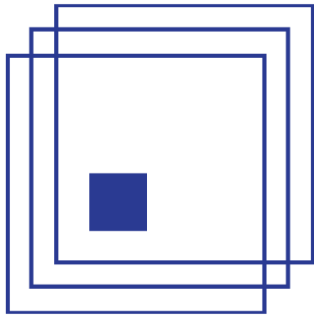




*IADI Research
Papers investigate a
topic and describes
its findings to
highlight issues of
relevance to deposit
insurers.*



RESEARCH PAPER

DEPOSIT INSURANCE
COVERAGE LEVEL AND SCOPE

PREPARED BY THE DEPOSIT INSURANCE COVERAGE
LEVEL AND SCOPE TECHNICAL COMMITTEE OF THE
CORE PRINCIPLES AND RESEARCH COMMITTEE

December 2021

IADI Research Papers investigate a topic and describes its findings to highlight issues of relevance to deposit insurers. This publication is available on the IADI website (www.iadi.org).

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Abbreviations

AMF (Québec)	Autorité des marchés financiers
BRRD	Bank Recovery and Resolution Directive (2014/59/EU)
CDIC	Central Deposit Insurance Corporation (Chinese Taipei)
CDIC-Canada	Canada Deposit Insurance Corporation
COPAB	Corporación de Protección del Ahorro Bancario (Uruguay)
DGSD	Deposit Guarantee Scheme Directive (2014/49/EU)
DIS	Deposit insurance system(s)
DPA	Deposit Protection Agency (Thailand)
DPC	Deposit Protection Corporation (Pakistan)
EU	European Union
FOGACOOOP	Guarantee Fund for Cooperative Entities (Colombia)
FOGAFIN	Guarantee Fund for Financial Institutions (Colombia)
GDP	Gross Domestic Product
GDPC	Ghana Deposit Protection Corporation
IADI	International Association of Deposit Insurers
NBU	National Bank of Ukraine

Key Terms

The following are key terms for the paper:¹

Bank: Any entity which accepts deposits or repayable funds from the public and is classified under the jurisdiction's legal framework as a deposit-taking institution, as defined in the IADI Glossary.

Blanket Guarantee: 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.

Core Principles: The IADI Core Principles for Effective Deposit Insurance Systems promote best international standards in deposit insurance and support the stability and soundness of financial systems. They are reflective of and adaptable to a broad range of jurisdictional circumstances, settings and structures. They have been included in the FSB's Compendium of Key Standards for Sound Financial Systems and are the basis for the IMF/World Bank assessments.

Coverage Limit: The maximum amount which a depositor can claim or be reimbursed by a deposit insurer in the event of a bank failure.

Differential Premium System: A premium assessment system which seeks to differentiate premiums on the basis of criteria such as individual bank risk profiles.

Early Intervention: Any actions, including formal corrective action, taken by supervisors, resolution authorities or deposit insurers in response to weaknesses in a bank prior to entry into resolution.

Eligible Deposit: Deposits that fall within the scope of coverage of a deposit insurance system (i.e. they meet the requirements for coverage under a deposit insurance system, and are based typically on the type(s) of depositor and/or deposit).

E-money: An electronic store of monetary value on a technical device that may be widely used for making payments to entities other than the e-money issuer. The device acts as a prepaid bearer instrument which does not necessarily involve bank accounts in transactions.

Ex ante Funding: The regular collection of premiums, with the aim of accumulating a fund to meet future obligations (e.g. reimbursing depositors) and cover the operational and related costs of the deposit insurer.

Ex post Funding: A system in which funds to cover deposit insurance obligations are only collected from surviving banks after a bank failure.

Explicit Protection: A system, expressly laid down by statutes or other legal instruments, that stipulates the amount of reimbursement which depositors can expect in the event of a bank failure, with rules concerning coverage limits, the types of instruments covered, the methods for calculating depositor claims, funding arrangements and other related matters.

Financial Safety-Net: A framework that includes the functions of prudential regulation, supervision, resolution, lender of last resort and deposit insurance. In many jurisdictions, a department of government (generally a Ministry of Finance or Treasury responsible for financial sector policy) is included in the financial safety-net.

Funding: Financing mechanisms necessary to cover the operating expenses and obligations of a deposit insurer.

Indexed Coverage: Limited coverage level which is determined or adjusted by the inflation rate or the change in another relevant price index of a jurisdiction.

Insured Depositors: Holders of eligible deposits that do not exceed the maximum coverage level provided by a deposit insurance system.

¹ Key terms in this section were taken from IADI's webpage <https://www.iadi.org/en/core-principles-and-research/publications/glossary/>

Insured Deposits: Eligible deposits that do not exceed the maximum coverage level provided by a deposit insurance system.

Mandate: A set of official instructions describing the deposit insurer's roles and responsibilities. There is no single mandate or set of mandates suitable for all deposit insurers. When assigning a mandate to a deposit insurer, jurisdiction-specific circumstances must be taken into account. Mandates can range from narrow 'paybox' systems to those with extensive responsibilities, such as preventive action and loss or risk minimisation/management, with a variety of combinations in between. These can be broadly classified into four categories: paybox, paybox plus, loss minimiser and risk minimiser.

Moral Hazard: Arises when parties have incentives to accept more risk because the costs that arise from such risk are borne, in whole or in part, by others.

Scope of Coverage: The types of deposits and depositors eligible for deposit insurance coverage.

Target Fund Size: The size of the ex ante deposit insurance fund, typically measured as a proportion of the assessment base (e.g. total or insured deposits), sufficient to meet the expected future obligations and cover the operational and related costs of the deposit insurer.

Executive Summary

Coverage levels and scope are key components of efficient deposit insurance systems. This paper maps important considerations and practices in this connection by analysing the results of a 2020 IADI survey on the topic. This is complemented by findings from the 2020 IADI annual survey and by case studies provided by selected jurisdictions which detail issues that were identified as unique or novel. The paper ends with specific suggestions about how these findings could inform future revisions of the IADI Core Principles regarding Core Principle 8 - Coverage.

The academic literature highlights the need to balance financial stability and market discipline and underscores the need to allow deposit insurance systems (DIS) to adapt their key features to their particular circumstances.

The survey results show that coverage levels increased globally following the financial crisis. Among respondents, more than 95% of accounts and 40% of deposits seem to be fully covered. Most jurisdictions have homogeneous coverage for all covered institutions and products, but several have a more nuanced scheme with varying levels of coverage depending on the deposit type or institution where the deposit is held. Finally, deposit insurers are largely comfortable with the current state of affairs regarding levels and available methodologies.

As far as scope of coverage is concerned, the landscape has shifted towards new digital payment products, and jurisdictions seem to be managing these changes based on their own specific circumstances. Some of them face legal challenges regarding these types of products; others have particular issues related to pass-through schemes.

Six case studies focus on specific themes that emerged from the survey results, concentrating on those jurisdictions with unique situations. The first focuses on blanket guarantees, most of which were imposed following the 2008 global financial crisis and either have been, or soon will be, phased out. Two other case studies address the challenges of setting up a new deposit insurance scheme and of revising an operating, fully developed one. A fourth case study presents details about e-money in several jurisdictions. The fifth discusses issues related to differentiated coverage levels, and the final case study presents the case of jurisdictions that face foreign currency challenges.

Finally, the survey results provide insights for future revisions to the IADI Core Principles. Insights include additional considerations detailing specific issues, such as the meaning of a 'substantial' amount of covered deposits that should be exposed to market discipline in Core Principle 8, more guidance on different coverage levels or scope for different institutions or depositors, and considerations regarding the information to which DIS should have access in order to obtain a more complete picture of coverage levels and scope within their jurisdictions.

