



2008/2009 ANNUAL REPORT

Charting a Course Through a Global Crisis



International Association
of Deposit Insurers

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About IADI

Founded in 2002, the International Association of Deposit Insurers (IADI) is a non-profit organization constituted under Swiss Law and domiciled at the Bank for International Settlements (BIS) in Basel, Switzerland. IADI contributes to the stability of financial systems by promoting international cooperation in the field of deposit insurance and encouraging wide international contact among deposit insurers and other interested parties.

The IADI organization is hosted by the BIS, which also supports several other groups that seek to promote national and international financial stability. These organizations include the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, and the Financial Stability Board (formerly the Financial Stability Forum). The Financial Stability Institute, also located at the BIS, provides training to financial institution supervisors and deposit insurers. These organizations share common goals and similar constituents - including financial supervisors, deposit insurers, and monetary authorities - that participate in country financial safety nets. These organizations provide resources and services to ensure that countries' financial systems operate effectively, support economic growth, and interact in a global environment increasingly characterized by cross border interests. Being grouped with similar organizations enables IADI to engage in partnerships and collaborate to achieve its objectives and to increase its value to its members.

IADI has identified several goals for the Association. As set out in its statutes, IADI strives to:

- Enhance the understanding of common interests and issues related to deposit insurance;
- Provide guidance to enhance the effectiveness of deposit insurance systems and structures;
- Facilitate the sharing and exchange of expertise and information on deposit insurance issues through training, development and education programs, and provide advice on the establishment or enhancement of effective deposit insurance systems;
- Undertake research on issues relating to deposit insurance; and
- Take such other actions as may be necessary or useful for its objectives and activities.

IADI is governed by an Annual General Meeting (AGM) of Members and its Executive Council (EXCO). The AGM elects the officers of the Association, including the President and Treasurer. At the Sixth AGM, held in Kuala Lumpur in November 2007, Mr. Martin J. Gruenberg, Vice Chairman of the Federal Deposit Insurance Corporation

(FDIC) in the United States, was elected IADI President and Chair of the Executive Council for a term of three years. At the Fifth Annual General Meeting in November 2006, Ms. Bakhyt Mazhenova, Chairman of the Kazakhstan Deposit Insurance Fund, was elected to serve as IADI Treasurer for three years. At the Twenty-Third Executive Council meeting in February 2008, Mr. Mutsuo Hatano, Deputy Governor, Deposit Insurance Corporation of Japan, was appointed by the Executive Council to serve in the newly created position of Vice Chair of EXCO.

The AGM is responsible for approving the annual budget and business plans, monitoring fees and fund contributions of participants, overseeing the preparation of the IADI Annual Report, appointing an external auditor, and developing the process for using guidance to enhance the effectiveness of the Association.

The EXCO ensures the sound functioning of the Association's affairs, and its responsibilities and powers are defined in the Statutes and By-laws of the Association. EXCO is structured as an inclusive organization to ensure maximum participation, and the number of members is approved by the AGM. EXCO members are elected by the AGM, typically to serve three-year terms.

EXCO establishes committees to support IADI's objectives. There are currently six standing committees and seven regional committees. Terms of reference for each committee are approved by EXCO and include objectives and responsibilities. Please see the section on "Leadership" for information on EXCO, and on standing and regional committees.

The operations of IADI are managed by its Secretariat, under the direction of the Secretary General. Donald Insoe, former Deputy Director of Financial Risk Management and Research for the FDIC, was approved by EXCO on 12 February 2008, and took up the position of IADI Secretary General on 1 May 2008.

IADI has grown from 25 founding members to 52 members as of 31 March 2009. IADI is funded by initial fund contributions and annual fees, which vary depending on the type of participant. IADI's office space and administration is provided by the Bank for International Settlements. In addition, IADI receives significant donations from individual members for staffing through secondments, accounting and legal services, and support for budgeted initiatives.

As we undergo difficult times for financial stability across the world, IADI will continue to promote international cooperation and knowledge sharing to maintain public confidence in our banking systems and financial sectors.

President's Message



Over the past year the global financial system has experienced its worst crisis since the 1930s. The situation intensified significantly in September and October 2008, leading supervisory authorities around the world, including many deposit insurers and IADI members, to take a series of unprecedented actions to restore public confidence and financial stability.

During this time, 47 jurisdictions acted to strengthen their deposit insurance systems in response to the crisis. Never before in history have worldwide changes in deposit insurance systems of this scale and scope occurred within such a short time frame. Actions taken by the 47 jurisdictions included adoption of explicit deposit insurance systems, increases in deposit insurance coverage, and extensions of blanket deposit insurance coverage.

While the most severe effects of the crisis appear to have abated, the financial and economic situation remains far from normal. Considerable efforts will be required to repair and reform financial systems and to phase out temporary programs put in place to restore and maintain public confidence and financial stability.

Without question one of the most significant lessons coming out of this crisis has been the widespread recognition of the importance of deposit insurance for financial stability. This was acknowledged by the Financial Stability Forum which recommended in its April 2008 "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience" that "[a]uthorities should agree on an international set of principles for effective deposit insurance systems."

In response to this recommendation, IADI and the Basel Committee on Banking Supervision (BCBS) jointly led an effort over the past year to develop an agreed set of deposit insurance core principles. This was a collaborative effort including the European Forum of Deposit Insurers (EFDI) and the G10 Task Force on Deposit Insurance. The goal of developing core principles for deposit insurance had been a subject of IADI research and attention even prior to the current financial crisis.

I am very pleased that as a result of this collaborative effort, the *Core Principles for Effective Deposit Insurance Systems* were jointly approved and released in June 2009 by IADI and BCBS. This is a significant milestone for improving deposit insurance systems worldwide.

We believe the *Core Principles* will serve as a valuable benchmark for jurisdictions to use to strengthen existing and develop new systems of deposit insurance. The *Core Principles* are comprehensive in nature, addressing issues of coverage, funding, powers, membership, cross border cooperation, transitioning from blanket to limited coverage, public awareness, early detection and timely intervention and resolution, reimbursement of depositors, and recoveries on assets. The *Core Principles* are adaptable to a broad range of country circumstances and reflect lessons learned from the current crisis regarding the importance of adequate regulatory and supervisory frameworks and resolution procedures for failing institutions.

While the final release of the *Core Principles* is a significant accomplishment, our work is not yet complete. The next step is the development of a *Core Principles* Methodology that can be used by deposit insurers worldwide to assess the effectiveness of their deposit insurance systems against the *Core Principles*. We believe that the development of a *Core Principles* Methodology and its use in these related activities will strengthen deposit insurance systems and financial stability worldwide.

IADI is in the early stages of discussions with the BCBS and the International Monetary Fund (IMF) regarding the development of a *Core Principles* Methodology. IADI is also exploring with the IMF ways in which the *Core Principles* and the *Core Principles* Methodology under development may be incorporated into the IMF's activities, including the Financial Sector Assessment Program (FSAP).

As we look forward, another critical issue for deposit insurers and supervisory authorities alike will be transitioning from temporarily increased and blanket deposit insurance coverage, once the recovery does become evident. Such exit strategies and unwinding must be conducted in a manner that will avoid cross border consequences and competitive distortions in financial markets.

In recognition of the need for jurisdictions to focus on deposit insurance transitioning issues, the Financial Stability Board (FSB) of the Group of 20 countries recently called upon IADI and the IMF to jointly study and report on exit strategies of jurisdictions that have temporarily increased coverage or provided blanket deposit insurance coverage. In addition, IADI's Research and Guidance Committee is actively studying this issue, as well as the cross border implications of the financial crisis on deposit insurers.

The current crisis, and the recognition of the importance of effective systems of deposit insurance in maintaining financial stability, has underscored the unique role played by IADI. By bringing together deposit insurers from around the world, IADI has served as a source of expertise and leadership on deposit insurance in this crisis. Through its training programs, research, and regional and annual conferences, IADI has provided critical support to its members as they cope with this challenging environment.

I would like to express my gratitude to Don Inscoe, the Secretary General of IADI, Kim White, the Deputy Secretary General, and the rest of the IADI Secretariat for the outstanding work they have done over the past year.

We look forward over the next year to strengthen IADI's position among international organizations concerned with financial stability, and continuing to expand our membership among deposit insurers. IADI has already made important contributions to the global response to the financial crisis, and is well positioned to expand its contributions in the future.

Martin J. Gruenberg
President

Letter from the Secretary General



2008-09 was an eventful year for the International Association of Deposit Insurers, for our members and for other national, multinational, and international organizations that promote financial stability. The global crisis has highlighted the essential role of deposit insurance, and for many of our members, provided opportunities and imperatives to strengthen national deposit insurance systems.

Activities to strengthen the Secretariat increased in number and intensity, compelled by the financial crisis. In 2008 the number of full-time Secretariat staff was increased from two to five positions in Basel. The Secretariat staff is comprised of the Secretary General, Deputy Secretary General, and two Senior Policy Analysts. Three positions are seconded by members: the Secretary General by the FDIC; one Senior Policy Analyst by the Korea Deposit Insurance Corporation; and one by the Deposit Insurance Corporation of Japan.

The Deputy Secretary General oversees Secretariat operations and supports events and participants. The Senior Policy Analysts support financial planning, operations, research, and member communications. They manage the IADI website - which was revamped during the year to reflect the organization's stature as an international organization that supports financial stability.

With its expanded staff, the Secretariat contributed to improvements for the benefit of the Association and its participants, including corporate governance, financial risk management, and support for the strategic objectives approved in the Association's business plan and budgets. 2008 corporate governance initiatives included a transition to new Association leadership, following the appointment of President Martin J. Gruenberg by the membership at the Annual General Meeting (AGM) in Kuala Lumpur, Malaysia, in September 2007. The Statutes of the International Association of Deposit Insurers were amended to include recent and past decisions of the AGM and Executive Council that were approved by the membership. IADI's Statutes are legalized in Switzerland and published on the website.

The financial resources of the organization have been strengthened considerably. Steps were taken during the year to minimize financial risks and the Association's resources increased significantly during the year. IADI's capital resources - which include unrestricted assets accumulated since the founding of IADI in 2002, and member's initial capital contribution - together have increased by more than 50

percent. The strong increase in IADI's capital resources in the year is attributable to several sources, including steps to minimize exposure to foreign currencies and collaborations with the BIS and other organizations for support on strategic objectives. The BIS provides offices and other facilities to host IADI and other groups that contribute to financial stability at no charge.

Collaborations engaged to support initiatives included partnerships with the Financial Stability Institute - part of the Basel group of organizations that contribute to national and international stability - for deposit insurance training and conferences, and with other BIS organizations.

We have also supported membership outreach activities, and the number of participants increased by three during the year, with two new partners - the World Bank and the US Treasury Office of Technical Assistance - and one new member, the Deposit Protection Agency (DPA), Thailand. The Secretariat supported or organized numerous conferences and management meetings, and the Secretary General participated in conferences, seminars and training events sponsored by our members and related organizations.

The year saw a transition for the Secretariat, accompanied with challenges and opportunities. I began my term early in the year on 1 May 2008, following my appointment to the position by the Executive Council at its twenty-third meeting in February 2008 for a two-year term.

We have had a very productive year in an environment which has oftentimes been challenging. Our considerable progress is credited to IADI's members, its Executive Council, Standing and Regional Committees, and the Secretariat staff. I would like to acknowledge and sincerely commend the Secretariat staff - Kim White, Deputy Secretary General, and Senior Policy Analysts Taewook Chang and Norimitsu Takada, Jocelyne Amourette and the many IADI members who provided support to initiatives of the Association.

With your continuing support, we look forward to progress ahead.

Don Inscoe
Secretary General

Core Principles for Effective Deposit Insurance Systems

On 12 March 2009, IADI and the Basel Committee on Banking Supervision issued *Core Principles for Effective Deposit Insurance Systems* for public consultation, after extensive collaboration with interested parties, including the G10 Task Force on Deposit Insurance and the European Forum of Deposit Insurers.

The *Core Principles* issued on 18 June 2009 represent the final version. An excerpt is provided on the following pages, and the complete document is provided in Appendix A.



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS



Press release

Press enquiries: +41 61 280 8188
press.service@bis.org
www.bis.org

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Basel Committee and IADI issue *Core Principles for Effective Deposit Insurance Systems* for public consultation

The Basel Committee on Banking Supervision and the International Association of Deposit Insurers (IADI) today issued the *Core Principles for Effective Deposit Insurance Systems* for public consultation.

The Financial Stability Forum, in an April 2008 report on the financial crisis, called on authorities to agree on an international set of principles for effective deposit insurance systems. The Basel Committee/IADI core principles are the result of that recommendation. The core principles address a range of issues including deposit insurance coverage, funding and prompt reimbursement. They also address issues related to public awareness, resolution of failed institutions and cooperation with other safety net participants including central banks and supervisors.

Martin Gruenberg, Chairman of IADI and member of the Basel Committee, noted that "The core principles are the product of a cooperative effort between the Basel Committee and IADI to respond to one of the lessons of the financial crisis: the need for effective systems of deposit insurance to help maintain public confidence. They set an important benchmark for countries to use in establishing or reforming deposit insurance systems".

Comments on the paper should be submitted by 15 May 2009 by email to: baselcommittee@bis.org or Service.IADI@bis.org. Alternatively, comments may be sent by post to the Basel Committee on Banking Supervision secretariat or the IADI secretariat. The mailing address for both secretariats is: Bank for International Settlements, CH-4002 Basel, Switzerland.

Core Principles

Core Principles for Effective Deposit Insurance Systems

Executive Summary

Introduction and Objectives

1. The Report of the Financial Stability Forum (FSF) on Enhancing Market and Institutional Resilience (April 2008) pointed out that events during the recent international financial turmoil illustrate the importance of effective depositor compensation arrangements. The report stressed the need for authorities to agree on an international set of principles for effective deposit insurance systems.
2. In July 2008 the Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI) decided to collaborate to develop an internationally agreed upon set of Core Principles using the IADI Core Principles for Effective Deposit Insurance Systems as a basis. A joint working group was established to develop Core Principles to be submitted to the BCBS and IADI for their respective review and approval. This joint working group is comprised of representatives from the BCBS's Cross Border Bank Resolution Group (CBRG) and IADI's Guidance Group. The following Core Principles for Effective Deposit Insurance Systems represent the work of the joint CBRGIADI working group in developing Core Principles.

Core Principles and Preconditions

3. Policymakers have choices regarding how they can protect depositors and contribute to financial system stability. Explicit deposit insurance has become the preferred choice compared to other alternatives such as reliance on implicit protection. A deposit insurance system clarifies the authority's obligations to depositors (or, if it is a private system, its members), limits the scope for discretionary decisions, can promote public confidence, helps to contain the costs of resolving failed banks, and can provide countries with an orderly process for dealing with bank failures and a mechanism for banks to fund the cost of failures.
4. The introduction or the reform of a deposit insurance system can be more successful when a country's banking system is healthy and its institutional environment is sound. In order to be credible, and to avoid distortions that may result in moral hazard, a deposit insurance system needs to be part of a well-constructed financial system safety net, properly designed and well implemented. A financial safety net usually includes prudential regulation and supervision, a lender of last resort, and deposit insurance. The distribution of powers and responsibilities between the financial safety-net participants is a matter of public policy choice and individual country circumstances.
5. 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 dealt with through other means such as by the state.
6. The Core Principles are reflective of, and designed to be adaptable to, a broad range of country circumstances, settings, and structures. The Core Principles are intended as a voluntary framework for effective deposit insurance practices; national authorities are free to put in place supplementary measures that they deem necessary to achieve effective deposit insurance in their jurisdictions. The Core Principles are not designed to cover all the needs and circumstances of every banking system. Instead, specific country circumstances should be more appropriately considered in the context of existing laws and powers to fulfill the public policy objectives and mandate of the deposit insurance system.
7. An effective deposit insurance system needs to be based on a number of external elements or preconditions. These preconditions, although mostly outside the direct jurisdiction of the deposit insurance system, have a direct impact on the system. These preconditions include:
 - an ongoing assessment of the economy and banking system;
 - sound governance of agencies comprising the financial system safety net;
 - strong prudential regulation and supervision; and
 - a well developed legal framework, and accounting and disclosure regime.

