions surveyed are exempt from most taxes. In Australia, Azerbaijan, Bangladesh, Hong Kong, Japan, Korea, Malaysia, Singapore, Thailand and Vietnam, deposit insurers are exempt from all taxes in general, while in India, Indonesia, Kazakhstan, Russia, Taiwan and the Philippines, deposit insurers are still legally required to pay some taxes. In India, the entire annual surplus of the DICGC is taxed; in Indonesia, the income from DIF investment is taxed; in Taiwan, the insurance premium is taxed; in the Philippines, all of the PDIC's income is taxed, but only for a period of five years starting June 1, 2009, with all tax obligations being charged to the Tax Expenditure Fund in the annual General Appropriations Act. Thereafter, the PDIC will be exempt from income tax, final withholding tax, VAT on assessments collected from member banks, and local taxes. In Kazakhstan, all of the KDIF's income, except revenue from insurance premiums and government bonds, is taxed.

B. Surpluses

All of the jurisdictions surveyed – except Australia, which is an ex post funding system – require their deposit insurers to transfer their surplus to the DIF. In the Philippines, the PDIC's operating surplus (net income) is added to its retained earnings, as a component of the deposit insurance fund. The operating surplus is net of the additions to reserves for probable insurance and financial assistance losses. However, the PDIC is also required by a separate Philippine law to declare/remit 50% of its net income (in case of surplus) to the Government Treasury. In Malaysia, MDIC does not have to transfer any surplus to the DIF since all revenues are credited to the DIF and MDIC's operating costs are charged directly to the DIF.

In Japan, the difference between the income from insurance premiums collected at rates set and expenses must be set aside as liability reserves in the DICJ's General Account, which is used for insurance payments within the limits of payout costs and for financial assistance. The liability reserve increased each year until FY 1994 but declined from FY 1995, due mainly to the resolution of failed financial institutions, and went into deficit in FY 1996. The deficit expanded to JPY 4,000 billion at the end of FY 2002, but has since been decreasing steadily. At the end of FY 2008, the deficit was JPY 900 billion and the reserve is expected to move back into surplus in the near future. In Taiwan, the annual surplus of CDIC is fully appropriated for deposit insurance payout special reserves.

Table 13: Tax and Surplus Treatment of 16 Asia-Pacific DIS

Jurisdiction	Tax				Surplus
	Premium Income	Government Bond Investment Income	Other Income	Surplus	Transfer to DIF
Australia	-	-	-	-	-
Azerbaijan	-	-	-	-	V
Bangladesh	-	-	-	-	V
Hong Kong	-	-	-	-	V
India	-	-	-	V	V
Indonesia	-	V	V	-	V
Japan*	-	-	-	-	V
Kazakhstan	-	-	V	-	V
Korea	-	-	-	-	V
Malaysia	-	-	-	-	V
Russia	-	-	V	-	V
Singapore	-	-	-	-	V
Taiwan	V	-	-	-	V
Thailand	-	-	-	-	V
The Philippines**	V	V	V	V	V***
Vietnam	-	-	-	-	V

Notes: *Japan has one exceptional case; stamp duties are imposed on certificates of borrowing and bonds.

**In the Philippines, the revised Charter (effective June 1, 2009) grants tax exemption to the PDIC which shall be through charges against the national government's tax expenditure fund for the first five years. From June 2014 onwards, PDIC will be exempted from income tax, final withholding tax, VAT on assessment collections and local taxes.

*** In the Philippines, Government-owned entities are mandated by law to declare to the National Government at least 50% of their Net Earnings for a given year as dividend; thus, for PDIC, only the remaining 50% after dividend declaration is transferred to the DIF.

