
International Association of Deposit Insurers

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**IADI Brief on “Depositor Preference and Implications for
Deposit Insurance”**

The International Association of Deposit Insurers (IADI) is pleased to release an IADI Brief on “Depositor Preference and Implications for Deposit Insurance”. The paper was prepared by Kumudini Hajra and Ramadhian Moetomo of the Secretariat Research Unit.

The briefing paper explores the different types of depositor preference, the advantages and disadvantages of depositor preference and the issues arising in the context of depositor preference that are relevant for deposit insurers. Highlights include:

- Depositor preference has attracted renewed interest in the wake of the global financial crisis and particularly in the context of international regulatory reforms as it affects loss allocation among various stakeholders. This topic is important to deposit insurers given their responsibility to protect insured depositors and the need to minimise their net failed bank resolution costs.
- Depositor preference changes the allocation of losses between preferred depositors and senior unsecured creditors of an insolvent bank by creating a new order of priority in claims. It may be general, applying to all depositors, specific (such as insured depositor preference), or tiered, applying to all depositors, but giving insured depositors preference over uninsured depositors.
- Depositor preference is not a substitute for deposit insurance. Instituting depositor preference may improve the standing of uninsured depositors and through subrogation the DI in the creditor hierarchy. In the case of insured or tiered depositor preference, the cost to the DI could be further reduced.
- For uninsured depositors, general or tiered depositor preference may lessen incentives to run and help to mitigate to some degree the likelihood of contagion. However, it can also increase moral hazard.
- Depositor preference may help facilitate the implementation of resolution options, such as P&As, the use of bridge institutions, and the conversion of debt to equity.
- Jurisdictions considering introducing depositor preference, or changing their existing depositor preference arrangements, should weigh the advantages and disadvantages in the context of their legal and judicial framework and financial system structure.

[The Brief](#) is now available on the [Papers section](#) of the IADI website.