1 Introduction

Deposit insurance systems (DIS) are a major contributor to financial system stability. Their existence benefits financial institutions and societies by reducing the probability of panic-driven bank runs, thereby protecting sound financial institutions from liquidity pressures due to massive withdrawals. Their ability to promote financial stability is considered against moral hazard concerns and excessive risk-taking by banks. Limiting the coverage provided by DIS, in terms of the maximum coverage level and the products they cover (their scope), is important for maintaining market discipline. The International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems (Core Principles) provides the following standard for defining coverage:

Policymakers should clearly define the level and scope of deposit coverage. Coverage should be limited, credible and cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline. Deposit insurance coverage should be consistent with the deposit insurance system's public policy objectives and related design features. (IADI 2014, Core Principle 8).

This paper maps key considerations and practices of DIS in determining an appropriate level and scope of coverage. We study deposit insurance coverage levels and scope worldwide, how different jurisdictions define these features, and their expectations regarding them going forward. We also study the interaction of coverage level and scope with other relevant issues such as financial crises, ex ante funds and premiums collected. The analysis leverages data from a survey on coverage levels and scope conducted among IADI members in 2020, and on findings from the 2020 IADI annual survey. Several IADI members also provided case studies to elaborate and explain issues that were identified as novel or unique. The cases provide a more complete picture of the deposit insurance landscape which, although anchored in the Core Principles, varies substantially between jurisdictions.

In aggregate terms, coverage levels increased globally following the financial crisis and are on average, as of 2020, higher than two times per capita gross domestic product (GDP). Data on fully covered depositors and total deposits follow recommendations in the Core Principles. However, it would be reasonable to monitor the trend of increasing levels of coverage given that higher coverage levels could at some point impact market discipline. In terms of scope, as the new digital payment landscape grows and becomes more prevalent, it may be necessary to study this trend through the lens of the Core Principles.² The guidance on coverage given in the Core Principles regarding coverage levels and scope still applies today, but this paper highlights instances where revisions might strengthen it, thereby ensuring it continues to be the authoritative reference for best practices for DIS worldwide.

The paper is organised as follows: Section 2 presents a review of the literature; Section 3 describes the results from the survey on coverage and scope, and includes data from the annual survey; Section 4 provides case studies that highlight relevant features of individual jurisdictions organised by theme; Section 5 analyses these findings and relates them to the Core Principles; and Section 6 concludes. A copy of the survey instrument is included in Appendix A, while respondents to the survey are detailed in Appendix B. Members of the Deposit Insurance Coverage Level and Scope Technical Committee (DICSTC) are listed in Appendix C.

2 Literature review

Although the academic literature on DIS is broad, the literature focusing explicitly on coverage levels and scope is limited. We present key conclusions from the literature by dividing it into three groups. A first set of documents presents best practices and includes recommendations regarding coverage from a principles-based perspective. A second cohort of authors study the advantages and limitations of DIS focusing on the relationship between deposit insurance – including coverage levels and scope – and banking risk, financial stability, and depositor behaviour. This is usually done empirically by analysing financial statement data from banks in one or multiple jurisdictions or more granular data from a small number of institutions, and the results inform considerations of DIS coverage and scope. A third group of papers quantitatively assesses coverage directly, either theoretically or empirically.

² In the document we refer to digital payments and digital stored-value products as e-money. IADI defines 'e-money' as an electronic store of monetary value on a technical device that may be widely used for making payments to entities other than the e-money issuer.

2.1 Best Practices

With regard to best practices, key documents are those prepared by IADI. The first, from 2009 (see IADI (2009)), explores several issues in determining the level and scope of deposit insurance based on numerous criteria. The paper states that limited partial coverage should be consistent with the public policy objectives of the DIS. If the objective is to ensure banking stability, high coverage limits are an attractive option. If the objective is to protect small depositors and reduce the moral hazard associated with insurance, low coverage limits are preferred. Other ideas presented in this document include: a) the level of coverage and cost of premiums should not burden the banking system, nor should deposit insurance be subsidised by public funding; b) setting coverage limits is a jurisdiction-specific process – thus using a percentage of per capita GDP as a target might be misleading because jurisdictions do not share the same characteristics with respect to their financial systems; c) for DIS where the objective is to protect small-scale depositors, and where deposits are distributed among a large number of relatively small deposits and a small number of very large deposits, a limit that fully covers 80% of the depositors and 20% of total value can be adequate; d) for jurisdictions that have instituted temporary blanket guarantees, the transition back to limited or partial coverage should commence as soon as the economy stabilises; and e) insurable deposits and deposits which are not within the coverage scope should be clearly defined in law.

Second, IADI (2013) suggests additional guidance following a peer review of DIS conducted by the Financial Stability Board in 2012 and experience from the 2008 global financial crisis. It argues that a more nuanced view of deposit insurance following the crisis advocates fully covering most depositors – upwards from 90–95% – while ensuring a significant portion of the value of deposits remains subject to market discipline. Moreover, it highlights the need to update levels over time and presents the advantages of doing this automatically compared to doing it on an ad hoc basis. It underscores that DIS should have access to timely and detailed depositor information and that the public should be duly informed about coverage levels and limits. It also discusses issues regarding deposits in foreign currency held in public, foreign and systemically important banks and issues about eligibility and potential exclusions. Finally, it states that coverage levels must consider available funding so that they are indeed credible.

IADI (2014) incorporates what the deposit insurance community understands as best practices. Core Principle 8 details aspects related to coverage, which reflect mostly, as a set of essential criteria, what is discussed in the two previous documents. It captures the idea that setting coverage is jurisdiction specific, so criteria are broad and can accommodate different deposit insurance designs and schemes. Key features include a clear link between coverage and policy objectives, a balance between financial stability and market discipline, and fairness for different types of depositors. No quantitative guidance is given regarding appropriate coverage levels, co-insurance is blacklisted as part of an effective design system, and detailed recommendations for phasing out blanket guarantees are included.

Beyond IADI, several other authors also provide qualitative guidance relating to DIS best practices. Some of these papers focus explicitly on identifying and advocating best practices. Hovakimian, Kane, and Laeven (2003) present coverage limits and co-insurance as important features of DIS to mitigate moral hazard but do not elaborate about what would be appropriate levels.^{3,4} McCoy (2008) discusses the relationship of moral hazard and deposit insurance and how to deal with the agency problem through design features such as coverage. The paper argues for low coverage levels as it states that the frequency of bank crises rises as the ratio of deposit insurance coverage to per capita GDP increases. Hoelscher (2011) discusses how the 2008 global financial crisis changed some of the main features of deposit insurance around the world. In contrast to McCoy (2008), the author states that the crisis showed the importance of protecting most creditors in a crisis: high coverage may be acceptable if combined with strong supervision and an effective resolution framework. He also discusses the importance of cross-border integration. He argues that global crises require jurisdictions to respond not just domestically but also sometimes to policy decisions in neighbouring countries, citing the case of Europe as an example. Kleftouri (2015) states that coverage in an effective deposit protection system must be set: a) at a level that enables authorities to accept the political consequences of bank liquidations; b) considering the structure of the financial safety-net, coverage levels in neighbouring countries, and the country's own history of banking crises; and c) taking large depositors into account. With regard to the last point, the paper highlights that these depositors are responsible for initiating bank runs, so leaving them out of the scheme limits its potential.

³ The appropriateness of co-insurance was questioned during the 2008 financial crisis and several countries abandoned it. As mentioned earlier it is not recommended by the most recent IADI document regarding best practices.

⁴ In a similar vein, Gropp and Vesala (2004) advocate explicit deposit insurance with credible coverage limits.

Cross-jurisdiction analyses of existing DIS practices also provide some useful qualitative findings with implications for best practices. Garcia (1999) surveys the characteristics of explicit DIS in 68 countries and compares these with a set of best practices adopted by the International Monetary Fund (IMF) for advising member countries. The author documents that there is a negative correlation between per capita GDP and coverage ratios: poorer countries tend to offer higher ratios than richer ones as a percentage of GDP. He also finds that common features among many countries include limiting coverage to certain types of depositors and excluding interbank and foreign currency deposits from covered deposits. This last restriction concerning foreign currency deposits is not supported by IADI (2014). Kane (2000) presents worldwide evidence that there is cross-country variation in several key features of the safety net, including deposit insurance, and argues that the design of safety nets must consider differences across countries.