8. The 18 Core Principles are broadly categorised into ten groups: Setting objectives (principles 1 to 2); Mandates and powers (principles 3 to 4); Governance (principle 5); Relationships with other safety-net participants and cross border issues (principles 6 to 7); Membership and coverage (principles 8 to 10); Funding (principle 11); Public awareness (principle 12); Selected legal issues (principles 13 to 14); Failure resolution (principles 15 to 16); and Reimbursing depositors and recoveries (principles 17 to 18).

Setting objectives

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

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

Mandates and powers

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

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

Governance

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

Relationships with other safety-net participants and cross border issues

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

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

Membership and coverage

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

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

Core Principles

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

Funding

Principle 11—Funding: A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims, including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by banks since they and their clients directly benefit from having an effective deposit insurance system. For deposit insurance systems (whether ex-ante, ex-post or hybrid) utilising risk-adjusted differential premium systems, the criteria used in the risk-adjusted differential premium system should be transparent to all participants. In addition, all necessary resources should be in place to administer the risk-adjusted differential premium system appropriately.

Public awareness

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

Selected legal issues

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

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

Failure resolution

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

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

Reimbursing depositors and recoveries

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

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

Task Ahead

The Core Principles are intended as a voluntary framework for effective deposit insurance practices, and national authorities are free to put in place supplementary measures that they deem necessary to achieve effective deposit insurance in their jurisdictions.

In its final report published on 27 March 2009, the G20 Working Group on Reinforcing International Cooperation and Promoting Integrity in Financial Markets called upon the International Monetary Fund (IMF) to “assess the progress with international convergence in the provision of deposit insurances, drawing on IADI’s Core Principles for Effective Deposit Insurance Systems” to identify gaps and highlight best practices in terms of regulatory cooperation. IADI is working with the BCBS and IMF to carry out that directive and explore how the Core Principles can be incorporated into the IMF’s surveillance activities, including the Financial Sector Assessment Program (FSAP).

A methodology for assessment of a country’s compliance with the Core Principles can be a useful tool for countries that are implementing or reforming a deposit insurance system. The methodology could be used in multiple contexts: (i) self-assessment performed by the deposit insurer; (ii) IMF and World Bank assessments of the quality of deposit insurance systems, (for example, in the context of the Financial Sector Assessment Program); (iii) reviews conducted by private third parties such as consulting firms; and (iv) peer reviews conducted, for example, within IADI regional committees.

One area of particular focus for the year ahead is to work with the Basel Committee on Banking Supervision (BCBS) and IMF to further develop the assessment methodology

1

Strategic Objective 1

Strategic Objectives of the Association

The Statutes of the International Association of Deposit Insurers set out the powers of the General Meeting. Article 13(e) provides for the approval of the annual budget and business plans. IADI's business plan and budgets are updated annually, and cover a three-year planning horizon. The 2008-2011 Business Plan sets out five strategic objectives.

Strategic Objective 1

Undertake Research and Issue Core Principles and Effective Practices

Strategic Plan for IADI Research and Guidance

IADI has worked to create a strong foundation for issuing guidance to improve the effectiveness of deposit insurance systems. The process involves developing research plans, undertaking research, developing guidance, and validating such guidance by engaging in consultations through conferences and reviews by authoritative parties.

To facilitate the development of research and guidance, the Research and Guidance Committee (RGC) is divided into three groups: a "Research Group" - to conduct research; an "Islamic Deposit Insurance Group" - to study Islamic deposit insurance issues; and a "Guidance Group" - to examine the research findings, ensure quality control, and identify suitable core principles and supporting guidance. The RGC is responsible for promoting guidance through a variety of means such as presentations at conferences, working with international financial institutions (IFIs), and the publication of work in various forms, including learned journals.

The RGC has developed a strategic plan to accomplish

these objectives. The plan includes:

- Definitions of key guidance terms.
- A methodology for:
 - reviewing IADI research papers and identifying, developing and issuing guidance;
 - ensuring IADI research plans, discussion papers and guidance meet high standards of quality and consistency; and
 - undertaking consultation with IFIs, academia and other interested parties for the development and promotion of research, guidance and the IADI/BCBS Core Principles.

During the past year, IADI has been active in fulfilling its responsibilities for undertaking research and guidance, and these activities have been fruitful. In October 2008, EXCO approved three papers: "Governance of Deposit Insurance Systems", "Public Awareness of Deposit Insurance Systems", and "Funding of Deposit Insurance Systems". These were subsequently released as IADI Guidance Papers in May 2009. IADI also issued two regional research papers on "The Effect of DIS on Banking Sector Development: The Example of Kazakhstan, Russia and Ukraine" and "Transitioning from a Blanket Guarantee to a Limited Coverage System".

Following five draft discussion papers covering "Mandates", "Claims and Recoveries", "Coverage", "Legal Protection and Indemnification Issues", and "Risk Management" were reviewed by the Guidance Group, and are scheduled to be approved by EXCO for public consultation and officially made public as IADI guidance or research papers in 2009/2010. Additionally, three draft discussion papers covering "Evaluation of Deposit Insurance Fund Sufficiency", "Approaches in Designing Islamic Deposit Insurance", and "Deposit Insurance from the Shariah Perspective" are scheduled for completion in 2009/2010, with six other research projects underway.

1. Claims and Recoveries

The objective of this paper is to examine the claims and recoveries process and to recommend guidance in the form of the IADI Core Principles and Effective Practices for deposit insurers and other financial safety-net participants. The paper presents case studies to illustrate the ways in which deposit insurers undertake the claims and recoveries process.

2. Deposit Insurance Coverage

All deposit insurance systems must specify what types of deposits are insured, and the amount of coverage per account holder. The objective of this paper is to review issues in the determination of the level and scope of deposit insurance coverage, and to suggest guidance in the form of Core Principles and supporting guidance points. Among the key areas addressed are the setting of coverage levels, scope of coverage, adjustment of coverage limits, cross border issues, coverage of retirement and pension funds, and the emergence of new financial instruments. The paper also stresses the importance of effective communication about deposit insurance coverage.

3. Mandates

This paper was developed to provide general guidance on effective mandates for deposit insurance systems. It compares the experiences of 29 countries representing the three deposit insurance models: paybox, paybox with extended powers, and risk-minimizing. The paper highlights the importance of designing the insurer's mandate in an integrated fashion with the roles, responsibilities, powers, and authorities of other safety-net members.

4. Legal Protection among Deposit Insurance Systems in Banking Resolution Processes

Legal protection is essential for maintaining sound deposit insurance systems. This paper concludes that, while individuals should be legally protected, they must also observe appropriate oaths of office, conflict of interest rules, and codes of conduct to ensure they remain accountable for their actions. It is the combination of these three things that allows for a trustworthy deposit insurance system for both the employees and the public.

5. Organizational Risk Management for Deposit Insurers

The intent of this paper is to provide deposit insurers wishing to develop or enhance their risk management processes with a survey of risk management processes currently being undertaken by other deposit insurers. The discussion paper describes the different processes which deposit insurers currently use to identify, assess, manage, monitor, and report on the risks to which they are exposed.

The Guidance Group will examine the discussion papers and research findings to consider future revisions to IADI's research and guidance papers, and to the Core Principles' explanations and supporting guidance

Other Research Activities from IADI's Regional Committees

Asian Regional Committee Paper on Transition from Blanket Guarantee Systems

The reasons for implementing a blanket guarantee system vary from country to country, but common policy objectives for doing so have been to stabilize financial order, maintain depositor confidence,

and prevent the collapse of financial and payment systems during times of systemic crisis. Blanket guarantee systems can lead to increasing moral hazard and higher costs in disposing of problem institutions; therefore, many countries that implement blanket coverage do so temporarily, with hopes of soon smoothly transitioning to a limited coverage system. This paper concludes that the limited coverage system is more appropriate for maintaining a sound and stable financial system in most countries, and therefore a blanket guarantee system should be removed and replaced by a limited coverage system as soon as possible.

The Effect of DIS on Banking Sector Development: The Example of Kazakhstan, Russia and Ukraine

The purpose of this paper is to assess the effect of deposit insurance systems (DIS) on banking sector development in emerging market countries, using the three largest post-Soviet economies - Kazakhstan, Russia, and Ukraine - as examples. The common feature of these three banking systems at the end of the 1990s was a low level of public confidence which was leading the public to keep their savings in cash, rather than in banks. This prompted these three countries to adopt special measures aimed at protecting the rights and interests of depositors. After reviewing the past and present situations of the deposit systems of Kazakhstan, Russia, and Ukraine, the paper concludes that DIS introduction was essential for enhancing public confidence in banks. It also gave rise to fast savings growth and, ultimately, greater market and banking stability.

Deposit Insurance from the Shariah Perspective

Deposit Insurance is new to the Islamic finance world, and people are seeking to understand its permissibility from the Shariah (Islamic law) perspective and comprehend the differences between Islamic deposit insurance and conventional

systems. This paper discusses the arguments as to why deposit insurance is permissible by the Shariah, and the differences between Islamic and conventional systems. The paper concludes that the creation of Islamic deposit insurance systems marked a milestone in the development of Islamic financial institutions, and proposes that guidance be developed for other countries on the creation and establishment of an Islamic deposit insurance system.

Use of Technology to Support Research and other Strategic Objectives

IADI's ongoing business and activities are often conducted via the Internet. This approach enables more frequent discussions without the need for additional face-to-face meetings and the associated costs in terms of both time and travel. Several committees have made use of the technology for electronic meetings. The Association's website is an important tool for members and other participants. The website was revamped in 2008, giving it a new appearance consistent with the profile of an international safety-net authority, and providing more intuitive and simpler navigation to locate content. The Secretariat is providing resources to support the technology requirements for IADI, which includes one secondee serving as Web Content Administrator. In 2008, the Canada Deposit Insurance Corporation (CDIC) and IADI updated the International Deposit Insurance Survey to reflect newly collected 2008 data. IADI has also implemented an end-to-end survey process to ensure the quality of surveys and limit the burden on respondents. This survey protocol will be linked to a survey database for research on issues related to deposit insurance and financial stability. IADI is working with the BIS to implement a database application for deposit insurance systems in 2009-2010 based on the database used by the BIS for central banks.

Strategic Objective 1

IADI RGC Advisory Panel

In 2008, IADI's Research and Guidance Committee established an Advisory Panel consisting of top experts on deposit insurance and financial stability issues to provide external advice and independent reviews of IADI research papers and proposed guidance.

The Advisory Panel currently includes 17 individuals:

Andrew Campbell

Director of the Centre for Business Law and Practice
School of Law, University of Leeds
West Yorkshire, UK

Louis Chen

Dean and Professor of Law
Chung Hua University
Hsinchu, Chinese Taipei

David Hoelscher

Assistant Director, Monetary and Capital Markets
Department
International Monetary Fund
Washington D.C., USA

Dr. Pongsak Hoontrakul

Senior Research Fellow
Sasin of Chulalongkorn University
Bangkok, Thailand

Dr. Eva Hüpkés

Head Policy/ Regulation/ International (Banking),
Swiss Financial Market Supervisory Authority FINMA
Bern, Switzerland

Prof. Malgorzata Iwanicz-Drozowska, Ph.D.

Head of Centre for Financial Services Market
Research Szkoła Główna Handlowa w Warszawie
(Warsaw School of Economics)
Warsaw, Poland

Professor George G. Kaufman

College of Business Administration
Loyola University
Chicago, IL, USA

Masahiro Kawai

Dean, Asian Development Bank Institute
Tokyo, Japan

John Raymond LaBrosse

Honorary Visiting Fellow
School of Law
University of Warwick

and partner

Patterson and LaBrosse
Financial Consultants Ltd.
Ottawa, ON, Canada

Rosa M. Lastra

Professor of International Financial and Monetary
Law Centre for Commercial Law Studies
Queen Mary, University of London
London, UK

Professor David G. Mayes

Director, Europe Institute
University of Auckland
Auckland, New Zealand

Gordon S. Roberts

CIBC Professor of Financial Services, Schulich
School of Business, York University
Toronto, ON, Canada

Jean Roy

Professor of Finance
HEC Montréal
Montreal, QC, Canada

Dr. Dalvinder Singh

Associate Professor of Law, School of Law
University of Warwick
Coventry, UK

Sergey Smirnov

Department of Risk Management and Insurance,
State University
Higher School of Economics
Moscow, Russia

John F. Smith, Jr.

Professor of Finance and Economics
School of Business Administration
Loyola University Chicago
Chicago, IL, USA

Bent Vale

Assistant Director
Norges Bank
Oslo, Norway

Larry D. Wall

Financial Economist and Policy Adviser
Research Department
Federal Reserve Bank of Atlanta
Atlanta, GA, USA

IADI appreciates the advice and consultation provided by the panel members and all other interested parties

Undertake Training and Development

Training has been delivered in a variety of ways during the history of the Association. The current IADI training program was launched in 2007 with a strategic plan and survey of members to identify their training priorities. The survey indicated that most members had similar priorities, including operating and improving a deposit insurance system, managing bank failures to minimize losses and preserve critical banking operations, and managing receiverships for asset recovery. A strategic plan was then developed to provide the training. The program is structured to follow the Core Principles and support efforts to improve or reform deposit insurance systems.

A partnership with the Financial Stability Institute (FSI) was put in place at the end of 2008 to provide co-sponsored conferences and e-learning to IADI members. The remaining topics identified in the 2007 membership survey will be reviewed in order to determine other course offerings, ensuring consistency with the Strategic Plan of the Training and Conference Committee (TCC).

Resolution Principles and Claims Management

Two sessions of the IADI Executive Training Program, "Resolution Management: Principles and Best Practices", were held in 2008. The agenda consisted

of five case presentations followed by breakout group discussions. Presenters and participants shared best practices and lessons learned regarding resolution management. The first session was hosted by the FDIC in Washington, D.C. on 7-10 July, and 39 individuals representing 25 countries attended. The second session was hosted by the Central Deposit Insurance Corporation, Chinese Taipei, on 1-4 September, and was attended by 48 individual participants representing 19 countries.

Other IADI Training During the Year

- IADI hosted ten other seminars and events, some of which were held jointly with other organizations — the FSI, the EFDI, and the Federal Reserve Bank of Chicago. The topics for these events included bank resolution, enterprise risk management, regional deposit insurance perspectives, and cross border resolution.
- A deposit insurance curriculum was developed in 2008 which ensures that course offerings are directly linked to the deposit insurance Core Principles.
- In addition to offering classroom training, and in partnership with the FSI, online deposit insurance-related tutorials will be authored by IADI and available through FSI Connect. Access to FSI Connect for IADI members was established in 2009, with IADI funding one subscriber per member to access over 160 separate tutorials

available to bank supervisors, central bankers, and, now, deposit insurers for financial year 2009/2010.

Strategic Training Program: A Look Ahead

In the coming year, IADI and the FSI will co-sponsor IADI's 2009 Annual Conference on Core Principles - also co-sponsored by the BCBS - and a 2010 seminar in Basel on cross border resolutions.

The Executive Training Program will provide a seminar on "Claims Management—Reimbursement to Insured Depositors". The seminar draws on IADI's research and the experience of its members. The three-day course will feature presentations from a diverse set of countries, detailing their unique experience with payments and deposits, and panel discussions to highlight and examine common issues. Selected topics include customer communication, automation, and claims management strategies. The program will be offered in three different locations: Washington D.C. (Arlington); Istanbul, Turkey; and Kuala Lumpur, Malaysia. In partnership with the EFDI, the Istanbul program is being offered to members of both EFDI and IADI.

3

Strategic Objective 3

Expand and Enhance the Value of IADI Membership

Expanding IADI's membership to enhance membership value is an ongoing priority. Greater participation in the Association increases the opportunities for international cooperation among deposit insurers and other interested parties. IADI's authoritative perspective is increasingly recognized by the global community, which acknowledges the importance of explicit deposit insurance systems to maintain financial stability and protect consumers.

In 2008, IADI developed an outreach strategy—*Fostering Growth*, to contribute to IADI's long-term strategic planning goals in accord with the Association's business plan. The outreach strategy provides objectives and tools to foster IADI growth and the value of IADI membership.

The outreach strategy calls for more interaction among IADI members and other interested parties to share deposit insurance expertise worldwide.

Membership value is enhanced through:

- Interacting and networking with senior deposit insurance executives worldwide, to expand members' global perspective on deposit insurance issues;
- Participating in research and studies on cutting-edge deposit insurance issues to identify opportunities to reform or implement deposit insurance schemes, and promote convergence among deposit insurers;
- Learning and implementing effective practices for managing global financial crises at the national level and across borders;
- Participating in international and regional events related to deposit insurance, and in the international exhibition held in conjunction with each IADI Annual Conference to share information on deposit insurance systems in different countries;
- Undertaking activities in members' own jurisdictions during the International Week of Deposit Insurance to promote public awareness and other national deposit insurance priorities; and
- Providing high-caliber training programs to members, and the latest information on international deposit insurance issues through IADI's members-only website and publications.