VIII. Funding Mechanisms for Dealing with a Systemic Crisis

The outbreak of the global financial crisis in 2008 forced some countries to invoke the systemic risk exception and develop programs to restore the financial system. The crisis has also led to increased recognition of the importance of establishing effective deposit insurance systems to maintain financial stability and public confidence in the financial system. Having an appropriate funding mechanism in place for dealing with a systemic crisis is critical for governments to protect depositors, or even creditors if necessary, when concerns arise over a series of bank failures, so as to smoothly and successfully stabilize the financial system. In the following, some issues relating to the funding mechanisms for dealing with a systemic crisis are illustrated, including the agencies responsible for dealing with a systemic crisis, mechanisms for dealing with a systemic crisis, reactions to a global financial crisis in terms of coverage and premiums, and differences between the funding sources for an individual failure and a systemic crisis.

A. Agencies responsible for dealing with a systemic crisis

In accordance with the Core Principles for Effective Deposit Insurance Systems, a deposit insurance system is not intended to deal, by itself, with systemically significant bank failures or a systemic crisis. In such cases all financial system safety-net participants must work together effectively. In addition, the costs of dealing with systemic failures should not be borne solely by the deposit insurance system, but also handled through other agencies, such as the government.

In general, the agencies responsible for dealing with a systemic crisis include the central bank, ministry of finance, financial supervisory agency and deposit insurer. However, deposit insurers with paybox systems do not jointly participate in dealing with a systemic crisis, due to the fact that their mandate is mainly to reimburse insured depositors. The 16 Asia-Pacific jurisdictions surveyed are shown below.

Table 14: Agencies Responsible for Dealing with a Systemic Crisis

Jurisdiction	Agencies Responsible for Dealing with a Systemic Crisis				
	Central Bank	Ministry of Finance	Financial Supervisory Agency/Commission	Deposit Insurer	Other
Australia	V	V*	V	V	V*
Azerbaijan	V	V	-	-	-
Bangladesh	V	V	-	V	-
Hong Kong	V	V	-	-	-
India	V**	V	-	-	-
Indonesia	V**	V	-	V	-
Japan	V	V	V	V	-
Kazakhstan	V	V	V	V	V***
Korea	V	V	V	V	-
Malaysia****	V	V	-	V	-
Russia	V	V	-	V	-
Singapore	V	V	-	-	-
Taiwan	V	V	V	V	-
Thailand	V	V	-	-	-
The Philippines	V	-	-	V	-
Vietnam	V	V	V	V	-

Notes: *In Australia, the Council of Financial Regulators (CoFR) provides a forum for facilitating coordination amongst the council members in order to ensure prompt and effective identification of, and responses to, developments that pose a threat to the stability of the financial system. It consists of the APRA, the Reserve Bank of Australia (RBA), the Australian Treasury (Treasury), and the Australian Securities & Investments Commission (ASIC). In September 2008 the council members released a joint Memorandum of Understanding (MOU) dealing specifically with financial crisis management arrangements. The MOU reflects the strong commitment of Australia's regulatory agencies to the open exchange of information and covers the objectives of financial distress management and the principles that guide decisions and actions during times of financial distress, and also sets out the responsibilities of the individual council members during such times.

**In India and Indonesia, Reserve Bank of India and Bank Indonesia both have functions as a central bank and banking supervisor

***In Kazakhstan, in order to support financial sector and business, the national welfare fund Samruk-Kazyna was established. The main objectives of the Fund include establishment of OBA to financial organizations, repurchase of assets of financial organizations, as well as foundation of state organizations aimed to revitalize and develop different segments of economy.

****In Malaysia, the leadership role in a systemic crisis will be provided by the Minister of Finance with the Central Bank having the primary responsibility to recommend strategic plans to the Minister. Both the Central Bank and MDIC are responsible for implementation of these strategic plans, where applicable.

B. Mechanisms for dealing with a systemic crisis

Some jurisdictions, including Indonesia, Japan, Korea, Malaysia and Taiwan, set down mechanisms for dealing with a systemic crisis in their deposit insurance laws, while Kazakhstan and Russia set down mechanisms in a special emergency law enacted in October 2008. In Singapore, this aspect is covered in the Banking Act. In Korea and Malaysia, in addition to the Deposit Insurance Act, such mechanisms are also defined in the Act on the Structural Improvement of the Financial Industry and Central Banking Act.