More recent cross-jurisdiction surveys have documented changes in DIS coverage since the 2008 financial crisis as well as emerging risks to DIS. The Financial Stability Board (Financial Stability Board (2012)) reviews various DIS in the world, focusing on the changes made during the 2008/2009 financial crisis. Regarding coverage, the document concludes that limits are relatively high in several jurisdictions following the crisis and advises countries to adopt other measures to ensure a proper balance between financial stability and market discipline. These include more intensive supervision, the introduction of risk-based premiums, the exclusion of certain categories of deposits from coverage, and timely intervention and resolution.⁵ Demirgüç-Kunt, Kane, and Laeven (2015) present a new global database on DIS compiled by the authors and use the database to highlight key findings. In line with the Financial Stability Board's findings, the authors determine that DIS coverage rose substantially during the financial crisis through a variety of channels, such as the introduction of new DIS, increases in statutory coverage limits (including temporary unlimited coverage during the crisis), and broadening of the definition of covered liabilities. They highlight the elevated risks of moral hazard associated with the increase in DIS scope and coverage, as well as the risks to sovereign balance sheets connected with these now larger contingent liabilities. However, they ultimately conclude that DIS broadly achieved their goals of maintaining financial stability during the crisis.

2.2 Advantages and limitations of DIS

The body of academic literature on deposit insurance is comparatively large. This literature centres around the trade-offs – the advantages and limitations – inherent in deposit insurance. The main trade-off is balancing the direct bank/financial stability and depositor protection benefits of deposit insurance with the moral hazard this insurance induces. Preventing inefficient panic-based runs (à la Diamond-Dybvig (1983)) and protecting the savings of ordinary people from bank failure is socially beneficial. However, the insurance which provides these benefits also reduces the incentives for bank creditors to monitor or punish risky banks, in turn inducing banks to take greater and perhaps socially inefficient levels of risk. This increased risk-taking by banks may result in increased costs to DIS and, paradoxically, more frequent crises. Understanding these trade-offs, at least in broad terms, is crucial when considering DIS coverage and scope.

The literature consistently finds that credible DIS achieve their direct goals of stabilising deposits and protecting depositors. Studying individual depositors' decisions in jurisdictions as diverse as Denmark, India, and the US, several papers find that uninsured deposits are much more likely to run in periods of stress than insured deposits (Davenport and McDill (2006); Iyer, Puri, and Ryan (2016); Iyer, Jensen, Johannesen, and Sheridan (2016); and Martin, Puri and Ufier (2018)). The perceived effectiveness of DIS can also be inferred from differences between uninsured and insured deposit interest rates. For example, among others, Jacewitz and Pogach (2018) show that uninsured deposit rates offered by different US banks reflect market perceptions of the bank's risk, but insured rates generally do not – depositors believe that DIS protect them and demand risk premia primarily on uninsured funds.

The literature also finds that this protection for depositors reduces their incentive to monitor banks, which results in increased bank risk-taking. Of course, the findings on uninsured versus insured deposit rates above suggest a reduction in depositor monitoring or discipline due to insurance, and several studies provide direct evidence that deposit insurance indeed weakens depositor discipline.⁶ Demirgüç-Kunt and Huizinga (2004) find that higher coverage levels weaken market discipline. Bao and Ni (2017) find that increasing deposit insurance coverage can erode market discipline and increase banks' moral hazard. Lambert, Noth, and Schüwer (2017) find that risky commercial real estate loans increased in banks with greater insured deposits, which is suggestive of weakened market discipline. Kusairi, Sanusi, and Ismail

⁵ Timely intervention and resolution usually require clear, explicit resolution rules that limit costs and the use of public funds. These mitigate impacts on taxpayers due to ad hoc resolution strategies and thus also support financial stability.

⁶ This follows the introduction of deposit insurance when an implicit blanket guarantee is not present. As argued in Angkinand and Wihlborg (2010), if there is an implicit blanket guarantee, partial, limited deposit insurance might diminish rather than increase moral hazard.

(2018) find that deposit insurance causes bank managers to take greater risks to increase their returns, rather than increasing the confidence level of depositors and ultimately increasing total deposits.

DIS do not, however, eliminate depositor discipline entirely, at least partly due to limited DIS coverage. Older studies which find evidence of depositor discipline include Park and Peristiani (1998), who study the ‘savings and loan’ crisis in the US in the 1980s and 1990s; Martinez Peria and Schmukler (2001), in the context of bank distress in selected Latin American countries during the same time period; and Forssbaeck (2011), who studies a global sample of banks between 1995 and 2005. More recently, Bennett, Hwa, and Kwast (2015) show that during the wave of US bank failures following the financial crisis of 2008, depositors responded to troubled banks by withdrawing funds well before the banks failed – indicating that depositors monitor and discipline their banks; in the case of fully insured depositors this could also imply that there is not enough trust in the DIS. The depositor-level studies mentioned above also find evidence of depositor discipline in the form of elevated uninsured deposits run-off in stress, though Martin et al. (2018) find that banks may be able to undo much of this disciplining effect from uninsured depositors by substituting for higher-rate insured funds.

Considering the overall impact of DIS on financial stability, and taking into account banks’ endogenous changes in risk-taking, other studies find that DIS, or higher coverage levels, increase the frequency of crises. Demirgüç-Kunt and Detragiache (2002) find evidence that deposit insurance increases the likelihood of banking crises, and this effect is stronger the more extensive the coverage offered. Ngalawa, Tehana, and Viegi (2016) study moral hazard and find that increases in it due to DIS offset the positive effect of deposit insurance on banking stability. Calomiris and Chen (2018) show that the expansion of deposit insurance generosity (higher coverage levels) increased asset risk in banking systems. They further show that increased asset risk explains at least part of the positive association between deposit insurance and the likelihood and severity of systemic banking crises.

Other papers include additional dimensions in the analysis. For instance, Anginer et al. (2014) find that effective bank supervision can alleviate the trade-off between discipline and coverage, likely by limiting moral hazard-induced risk-taking. Iyer, Jensen, Johannesn and Sheridan (2016) find different effects of DIS on banks, depending on whether or not they are too big to fail (TBTf), and find that there is a role for deposit insurance in mitigating TBTf-related financial fragility.⁷

Interestingly, however, several papers suggest that the trade-off between discipline and coverage varies throughout the economic cycle. Berger and Turk-Ariss (2015) find evidence for market discipline before the crisis of 2008, but find that the discipline of larger banks declined during the crisis. Anginer, Demirgüç-Kunt, and Zhu (2014) find that generous financial safety-nets (including DIS) tended to increase bank-level and systemic risk before the financial crisis of 2008, but improved stability and lowered risk during the crisis. Reflecting this potential for variation through the economic cycle, and in line with considerations in IADI (2014), Chiaramonte, Girardone, Migliavacca, and Poli (2020) advocate dynamic coverage levels.

Several other important findings emerge from this literature. Although best practices advocate limiting DIS coverage to ensure some (uninsured) depositors will continue to discipline banks, several studies also emphasize the potential for a disciplining effect (or, viewed more pessimistically, deposit funding instability) arising from insured deposits, as well. Davenport and McDill (2006) find that although uninsured depositors run off at a higher rate in response to bank distress, insured depositors actually withdraw more dollars of funding because insured deposits are simply so numerous. Iyer, Puri and Ryan (2016) and Martin et al. (2018) both present evidence that when uninsured depositors respond to bank distress, they do not simply draw their deposits down to the insurance limit, they also withdraw insured funds.