IADI Seventh Annual Conference

Each year IADI sponsors an Annual Conference to provide its members and other participants with a forum to discuss the latest deposit insurance issues and perspectives. These Annual Conferences are open to all deposit insurers and other participants that have a stake in national or international financial stability. Conference agendas, speakers, and presentation summaries are available on IADI's website.

The conference on "The Role of Deposit Insurance in Promoting Financial Stability and Economic Inclusion" was hosted by the FDIC on 29-30 October 2008 in Washington, D.C. (Arlington, VA). More than 250 attendees from 60 nations participated. The conference highlighted the interdependent relationship of financial stability and economic inclusion, and the fact that these two elements are mutually enforceable from a supervisory-regulatory perspective.

FDIC Vice Chairman Martin J. Gruenberg, who is also IADI President and Chairman of its Executive Council, introduced the conference by noting that IADI's purpose is to bring together the deposit insurers of the world to share technical expertise, undertake research, sponsor training, and develop guidance for the operation of effective systems of deposit insurance. The opening address was provided by FDIC Chairman Sheila C. Bair. Chairman Bair emphasized the essential role that deposit insurers play in protecting the interests of depositors and building public trust in the financial system. She stated that the world is counting on the strength of well-designed deposit insurance systems to help address the current crisis of confidence.

The keynote address was delivered by Paul Volcker, former Chairman of the Board of Governors of the U. S. Federal Reserve System. Mr. Volcker discussed the significant issues and challenges confronting regulators, and emphasized the important role that government intervention plays during times of financial crisis.

Presenters included numerous international experts, representatives from international financial institutions, government officials, practitioners, representatives from IADI and the EFDI.

Financial Stability

Global financial turmoil has heightened the importance of establishing effective deposit insurance systems to maintain financial stability and public confidence in the financial system, especially during times of economic uncertainty.

Presentations on the first day of the event focused on: current financial market challenges and implications for financial institutions; the role of deposit insurers in financial crises, past and present; and new research and guidance for deposit insurers, including the draft IADI Core Principles for Effective Deposit Insurance Systems. Prominent speakers included financial market experts as well as experienced deposit insurance practitioners.

Economic Inclusion

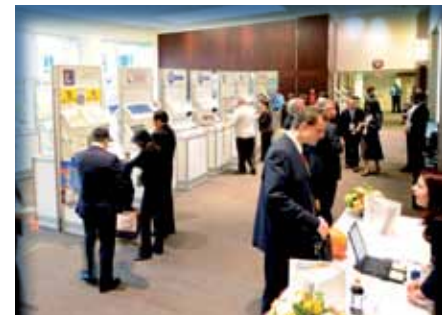
The conference highlighted the importance of building inclusive financial sectors to ensure that all consumers - including low-income consumers - have access to fair and transparent financial services, and the role that deposit insurers and other financial safety-net participants can play in promoting effective economic inclusion.

The discussions focused on the current state of economic inclusion from a global perspective, recent research on economic inclusion around the world, innovative ways of promoting economic inclusion and financial literacy, techniques to measure economic inclusion, and the role of deposit insurance in promoting economic inclusion. Speakers included internationally recognized experts on economic inclusion including policymakers, academics, regulators, and deposit insurance practitioners from around the world.

For conference proceedings, please see www.iadi.org.



The late L. William Seidman



The IADI Exhibition



Conference attendees

Strategic Objective 3

Regional Committee Annual Meetings, Conferences, Workshops, and Seminars

Fifth Annual Regional meeting of the Latin America Regional Committee and Seminar — Arlington, VA, USA

The Fifth Annual Meeting of the Latin America Regional Committee (LARC) took place on 28 October 2008, in Arlington, VA, USA. The attending members were: Argentina, Brazil, Colombia, El Salvador, Guatemala, Mexico, Nicaragua, Peru, and Uruguay. Paraguay and Spain were invited to attend the meeting, as well as a representative of the FDIC as observer.

The Committee delivered an account of its planned future endeavors.

The Annual Meeting included a seminar on “The Profile of Deposit Insurance in the Latin American Region”. Representatives from several international organizations presented views on the subject. Among these were the Inter-American Development Bank, the BIS, and the Centre for Latin American Monetary Studies (CEMLA). Speakers from two LARC members, SEDESA and IPAB, also took part in the seminar.

The Deposit Insurance Fund (Fondo de Seguro de Depósitos) from Peru volunteered to host the next LARC meeting in Lima, Peru.



Africa Regional Committee Workshop on Deposit Insurance Coverage and Public Awareness — Abuja, Nigeria

The Nigeria Deposit Insurance Corporation (NDIC) hosted a workshop on Deposit Insurance Coverage and Public Awareness in Abuja, Nigeria on 15-18 August 2008. The workshop highlighted several practical cases of African countries — Nigeria, Zimbabwe, Kenya, and Tanzania — with respect to deposit insurance coverage and public awareness. Other workshop participants included representatives from Malaysia, Chinese Taipei, and the US. The conference participants discussed the critical factors that should be considered to set appropriate coverage

levels and determine which deposit categories to insure. In addition, participants shared experiences on approaches taken to enhance public awareness of their deposit insurance systems.

Annual Meeting of the European Regional Committee — Prague, Czech Republic

The Annual Meeting of the European Regional Committee (ERC) was hosted by the Deposit Insurance Fund (Czech Republic) on 23 January 2009 at the premises of the Czech Banking Association. The meeting included a discussion of efforts in the EU to amend its directive on deposit guarantee schemes and enhance systems across the member states, and



the latest deposit insurance developments in the UK and Russian Federation.

In order to restore confidence and the proper functioning of the financial system in the EU, the European Council will take all necessary measures to protect the deposits of individual savers. As a result, the EU directive increased the minimum coverage level to EUR 50,000 by 30 June 2009, removed coinsurance, and reduced the payout delay to 20 working days. It was mandated that by 31 December 2009, the European Commission would submit a report on the effectiveness and delays of the payout procedures, and assess whether a further reduction of the delay to ten days would be appropriate.

Another presentation highlighted recent compensations and efforts to reform the UK deposit system scheme and its increasingly essential financial safety-net role. As part of the wider banking reform work, the tripartite authorities of the Bank of England, the Treasury (Ministry of Finance), and the FSA have agreed that the reform of the Financial Services Compensation Scheme (FSCS) should ensure faster payouts, enhanced information-sharing between FSA and FSCS, and a borrowing facility to fund deposit insurance actions under commercial rates.

The UK reform is still in the consultation phase.

The Deposit Insurance Agency (DIA, Russian Federation) gave a presentation on the latest developments in the Russian deposit insurance system. A newly enacted amendment substantially has increased the deposit insurance system's role in maintaining financial stability and protection of creditors' rights. The Agency is now authorized to provide financial assistance to new investors, issue and acquire new shares of a bank, sell/purchase its assets, and transfer/assume liabilities, etc.

First EFDI-FDIC Joint Conference

On 22-23 September 2008, the EFDI and FDIC jointly held a conference on "Financial Integration and the Safety Net" in Dublin, Ireland. The conference brought together more than 100 participants from around the

world and featured presentations by internationally recognized experts and deposit insurance practitioners, policymakers, and academics.

The conference compared economies, banking systems, and deposit insurance schemes operating in the US and EU, and provided an opportunity to compare different deposit insurance system issues and solutions. It also provided a forum to exchange views on the current challenges facing deposit insurers, including: cross border banking with national supervisory and deposit insurance systems; plans of the European Commission to enhance the functioning of deposit guarantee schemes; and prudential regulation and supervision in the safety-net.

Deposit Guarantee Schemes Facing Integration of Financial Markets — Warsaw, Poland

The Bank Guarantee Fund (BGF, Poland) hosted this international conference in Warsaw, Poland on 15-16 September 2008. The conference drew more than 120 participants from 18 countries, including representatives from IADI, the EFDI, the National Bank of Poland, the Polish Ministry of Finance, the Polish Financial Supervision Authority, and representatives of statutory authorities for domestic commercial banks.

The aim of the conference was to exchange members' experiences with developing deposit guarantee schemes in light of modern-day challenges on the international financial markets. The conference speakers included representatives from foreign

guarantee institutions, recognized experts from financial institutions, and representatives of Polish academia.

The program was divided into three sessions:

1. The influence of financial market turbulence on the safety of deposits and on DIS operations: participants noted that the pillars of the safety-net system in the EU single financial market are currently under construction, and that consequently there were limitations on the extent to which the effects of the cross border banking crisis could be combated.

2. Principles of deposit protection for credit unions in the EU: speakers emphasized the distinctive aspects of credit union operations, and a need for legislative and systemic solutions to increase the stability of credit unions.

3. The integrated model of financial instruments insurance system: speakers were of the opinion that effective safety-net systems must protect a large spectrum of non-professional capital market participants. To meet this challenge, it is necessary to consider the risks and operational constraints for deposit guarantee and investor compensation schemes within the safety-net framework. Many participants shared the opinion that operating deposit guarantee and investor compensation schemes within one institution implies more potential benefits than threats.

Islamic Finance and Islamic Deposit Insurance at a Glance — Kuala Lumpur, Malaysia

The Malaysia Deposit Insurance Corporation (MDIC) hosted the seminar in Kuala Lumpur on 18-19 August 2008. Representatives from various IADI member countries participated.

The goal of the seminar was to share knowledge and understanding of Islamic finance and deposit insurance with member countries of IADI and its non-members, in order to review current and new developments in Islamic finance and deposit insurance, both in Asia and globally.



Malgorzata Zaleska, BFG

Strategic Objective 3

The topics discussed included:

- Islamic banking in Malaysia;
- The role of the Islamic Financial Services Board (IFSB) in the global Islamic finance industry;
- Human capital development in Islamic finance;
- The Malaysia International Islamic Financial Centre;
- Islamic deposit insurance;
- Islamic finance and Islamic deposit insurance developments and challenges in selected countries;
- An assessment of the risk profiles of Islamic banks; and
- Shariah contracts for Islamic deposit insurance.

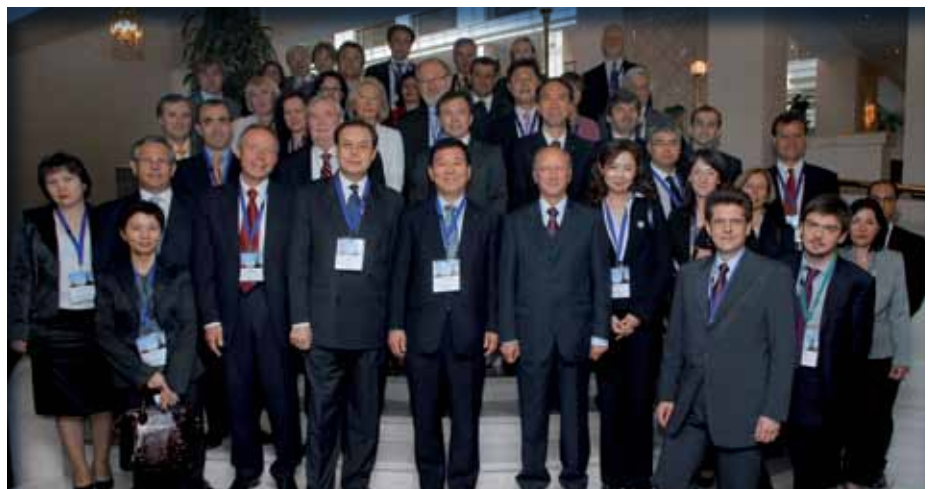
Risk Analysis in Deposit Insurance Schemes - Moscow, Russia

The international seminar on "Risk Analysis in Deposit Insurance Schemes" was sponsored by the DIA (Russian Federation) and took place in Moscow on 27-28 May 2008.

The seminar was supported by the Europe and Eurasia Regional Committees, the EFDI and IADI. Representatives of deposit insurance organizations from 22 countries, the IMF, and central bank experts were among the participants.

Issues under discussion related to risk assessment practices and the practical application of such analysis for estimating deposit insurance fund sufficiency and differentiating banks' insurance premium rates.

The seminar also reviewed the preliminary results of a research project headed by the IADI representatives of the DIA on the evaluation of deposit insurance fund sufficiency on the basis of risk analysis.



Deposit Insurance Corporation of Japan Round Table — Tokyo, Japan

The Deposit Insurance Corporation of Japan (DICJ) held an international conference, "DICJ Round Table", on 25-26 February 2009.

Twenty-nine participants from foreign deposit insurance institutions and related organizations attended. The three main discussion topics were: systemic issues in dealing with and managing financial crises from the deposit insurer's viewpoint; specific issues and case studies of recent bank

resolutions; and recent IADI activities. Participants and speakers gave presentations and commented on the impact of the current economic crisis and their measures to address the situation.

Seventh Asia Regional Committee Meeting and International Conference — Almaty, Kazakhstan

The Kazakhstan Deposit Insurance Fund hosted the Seventh Asia Regional Committee (ARC) Meeting and International Conference on "The Primary Responsibilities of Deposit Insurer in the Case of Bank Failure" in Almaty, Kazakhstan, May 27-29, 2009.



About 70 participants from 20 jurisdictions, including officials of 13 ARC members (Hong Kong Special Administrative Region, India, Indonesia, Japan, Kazakhstan, Korea, Malaysia, Philippines, Russia, Singapore, Chinese Taipei, Thailand, Vietnam) and the DI's of Bulgaria, Jordan, Poland, Tanzania, and USA took part in the event.. The representatives of the Deposit Protection Agency and the National Bank of the Kyrgyz Republic as well as the Azerbaijan Deposit Insurance Fund were introduced at the ARC Meeting as observers. Conference speakers also included the Governor of the National Bank of Kazakhstan and the Regional Sector Coordinator of the World Bank Central Asian Regional Office.

During the ARC Meeting there were discussions and presentations on ARC members' activities conducted during the year, such as membership promotion, enhancement of regional cooperation, and training sessions.

Conference topics included: Mitigation of the Global Financial Crisis and the Role of Deposit Insurer; Claims Process and Payout Mechanisms; Depositors' Register Preparation; and Depositors' access to their deposits in case of Early Banking Resolution. Participants reviewed the recent experience of countries, and the Conference concluded with many productive discussion sessions.

New Member Profile–Thailand

Deposit Protection Agency (DPA) Thailand

The Deposit Protection Agency (DPA) Thailand joined IADI as the 52nd member in September 2008.

The DPA was established under the Deposit Protection Agency Act B.E. 2551 (2008), and began operations on 11 August 2008. Its main objective is to provide protection to depositors so that their deposits would be rapidly reimbursed in the event of a financial institution failure.

The DPA insures domestic deposits denominated in Thai Baht: current accounts, savings accounts, term accounts, and other accounts with similar features. Insured deposits exclude deposits in the Non-Resident Baht Account (the account opened for special purposes according to the Exchange Control Act), deposits embedded with derivatives, and interbank deposits.

All financial institutions in Thailand (commercial banks, finance companies and "credit foncier" companies) are included in the deposit protection system. As of December 2008, there were 41 member financial institutions under the DPA, including 18 commercial banks registered in Thailand, 16 branches of foreign banks, four finance companies, and three credit foncier companies.

Member financial institutions are obliged to remit premiums to the DPA twice a year, on the last working day of June and December. Currently, the flat rate premium is 0.4 percent and is calculated on the

monthly average amount of insured deposits from the prior six-month period. From 2010 onwards, the premium will be calculated from the daily average amount of deposits.

A blanket guarantee for all depositors had been in effect since 1997. With the establishment of the DPA, a schedule to phase out the blanket guarantee over four years was put in place, to limit coverage to Baht 1 million per depositor and financial institution.

In the latter half of 2008, the global financial crisis adversely affected the Thai economy and its financial institutions. As a result, the blanket guarantee has been extended for two more years, until 10 August 2011. The extension of the blanket guarantee provides a precautionary measure against any negative effects and to help maintain depositors' confidence in the system, and avoid any further negative impact. Coverage during the fourth year (from 11 August 2011 to 10 August 2012) will be Baht 50 million.

The DPA is empowered to request its member financial institutions to submit information and reports. However, the DPA and the Bank of Thailand - the supervisory authority - must exchange information in order to avoid duplication of data reported by the financial institutions.