Table 15: Stipulations for Dealing with a Systemic Crisis in 16 Asia-Pacific Jurisdictions

Jurisdiction	Mechanism for Dealing with Systemic Crisis		
	Y/N	Stipulation	
		Deposit Insurance Act	Other
Australia	N	-	MOU, see footnote to Table 14 above
Azerbaijan	N	-	-
Bangladesh	N	-	-
Hong Kong	N	-	-
India	N	-	-
Indonesia	Y	V	-
Japan	Y	V	-
Kazakhstan	Y	-	Special emergency law
Korea	Y	V	Act on the Structural Improvement of the Financial Industry
Malaysia	Y	V	Central Banking Act
Russia	Y	-	Special emergency law
Singapore	Y	-	Banking Act
Taiwan	Y	V	-
Thailand	N	-	-
The Philippines	Y	V	-
Vietnam	N	-	-

C. Scope of protection during a financial crisis

In the 16 Asia-Pacific jurisdictions surveyed, deposit insurers with in-between or risk minimization systems, such as Indonesia, Japan, Kazakhstan, Korea, Malaysia and Taiwan, have more resolution tools and powers, so the scope of the deposit insurance payout is exempt from the least-cost resolution requirement when there are systemic crisis considerations. Among them, in addition to insured deposits, the scope of protection covers both uninsured deposits and non-deposit liabilities, except in Kazakhstan, Korea and Malaysia, which protect uninsured deposits only. However, the mandate of deposit insurers with paybox systems is mainly to reimburse insured depositors, so during a systemic crisis the scope of protection is limited to insured deposits only.

Table 16: The scope of protection during the financial crisis

Jurisdiction	Insured Deposits	Uninsured Deposits	Non-deposit liabilities
Australia	V	V*	V*
Azerbaijan	V	-	-
Bangladesh	V	-	-
Hong Kong	V	-	-
India	V	-	-
Indonesia	V	V	V
Japan	V	V	V
Kazakhstan	V	V	-
Korea	V	V	-
Malaysia	V	V	-
Russia	V	-	-
Singapore	V	-	-
Taiwan	V	V	V
Thailand	V	-	-
The Philippines	V**	-	-
Vietnam	V	-	-

Note: *On 12 October 2008, in conjunction with the FC Australian Government announced the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding. This temporary arrangement enabled the provision of a guarantee for the wholesale funding of Australian authorized deposit-taking institutions as well as for deposits above the FCS protection limit. These could be covered on an opt-in basis, for a fee. Whilst the FCS has been confirmed as a permanent feature of the Australian financial system, following improvements in market conditions, Australia closed the Guarantee Scheme to new liabilities (including deposit liabilities) on 31 March 2010. Deposit liabilities under the Scheme were capped at their end-of-day balances on 31 March 2010 and have declined significantly since the closure of the scheme. Coverage of the last guaranteed deposits will expire in 2015.

** The amended Charter of the PDIC (effective June 1, 2009) provided that in case of a condition that threatens the monetary and financial stability of the banking system that may have systemic consequences, as determined by the Monetary Board, the maximum deposit insurance cover may be adjusted in such amount, for such a period and/or for such deposit products, as may be determined by a unanimous vote of the Board of Directors in a meeting called for the purpose and chaired by the Secretary of Finance, subject to the approval of the President of the Philippines.

D. Reactions to the global financial crisis in terms of coverage and premiums

1. Increasing coverage or providing full coverage/blanket guarantee

In response to the global financial crisis, 11 Asia-Pacific jurisdictions, i.e. Australia, Azerbaijan, Hong Kong, Indonesia, Kazakhstan, Malaysia, Russia, Singapore, Taiwan, Thailand and the Philippines, have bolstered public confidence by raising or implementing deposit insurance coverage or providing full coverage/a blanket guarantee.