2.3 Coverage Level Assessment

A third set of documents that focus specifically on coverage include Angkinand and Wihlborg (2008), Angkinand and Wihlborg (2010), and Manz (2009). The papers by Angkinand and Wihlborg link risk with different levels of coverage and conclude that, for most countries, there exists a partial level of coverage that maximises market discipline and minimises moral hazard incentives for risk-taking in banking. Among institutional variables included in the analysis, the authors emphasise that supervisory powers seem to reduce risk-taking the most on high and low levels of explicit coverage, where risk-taking incentives are expected to be strong. Manz (2009) studies the definition of an optimal level

⁷ An important aspect of deposit insurance that seems to receive less attention in the literature is the impact of public awareness on market discipline and the effect that different communication strategies have on it.

of limited deposit insurance by using a global game model. According to his model, a high level of deposit insurance coverage is less needed in an environment of highly developed and liquid financial markets. Further, the optimal coverage level does not depend on macroeconomic factors: if a government believes that partial coverage is best during a boom, it should not switch to unlimited protection if expecting a recession. The model also supports higher levels of coverage if depositors are more and better informed, i.e. if there is greater transparency of information, and if large, uninsured creditors are less prevalent within the system. Finally, optimal coverage levels should be lower if banks can assume excessive risk – if there is no market discipline or supervision to contain this – but interestingly, a high level of coverage may not be optimal even without moral hazard.

A few recent theoretical papers also directly address coverage. Shy, Stenbacka, and Yankov (2016) compare three deposit insurance systems: unlimited coverage, no deposit insurance, and limited deposit insurance. They conclude that limited deposit insurance weakens competition among banks and reduces total welfare relative to no or unlimited deposit insurance. Egan, Hortaçsu, and Matvos (2017) develop a theoretical model that relates deposit insurance to capital regulation, highlighting the instability of banking systems with limited capital and limited deposit insurance. Dávila and Goldstein (2020) extend the canonical Diamond and Dybvig (1983) model, and conclude that, in a wide variety of environments, the impact of changes in coverage on welfare can be expressed as a function of a few sufficient statistics: the sensitivity of the likelihood of bank failure with respect to the change in coverage, the utility gain caused by preventing bank failure, the probability of bank failure, and the expected marginal social cost of intervention.

2.4 Final Thoughts

In summary, an important part of the empirical literature studies the trade-off between the costs and benefits of DIS. It thus advocates taking account of the impact on market discipline when setting coverage levels. Papers that study the issue theoretically point to lower or higher levels depending on each jurisdiction's financial indicators and features. Recommendations from both strands of the literature tend to be broad and thus in line with what is presented as best practices in IADI's Core Principles (IADI (2014)). These include the need to balance financial stability and market discipline, and the recognition that coverage design might vary when applied and thus needs to be jurisdiction specific. Additional features that are mentioned by the literature and not directly captured in the Core Principles include the need to incorporate cross-border considerations when defining a coverage level and the possibility of linking different coverage levels to crisis versus non-crisis scenarios.

3 Coverage Levels Worldwide

In June 2020, IADI surveyed its members to assess current practices regarding deposit insurance coverage levels. The survey instrument, which can be found in Appendix A, was deployed by the IADI Research Unit, and 53 jurisdictions responded. An analysis of the main results follows. Additional insights from IADI's annual survey are included at the end of the section.

3.1 Coverage Level and Scope: Key Statistics

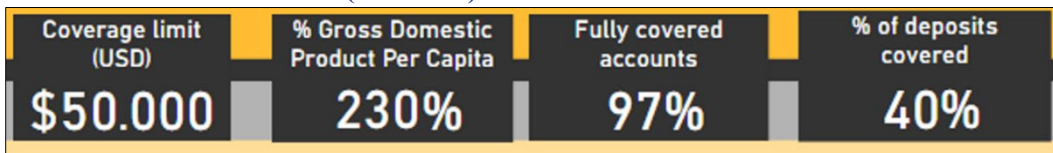
Maximum coverage level: Most jurisdictions calculate the coverage limit on a per depositor per institution basis (85% of respondents). Others (9%) include an additional dimension which provides further distinction per deposit category, per deposit ownership category or a combination of both. Deposit insurers that do this include those in Canada (CDIC-Canada and Autorité des marchés financiers (AMF (Québec))), the United States, Jamaica, and Japan. The remaining (6%) either indicated that deposits are covered in full or did not provide details regarding how coverage is calculated.

The average coverage limit is USD 59,500.⁸ The range is broad: the lowest value reported was USD 1,000 and the highest was USD 250,000. The distribution is slightly skewed to the right; the median coverage is USD 50,000. Key numbers are presented in Figure 1 (median values).⁹

⁸ Throughout the document other currencies are expressed in USD using 31 December 2019 exchange rates.

⁹ Statistics exclude those jurisdictions with unlimited (full) coverage; all others are included.

FIGURE 1: KEY STATISTICS (MEDIAN)



As a percentage of GDP per capita, responding jurisdictions’ coverage limits average 3.6 times per capita GDP, higher than the one to two times found in some of the early literature.¹⁰ The average is skewed slightly due to a few high values; the lowest reported value is 0.4 times per capita GDP and the highest is over 20 times. Excluding values over ten times per capita GDP, the average comes down to 2.66 times.¹¹ The median ratio of the complete dataset is 2.3 times.

As shown in Figure 2, this ratio varies across regions. The median value is higher for Latin America and Europe, with 5.17 and 2.8, respectively. It is lowest for the Asia-Pacific and the North America-Caribbean regions, with 1.55 and 1.35 times, respectively.¹²

FIGURE 2: COVERAGE AS % OF GDP PER CAPITA (BY REGION)

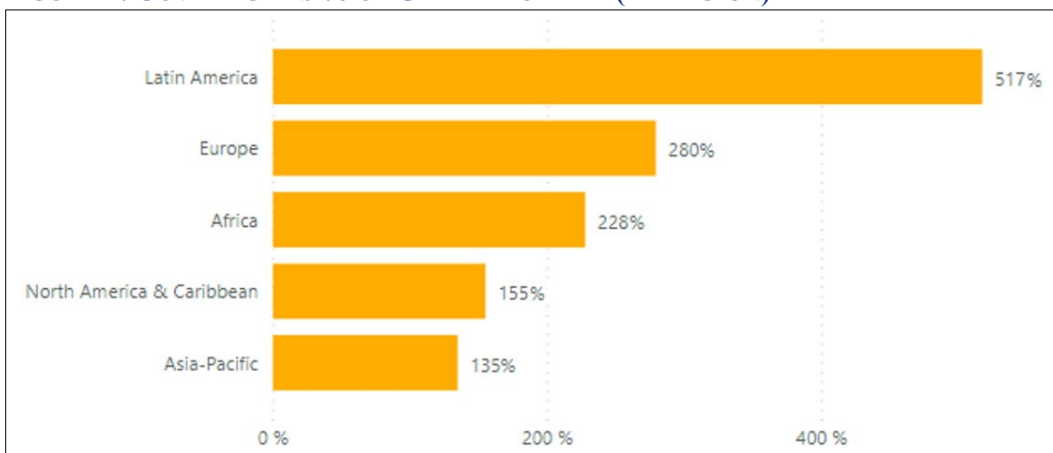
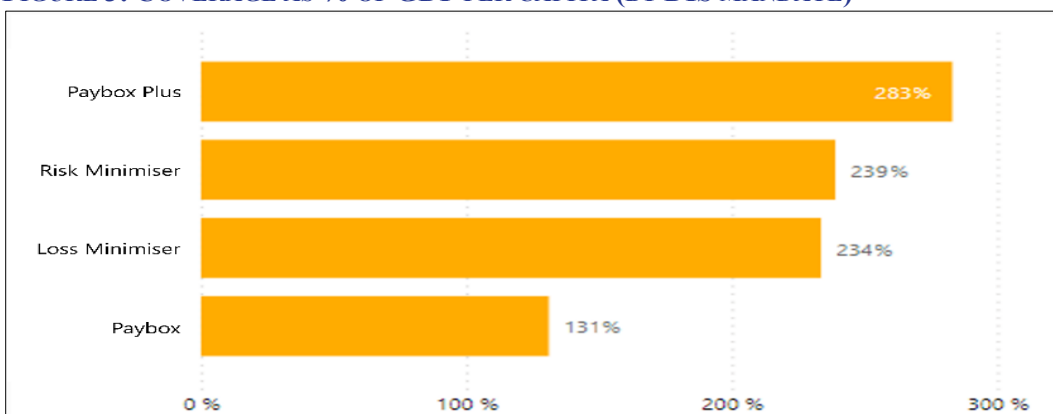


Figure 3 presents how this ratio varies across DIS by mandate. The median value is higher for DIS with paybox plus mandates (2.83) and lowest for those with paybox only mandates (1.31). DIS with risk and loss minimiser mandates present ratios of 2.39 and 2.34 times, respectively.