In cases where the Bank of Thailand places any financial institution under control, the DPA must submit a list of nominees to be appointed as members of the Control Committee. The DPA also acts as liquidator of failed financial institutions.

Strategic Objective 3

9th Annual IADI Conference and AGM
Tokyo, Japan
Save the Week 25 - 29 October 2010



Hosted by Deposit Insurance Corporation of Japan



Enhance IADI's Leadership Role in Strengthening Deposit Insurance Systems

Strengthening deposit insurance systems requires support from IADI's participants and deposit insurers, as well as from the national, multinational and international organizations that have a stake in financial stability.

The Association has sought to develop close working relationships with other international financial institutions and other stakeholders. To pursue this strategic objective, IADI has established partnerships with not-for-profit regional, international, and multinational organizations. These are listed in the final section of this Annual Report. During the year, two new Partners joined IADI: the World Bank and the US Treasury Office of Technical Assistance.

G20 Request on Convergence

In response to a request from the G20 leaders for information on areas where convergence in deposit insurance has been making progress or is in need of accelerated progress, IADI completed two interim reports on "Convergence in Regulatory Practices in Deposit Insurance" and "Transitioning from a Blanket Guarantee to an Explicit, Limited-Coverage Deposit Insurance System". These were presented to the Financial Stability Forum (now the Financial Stability Board).

IADI-EFDI Steering Committee

IADI and the EFDI have created a joint steering committee to identify opportunities for collaboration. The steering committee has identified several possible areas which include: training, research topics, and information-sharing. IADI will continue to initiate dialogue and consult with various parties on how it can provide its expertise and add value.

Other Efforts to Strengthen Deposit Insurance

International Deposit Insurance Week

The Third Annual International Deposit Insurance Week took place from 4 to 10 May 2008, with the theme "Public Awareness and Stability". This year's event was a joint initiative with the IADI membership, and was designed to promote public awareness of depositor protection arrangements; it also coincided with IADI's sixth anniversary on 6 May 2008.

IADI members carried out public awareness activities throughout the week including:

- The Albania Deposit Insurance Agency conducted a seminar on "The Role of Deposit Insurance in Promoting Financial Stability and Economic Inclusion", on 5 May 2008 in Tirana.
- The Bulgarian Deposit Insurance Fund (BDIF) issued a press release on the International Week, and newspapers featured interviews with the BDIF Chairman as well as information about the main features of the Bulgarian deposit insurance system. The BDIF Chairman delivered a lecture, "Deposit Insurance as Part of the Financial Safety Net", to students from the University of National and World Economy in Sofia on 9 May 2008. The BDIF distributed its Q&A Brochure on Deposit Insurance to member banks free of charge.

- The Central Deposit Insurance Corporation (CDIC), in Chinese Taipei, and the Korea Deposit Insurance Corporation (KDIC) updated and reviewed a Memorandum of Understanding for cooperation and information-sharing in Taipei on 8 May 2008. The CDIC undertook domestic activities to promote deposit insurance at major universities and colleges.
- The Malaysia Deposit Insurance Corporation launched its 2008 public awareness campaign, which included commercials on all major TV, radio, and print media throughout the year.
- The Jordan Deposit Insurance Corporation (JODIC) organized broadcast and print media promotions, including TV, radio and online advertisements. The 2008 campaign included an interview on national TV with the General Director of JODIC, and lectures at universities.
- The Jamaica Deposit Insurance Corporation (JDIC) celebrated the week with publicity on "Improving the Effectiveness of Deposit Insurance", featuring information on the JDIC's response to the global financial crisis, initiatives to cooperate with other deposit insurers in the Caribbean, and key facts about deposit insurance.

Strategic Objective 4

Deposit Insurance Organization of the Year Award 2008

Each year, IADI recognizes a member that makes a special contribution to furthering IADI's objectives and international leadership role. The Deposit Insurance Organization (DIO) of the Year Award 2008 was presented to Mr. Martin J. Gruenberg, Vice Chairman of the Federal Deposit Insurance Corporation (FDIC), USA, in celebration of the FDIC's important achievements and contributions to furthering IADI objectives.

The FDIC fulfilled its mandate and used its powers to protect depositors, preserve and strengthen public confidence in the US financial system, and promote international cooperation among deposit insurers and other interested parties. The FDIC directly examines and supervises about 5,100 of the more than 8,000 US depository institutions, and has backup supervisory authority for the remaining depository institutions in the US banking system.

The FDIC, a founding member of IADI, has contributed actively to the Association through holding the position of Chair of the Executive Council and President of IADI. In addition, the FDIC hosted the Seventh IADI Annual General Meeting and Annual Conference, which enhanced IADI's global credibility and reputation.

The previous recipients of the Deposit Insurance Organization of the Year Award were the Central Deposit Insurance Corporation (Chinese Taipei, 2005), the Canada Deposit Insurance Corporation (2006), and the Fundo Garantidor de Créditos (Brazil, 2007).



Strengthen the Secretariat to Support the Needs of IADI's Membership and the Objectives of the Association

Secretariat resources increased

The Secretariat staff was expanded from two to five full-time positions during the year. The Secretariat is composed of the Secretary General, Deputy Secretary General, and up to three senior policy analysts. The Korea Deposit Insurance Corporation (KDIC) and the Deposit Insurance Corporation of Japan (DICJ) each sponsor a senior policy analyst, Mr. Taewook Chang and Mr. Norimitsu Takada, respectively. The Senior Policy Analysts serve one-year terms, with a one-year extension upon an evaluation of performance. A third position is offered to members.

Numerous members contribute resources to support IADI's initiatives through participation in committees or assignments to specific initiatives. The BIS hosts IADI's Secretariat. The BIS provides offices, meeting facilities, procurements, communications and information technology, administrative support, accounting and legal advice, and other services. IADI receives these services at no charge through a hosting agreement between IADI and the BIS. The Secretariat has worked with the BIS Human Resources section to provide standard contracts for secondments. The standard forms enable a smooth transition when terms are renewed, terminated, or new staff hired.

IADI Organizational Changes

The Association is managed by the President and the Executive Council (EXCO). The President and EXCO participants are elected by IADI's members at the Annual General Meeting. EXCO members are typically elected to serve three-year terms; each person's term on the Council is limited to six consecutive years. Currently, EXCO is composed of up to 22 members as approved by Association members.

President of the Association

Martin J. Gruenberg, the Vice Chairman of the FDIC, was elected Chair of EXCO and President of IADI for a three-year term at the sixth Annual General Meeting held in Kuala Lumpur, Malaysia, on 2 November 2007. Mr. Gruenberg became Vice Chair of the FDIC in 2005, and served as Acting Chairman from 15 November 2005 to 26 June 2006.

Prior to joining the FDIC, Mr. Gruenberg played an active role in the development of US banking and financial services industry legislation in the US Senate. He served as Senior Counsel on the staff of the Senate Committee on Banking, Housing, and Urban Affairs; he has also served as Staff Director of the US Senate Banking Committee's Subcommittee on International Finance and Monetary Policy.

Composition of EXCO

Several changes in the EXCO membership became effective at the Annual General Meeting in Washington, DC (Arlington, VA) on 29 October 2008. The AGM approved an EXCO recommendation to increase the maximum number of members to serve on the Council between November 2008 and October 2009. The maximum number of EXCO members was increased from 21 to 22, reflecting the regional composition and interests of the Association.

Elected to EXCO to serve three-year terms on 29 October 2008:

- Antonio Carlos Bueno de Camargo Silva, Chief Executive Officer, Fundo Garantidor de Créditos (Brazil)
- Jorge A. Chávez-Presa, Member of the Board of Governors, Instituto para la Protección al Ahorro Bancario (IPAB, Mexico)
- Wai Keen Lai, General Manager, Policy and International, Malaysia Deposit Insurance Corporation
- Loretta Minghella, Chief Executive, Financial Services Compensation Scheme Ltd. (UK)

- José C. Nograles, President, Philippine Deposit Insurance Corporation
- Howard N.H. Wang, President, Central Deposit Insurance Corporation (Chinese Taipei)
- Malgorzata Zaleska, President of the Management Board, Bank Guarantee Fund (Poland)

Elected to EXCO for two-year or three-year terms:

- Charles Cornut, Président du Directoire, Fonds de Garantie des Dépôts (FGD, France)
- Mutsuo Hatano, Deputy Governor, Deposit Insurance Corporation of Japan
- Andrey Melnikov, Deputy General Director, Deposit Insurance Agency (DIA, Russian Federation)

Appointed as Designated Representative to serve on EXCO until the 2009 AGM:

- Dr. Sung Hwan Bae, Acting Chairman and President, Korea Deposit Insurance Corporation (KDIC) was appointed by the KDIC following the retirement of Ju-Hyung Lee.

Several members of the 2007-2008 EXCO concluded their terms during 2007-2008 due to term limits, retirements, reassignments within home country organizations, or other circumstances.

The following members of the 2007-2008 EXCO were elected at the First Annual General Meeting of the Association to serve as founding members of EXCO. Their terms concluded on 31 October 2008:

- Carlos Isoard, Member of the Board of Governors, Instituto para la Protección al Ahorro Bancario (IPAB, Mexico)
- Junior Frederick, General Manager, Deposit Insurance Corporation (DIC, Trinidad and Tobago)
- Josef Tauber, Chairman of the Board of Administration, Deposit Insurance Fund (DIF, Czech Republic)
- Ganiyu A. Ogunleye, Managing Director/CEO, Nigeria Deposit Insurance Corporation (NDIC)

Strategic Objective 5

The following members of the 2007-2008 Executive Council also concluded their EXCO service:

- Yvonne Y. Fan, Acting Director, International Relations and Research Office, Central Deposit Insurance Corporation (Chinese Taipei)
- Imelda S. Singzon, Executive Vice President, Philippine Deposit Insurance Corporation
- Carlo Noseda, Planning and Control Manager, Seguro de Depósitos Sociedad Anónima (SEDESA, Argentina)

Vice Chair of EXCO

At the February 2008 EXCO meeting in Basel, Switzerland, the Council approved a new position - Vice Chair of EXCO - and appointed Mutsuo Hatano, Deputy Governor, Deposit Insurance Corporation of Japan, to the position. Having a Vice Chair provides EXCO with an experienced leader ready to act in the absence of the EXCO Chair.

Secretary General

The Executive Council approved the appointment of Donald Insoe (former Deputy Director of Financial Risk Management and Research, FDIC) on 12 February 2008, for a two-year, full-time term. Mr. Insoe became Secretary General on 1 May 2008.

The responsibilities of the Secretary General are set out in the IADI Statutes, and include:

- Act as Secretary to EXCO;
- Manage the Secretariat and provide services to the Association;
- Process applications for participation in the Association;
- Maintain appropriate records and registers of participants; and
- Execute other functions assigned by EXCO.

Mr. Insoe is employed by the BIS on a full-time basis

on behalf of IADI, and his office is located at the BIS offices in Basel, Switzerland. He reports to the IADI President, and his salary and residence costs are donated by the FDIC, an Association member. Having a full-time Secretary General posted at the BIS enables IADI to interact more extensively with other safety-net organizations that conduct activities through the BIS. The European location is central to the Association's member countries, and enables the Secretary General to participate in regional activities of the Association.

The Secretary General is supported by the Deputy Secretary General, Kim White, who has been employed by IADI since 2002, and has served as Deputy since 2004.

2008-2009 activities to support strategic objectives

The following activities during 2008-2009 were undertaken by the Secretariat with support from members, and with the requisite approvals from EXCO and the AGM:

Corporate Governance

- *Transition to new Association leadership.* IADI's founding senior leaders - President, Executive Council Chair, and Secretary General - were succeeded by new leaders following the elections at the Annual General Meeting in Kuala Lumpur in October 2007. The Secretariat was tasked to ensure that numerous deliverables were provided on schedule, and that all statutory requirements and responsibilities were fulfilled.
- *Statutes review.* The Secretary General is responsible for reviewing the Statutes and By-laws. Following the review, and in consultation with members' legal experts and IADI's Swiss attorney, several amendments were approved and implemented to update and clarify the Statutes of the International Association of Deposit Insurers.

The changes include amendments to:

- Reflect recent and past decisions of the AGM and EXCO;
- Provide all of the definitions used in the Statutes in a single article;
- Incorporate amendments concerning the actions of the Association and composition of EXCO;
- Change the currency of the Association from US dollars to Swiss francs;
- Require the rotation of the Association's external audit firm, and
- Establish a new position of Vice Chair of EXCO.

Policies update. The Secretariat assists committees in their missions. During the year, the Secretariat worked with EXCO to update the Association's investment policy, complete the 2008-11 Business plan and budgets, and revise accountability profiles and terms of reference for selected standing committees and other participants.

Financial Management

Since it was founded in 2002, the Association's finances have been exposed to fluctuating exchange rates because its revenues - annual fees and initial fund contributions - are paid in US dollars but most expenses are payable in Swiss francs or other currencies. Further, the global financial crisis that emerged last year raised concerns about asset exposures.

To address these concerns, the Secretariat initiated several changes to strengthen IADI's balance sheet and protect its assets.

- *Exchange rate risk has been minimized by aligning currencies.* The currency for members' annual fees and initial fund contributions was changed from the US dollar to the Swiss franc, which has become the Association's reporting currency. Most of the Association's financial assets - mainly

cash accounts and investments in government obligations - have been converted to Swiss franc-denominated assets.

- *Concentration risk has been reduced through diversification.* The Association's investment policy limits capital investments to investment grade Swiss obligations. The Secretariat has deployed the Association's cash accounts to increase the amount of assets protected by deposit insurance.
- *Operational changes that improve transparency.* During the year, the Secretariat worked with Association participants to synchronize invoicing so that annual fees are invoiced on 1 April, at the beginning of the financial year. As a result, accounting is simplified, and financial statements are more transparent.

Financial Results for the Year

The Association's unrestricted net assets increased significantly, by CHF 284,000, during the year ended 31 March 2009. The increase is substantially attributable to currency conversions and actions taken to partner with other organizations in order to achieve IADI's strategic objectives.

Support for Association Initiatives

The Secretariat worked closely with the Standing Committees on key initiatives during the year. To achieve objectives and manage resources within the budget, the Secretariat - with support from the Standing Committees - initiated several collaborations with other organizations for mutually beneficial results.