Table 17: Actions to Increase Deposit Insurance Coverage in 16 Asia-Pacific DIS during the 2008 Global Financial Crisis

Jurisdiction	Increase in Coverage				Full Coverage / Blanket Guarantee	
	Y / N	Duration	Coverage From	Coverage To	Y / N	Duration
Australia*	Y	11/28/2008 – currently under review	-	AUD$1 million (US$910,200)	Y	10/12/2008 – 11/27/2008
Azerbaijan	Y	08/05/2009	6 000 AZN (US$ 7700)	30 000 AZN (US$ 38 500)	N	-
Bangladesh	N	-	-	-	N	-
Hong Kong**	N	-	-	-	Y	10/14/ 2008 – 12/31/ 2010
India	N	-	-	-	N	-
Indonesia	Y	10/13/ 2008	RP 100 million (US$ 11,000)	RP 2 billion (US$ 220,000)	N	-
Japan	N	-	-	-	N	-
Kazakhstan***	Y	10/23/ 2008 – 01/01/2012	KZT 0.7 million (US$ 4,760)	KZT 5 million (US$ 34,000)	N	-
Korea****	N	-	-	-	N	-
Malaysia	N	-	-	-	Y	10/16/ 2008 – 12/31/ 2010
Russia	Y	10/1/2008 – Permanent	RUB 400,000 (US$ 13,500)	RUB 700,000 (US$ 23,600)	N	-
Singapore	N	-	-	-	Y	10/16/ 2008 – 12/31/ 2010
Taiwan	N	-	-	-	Y	10/7/ 2008 –

Jurisdiction	Increase in Coverage				Full Coverage / Blanket Guarantee	
	Y / N	Duration	Coverage From	Coverage To	Y / N	Duration
						12/31/ 2010
Thailand*****	N	-	-	-	Y	10/28/2008 – 8/10/2011
The Philippines	Y	6/1/2009 – Permanent	Peso 250,000 (US$ 5,500)	Peso 500,000 (US$ 11,000)	N	-
Vietnam	N	-	-	-	N	-

Notes: The basis date of exchange rate was March 26, 2010.

*Australia introduced its Financial Claims scheme during the financial crisis. As such, the cap was set temporarily at an unlimited level (from 12 October 2008) and then with a $1 million limit (from 28 November 2008). Australia is currently reviewing the long-term cap of the scheme.

**A full deposit guarantee is provided by the Hong Kong SAR Government (not the HKDPB).

*** Amendments to the law on deposit insurance in the Republic of Kazakhstan have been prepared (subject to the Parliament's approval) envisioning maintenance of deposit coverage at the level of 5 million tenge after January 1, 2012.

****From 3 November 2008, the KDIC extended its coverage to include foreign currency deposits in order to ease the volatility in the foreign exchange market.

***** When the global crisis occurred in 2008, Thailand was in the stage of phasing out from blanket guarantee which had been imposed since August 1997. Due to the crisis in the latter half of 2008, the Thailand Cabinet granted approval to extend the period of blanket guarantee for two more years (8/11/2009 – 8/10/2011) and increase the coverage of the fourth year (8/11/2011 – 8/10/2012) to 50 million Baht with the purpose to provide a precaution measure against any negative effect and to maintain confidence of depositors in the system.

2. Changes to premium rates and collection of special premiums

Of the Asia-Pacific jurisdictions surveyed, most did not change the deposit insurance premium rate during the global financial crisis, although potential liabilities increased. Among the exceptions were Russia, which, starting in October 2008, lowered the premium rate from 0.13 to 0.10% per quarter, and Kazakhstan, which, starting in January 2008, reduced the differentiated rates per quarter by 25% to support banks with liquidity.

Regarding the collection of special premiums, in Malaysia, the Government Deposit Guarantee scheme charged a guarantee fee on the additional coverage provided over and above the explicit coverage provided by MDIC. The fees were remitted to the Government in return for a loss coverage facility extended by the Government to MDIC. In Taiwan, a special premium was charged on interbank call loans to insured institutions. The survey results showed that the competent authorities around the Asia-Pacific region paid more attention to maintaining public confidence than to the sufficiency of funding when facing a systemic crisis.