FIGURE 3: COVERAGE AS % OF GDP PER CAPITA (BY DIS MANDATE)



¹⁰ See, for example, Garcia (1999).

¹¹ Three jurisdictions reported values over ten times per capita GDP.

¹² Regions per the survey were the following: Eurasia, Europe, Africa, Middle East and North Africa, North America, Caribbean and Latin America. In the graph: Europe includes both the Eurasia and Europe committees; Africa-Middle East includes both the African and the Middle East and North Africa committee. North America-Caribbean includes membership in the North America or Caribbean committee. Each group, aggregated in this way, has at least seven members.

Fully covered accounts and percentage of deposits covered: On average, 95% of accounts are fully covered. This value is higher for jurisdictions in the Americas: for Latin America it is 98% and for the North America-Caribbean region it is 97%. It is lower for Europe, where it is 92%. If we analyse medians instead, the value worldwide is higher, at 97%. A few jurisdictions that reported this value below 90% skew the distribution and thus make the average lower than the median. Medians are similar by regions, except for Latin America where this value is 99%.

Total deposits covered average 40% among respondents. This value is lower for Africa-Middle East and Asia-Pacific, where it is 30% and 31%, respectively, and highest for Europe at 51%. For the aggregate sample the median is the same as the average value and the regional tendencies are similar when using medians instead of averages. The range of reported values goes from 4% of total deposits covered to 100% (full coverage).

Two questions were asked about the percentage of deposits covered at hypothetical coverage levels: at half and at two times the current level. At two times the current coverage level, deposits covered would increase on average 7 percentage points (pp). At half times the current level, deposits covered would decrease 8 pp. The biggest increase (reduction) when coverage was doubled (halved) was 23% (-29%). Approximately two-thirds of jurisdictions did not reply to these questions, indicating that in many cases the information was not available.

3.2 Relevant Features of DIS

Different types of levels and exclusions: Seventy-seven percent (77%) of jurisdictions use the same coverage limit for different types of institutions or different depositors or accounts. Of those that do, half have different coverage limits for different institutions and the other half for different deposit types. Those that have a different coverage level for different deposit types usually have unlimited or a higher coverage level for deposits that have a temporary nature – real estate deals for residential purposes, payments related to conclusion or dissolution of a marriage, for example. Others differentiate foreign currency deposits from those in the national currency, and set up different coverage levels for both or exclude the former from coverage.

Most jurisdictions (92%) exclude certain types of deposits or depositors from coverage. Exclusions typically include interbank deposits, government and central bank deposits, deposits in foreign currency, deposits that have an investment component (e.g. certificate of deposits that are negotiable or structured deposits), deposits linked to terrorism or money laundering, and collateralised deposits. Members of bank management (board members, senior management, and insiders in general) and their kin are also excluded by several jurisdictions.

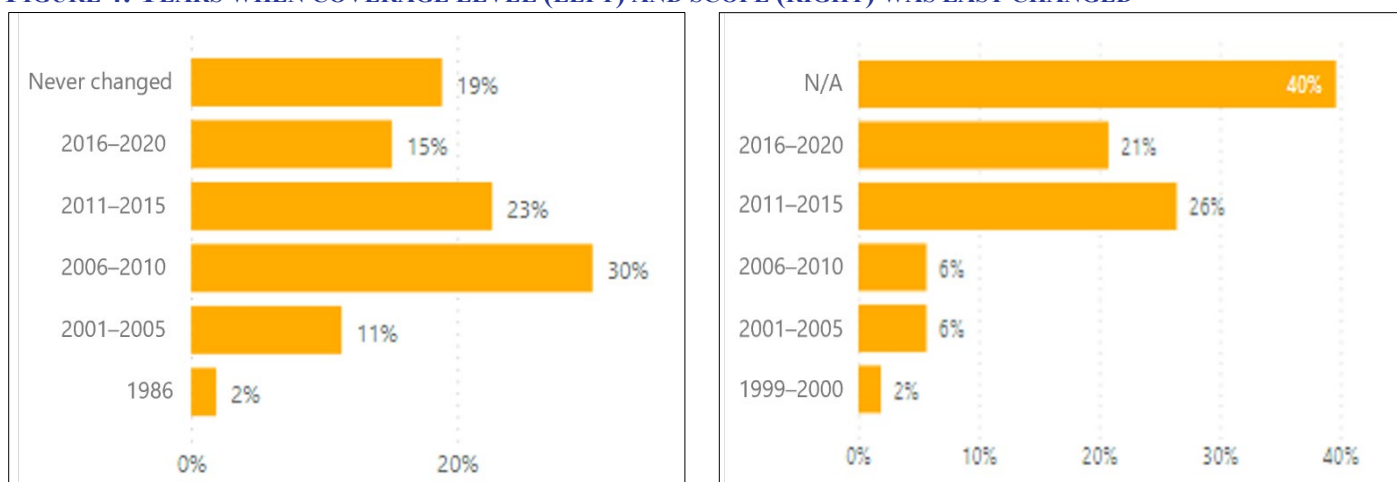
3.3 Changes in Coverage Levels and Scope

Changes to the coverage level: Nineteen percent (19%) of respondents have never changed the coverage limit. Of those that have (81%), most increased the coverage level the last time they modified it; this is the case for 37 jurisdictions (70% of total respondents). Only five jurisdictions decreased the coverage limit the last time they changed it (9% of total respondents).¹³ Eighteen jurisdictions engaged a third party in the process. This is usually the government, the central bank, other members of the financial safety-net or a government-related organisation. One respondent used a consultant.

As presented in Figure 4, most of the changes reported correspond to the period that encompasses the global financial crisis (2006–2010). For this period, all changes correspond to increases in the coverage level. Many of the increases were significant ranging from 50% up to 400% (not including blanket guarantees). The average increase was 185%. For the years before 2006, and those immediately after 2010, changes included both reductions and increases in the coverage level. In the last five years all changes correspond to increases in the coverage level. The average increase among these is 158%.

¹³ The remaining 2% did not answer this question.

FIGURE 4: YEARS WHEN COVERAGE LEVEL (LEFT) AND SCOPE (RIGHT) WAS LAST CHANGED



Respondents' main reasons for increasing the coverage level were: (i) in response to a financial crisis, (ii) because of an internal review, or (iii) to align with the European Union's (EU) Deposit Guarantee Scheme Directive (DGSD). For the five cases where it was reduced, in three of the cases these reductions were made following a blanket guarantee or an increase of the coverage level due to a financial crisis. The other two cases were made to comply with the DGSD, and because of an internal revision that showed the level was higher than needed.¹⁴

Thirty-six percent (36%) of respondents have reviewed the coverage level since it was last changed. Of these, two are planning to implement the changes, and one made permanent the change that it had previously made on a temporary basis. All others did not make any changes. The main reasons for not making any change include: (i) consultation with stakeholders, (ii) the level was still adequate to cover the desired percentage of depositors, (iii) the level was comparable with that of other jurisdictions, (iv) to allow for the possibility of increasing the coverage level in the case of a crisis, (v) decision that it was not a good time to introduce changes, and (vi) decision that the change would not have a significant impact on insured deposits.