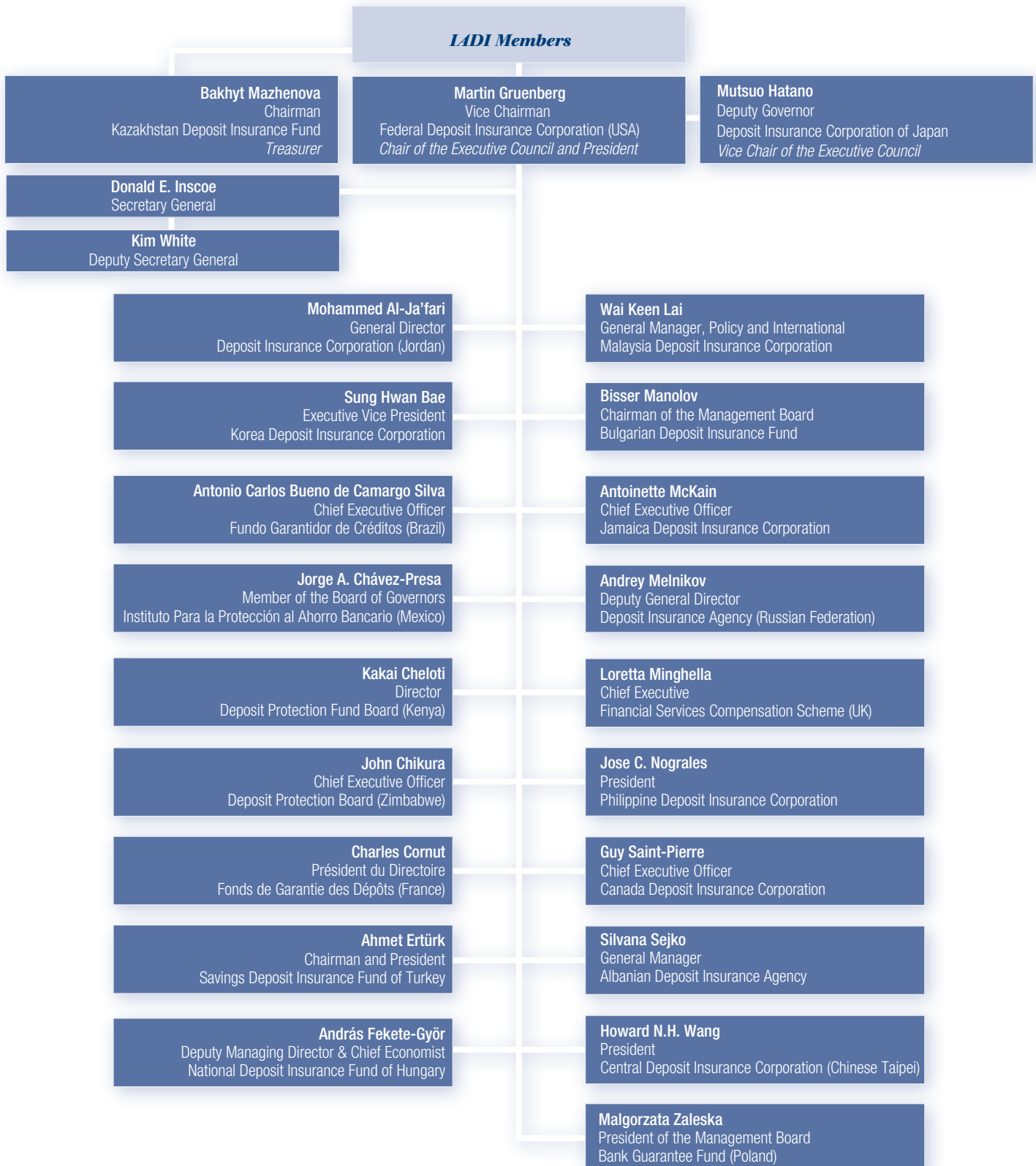
- *Providing training to members.* Training activities increased significantly during the year. A partnership was initiated with the FSI to co-sponsor seminars on deposit insurance and develop online tutorials. Training modules in the FSI Connect program have been expanded to include deposit insurance topics.
- *Support for conferences and meetings.* The Secretariat coordinates EXCO meetings and conferences, and participates in conferences, seminars, and training events sponsored by IADI or its members. The Secretary General attended and gave presentations at seven seminars and conferences, and moderated executive training seminars on resolution management best practices.
- *Research activities.* The Secretariat supported enhancements to the process of developing and publishing research, and to the development of Core Principles for Effective Deposit Insurance Systems. Enhancements to support the research process include arrangements for editing and

printing services, and improvements to the website which make it easier to locate research material and surveys and other information on deposit insurance.

- *Member communications and outreach.* Three new participants were added during the year: The Deposit Protection Fund (DPA) Thailand became the 52nd member, and the World Bank and the US Treasury Office of Technical Assistance (OTA) became Partners. One observer terminated its participation in the Association. The website has been updated with a new look and feel consistent with the stature of an organization that supports financial stability.
- *Deposit insurance collaboration.* The Secretariat has worked with other international and multinational organizations that support deposit insurers to advance mutual goals. These collaborations included work to coordinate conferences and other activities with the EFDI, interaction with the World Bank regarding the impact of the crisis on deposit insurance arrangements, and others.

The year has been eventful, and the Secretariat has made considerable progress in strengthening its operations to support the Association's members and strategic initiatives.

Executive Council



Standing/Regional Committees



Standing/ Regional Committee Membership

Standing Committees

Audit Committee

Chairperson: Ahmet Ertürk
Savings Deposit Insurance Fund of Turkey

Ridvan Çabukel
Savings Deposit Insurance Fund of Turkey

Kakai Cheloti
Deposit Protection Fund Board (Kenya)

Normand Côté
Autorité des marchés Financiers (Québec)

Mutsuo Hatano (Observer)
Deposit Insurance Corporation of Japan

Junior Frederick
Deposit Insurance Corporation (Trinidad and Tobago)

Bakhyt Mazhenova (Observer)
Kazakhstan Deposit Insurance Fund

Governance Committee

Chairperson: Martin J. Gruenberg
Federal Deposit Insurance Corporation (USA)

Mohammed Al-Ja'fari
Jordan Deposit Insurance Corporation

Fred S. Carns
Federal Deposit Insurance Corporation (USA)

Jorge A. Chávez-Presa
Instituto para la Protección al Ahorro Bancario
(Mexico)

John M. Chikura
Deposit Protection Board (Zimbabwe)

Ahmet Ertürk
Savings Deposit Insurance Fund of Turkey

Yvonne Y. Fan
Central Deposit Insurance Corporation (Chinese
Taipei)

András Fekete-Györ
National Deposit Insurance Fund of Hungary

Mutsuo Hatano
Deposit Insurance Corporation of Japan

Antoinette McKain
Jamaica Deposit Insurance Corporation

Bakhyt Mazhenova
Kazakhstan Deposit Insurance Fund

Andrey Melnikov
Deposit Insurance Agency (Russian Federation)

Finance and Planning Committee

Chairperson: Mutsuo Hatano
Deposit Insurance Corporation of Japan

Fred S. Carns
Federal Deposit Insurance Corporation (USA)

Ahmet Ertürk (Observer)
Savings Deposit Insurance Fund of Turkey

András Fekete-Györ
National Deposit Insurance Fund of Hungary

Bisser Manolov
Bulgarian Deposit Insurance Fund

Bakhyt Mazhenova (Observer)
Kazakhstan Deposit Insurance Fund

Andrey Melnikov
Deposit Insurance Agency (Russian Federation)

José C. Nograles
Philippine Deposit Insurance Corporation

Oscar Armando Pérez Merino
Instituto de Garantía de Depósitos (El Salvador)

Silvana Sejko
Albanian Deposit Insurance Agency

Charles Cornut
Fonds de Garantie des Dépôts (France)

Membership and Communications Committee

Chairperson: Mohammed Al-Ja'fari
Jordan Deposit Insurance Corporation

Roumyana Markova (Vice-Chairperson)
Bulgarian Deposit Insurance Fund

Jorge A. Chávez-Presa
Instituto para la Protección al Ahorro Bancario
(Mexico)

Charles Cornut
Fonds de Garantie des Dépôts (France)

Mutsuo Hatano
Deposit Insurance Corporation of Japan

Antoinette McKain
Jamaica Deposit Insurance Corporation

Andrey Melnikov
Deposit Insurance Agency (Russian Federation)

John M. Chikura
Deposit Protection Board (Zimbabwe)

Oscar Armando Pérez Merino
Instituto de Garantía de Depósitos (El Salvador)

András Fekete-Györ
National Deposit Insurance Fund of Hungary

Training and Conference Committee

Chairperson: Fred S. Carns
Federal Deposit Insurance Corporation (USA)

Kakai Cheloti
Deposit Protection Fund Board (Kenya)

John M. Chikura
Deposit Protection Board (Zimbabwe)

Paul Chin
Jamaica Deposit Insurance Corporation

András Fekete-Györ
National Deposit Insurance Fund of Hungary

Renata Kadlecova
Deposit Insurance Fund (Czech Republic)

Sangjae Lee
Korea Deposit Insurance Corporation

Loretta Minghella
Financial Services Compensation Scheme (UK)

Standing/ Regional Committee Membership

Valeriy I. Ogiyenko
Deposit Guarantee Fund (Ukraine)

Ganiyu A. Ogunleye
Nigeria Deposit Insurance Corporation

Shinichi Sakai
Deposit Insurance Corporation of Japan

Silvana Sejko
Albanian Deposit Insurance Agency

Wai Keen Lai
Malaysia Deposit Insurance Corporation

Howard N.H. Wang
Central Deposit Insurance Corporation (Chinese Taipei)

Yvonne Y. Fan
Central Deposit Insurance Corporation (Chinese Taipei)

Research and Guidance Committee

Chairperson: Yvonne Fan
Central Deposit Insurance Corporation (Chinese Taipei)

Jacob Ade Afolabi
Nigeria Deposit Insurance Corporation

Mohammed Al-Ja'fari
Jordan Deposit Insurance Corporation

Antonio Carlos Bueno de Camargo Silva
Fundo Garantidor de Créditos (Brazil)

Charles Cornut
Fonds de Garantie des Dépôts (France)

András Fekete-Györ
National Deposit Insurance Fund of Hungary

Junior Frederick
Deposit Insurance Corporation (Trinidad and Tobago)

Mutsuo Hatano
Deposit Insurance Corporation of Japan

Jorge A. Chávez-Presa
Instituto para la Protección al Ahorro Bancario (Mexico)

Sangjae Lee
Korea Deposit Insurance Corporation

Bakhyt Mazhenova
Kazakhstan Deposit Insurance Fund

Andrey Melnikov
Deposit Insurance Agency (Russian Federation)

José C. Nograles
Philippine Deposit Insurance Corporation

Valeriy I. Ogiyenko
Deposit Guarantee Fund (Ukraine)

Andrey Pekhterev
Deposit Insurance Agency (Russian Federation)

Barbara Ryan
Federal Deposit Insurance Corporation (USA)

Julien Reid
Autorité des marchés financiers (Québec)

David K. Walker
Canada Deposit Insurance Corporation

Regional Committees

Africa

Chairperson: John M. Chikura
Deposit Protection Board (Zimbabwe)

Kakai Cheloti (Vice-Chairperson)
Deposit Protection Fund Board (Kenya)

Ganiyu A. Ogunleye
Nigeria Deposit Insurance Corporation

A.M. Rasmini
Deposit Insurance Board of Tanzania

Asia

Chairperson: Mutsuo Hatano
Deposit Insurance Corporation of Japan

Bakhyt Mazhenova (Vice-Chairperson)
Kazakhstan Deposit Insurance Fund

Alagiin Batsukh
Bank of Mongolia

Chia Der Jiun
Monetary Authority of Singapore

Firdaus Djaelani
Indonesia Deposit Insurance Corporation

Nestor A. Espenilla Jr.
Bangko Sentral ng Pilipinas

A. G. Karunasena
The SEACEN Centre

Masahiro Kawai
Asian Development Bank

Bui Khac Son
Deposit Insurance of Vietnam

Murshid Kuli Khan
Bangladesh Bank

Dr. Sung Hwan Bae
Korea Deposit Insurance Corporation

Andrey Melnikov
Deposit Insurance Agency (Russian Federation)

Singha Nikornpun
Deposit Protection Agency (Thailand)

José C. Nograles
Philippine Deposit Insurance Corporation

Wai Keen Lai
Malaysia Deposit Insurance Corporation

Tong-u-Rai Limpiti
Bank of Thailand

Colin Pou
Hong Kong Deposit Protection Board

H.N. Prasad
Deposit Insurance and Credit Guarantee Corporation,
Reserve Bank of India

Ooi Sin Teik
Singapore Deposit Insurance Corporation

Howard N.H. Wang
Central Deposit Insurance Corporation (Chinese Taipei)

Standing/ Regional Committee Membership

Caribbean

Chairperson: Antoinette McKain
Jamaica Deposit Insurance Corporation

Junior Frederick (Vice-Chairperson)
Deposit Insurance Corporation (Trinidad and Tobago)

Warrick Ward
Barbados Deposit Insurance Corporation

Cassandra C. Nottage
Deposit Insurance Corporation
Central Bank of the Bahamas

Eurasia

Chairperson: Andrey Melnikov
Deposit Insurance Agency (Russian Federation)

Bakhyt Mazhenova (Vice-Chairperson)
Kazakhstan Deposit Insurance Fund

Valeriy I. Ogiyenko
Deposit Guarantee Fund (Ukraine)

Vladimir Sahakyan (Affiliated Member)
Deposit Fund of Armenia

Alexander Turbanov
Deposit Insurance Agency (Russian Federation)

Murotali Alimardonov (Affiliated Member)
Deposit Guarantee Fund of Tajikistan (as an Affiliated Member)

Europe

Chairperson: András Fekete-Győr
National Deposit Insurance Fund of Hungary

Charles Cornut (Vice-Chairperson)
Fonds de Garantie des Dépôts (France)

Ahmet Ertürk
Savings Deposit Insurance Fund of Turkey

Bisser Manolov
Bulgarian Deposit Insurance Fund

Andrey Melnikov
Deposit Insurance Agency (Russian Federation)

Loretta Minghella
Financial Services Compensation Scheme (UK)

Josip Nevjestic
Deposit Insurance Agency of Bosnia and Herzegovina

Valeriy I. Ogiyenko
Deposit Guarantee Fund (Ukraine)

Silvana Sejko
Albanian Deposit Insurance Agency

Josef Tauber
Deposit Insurance Fund (Czech Republic)

Magnus Thor
Swedish National Debt Office

Niculae Vulpescu
Deposit Guarantee Fund in the Banking System
(Romania)

Malgorzata Zaleska
Bank Guarantee Fund (Poland)

Latin America

Chairperson: Jorge A. Chávez-Presa
Instituto para la Protección al Ahorro Bancario
(Mexico)

Manuel Augusto Alonso Araujo
Fondo para la Protección del Ahorro, Banco de
Guatemala

Antonio Carlos Bueno de Camargo Silva
Fundo Garantidor de Créditos (Brazil)

Carlos Bravo
Agencia de Garantía de Depósitos (Ecuador)

Eugenio C. Gallegos del Santo
Seguro de Depósitos Sociedad Anónima (Argentina)

Juan Klingengerger
Fondo de Seguro de Depósitos (Peru)

Wilma Rosa León-York
Fondo de Garantía de Depósitos de las Instituciones
Financieras (Nicaragua)

Humberto Ortega Díaz
Fondo de Garantía de Depósitos y Protección
Bancaria (Venezuela)

Oscar Armando Pérez Merino
Instituto de Garantía de Depósitos (El Salvador)

Jorge Sánchez
Comisión de Protección del Ahorro Bancario, Banco
Central del Uruguay

Mónica Aparicio Smith
Fondo de Garantías de Instituciones Financieras
(Colombia)

Herán M. Colmán Rojas (Invitee)
Unidad Administradora del Fondo de Garantía de
Depósitos, Banco Central del Paraguay (Paraguay)

Luis Salinas Álvarez (Invitee)
Sociedad Gestora de Fondos de Garantía de
Depósitos en Entidades de Crédito, A.I.E. (Spain)

Middle East and North Africa

Chairperson: Mohammed Al-Ja'fari
Jordan Deposit Insurance Corporation

Abderrahim Bouazza (Vice-Chairperson)
Bank Al-Maghrib, Fonds Collectif de Garantie des
Dépôts (Morocco)

Khater Abi Habib
Institut National de Garantie des Dépôts (Lebanon)

Choaib El Hassar
Bank of Algeria

Ahmet Ertürk
Savings Deposit Insurance Fund of Turkey

Mohamed Mahraoui
Bank Al-Maghrib, Fonds Collectif de Garantie des
Dépôts (Morocco)

Ezeldin Mirghani Yasein
Bank Deposit Security Fund (Sudan)

Abdelkader Belgherbi (Invitee)
Deposit Insurance Corporation of Algeria

Report of the statutory auditors
on the limited statutory examination
to the Members of
International Association of Deposit Insurers
Basel

As statutory auditors, we have examined the financial statements of International Association of Deposit Insurers ("IADI"), which comprise the statement of financial position, statement of activities, statement of cash flows and notes, for the year ended 31 March 2009.

These financial statements are the responsibility of IADI's management. Our responsibility is to perform a limited statutory examination on these financial statements. We confirm that we meet the licensing and independence requirements as stipulated by Swiss law.

We conducted our examination in accordance with the Swiss Standard on Limited Statutory Examination. This standard requires that we plan and perform a limited statutory examination to identify material misstatements in the financial statements. A limited statutory examination consists primarily of inquiries of company personnel and analytical procedures as well as detailed tests of company documents as considered appropriate in the circumstances. However, the testing of the operational processes and the internal control system, as well as inquiries and further testing procedures to detect fraud or other legal violations, are not within the scope of this examination.

Based on our limited statutory examination, nothing has come to our attention that causes us to believe that the financial statements do not comply with Swiss law and the company's articles of incorporation.