Table 18: Change to Premium rates and Collection of Special Premiums in 16 Asia-Pacific DIS during the 2008 Global Financial Crisis

Jurisdiction	Change in Premium rates			Collection of Special Premium		
	Y/N	Duration	Content	Y/N	Duration	Content
Australia	N	-	-	N	-	-
Azerbaijan	N	-	-	N	-	-
Bangladesh	N	-	-	N	-	-
Hong Kong	N	-	-	N	-	-
India	N	-	-	N	-	-
Indonesia	N	-	-	N	-	-
Japan	N	-	-	N	-	-
Kazakhstan*	Y	-	Since January 2008, all the premium rates were decreased by 25%	N	-	-
Korea	N	-	-	N	-	-
Malaysia	N	-	-	Y	10/16/ 2008 – 12/31/ 2010	A guarantee fee will be charged on the additional coverage provided by the Government Deposit Guarantee over and above the explicit coverage provided by MDIC. The fees will be remitted to the Government in return for a loss coverage facility extended by the Government to MDIC.
Russia	Y	Permanent	Starting October 2008 the premium rate was decreased to support banks with	N	-	-

Jurisdiction	Change in Premium rates			Collection of Special Premium		
	Y/N	Duration	Content	Y/N	Duration	Content
			liquidity (from 0.13 to 0.10% per quarter)			
Singapore	N	-	-	N	-	-
Taiwan	N	-	-	Y	11/1/ 2008 – 12/31/ 2010	A special premium was charged on interbank call loans to insured institutions.
Thailand	N	-	-	N	-	-
The Philippines	N	-	-	N	-	-
Vietnam	N	-	-	N	-	-

Note: *In Kazakhstan, the capital of the KDIF was increased to KZT 100 billion tenge by the Central Bank in 2008, since that it is increasing the capital by 10% every year. Such mechanism will be valid till 2012 as one of the anti-crisis measures.

E. Difference between funding sources for an individual failure and a systemic crisis

Among the Asia-Pacific jurisdictions surveyed, most responded that there were no differences between an individual failure and a systemic crisis, except Japan, Kazakhstan, Russia and Taiwan. In Japan, the Deposit Insurance Act stipulates that financial institutions must cover expenses incurred in connection with implementing crisis management operations. In Kazakhstan, if a deficit in the special reserve results from the failure of one or more banks during the period of crisis (up to January 2012), the central bank will finance the shortfall in the special reserve. After the period of crisis, in the event of a bank failure, the KDIF will collect additional premiums from financial institutions. In Taiwan, in the event of a systemic crisis, CDIC may levy a special premium on insured institutions. In addition, since the beginning of 2011 the revenue from bank business taxes is injected into the DIF.

Although in some countries the funding sources for a systemic crisis are not explicitly stipulated in law, governments still play an important role in the response to a systemic crisis. For example, the DICJ and KDIC both received fund injections from their respective governments during the 1997 Asian financial crisis.

Table 19: Funding Sources for Handling a Systemic Crisis in 16 Asia-Pacific DIS

Jurisdiction	Same as Funding Sources for an Individual Failure	Other Funding Source
Australia	V	-
Azerbaijan	V	-
Bangladesh	V	-
Hong Kong	V	-
India	V	-
Indonesia	V	-
Japan*	-	The *Deposit Insurance Act* stipulates that financial institutions shall cover expenses incurred in connection with implementing crisis management operations.
Kazakhstan	-	During the present crisis and in case of a deficit, the Central Bank and the national welfare fund “Samruk-Kazyna” are defined as the funding sources. After January 2012: Additional premiums from the financial institutions
Korea*	V	-
Malaysia	V	-
Russia	-	The emergency law dated Oct. 2008 which authorized the Deposit Insurance Agency to take measures aimed at prevention of bankruptcies of systemically important banks will be effective till Dec. 31, 2011. The Agency received additional special contribution in the amount of 200 billion rubles (about US$6.6 billion) from the government for providing assistance to investors in problem banks, injecting new capital to problem banks or purchasing assets from problem banks after they are taken by the Agency for restructuring/rehabilitation.
Singapore	V	-
Taiwan	-	▪ Special premiums can be charged on insured institutions when there is the possibility of a systemic crisis. ▪ Bank business tax revenue injection beginning year 2011.
Thailand	V	-
The Philippines	V	-
Vietnam	V	-

Note: *DICJ (Japan) and KDIC (Korea) received fund injection from government in the previous (Asian) financial crisis.