A periodic review of the coverage limit is not obligatory in most jurisdictions (64%). Twenty-three per-cent (23%) of jurisdictions are required by law or regulation to review the coverage limit (e.g. several European countries and the United States), and 13% because of internal policies (e.g. Hong Kong, Malaysia, and Nigeria).¹⁵

Changes to the scope: Forty percent (40%) of deposit insurers have never changed the scope of products covered under the deposit insurance scheme (see Figure 4). Fourteen percent (14%) last changed it before 2011 and 47% have changed it since. Of this 47%, several were due to changing market trends or because new financial products were introduced into the financial system. The inclusion of new products among this group was prevalent: 77% of those who reported changes reported including new products. Among these new products, respondents mentioned accounts of mobile money operators, Islamic deposits, and foreign currency-denominated products. On the other hand, 36% of respondents excluded products from the scope of the deposit insurance the last time they amended it.¹⁶

Most of the jurisdictions that made changes followed a discretionary method or made the changes as a response to the EU Directive. Of the respondents who made changes, about 40% of them engaged a third party in the process of defining the new scope. These third-party engagements included government agencies, financial safety-net partners, or the government itself. One jurisdiction mentioned engaging the industry.

Eight percent (8%) of respondents have reviewed the scope of coverage since it was last changed. One of them is in the process of implementing changes, and two decided against changes since they were not material or they found no grounds for doing them. Another one is still revisiting the subject. Eighty-five percent (85%) of jurisdictions are not obligated to have a periodic review of products eligible for coverage (scope). Of those required to do so, half is in accordance with the law and half with internal regulations.

¹⁴ See Box 1 – The EU Directive. The full text of the DGSD can be found at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0049>

¹⁵ In the EU, the Directive gives the EU Commission the right to review the coverage limit, but not to change it.

¹⁶ Percentages add up to more than 100% because some jurisdictions both included and excluded products.

BOX 1: THE EU-DIRECTIVE

The Deposit Guarantee Scheme Directive (2014/49/EU) (DGSD) was introduced in 2014 across the European Union (EU). It was a revision, following the global financial crisis, of the original DGSD introduced in 1994. The DGSD became law in all 28 EU countries and had to be incorporated into national law by 3 July 2015. It is considered a maximum harmonisation directive, meaning national law may not exceed the terms of the directive.

The DGSD requires EU member states to introduce at least one deposit guarantee scheme (DGS) in their jurisdiction that all deposit-takers must join. This is to provide protection for depositors, to reduce the risk of bank runs and to safeguard the stability of the whole EU banking system. DGSs officially recognised in one EU country must also cover the depositors at branches of their members in other EU countries.

Regarding the coverage limit, the DGSD explains that deposits are covered per depositor per bank and for joint accounts. The EUR 100,000 limit applies to each depositor, but EU countries not in the euro area can apply the equivalent EUR 100,000 limit in their national currency. Deposits in non-EU currencies are also covered. The DGSD empowers the European Commission to adjust for inflation and also to review the coverage level at least every five years. If it wants to change coverage per these reviews it then has to propose legislation to council and parliament (Art. 7 (6)).

Some deposits, like those linked to life events (divorce, retirement, redundancy, invalidity or death) may be protected above EUR 100,000 for a limited period of time (at least 3 months and no more than 12 months) and are commonly called THB, temporary high balances. DGSs must protect all deposits held by individuals and companies whatever their size, but deposits of financial institutions, pension and retirement funds and public authorities (except for small local authorities) are excluded from coverage. Member states may deviate from this and offer protection for pension schemes of small and medium enterprises and for the deposits of local authorities.

The DGSD contains repayment deadlines that DGSs have to meet, and they have and will gradually be cut from 20 to 7 working days in three phases with all DGSs required to have a timeline for payout of 7 working days from 1 January 2024.

The directive also restates the principle of resolving bank failures with the use of funds provided by financial institutions through risk-based levies, and not by taxpayers. It also requires EU countries to ensure that, by 3 July 2024, the DGS available fund reaches a target level of at least 0.8% of the amount of the covered deposits of its members. The DGS funds are to be used to reimburse depositors after a bank failure. Member states may also allow them to be used to prevent a bank's failure (Art. 11 (3) DGSD), and to finance measures, including transfer of assets and liabilities and deposit book transfer, in the context of national insolvency proceedings (Art. 11 (6) DGSD), subject both to certain conditions, mainly the least cost test evaluation. The BRRD (Directive 2014/59/EU) states that DGSs have to contribute to costs of bank resolution measures, subject to certain safeguards and limits (art. 11 (2) DGSD).

Other requirements introduced within the DGSD included Single Customer View-like requirements for all sizes of deposit-takers, and consumer disclosure requirements for banks to ensure account holders are provided with clear information on depositor protection annually. The DGSD also covers stress testing and peer-review requirements with results to be shared with the European Banking Authority.

Views about the current level and scope: Most of the respondents (79%) do not have any concerns regarding the current coverage level. Of those with concerns (21%), two out of eleven are seeking to increase the coverage level since it has lost value in real terms. Four are concerned because their limit is low compared to regional peers or best practices. Another deposit insurer mentions a public demand for increasing the coverage level. One jurisdiction believes it is too high. Interestingly, for the group with concerns regarding the coverage level, fully covered accounts represent on average only 91% of the total accounts (total sample: 95%). For this group the average coverage is only 3.11 times per capita GDP (total sample: 3.6).

Nineteen percent (19%) of jurisdictions think that there might be products or depositors that could be considered for a different coverage limit. Among those mentioned are deposits of credit unions or public institutions, deposits related to particular life events or transactions, temporary high balances (e.g. for settlement and payment purposes), interbank deposits and certain digital products or fintech-related deposits.

As to the scope, most of the respondents (85%) do not have any concerns regarding the current products eligible for coverage. Those that have concerns (15%) mention various issues. Two salient ones are the timely and proper identification of some covered depositors, and the fate of unpaid cheques and other similar in-transit instruments at the time of declaration of bank failure. Other concerns are related to foreign currency deposits, new financial products in the area of fintech or digital money, and specific accounts that are currently not covered. For some European jurisdictions, one relevant issue is making sure the scope complies with the EU directive.

Changes to the current situation: Most jurisdictions (49%) do not foresee any change in the coverage limit in the next five years, especially in developed economies. In the group that does (43%), coverage is lower on average than for the whole sample (coverage is 2.22 times per capita GDP and 93% of deposits are fully covered).¹⁷ Some of the comments of those who envisage changes are: expanding the coverage limit for foreign currency deposits or temporary high balances, increasing overall coverage, finishing current coverage changes in process, and doing a revision to fully comply with the EU directive.

As to the scope, 34% of respondents believe there will be changes in the next five years in the products eligible for coverage. Some expected changes mentioned are: (i) expanding accounts of individual entrepreneurs, (ii) including new products because of the pandemic, (iii) including digital products and mobile banking deposits, (iv) including foreign currency deposits, (v) aligning with regional peers, (vi) including other deposit-like products such as tokens, and (vii) complying with the EU directive.

Most deposit insurers (74%) do not have any specific factors (e.g. percentage change in GDP, inflation, average account balance, financial crisis/downturn, politics, legislation, policy, etc.) or circumstances that automatically trigger a revision of the coverage limits. For those who do (26%), factors include financial stability concerns, inflation, average account balances and funding status.¹⁸ Following comments by several members, however, it seems that these features do not trigger changes automatically, but rather make any changes easier to implement. The situation is similar for scope, although a higher percentage of respondents said no specific factors triggered changes automatically (81%).