PricewaterhouseCoopers AG



Martin Frei
Audit expert
Auditor in charge



Erica Walvoord
Audit expert

Basel, 12 June 2009

Enclosures:

- financial statements (statement of financial position, statement of activities, statement of cash flows and notes)

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS ("IADI")
Statement of Activities
For the period ending 31 March 2009
(in Swiss Francs)



	Note	For the period ended 31 March 2009	For the period ended 31 March 2008
CHANGES IN UNRESTRICTED NET ASSETS			
<u>Operating revenue</u>			
Members Fees	1	536'733	480'126
Associates Fees	1	46'865	44'548
Observers Fees	1	27'338	28'461
Total operating revenue		610'936	553'135
<u>Operating Expenses</u>			
Salaries		(224'706)	(328'864)
Conferences, Seminars and Meetings		(12'532)	(64'329)
Training Initiatives		(112'349)	(172)
Travel		(59'044)	(56'884)
Administration		(9'161)	(27'546)
Audit		(4'535)	(3'465)
IT and Communications		(21'138)	(31'230)
Membership & Outreach support		(1'493)	
Publications and Research		(2'522)	
Depreciation	10	(576)	(576)
Total operating expenses		(448'056)	(513'066)
CHANGES IN OPERATING UNRESTRICTED NET ASSETS		162'880	40'069
Interest Income	14	12'458	22'182
Exchange Difference	3	107'288	49'010
Donations			
CHANGES IN UNRESTRICTED NET ASSETS		282'625	111'261

There may be minor differences in this table due to rounding

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS ("IADI")
Statement of Financial Position
As at 31 March 2009
(in Swiss Francs)



	Note	31 March 2009	31 March 2008
ASSETS			
Cash	6	662'044	278'329
Investments held to maturity	7	113'665	496'949
Prepayments	8	4'433	227
Accounts receivable	9	149'849	50'499
		<u>929'992</u>	<u>826'004</u>
 Total fixed assets	 10	 623	 1'199
		<u>930'615</u>	<u>827'203</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	11	17'311	87'035
Deferred revenue	12		134'881
		<u>17'311</u>	<u>221'916</u>
Unrestricted Net Assets			
Capital - members contribution	13	500'568	475'176
Retained unrestricted assets		130'111	18'850
Unrestricted assets for the current year		282'625	111'261
		<u>913'304</u>	<u>605'287</u>
		<u>930'615</u>	<u>827'203</u>

There may be minor differences in this table due to rounding

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS ("IADI")

Statement of cash flows

For the period ending 31 March 2009

(in Swiss Francs)

	Notes	For the period ended 31 March 2009	For the period ended 31 March 2008
Cash flow from / (used in) operating activities			
Operating unrestricted net assets		162'880	40'069
Non-cash flow items included in operating unrestricted net assets			
Depreciation	10	576	576
Net change in operating assets and liabilities			
Deferred revenue		(134'881)	6'187
Accounts receivable		(97'323)	(37'124)
Prepayments		(4'206)	3'786
Accounts payable		(69'724)	(23'192)
Net Cash flow from / (used in) operating activities		(142'678)	(9'698)
Cash flow from / (used in) investing and other activities			
Treasury bills			
Fixed deposits		381'255	(225'753)
Interest Income Investments held to maturity		11'586	21'854
Interest Income cash		872	328
Fixed assets purchased			
Net Cash flow from / (used in) investing and other activities		393'713	(203'571)
Cash flow from / (used in) financing activities			
Capital contributions from new members	13	25'392	24'749
Net Cash flow from / (used in) financing activities		25'392	24'749
Net effect of exchange rate changes on cash	3	107'288	53'255
Net Increase / (decrease) in cash		383'715	(135'265)
Cash at beginning of accounting period		278'329	413'594
Cash at end of accounting period	6	662'044	278'329

(See accompanying notes)

International Association of Deposit Insurers

Notes to the Financial Statements

Ended 31 March 2009

1. NATURE OF ORGANIZATION

The International Association of Deposit Insurers (IADI, "the Association") is a non-profit organization organized under Swiss Law, domiciled in Basel, at the Bank for International Settlements.

Its Objects are to contribute to the stability of financial systems by promoting international cooperation in the field of deposit insurance and to encourage wide international contact among deposit insurers and other interested parties.

The Association receives annual Member, Associate and Observer fees from its participants:

Members: Entities that, under law or agreements, provide deposit insurance, depositor protection or deposit guarantee arrangements as set out in Article 6 of the Statutes.

Associates: Entities that do not fulfill all the criteria to be a Member, but which is considering the establishment of a deposit insurance system or is part of a financial safety net and has a direct interest in the effectiveness of a deposit insurance system.

Observers: An interested party that is a Profit or Not-for-Profit entity which does not fulfill the criteria to be an Associate but has a direct interest in the effectiveness of deposit insurance systems; and may include international organizations, financial institutions and professional firms.

Partners: A Not-for-Profit entity that enters into cooperative arrangement with the Association in the pursuit and furtherance of the Objects of the Association.

Fees:

Members: US\$ 10,000 annual fee with an initial fund contribution of US\$ 10,000 payable over two years, have a right to vote at meetings and hold office.

Associates: US\$ 7,500 annual fee, no vote but may participate in the activities of IADI.

Observers: US\$ 5,000 annual fee, no vote but may participate in the activities of IADI.

Partners: No fees due

The governing bodies of the Association are the General Meeting of Members and the Executive Council. The Executive Council has established Standing Committees covering Audit, Training and Conferences, Research and Guidance, Membership and Communications, Finance and Planning, and Governance. Seven regional committees have been established (Africa, Asia, the Caribbean, Eurasia, Europe, Latin America, and the Middle East & North Africa). The Secretary General acts as the Secretary to the Executive Council supported by the Deputy Secretary General.

The Executive Council is composed of individuals who govern the business and affairs of the IADI. Martin Gruenberg, Vice Chairman of the Federal Deposit Insurance Corporation, is the Chair of the Executive Council and acts as President of the Association. The Treasurer is Bakhyt Mazhenova, General Director of the Kazakhstan Deposit Insurance Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounts of IADI are drawn up on an historical cost basis and income and expense items are recorded on the accrual basis.

At the Annual General Meeting held on 27 September 2005 in Taipei, the Members agreed to change the financial reporting year end from 30 June to 31 March. This change was implemented on 1 July 2005.

A. Scope of the financial statements

These financial statements contain all assets and liabilities that are controlled by the Association and in respect of which the economic benefits as well as the rights and obligations lie predominantly with the Association.

B. Functional and presentation currency

At the Executive Council Meeting on 11 June 2008, it was agreed to change the official currency to Swiss francs (previously U.S. dollars) with effect from the financial statements for the year 2008/09. Year 2007/08 comparatives have been restated in Swiss francs in these financial statements.

The spot rate used to convert the 2007/08 comparative figures to Swiss francs was 0.98995 CHF to 1 U.S. dollar.

Being an international organisation the Association is exposed to various currencies when conducting its activities. The main currencies the Association deals in are US\$, EUR, CAD and CHF.

All transactions are recorded in CHF at the exchange rates prevailing at the date of the transaction.

Exchange differences arising from the retranslation of monetary assets and liabilities are included as net foreign exchange gains or losses in the statement of activities.

C. Cash

The Association considers cash to be current bank accounts.

D. Investments held to maturity

Investments are made in accordance with the investment policy approved by the Executive Council on 30 September 2005 as amended by the Executive Council on 27 March 2009.

All returns from cash and investments are accounted for in Interest Income.

E. Accounts Receivable and Accounts Payable

Accounts receivable and accounts payable are principally short-term amounts relating to the settlement of transactions as a result of activities of the organisation. They are included in the balance sheet at cost.

F. Fixed Assets

The fixed assets are capitalised and depreciated on a straight line basis over the estimated useful lives of the assets concerned, as follows:

Information Technology Equipment – 4 years

G. Provisions for bad debts

Provisions are recognised, as a charge to the statement of activities, if the Association has a concern over the recovery of outstanding accounts receivable.

3. SENSITIVITY TO FOREIGN EXCHANGE MOVEMENTS

The CHF denominated results in the financial statements have been affected by fluctuations in the US\$, EUR and CAD. Accordingly, movements of foreign exchange rates over the course of a financial year can have a significant impact on the finances of the Association.

4. BENEFITS RECEIVED

The Association is hosted by the Bank for International Settlements, Basel, and benefits from administration, accounting and other advisory services provided by the Bank for International Settlements. The total amount of these benefits has not been determined.

5. INCOME TAXES

The Association is exempt from income tax.

6. CASH

	31 March 2009	31 March 2008
	CHF Value	CHF Value
CHF Current Accounts	577,266	133,239
US\$ Current Accounts	14,378	119,416
EUR Current Accounts	68,930	0
CAD Current Account	1,470	25,674
	662,044	278,329

7. INVESTMENTS HELD TO MATURITY

	31 March 2009	31 March 2008
	CHF Value	CHF Value
Fixed deposits	113,665	494,975
Interest accrued (net of withholding tax)	2,029	1,974
	115,694	496,949

A fixed deposit of US\$ 100,000 matures on 1 April 2009.

8. PREPAYMENTS

Prepayments relate to travel expenses for next financial year in the amount of CHF 4,433.

9. ACCOUNTS RECEIVABLE

	31 March 2009	31 March 2008
	CHF Value	CHF Value
Membership fees	17,050	7,425
Observer fees	18,471	7,425
Withholding tax recoverable	15,074	9,823
Other receivables	99,254	25,826
	149,849	50,499

No provision for bad debts is required.

10. FIXED ASSETS

Information Technology Equipment

Fixed assets are:

	31 March 2009	31 March 2008
	CHF Value	CHF Value
Opening net book value	1,199	1,775
Additions	0	0
Disposals	0	0
Depreciation	576	576
	623	1,199

Initially recorded at their cost of purchase and are depreciated on a straight-line basis using the estimated useful life of the asset (see note 2).

11. ACCOUNTS PAYABLE

Accounts payable mainly consists of year-end accruals for transactions incurred as a result of the Association's activities during March 2006. These amounts are payable to the Bank for International Settlements, the Auditors and other parties who have performed services for the benefit of the Association.

	31 March 2009	31 March 2008
	CHF Value	CHF Value
Audit	4,000	3,465
Salaries	0	55,969
Conferences, Seminars and Meetings	1,395	10,417
Travel	3,068	132
Administration, IT and Communications	8,848	17,052
	17,311	87,035

12. DEFERRED REVENUE

Fees were previously invoiced on an annual basis for the period from 1 July to 30 June. This resulted in deferred revenue in relation to a quarter of the fees from April to June each year.

Following the Executive Council Meeting on 11 June 2008, it was decided to synchronise the invoicing period with the financial year to provide for more transparent financial statements. Accordingly invoices for the current financial year have covered the period for 9 months to 31 March 2009 thereby avoiding any deferred revenue.

The Deferred Revenue for the previous financial year was broken down as follows:

	31 March 2009	31 March 2008
	CHF Value	CHF Value
Members	0	118,794
Associates	0	11,137
Observers	0	4,950
	0	134,881

13. CAPITAL

	31 March 2009	31 March 2008
	CHF Value	CHF Value
Members Contributions	516,061	504,875
less unpaid Contributions	(15,493)	(29,699)
Paid up Capital Contributions	500,568	475,176
Number of members	52	51

The unpaid Contributions relate to payments due in future accounting periods.

14. INTEREST INCOME

	31 March 2009	31 March 2008
	CHF Value	CHF Value
Bank accounts	872	316
Money market deposits	11,586	18,698
Withholding tax (prior year)	0	3,168
	12,458	22,182

Participants

IADI's participants include Members, Associates, Observers and Partners.

Members are entities that, under law or agreement, have a deposit insurance system, and have been approved for membership in the Association. An Associate is an entity that does not fulfill all of the criteria to be a Member, but which is considering the establishment of a deposit insurance system, or is part of a financial safety net and has a direct interest in the effectiveness of a deposit insurance system. Observers are interested parties that are profit or not-for-profit entities which do not fulfill the criteria to be an Associate. Partners are not-for-profit entities that enter into a cooperative arrangement with the Association.

For complete definitions, please see the *Statutes of the International Association of Deposit Insurers*.

Members

Agencia De Garantía De Depósitos, A.G.D. (Ecuador)

Dr. Carlos Bravo
General Manager

Albanian Deposit Insurance Agency

Silvana Sejko
General Manager

Autorité des marchés financiers (Québec)

Julien Reid
Director, Standards and Business Intelligence

Banco Central del Uruguay, Superintendencia de Protección del Ahorro Bancario

Jorge Sánchez
Presidente de la Comisión de Protección del Ahorro Bancario

Banco de Guatemala, como Administrador Del Fondo para la Protección del Ahorro

Manuel Augusto Alonzo Araujo
General Manager

Bangladesh Bank

Murshid Kuli Khan
Deputy Governor

Bank Al-Maghrib, Fonds Collectif de Garantie des Dépôts (Morocco)

Abderrahim Bouazza
Head of the Banking Supervision Department

Bank Deposit Security Fund of Sudan

Ezeldin Mirghani Yasein
General Manager

Bank Guarantee Fund (Poland)

Malgorzata Zaleska
President of the Management Board

Barbados Deposit Insurance Corporation

Warrick Ward
Chief Executive Officer

Bulgarian Deposit Insurance Fund

Bisser Manolov
Chairman of the Management Board

Canada Deposit Insurance Corporation

Guy Saint-Pierre
President and Chief Executive Officer

Central Deposit Insurance Corporation (Chinese Taipei)

Howard N.H. Wang
President

Deposit Guarantee Fund (Ukraine)

Valeriy I.Ogijenko
Executive Director

Deposit Guarantee Fund in the Banking System (Romania)

Niculae Vulpescu
Director

Deposit Insurance Agency (The Russian Federation)

Andrey Melnikov
Deputy General Director

Deposit Insurance Agency of Bosnia and Herzegovina

Josip Nevjestic
Director

Deposit Insurance and Credit Guarantee Corporation

Reserve Bank of India
H.N. Prasad
Chief Executive Officer

Deposit Insurance Board of Tanzania

A.M. Rasmini
Acting Director

Deposit Insurance Corporation (Trinidad and Tobago)

Junior Frederick
General Manager

Deposit Insurance Corporation of Japan

Mutsuo Hatano
Deputy Governor

Deposit Insurance Corporation, Central Bank of the Bahamas

Cassandra C. Nottage
Manager, Bank Supervision Department

Deposit Insurance Fund (Czech Republic)

Josef Tauber
Chairman of the Board of Administration

Deposit Insurance of Vietnam

Bui Khac Son
Chairman

Deposit Insurance Protection Agency of Thailand

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President

Deposit Protection Board (Zimbabwe)

John M. Chikura
Chief Executive Officer

Deposit Protection Fund Board (Kenya)

Kakai Cheloti
Director

Federal Deposit Insurance Corporation (USA)

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Financial Services Compensation Scheme (UK)

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Chief Executive

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Vilma Rosa León-York
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Fondo de Garantía de Depósitos y Protección Bancaria (Venezuela)

Humberto R. Ortega Díaz
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Fondo de Garantías de Instituciones Financieras (Colombia)

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First Deputy Governor

Monetary Authority of Singapore

Der Jiun Chia
Executive Director

Prudential Policy Bank of Algeria

Choaib El-Hassar
Deputy Governor

Bangko Sentral ng Pilipinas (Philippines)

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Deputy Governor

The National Treasury (South Africa)

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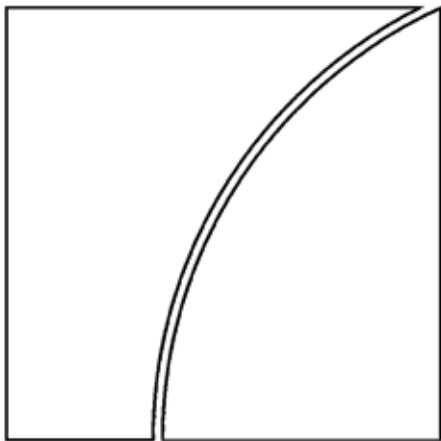
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The World Bank

Roberto Rocha
Secretary General

Basel Committee
on Banking Supervision

International Association of
Deposit Insurers



Core Principles for Effective Deposit Insurance Systems

June 2009



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Bank for International Settlements
Press & Communications
CH-4002 Basel, Switzerland

E-mail: publications@bis.org
Fax: +41 61 280 9100 and +41 61 280 8100

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Core Principles for Effective Deposit Insurance Systems

Executive Summary

Introduction and objectives

1. The *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience* (April 2008) pointed out that events during the recent international financial turmoil illustrate the importance of effective depositor compensation arrangements. The report stressed the need for authorities to agree on an international set of principles for effective deposit insurance systems.