IX. Conclusions

A. Diversified funding vehicles are important to maintain sufficient/adequate funds and liquidity for deposit insurers

Sound funding arrangements are critical to the effectiveness of a deposit insurance system. According to the Core Principles for Effective Deposit Insurance Systems, a deposit insurance system should have all available funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims, including a means of obtaining supplementary back-up funding for liquidity purposes when required. It is also important to have legislation in place which provides for measures to be taken to help deposit insurers cover a DIF shortfall. If the DIF has a deficit, deposit insurers should make every effort to effectively make up the shortfall. If there is a shortage of DIF liquidity, the government and the central bank usually help by providing guarantees or liquidity and acting as the lender of last resort. From the survey responses of the 16 Asia-Pacific DIS, it became evident that all of them use various funding channels to meet their responsibilities regardless of their mandates, and some have a government guarantee for borrowing or bond issuance.

B. Safety and liquidity are the main considerations of deposit insurers in fund investment

To meet reimbursement needs or to react to a financial crisis, the deposit insurance fund should be accessible in a timely fashion. Safety and liquidity are the main considerations of deposit insurers for fund investment. Accordingly, most deposit insurers invest in principal-guaranteed and highly liquid vehicles, such as government bonds, Treasury bills, financial debentures or deposits in the central bank or sound financial institutions. A deposit insurer's investment policy should find a balance between higher rates of return and the certainty of funds being available when needed. Such a policy should not be too aggressive, as that may erode public confidence.

C. There is a growing trend for Asia-Pacific deposit insurers to set fund target values or ratios

Many deposit insurance systems in the Asia-Pacific region explicitly stipulate in law a DIF target value or a ratio to total deposits covered. Such targets enable deposit insurers to discharge their insurance obligations and thereby strengthen public confidence and effectively stabilize the financial system.

The establishment of a mechanism for managing DIF targets can help ensure that the DIF is amply funded as scheduled. Such a mechanism can also facilitate adjustments when the target is exceeded or missed, and provide balance when considering fund adequacy and the burden on insured institutions. A periodic review of the target value or ratio should also be carried out.

D. Most deposit insurers in the Asia-Pacific region are exempt from most taxes and required to transfer their surplus to the deposit insurance fund, which can speed up fund accumulation

Since deposit insurance systems serve a public welfare function, whether they are public, semi-public or private corporations, most of those in the Asia-Pacific region are exempt from all taxes. And if there is a surplus, it will be transferred to the deposit insurance fund. These measures can speed up fund accumulation and strengthen the capacity for reimbursement.

E. Overall financial conditions need to be considered when adjusting deposit insurance premiums during a financial crisis

In response to the global financial crisis of 2008, most of the 16 Asia-Pacific jurisdictions surveyed increased deposit insurance coverage or even adopted a blanket guarantee, in the hope of fulfilling the function of stabilizing the financial system. However, considering the overall financial situation, most did not increase the deposit insurance premium rates but may adjust them once the financial system is more stable. This showed that the competent authorities around the Asia-Pacific region did not make fund sufficiency their top priority while trying to maintain financial stability during the systemic crisis.

F. Cost of handling a financial crisis should not be borne by the deposit insurance organization alone

According to the Core Principles for Effective Deposit Insurance Systems, the cost of dealing with systemic failures should not be borne solely by the deposit insurance system, but also handled through other agencies, such as the state. The survey showed that financial safety net players are jointly responsible for handling a systemic crisis, and that the cost is not borne by the deposit insurer alone. In some jurisdictions, the government sets aside public funds to cover all costs, while in some jurisdictions the government and the deposit insurance fund are jointly responsible for costs. It is also very important that mechanisms are in place for deposit insurers to borrow funds from outside, in order to ensure that the funds are sufficient and accessible in a timely manner.