3.4 Methodologies/Procedures for Determining Coverage Level and Scope

Current methodologies of calculation: Most deposit insurers (70%) have a consultative process involving the central bank, branches of the government – such as the ministry of finance or other regulatory bodies – and parliament or congress to calculate/set coverage level and scope. Thirteen percent (13%) mention that they involve stakeholders in the consultation process. Some respondents are subject to decisions made by others (i.e. EU – 19%). For others (7.5%), the process itself is initiated by a different organisation, e.g. the central bank, the ministry of finance or congress. Only 4% of respondents report doing the process by themselves (see Figure 5).

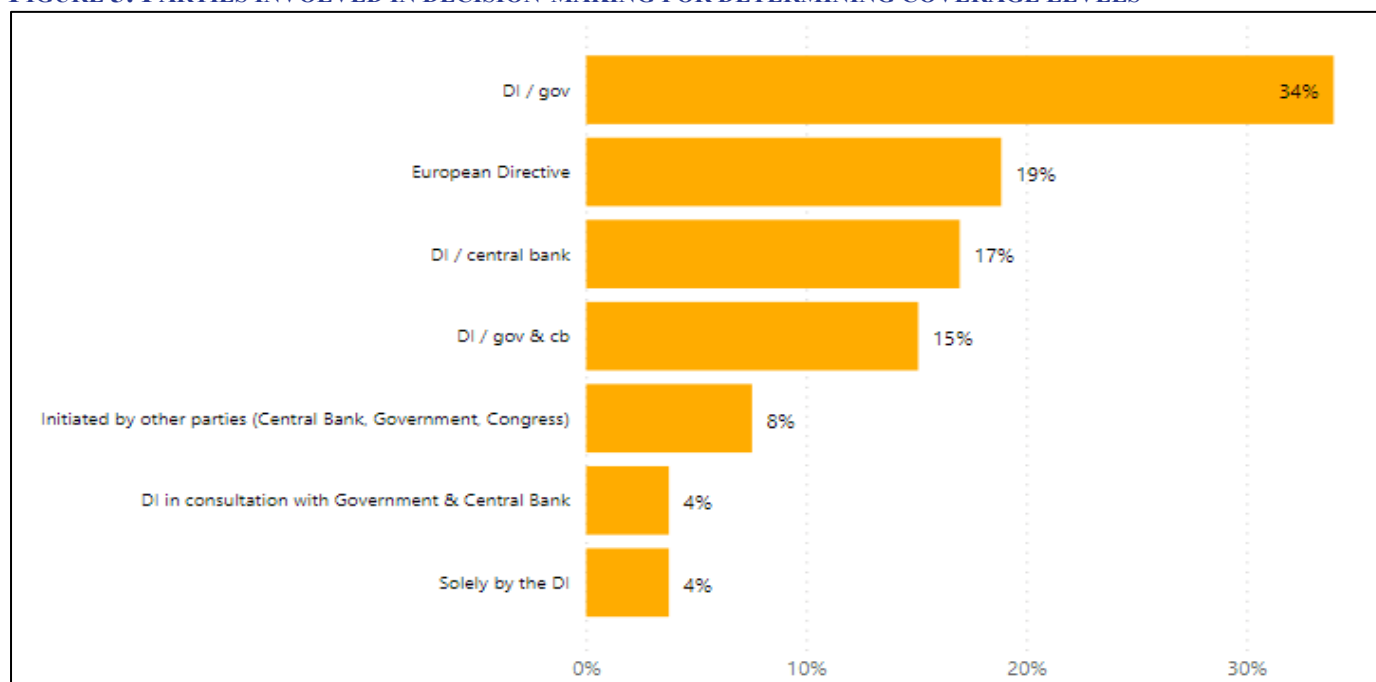
Most respondents employ a combination of tools to determine the coverage level. Thirty-two percent (32%) report using statistical, discretionary methods or expert opinion, and 36% a combination of two of these. Twenty-six percent (26%) of the respondents chose ‘other’. Most of the jurisdictions in this last group indicated that the level is set by the EU Directive. One respondent stated that they review the distribution of deposits by size while also considering qualitative factors; another uses macroeconomic indicators to perform simulations of bank failures.

Similar to the responses with regard to the coverage level, most of the deposit insurers rely on inputs from other members of the safety net for determining the scope (62%). The number is slightly lower than that for the coverage level because a few jurisdictions have different provisions in the law or internal policies. Also, a higher percentage reported doing the process by themselves (7.5%).

¹⁷ The remaining 8% did not answer this question.

¹⁸ The EU Directive was also mentioned as one of the factors but there are no automatic changes in the EU Directive.

FIGURE 5: PARTIES INVOLVED IN DECISION-MAKING FOR DETERMINING COVERAGE LEVELS



Scope is determined mainly by discretionary means or expert opinion. As expected, statistical methods play less of a role and some jurisdictions indicated that statistical methods either do not apply or there is no specific method used. This may be explained by the idiosyncratic and qualitative nature of the scope of eligible products.

Challenges regarding methodologies/method of calculation: Approximately 87% of the respondents have no issue with the methodology they use to calculate the maximum coverage level, suggesting that they are comfortable with the discretionary and statistical methods or combinations of these. Concerns of the remaining jurisdictions include: (i) updating of the methodology in process, (ii) the coverage level being set by law without a well-known methodology, (iii) the methodology not being jurisdiction specific but replicated from somewhere else, (iv) post-COVID-19 impacts, and (v) a shift of mandate of the DIS objectives.

Likewise, most of the jurisdictions (90%) are satisfied with the way the scope of products covered is defined. Two jurisdictions did not reply and three expressed concerns. These included covering certain products where some types of institutions offered higher deposit rates (which they believe might signal moral hazard), the scope not being determined as per the deposit insurer's characteristics but replicated from elsewhere, and legal challenges for including new deposit products.

Changes and revision to methodologies after 2008: Approximately 85% of respondents indicated they have not made any changes to the methodology used to define the coverage level since 2008. Those that have made changes (13%) incorporated additional measures to make the methodology more comprehensive, included international comparisons and involved third parties in the process.¹⁹ Similarly, most organisations did not change the way they define the products eligible for coverage (87%). Only six organisations responded that they did.

Plans for future changes: Seventy-five percent (75%) of the deposit insurers do not envisage any changes in the methodology/ method of calculation for defining the coverage level in the next five years.²⁰ In Albania, the Agency is in the process of drafting a new methodology to determine whether the coverage limit is in line with the economic and financial situation in the country. Hong Kong is in the process of revising the coverage level. The West African Economic and Monetary Union is looking into neighbouring jurisdictions' coverage levels and their evolution.

¹⁹ The remaining 2% did not answer this question.

²⁰ This does not necessarily mean that DIS are satisfied with the current situation. It can be because the DIS has no power to do so, or because the legislator has no intention to proceed with any changes, among other alternative explanations.

Similarly, regarding scope, most organisations do not have plans to change the methodology of defining the deposits eligible for coverage in the next five years (81%). Those seeking to update regulations are looking to better protect or to expand the protection to certain types of deposits, e.g. foreign currency deposits and deposits coming from retirements and real estate sales. One interesting case is Ecuador, which is analysing the incorporation of a differentiated and temporary coverage for deposits coming from retirements, real estate sales or other sources. In addition, they are looking into several issues regarding the coverage of deposits in public financial institutions.

3.5 Relationship Between Levels, Scope, and Other Factors

Financial crisis: Seventy percent (70%) of the respondents do not have predefined crisis-related considerations with regard to the coverage level. Some indicated that they did not foresee that the coverage level should change because of a crisis event because it was calibrated to ensure the credibility of the deposit guarantee system, particularly during times of crisis. Another issue mentioned was that speculation on a higher or lower coverage level would make consistent communication to depositors challenging.