2. In July 2008 the Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI) decided to collaborate to develop an internationally agreed set of Core Principles using the IADI Core Principles for Effective Deposit Insurance Systems as a basis. A joint working group was established to develop Core Principles to be submitted to the BCBS and IADI for their respective review and approval. This joint working group is comprised of representatives from the BCBS's Cross-border Bank Resolution Group (CBRG) and IADI's Guidance Group. The following Core Principles for Effective Deposit Insurance Systems represent the work of the joint CBRG-IADI working group in developing Core Principles.

Core Principles and preconditions

3. Policymakers have choices regarding how they can protect depositors and contribute to financial system stability. Explicit deposit insurance has become the preferred choice compared to other alternatives such as reliance on implicit protection. A deposit insurance system clarifies the authority's obligations to depositors (or if it is a private system, its members), limits the scope for discretionary decisions, can promote public confidence, helps to contain the costs of resolving failed banks and can provide countries with an orderly process for dealing with bank failures and a mechanism for banks to fund the cost of failures.

4. The introduction or the reform of a deposit insurance system can be more successful when a country's banking system is healthy and its institutional environment is sound. In order to be credible, and to avoid distortions that may result in moral hazard, a deposit insurance system needs to be part of a well-constructed financial system safety net, properly designed and well implemented. A financial safety net usually includes prudential regulation and supervision, a lender of last resort and deposit insurance. The distribution of powers and responsibilities between the financial safety-net participants is a matter of public policy choice and individual country circumstances.

5. 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 dealt with through other means such as by the state.

6. The Core Principles are reflective of, and designed to be adaptable to, a broad range of country circumstances, settings and structures. The Core Principles are intended as a voluntary framework for effective deposit insurance practices; national authorities are free to put in place supplementary measures that they deem necessary to achieve effective deposit insurance in their jurisdictions. The Core Principles are not designed to cover all the needs and circumstances of every banking system. Instead, specific country circumstances should be more appropriately considered in the context of existing laws and powers to fulfil the public policy objectives and mandate of the deposit insurance system.

7. An effective deposit insurance system needs to be based on a number of external elements or preconditions. These preconditions, although mostly outside the direct jurisdiction of the deposit insurance system, have a direct impact on the system. These preconditions include:

- an ongoing assessment of the economy and banking system;
- sound governance of agencies comprising the financial system safety net;
- strong prudential regulation and supervision; and
- a well developed legal framework and accounting and disclosure regime.

8. The 18 Core Principles are broadly categorised into ten groups: Setting objectives (principles 1 to 2); Mandates and powers (principles 3 to 4); Governance (principle 5); Relationships with other safety-net participants and cross-border issues (principles 6 to 7); Membership and coverage (principles 8 to 10); Funding (principle 11); Public awareness (principle 12); Selected legal issues (principles 13 to 14); Failure resolution (principles 15 to 16); and Reimbursing depositors and recoveries (principles 17 to 18).

Setting objectives

- **Principle 1 – Public policy objectives:** The first step in adopting a deposit insurance system or reforming an existing system is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the deposit insurance system. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and protect depositors.
- **Principle 2 – Mitigating moral hazard:** Moral hazard should be mitigated by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety net (see Preconditions paragraph 16).

Mandates and powers

- **Principle 3 – Mandate:** It is critical that the mandate selected for a deposit insurer be clear and formally specified and that there be consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer.
- **Principle 4 – Powers:** A deposit insurer should have all powers necessary to fulfill its mandate and these powers should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, set internal

operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.

Governance

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

Relationships with other safety-net participants and cross-border issues

- **Principle 6 – Relationships with other safety-net participants:** A framework should be in place for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety-net participants. Such information should be accurate and timely (subject to confidentiality when required). Information-sharing and coordination arrangements should be formalised.
- **Principle 7 – Cross-border issues:** Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety-net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognised in the determination of levies and premiums.

Membership and coverage

- **Principle 8 – Compulsory membership:** Membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (eg retail and small business depositors) to avoid adverse selection.
- **Principle 9 – Coverage:** Policymakers should define clearly in law, prudential regulations or by-laws what an insurable deposit is. The level of coverage should be limited but credible and be capable of being quickly determined. It should cover adequately the large majority of depositors to meet the public policy objectives of the system and be internally consistent with other deposit insurance system design features.
- **Principle 10 – Transitioning from a blanket guarantee to a limited coverage deposit insurance system:** When a country decides to transition from a blanket guarantee to a limited coverage deposit insurance system, or to change a given blanket guarantee, the transition should be as rapid as a country's circumstances permit. Blanket guarantees can have a number of adverse effects if retained too long, notably moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period.

Funding

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

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

Public awareness

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

Selected legal issues

- **Principle 13 – Legal protection:** The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in “good faith” while discharging their mandates. However, individuals must be required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable. Legal protection should be defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified.
- **Principle 14 – Dealing with parties at fault in a bank failure:** A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.

Failure resolution

- **Principle 15 – Early detection and timely intervention and resolution:** The deposit insurer should be part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks. The determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and on the basis of well defined criteria by safety-net participants with the operational independence and power to act.
- **Principle 16 – Effective resolution processes:** Effective failure-resolution processes should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and accurately and on an equitable basis; minimise resolution costs and disruption of markets; maximise recoveries on assets; and, reinforce discipline through legal actions in cases of negligence or other

wrongdoings. In addition, the deposit insurer or other relevant financial system safety-net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank (eg providing depositors with continuous access to their funds and maintaining clearing and settlement activities).

Reimbursing depositors and recoveries

- **Principle 17 – Reimbursing depositors:** The deposit insurance system should give depositors prompt access to their insured funds. Therefore, the deposit insurer should be notified or informed sufficiently in advance of the conditions under which a reimbursement may be required and be provided with access to depositor information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits.
- **Principle 18 – Recoveries:** The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. The management of the assets of the failed bank and the recovery process (by the deposit insurer or other party carrying out this role) should be guided by commercial considerations and their economic merits.

Main Body

Introduction and objectives

1. The *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience* (April 2008) pointed out that events during the recent international financial turmoil illustrate the importance of effective depositor compensation arrangements. The FSF Report recommended that: “*Authorities should agree on an international set of principles for effective deposit insurance systems. These principles should recognise that there may be a variety of different designs for deposit insurance arrangements that meet the objectives behind the principles, and therefore should be adaptable to a broad range of country circumstances. The development of the principles should also take close account of the broader characteristics of safety-net arrangements, including those of the regulatory and supervisory framework and of resolution procedures for failing institutions.*”

2. The Basel Committee’s Core Principles for Effective Banking Supervision (October 2006) acknowledge that a carefully designed system of deposit insurance can contribute to public confidence in the financial system and thus limit contagion from banks in distress, but do not currently provide guidance for effective deposit insurance systems.

3. The International Association of Deposit Insurers (IADI) developed a set of Core Principles for Effective Deposit Insurance Systems in February 2008.¹ The IADI Core Principles are designed to enhance the effectiveness of deposit insurance systems and are based on IADI research and guidance papers. In developing its Core Principles, the IADI drew heavily on the practical experience of its members.

4. In July 2008 the Basel Committee on Banking Supervision (BCBS) and IADI agreed to collaborate to develop an internationally agreed set of Core Principles for Effective Deposit Insurance Systems using the IADI Core Principles as a basis. A joint working group was established to develop Core Principles to be submitted to the BCBS and to IADI for their respective review and approval. This joint working group is comprised of representatives from the BCBS’s Cross-border Bank Resolution Group (CBRG) and IADI’s Guidance Group. The following document represents the work of the joint CBRG-IADI working group in developing the Core Principles and an accompanying set of Preconditions which address mainly external elements necessary to support effective deposit insurance systems.

Core Principles and preconditions

5. Policymakers have choices regarding how they can protect depositors and contribute to financial system stability. Explicit deposit insurance has become the preferred choice compared to other alternatives such as reliance on implicit protection.² A deposit

1 IADI was established in 2002 with a mission to contribute to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation. The IADI Core Principles were developed for the benefit of countries considering the adoption or the reform of a deposit insurance system.

2 Implicit deposit protection arises when the public, including depositors and perhaps other creditors, expect some form of protection in the event of a bank failure. This expectation usually arises because of the governments past behaviour or statements made by officials. Implicit protection is, by definition, never formally specified. There are no statutory rules regarding the eligibility of bank liabilities, the level of protection provided

insurance system clarifies the authority's obligations to depositors (or if it is a private system, its members), limits the scope for discretionary decisions, can promote public confidence, helps to contain the costs of resolving failed banks and can provide countries with an orderly process for dealing with bank failures and a mechanism for banks to fund the cost of failures.³

6. The introduction or the reform of a deposit insurance system can be more successful when a country's banking system is healthy and its institutional environment is sound. In order to be credible, and to avoid distortions that may result in moral hazard, a deposit insurance system needs to be part of a well-constructed financial system safety net, properly designed and well implemented. A financial safety net usually includes prudential regulation and supervision, a lender of last resort and deposit insurance. The distribution of powers and responsibilities between the financial safety-net participants is a matter of public policy choice and individual country circumstances.

7. 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 dealt with through other means such as by the state.

8. The Core Principles are reflective of, and designed to be adaptable to, a broad range of country circumstances, settings and structures. The Core Principles are intended as a voluntary framework for effective deposit insurance practices; national authorities are free to put in place supplementary measures that they deem necessary to achieve effective deposit insurance in their jurisdictions. The Core Principles are not designed to cover all the needs and circumstances of every banking system. Instead, specific country circumstances should be more appropriately considered in the context of existing laws and powers to fulfil the public policy objectives and mandate of the deposit insurance system.

9. A high degree of compliance with the Core Principles should contribute to financial system stability and enhance depositor protection.

Preconditions

10. An effective deposit insurance system needs to be based on a number of external elements or preconditions. These preconditions, although mostly outside the direct jurisdiction of the deposit insurance system, have a direct impact on the system. These preconditions include:

- an ongoing assessment of the economy and banking system;
- sound governance of agencies comprising the financial system safety net;
- strong prudential regulation and supervision; and
- a well developed legal framework and accounting and disclosure regime.

or the form which reimbursement will take. Funding is discretionary and often depends on the government's ability to access public funds.

³ In this paper the term "bank" is used to denote financial institutions which accept insured deposits.

Where existing conditions are not ideal, it is important to identify them. If actions are necessary, they can be taken before, or in concert with, the adoption or reform of a deposit insurance system.

11. The establishment or reform of a deposit insurance system is more difficult if underlying issues relating to the health and stability of the economy and the banking system have not been addressed. Policymakers should undertake a situational analysis of the economic environment as it affects the banking system and will influence the effectiveness of a deposit insurance system. The soundness of the banking system, including a detailed evaluation of the condition of banks' capital, liquidity, credit quality, risk management policies and practices, and the extent of any problems should be assessed. The structure of the banking system should be considered since the number, type and characteristics of banks will have design implications for the deposit insurance system.

12. Deposit insurance systems cannot be effective if relevant laws do not exist or if the legal regime is characterised by inconsistencies. A well developed legal framework should include a system of business laws, including corporate, bankruptcy, contract, consumer protection and private property laws, which is consistently enforced and provides a mechanism for the fair resolution of disputes. Additional factors that should be considered include: the ability of a legal regime to support the intervention or closure of troubled banks in a timely manner; that there be provisions made for the clear and orderly liquidation of assets and resolution of creditors' claims; and that financial system safety net participants and those individuals working for them be provided with legal protection.

13. The sound governance of agencies comprising the financial system safety net strengthens the financial system's architecture and contributes directly to financial system stability. The four major elements comprising sound governance are: operational independence, accountability, transparency and disclosure, and integrity. All are equally important, and reinforce each other in supporting sound governance.

14. The strength of prudential regulation and supervision will have direct implications for the effectiveness of a deposit insurance system. Strong prudential regulation and supervision should allow only viable banks to operate and be members of the deposit insurance system. Banks should be well capitalised and follow sound-and-prudent risk management, governance and other business practices. Other characteristics include an effective licensing or chartering regime for new banks, regular and thorough examinations, the risk assessment of individual banks and a framework for the early detection and timely intervention and resolution of troubled banks.

15. Sound accounting and disclosure regimes are necessary for an effective deposit insurance system. Accurate, reliable and timely information reported by these regimes can be used by management, depositors, the marketplace, and authorities to make decisions regarding the risk profile of a bank, and thereby increase market, regulatory and supervisory discipline. A sound accounting and disclosure regime should include comprehensive and well defined accounting principles and rules that command wide international acceptance. A system of independent audits is needed for companies of significant size, to ensure that users of financial statements, including banks, have independent assurance that the accounts provide a true and fair view of the financial position of the company and are prepared according to established accounting principles, with auditors held accountable for their work.

16. A well designed financial system safety net contributes to the stability of the financial system; however, if poorly designed it may increase risks, notably moral hazard. In addition to addressing moral hazard in the design features of the deposit insurance system, moral hazard should be mitigated through other elements of the financial system safety net by

creating and promoting appropriate incentives through good corporate governance and sound risk management of individual banks, effective market discipline and frameworks for strong prudential regulation, supervision and laws (including minimisation of the risk of loss through the timely resolution of troubled banks). These elements involve trade-offs and are most effective when they work in concert.

Core Principles: Explanations and supporting guidance

Setting objectives

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

Explanations and supporting guidance

Public policy generally involves the selection of goals and the means of achieving them within a specified context. Public policy objectives are a component of public policies, and normally involve formal and informal expressions of intent and are meant to provide purpose and focus. Public policy objectives should be formally specified; for example, through legislation or a preamble to legislation.

The focus of protection should be on those depositors who are generally not in a position to make an informed assessment of the risk that the bank to which their funds are entrusted may fail (eg retail and small business depositors). The policy objective is therefore also about protecting those who most need protection (and cannot afford any loss of funds).

Although these are the most prominent and generally applicable public policy objectives for deposit insurance systems, there are other objectives which are less common and generally applicable. Some examples include: providing a mechanism for banks to fund the cost of failures; promoting competition in the financial sector by mitigating competitive barriers in the banking industry; and facilitating the transition from a blanket deposit guarantee to limited coverage.

- **Principle 2 – Mitigating moral hazard:** Moral hazard should be mitigated by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety net (see “Preconditions” paragraph 16).

Explanations and supporting guidance

Moral hazard refers to the incentive for excessive risk taking by banks or those receiving the benefit of protection. Such behaviour may arise, for example, in situations where depositors and other creditors are protected, or believe they are protected, from losses or when they believe that a bank will not be allowed to fail.

Ensuring that a deposit insurance system contains appropriate design features such as: placing limits on the amounts insured; excluding certain categories of depositors from coverage; and implementing differential or risk-adjusted premium systems can mitigate moral hazard.

In addition to the design of the deposit insurance system, moral hazard should be mitigated through other elements of the financial system safety net by creating and promoting appropriate incentives through good corporate governance and sound risk management of individual banks, effective market discipline and frameworks for strong prudential regulation, supervision and laws.

Mandates and powers

- **Principle 3 – Mandate:** It is critical that the mandate selected for a deposit insurer be clear and formally specified and that there be consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer.
- **Principle 4 – Powers:** A deposit insurer should have all powers necessary to fulfill its mandate and these should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, set internal operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.

Explanations and supporting guidance

The mandate of an organisation is a set of official instructions or statement of purpose. There is no single mandate or set of mandates suitable for all deposit insurers. Existing deposit insurers have mandates ranging from narrow, so-called “paybox” systems to those with broader powers and responsibilities, such as loss or risk-minimisation/management, with a variety of combinations in between.

Paybox systems largely are confined to paying the claims of depositors after a bank has been closed. Accordingly, they normally do not have prudential regulatory or supervisory responsibilities or intervention powers. Nevertheless, a paybox system requires appropriate legal authorities, as well as access to deposit information and adequate funding, for the timely and efficient reimbursement of insured depositors when banks fail.

A deposit insurer charged with loss or risk-minimisation/management is likely to have a relatively broad mandate and accordingly more powers. These powers may include: the ability to control entry and exit from the deposit insurance system; the ability to assess and manage its own risks; and, the ability to conduct examinations of banks or request such examinations. Such systems may provide financial assistance to troubled banks.

Governance

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

Explanations and supporting guidance

Governance refers to the processes, structures, and information used in directing and overseeing the management of an organisation. It concerns the relationship between the organisation and the authority from which it receives its mandate or to which it is accountable. The four major elements comprising sound governance are: operational independence, accountability, transparency and disclosure, and integrity. All are equally important, and they reinforce each other in supporting sound governance.

Relationships with other safety-net participants and cross-border issues

- **Principle 6 – Relationships with other safety-net participants:** A framework should be in place for close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety-net participants. Such information should be accurate and timely (subject to confidentiality when required). Information sharing and coordination arrangements should be formalised.
- **Principle 7 – Cross-border issues:** Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety-net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognised in the determination of levies and premiums.

Explanations and supporting guidance

A deposit insurer's interrelationship management needs vary according to its mandate and powers. When a single organisation performs all of the safety-net functions the smooth resolution of potential tensions is dependent on clarity of mandates and an adequate accountability regime among the relevant departments. However, when the functions are assigned to different organisations, issues related to information sharing, allocation of powers and responsibilities, and coordination of actions among different functions are more complex and need to be addressed clearly and explicitly.

In addition to the banks themselves, the supervisory authority usually is the primary source of information on banks. Such information can include that needed to meet depositors' claims when necessary. A deposit insurer with a risk-minimising mandate will require access to timely and accurate information so it can assess the financial condition of individual banks. The central bank can also be a source of information in many deposit insurance systems with respect to financial system issues that could have an impact on the deposit insurer. In order to ensure that the deposit insurer obtains the information it needs, while minimising reporting burdens on banks, it is important to closely coordinate the collection and sharing of information.

Although informal arrangements for information sharing can work, information sharing should be formalised either through legislation, memoranda of understanding, legal agreements, or a combination of these techniques. These arrangements also may be useful in providing a general framework for safety net participants to coordinate their related activities.

The close coordination and information sharing among deposit insurers and other financial system safety net participants is also significant from a cross-border perspective on a routine basis as well as in relation to particular banks. In circumstances where more than one deposit insurer provides coverage, it is important to determine which deposit insurer or insurers will be responsible for reimbursement and it is advisable to have in place appropriate bilateral/multilateral agreements. Care should be taken also to ensure that information provided to depositors on the reimbursement process (eg applicable coverage limits, claims procedures) in the jurisdictions affected is done so in a clear and easily understood manner.

Membership and coverage

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

Explanations and supporting guidance

Adverse selection is the tendency for higher-risk banks to opt for deposit insurance and lower-risk banks to opt-out of deposit insurance when membership in a system is voluntary.

Unless banks included in the deposit insurance system are subject to strong prudential regulation and supervision, the deposit insurance system will be exposed to unacceptable risk. This is of particular importance where the deposit insurance system may be directed to include non-traditional banks such as micro-lending or credit institutions that may not be under the same form of regulation as existing member banks.⁴

Policymakers should determine whether eligible banks will be given membership automatically or whether they should be required to apply for entry. The latter option provides a degree of flexibility for the deposit insurer to control the risks it assumes by establishing entry criteria. It can also serve to enhance compliance with prudential requirements and standards. In such cases, an appropriate transition plan should be in place that details the criteria, process and time frame for attaining membership and the criteria should be transparent.

In some deposit insurance systems membership is a condition of a bank carrying on business and it is not possible for the deposit insurer to refuse admission if the regulator has authorised the bank to carry on the business. In such systems, the regulator, rather than the deposit insurer, decides whether the bank is suitable to be granted authorisation. In these circumstances the deposit insurer should be consulted or informed of the application in advance in order to prepare for the new bank.

In situations where a bank in the deposit insurance system has its authorisation to conduct business withdrawn by the supervisory authority, the bank's deposit insurance should be terminated at the same time (or if its membership is terminated by the deposit insurance system, its operating license should be withdrawn by the relevant authority).

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

⁴ The rationale for policymakers considering expanding membership in the deposit insurance system to these institutions may include: the desire not to introduce competitive distortions among different types of institutions offering similar products; the objective of enhancing the stability of the financial system by including all institutions that accept deposits or deposit-like products; and the desire to apply prudential regulatory and supervisory rules to all such institutions.

Explanations and supporting guidance

In defining what is an insurable deposit policymakers should consider the relative importance of different deposit instruments, including foreign-currency deposits and the deposits of non-residents, in relation to the public policy objectives of the system.

The level of coverage should be limited and can be set through an examination of relevant data such as statistical information describing the size distribution of deposits held in banks. This gives policymakers an objective measure, such as the fraction of depositors covered, with which to assess the adequacy of a certain level of coverage. The same coverage limit should apply to all banks in the deposit insurance system.

Coverage limits may need to be reviewed and when necessary adjusted because of factors such as: inflation, the growth of real income, the development of new financial instruments, and the way in which these factors influence the composition and size of deposits.

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

Explanations and supporting guidance

Some countries have introduced an explicit blanket guarantee during a financial crisis to fully protect certain bank depositors and possibly other creditors.⁵ The provision of such guarantees may be unavoidable in periods of extreme financial distress to maintain domestic and international confidence in the banking system.

A country considering transitioning from a blanket guarantee to a limited coverage deposit insurance system should undertake the same type of situational analysis as a country moving from implicit protection. Countries transitioning from a blanket guarantee will need to consider three special issues. The first issue arises from the fact that protection for depositors and possibly other creditors is being reduced. This may present a concern to the public. Therefore, policymakers should pay particular attention to public attitudes and expectations. Countries with a high level of capital mobility, and/or a regional integration policy, should consider the effects of different countries' protection levels and other related policies.

Second, policymakers should consider the capacity of the banking system to fund a new deposit insurance system. The transition to limited coverage usually involves the imposition of new or revised premiums or levies on banks. If those funds are insufficient to pay for the cost of the blanket guarantee – especially if it stems from a systemic crisis – the cost usually is shared between banks and the government. The latter can resort to budgetary resources (ie higher taxes), asset sales, or debt issues. In any case, it is important to have a clear

⁵ A "blanket guarantee" is a declaration by authorities that in addition to the protection provided by limited coverage deposit insurance or other arrangements, certain deposits and perhaps other financial instruments will be protected. A wide range of factors need to be considered when introducing blanket guarantees, including decisions on the scope of the guarantee (eg the type of institutions, products and term maturities covered) and whether the banks utilising the guarantees will be required to contribute in some manner to the costs of providing the guarantees.

mechanism in place to ensure that the deposit insurance system will have access to adequate funding during and after the transition.

The final issue concerns how fast the transition should proceed. In general, the transition should be as rapid as a country's circumstances permit. Some countries have implemented so-called fast-track transitions successfully soon after the crisis has passed. These are countries that have restored the banking system to financial health rapidly; and where strong prudential regulation and supervision, effective legal frameworks, and sound accounting and disclosure regimes were already in place.

In other countries, the implementation of a blanket guarantee has been associated with a comprehensive post-crisis bank restructuring strategy and measures to improve prudential regulation and supervision, the legal framework, and the accounting and disclosure regimes. This has implications both for the length of time that the blanket guarantee needs to stay in place and for the speed of the transition. The gradual removal of a blanket guarantee allows banks time to adjust to necessary institutional changes which could include legal and supervisory reforms. In addition, a gradual transition permits bank managers to be trained in a risk-management culture and gives depositors time to become accustomed to the new arrangements. A major disadvantage, however, is that the transition period might be perceived as being too long, raising doubts among depositors and creditors about the government's commitment to withdraw the blanket guarantee. In addition, the longer the blanket guarantee remains in place, the more likely it is to give rise to additional moral hazard.

Funding

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

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

Explanations and supporting guidance

Sound funding arrangements are critical to the effectiveness of a deposit insurance system.

Policymakers can choose among ex-ante, ex-post and hybrid (ie combined ex-ante and ex-post) funding mechanisms.

Ex-ante funding requires the accumulation and maintenance of a fund to cover deposit insurance claims and related expenses prior to a failure occurring. It is principally funded by its members through contributions, insurance premiums and other means. Funds can be accumulated during stronger economic conditions, when losses may be low, as a hedge against future needs when economic circumstances may be less favourable and losses higher, thus reducing the pro-cyclicality of funding. Ex-ante funding can help lessen the reliance of the deposit insurance system on public funds during periods of financial stress and crisis. For countries utilising an ex-ante target fund ratio or range the method chosen

should be sufficient to reduce the probability of the fund's insolvency to an acceptable minimum.

In ex-post funding systems, funds to cover deposit insurance claims are only collected from member banks when the bank fails and the need to cover claims develops. Ex-post systems may be less onerous on member banks (leaving more funds available to the banking system) when there are little or no failures because fewer premiums are being collected and administrative costs associated with the collection of premiums and fund management is less. In order to be effective ex-post systems require virtually immediate access to back-up funding (since they have little or no funding of their own).

It is important to note that many ex-ante systems incorporate elements of ex-post systems (eg the ability to increase premiums, charge additional levies and receive the proceeds of liquidations) and thus can be considered as combined or hybrid funding systems.

Whether an ex-ante, ex-post or a hybrid system is chosen, primary responsibility for paying the costs of deposit insurance should be borne by banks since they and their clients directly benefit from having an effective deposit insurance system. However, it should be understood that in special situations such as a systemic crisis where the stability of the financial system is in jeopardy this may not be the case.

Public awareness

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

Explanations and supporting guidance

Public awareness of deposit insurance, its existence and how it works (including the level and scope of coverage and how the claims process operates), plays a significant role in underpinning a sound deposit insurance system.

All deposit insurers should promote public awareness about the deposit insurance system on an ongoing basis to maintain and strengthen public confidence. The objectives of the public awareness program should be clearly set out and consistent with the public policy objectives and mandate of a deposit insurer.

When designing a public awareness program, deposit insurers should clearly define the principal target audience groups and subgroups (eg the general public, depositors, member banks etc). Employing a wide variety of tools and channels of communication can help ensure that the deposit insurers' messages are conveyed to the target audience.

In general, the deposit insurer should be the primary party responsible for promoting public awareness about deposit insurance and should work closely with member banks and other safety net participants to ensure consistency in the information provided and maximise synergies. All these bodies and their staff have a role to play.

Budgets for public awareness programs should be determined on the basis of the desired level of visibility and awareness about deposit insurance among the target audience. And, it is an effective practice for a deposit insurer to conduct a regular independent evaluation of awareness levels.

The deposit insurer should develop ahead of time a public awareness contingency program to address individual bank failures, multiple bank failures and the occurrence of a systemic crisis.

Selected legal issues

- **Principle 13 – Legal protection:** The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in “good faith” while discharging their mandates. However, individuals must be required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable. Legal protection should be defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified.
- **Principle 14 – Dealing with parties at fault in a bank failure:** A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.

Explanations and supporting guidance

The lack of legal or statutory protection can reduce incentives for individuals to be diligent in the carrying out of their mandates - particularly in cases where deposit insurers and other financial system safety net participants’ mandates emphasise timeliness in the detection, intervention and resolution of troubled banks. There are a variety of approaches available to provide legal protection. Some of the most common include:

- granting legal protection to individuals from civil and criminal liability for their decisions, actions or omissions taken in the normal discharge of their legal responsibilities;
- granting statutory immunity to the deposit insurance organisation;
- including appropriate indemnification provisions in employment contracts; or
- a combination of these approaches.

To provide incentives for good conduct, however, the relevant statutory or contractual provisions for individuals must be wide and unambiguous. They should also not qualify the protection by requiring the individual to establish that their actions and decisions (including decisions not to take action) were reasonable or not negligent.

Although there are numerous approaches to legal protection, at a minimum the deposit insurer and those individuals working for the deposit insurer and other financial system safety net participants should be protected against lawsuits for their decisions and actions (or decisions taken not to act) taken in “good faith” while discharging their mandates. Legal protection, however, should not extend to protecting individuals where they have acted in bad faith; for example, where they have acted fraudulently or maliciously.

Legal protection must coexist in an environment where there is clear accountability. This means that while individuals should be legally protected, they must be required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable. Finally, legal protection must also be compatible with the right of individuals to be compensated by the deposit insurer or other authorities according to the country specific liability regimes.

A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure. For example, seeking legal redress

from such parties as officers, directors, managers, auditors and related parties of the failing/failed bank can help improve recoveries for an insurer and can mitigate moral hazard problems by providing strong incentives against malfeasance.

Failure resolution

- **Principle 15 – Early detection and timely intervention and resolution:** The deposit insurer should be part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks. The determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and on the basis of well defined criteria by safety net participants with the operational independence and power to act.
- **Principle 16 – Effective resolution processes:** Effective failure-resolution processes should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and accurately and on an equitable basis; minimise resolution costs and disruption of markets; maximise recoveries on assets; and reinforce discipline through legal actions in cases of negligence or other wrongdoings. In addition, the deposit insurer or other relevant financial system safety net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank (eg providing depositors with continuous access to their funds and maintaining clearing and settlement activities).

Explanations and supporting guidance

The responsibilities of deposit insurers for various aspects of supervision, prudential regulation and the resolution of troubled banks are country specific, reflecting the particular mandates of financial safety net participants. However, regardless of the specific responsibilities of the deposit insurer in any particular country, the manner in which banks are supervised and regulated and how troubled banks are resolved has a major impact on the costs and other aspects of the deposit insurance system.

What is important is that whoever has responsibilities in this regard recognise that the determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and that the intervention and resolution process be initiated on the basis of well-defined criteria. This can help reduce the cost of resolutions and avoid unnecessary confusion. Criteria vary between countries and include concerns over a bank's ability to meet capital requirements; low levels of accessible liquidity; deterioration in the quality or value of assets; and a finding that the bank is operated in an unsafe and imprudent manner.

The resolution of troubled banks involves three basic options: liquidation and reimbursement of depositors' claims (which typically involves the closure of the bank), purchase-and-assumption transactions (sales) and open-bank financial assistance. In addition, the deposit insurer or other relevant financial system safety net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank (eg through the use of a bridge bank, assisted acquisition or provisional administration).

Bankruptcy/insolvency and other laws may heavily influence the choice of resolution methods since such laws vary considerably among countries and, in some cases, may make

a particular resolution method difficult to implement. Because of the special significance of banks and bank failures, policymakers may wish to review whether bankruptcy/insolvency laws facilitate the orderly exit of troubled banks. In this regard, establishing a separate insolvency regime for banks should be considered.

Reimbursing depositors and recoveries

- **Principle 17 – Reimbursing depositors:** The deposit insurance system should give depositors prompt access to their insured funds. Therefore, the deposit insurer should be notified or informed sufficiently in advance of the conditions under which reimbursement may be required and be provided with access to depositor information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits.
- **Principle 18 – Recoveries:** The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. The management of the assets of the failed bank and the recovery process (by the deposit insurer or other party carrying out this role) should be guided by commercial considerations and their economic merits.

Explanations and supporting guidance

Access to the necessary depositor information (eg records) before the bank is closed lessens the risk of record manipulation, shortens the time for completing the reimbursement process and helps preserve public confidence. The deposit insurance system should be provided with necessary systems and processes to undertake a timely preparatory review of depositor information held by troubled banks in order to determine such issues as who should be reimbursed, the amount of individual deposits which are below the deposit insurance limit, and depositor claims remaining following netting/set-off (for those deposit insurance systems utilising this mechanism).

There is considerable variation in the asset management role and in the responsibility for handling claims and recoveries played by deposit insurers and other safety net participants. Where deposit insurance payments are generally made upon the liquidation of a bank, the deposit insurer usually is subrogated to the rights of the insured depositors, and is likely to file and actively manage the claim arising from the deposit insurance payment. If the depositor has not been reimbursed quickly or the quality of depositor records held by the bank is very poor, then the depositor may need to file a claim with the deposit insurer.⁶

In some instances, deposit insurers have significant roles in the recovery process, for example as a lender, creditor, or possibly liquidator and receiver. And, even if not, the deposit insurer may nominate a liquidator or have a significant role in the liquidation process through other means such as oversight over the liquidator or participation on creditor committees. In other cases, these functions are the responsibility of other entities within the safety net. Whatever the case, the deposit insurer should share in the proceeds of the recoveries arising from the failure of its member banks.

⁶ In such cases there should be time limits on the period of time over which depositors may make claims on the deposit insurer.

In countries with depositor preference laws, uninsured depositors and the deposit insurer (through subrogation) will generally have precedence over other creditors in recovering funds from the estate of the failed bank. In countries where netting or set-off is applied to depositors' claims its use should be consistent with insolvency law.

Finally, the management of the assets of the failed bank and the recovery process should be guided by commercial considerations and their economic merits. This means consideration of factors such as the quality of the assets, the depth and condition of markets, the availability of expertise in asset management and disposition, legal requirements relating to the disposition of assets, and public policy objectives.

Annex

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