Twenty-eight percent (28%) of the deposit insurers have mechanisms that give them flexibility to change the coverage level because of a crisis. For instance, there are internal regulations in some jurisdictions that allow them to increase the level of coverage depending on the extent of the crisis. This is present, for example, in the Philippines, Turkey and the United States. Other jurisdictions highlight the possible use of emergency regulations to achieve a similar result.²¹

Regarding eligible products, 85% of deposit insurers do not have any considerations relating to deposit products eligible for coverage that apply only during times of crisis. Organisations that report using a mechanism to define products eligible for coverage that apply only at a certain period of time, for example during a crisis, include Brazil (Fundo Garantidor do Cooperativismo de Crédito), Chinese Taipei, Finland, Japan, Jordan, Malaysia, and Turkey.

Natural disasters: With regard to natural disasters, 98% of deposit insurers have not made changes related to the coverage level because of a natural disaster (e.g. earthquake, typhoon, tsunami, epidemic) or a war. Mongolia was the only jurisdiction that reported doing so when foreign currency deposits were temporarily excluded from coverage because of a natural disaster.

Funding (ex ante funding, target fund sizes, emergency back-up funding): Around 49% of deposit insurance agencies who responded to the survey reported that their target fund relates to their current coverage level. Most of them indicated that this relation exists since their target fund size is based on estimated insured deposits and hence indirectly related to the coverage level. Twenty-three percent (23%) of respondents replied that their target fund size is not related to the coverage level. Some jurisdictions, like Kazakhstan, explained that the target fund size is set by law and does not consider the coverage limit. Twenty-eight percent (28%) of deposit insurers were not able to answer the question because they do not have a target fund.

Regarding emergency back-up funding, the majority of the deposit insurers in the survey (55%) replied that their emergency back-up funding is not related to the coverage level. For some, the amount of back-up funding is a legislative act or a borrowing decision made by the deposit insurer. Further, 28% of the deposit insurers do not have emergency back-up funding and hence could not answer the question. Fifteen percent (15%) of deposit insurers reported that their emergency back-up funding is related to the coverage limit. They either claimed that their emergency funding is calculated per the deposit insurer's obligations or that emergency funding will come from members' contributions.²²

Blanket Guarantee: Seventy-two percent (72%) of the jurisdictions surveyed have never used a blanket guarantee. Twenty-four percent (24%) have done so in the past, but no longer do, and 4% currently have one. Those jurisdictions that previously offered blanket coverage stated that it was mostly a temporary arrangement in a time of crisis or a central bank-administered scheme that existed only until the establishment of a deposit insurer and the transition to a limited coverage scheme.

²¹ The EU Directive (DGSD) provides for a broad set of eligible deposits that could be subject to temporary high balances, or even a higher coverage level on an ad hoc basis. However, these are not directly related to a financial crisis, with some few exceptions (e.g. payments related to employment termination).

²² The remaining 2% corresponds to a jurisdiction that did not answer this question.

Respondents cited a wide range of reasons for switching back to limited coverage. Some said that blanket coverage was introduced with an expiry date in the first place (e.g. the United States). Others said that changes occurred gradually (e.g. Mexico, Thailand and Turkey) or changes were mandated by the EU directive (Poland) or a government policy (Jordan). Other reasons for transitioning included it being part of an economic recovery from a financial crisis (Chinese Taipei) or as state-run banks were privatised and a deposit insurer was established (Pakistan).

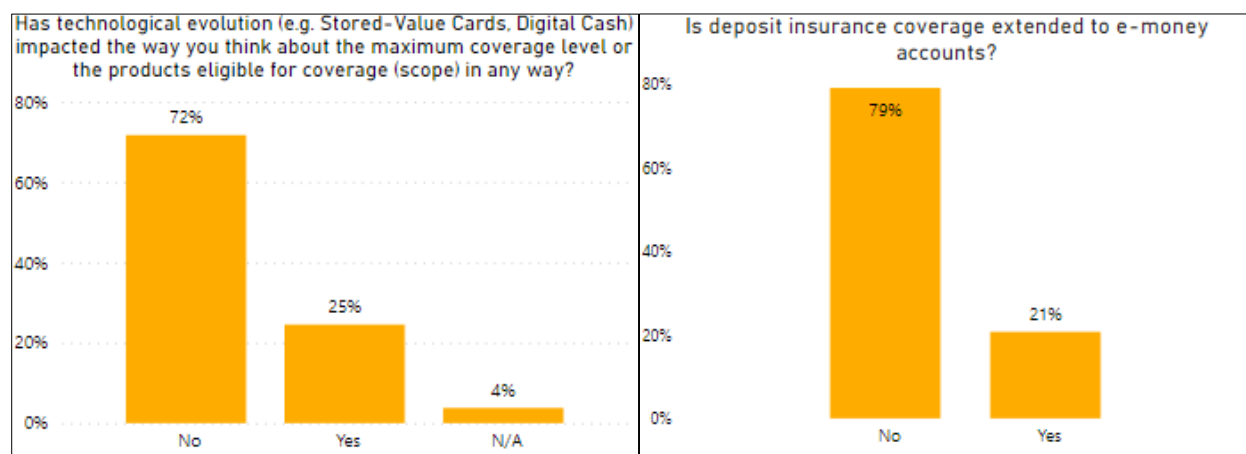
Moral Hazard: Most of the survey respondents said that limited coverage was used to reduce moral hazard. Others said that they used differentiated premium rates based on risk profiles (54%) or put in place institutional safeguards (44%) to mitigate moral hazard. Twenty-seven percent (27%) of deposit insurers cited other measures, such as strong prudential regulation and supervisory oversight, termination of deposit insurance membership, and monitoring key performance measures of member institutions. Only a handful of respondents did not highlight specific measures that help them limit moral hazard.

Complexity and interconnection of the financial system: Most of the deposit insurers (77%) did not consider the complexity and interconnectedness of the financial system in setting the coverage level and identifying the scope of coverage. For those that did, for example Italy, the regional context in the EU was analysed. Given multiple deposit insurance organisations in Canada, revisions of coverage limits and/or scope of coverage were made by the AMF (Québec), which is vested with responsibility for deposit insurance for deposit-taking institutions (other than banks) operating under Québec laws. Its main goal is to harmonise the level of coverage with that offered by CDIC-Canada, the deposit insurer for federally regulated deposit-taking institutions, including all banks. In Switzerland, there is a legal limit of how much the deposit insurance fund can have outstanding in financing payouts to prevent a domino effect between banks due to their financial obligations.

Other references: Thirty-eight percent (38%) of the respondents use the coverage level in other jurisdictions or countries as reference. EU members do so by design since they need to comply with EU regulation that harmonises coverage among EU countries. Non-EU European countries, such as Switzerland and Ukraine, use the coverage level established in the EU as reference. In Africa, Morocco refers to the coverage limits in Europe and the Middle East and North Africa region. Nigeria conducts international comparisons. In North America, CDIC-Canada conducts a review of the practices in other IADI members. Québec (AMF) tracks the coverage of other deposit insurers across Canada to ensure that its coverage is appropriate. In the Caribbean region, Jamaica refers to different coverage limits among neighbouring jurisdictions for comparison purposes. In Asia-Pacific, Vietnam looks at the coverage level of some jurisdictions in the region. Thailand refers to the coverage level of DIS with paybox and paybox plus mandates as they have a similar scope of roles and responsibilities. In Australia, the coverage limits applied in several jurisdictions were taken into consideration when establishing its coverage limit.

Technological evolution: Seventy-two percent (72%) of respondents considered that the coverage level and scope has not been impacted by technology. Jurisdictions that responded positively include CDIC-Canada, Chinese Taipei, Colombia (FOGAFIN), Ghana, Jamaica, Kenya, Kyrgyz Republic, Malaysia, Nigeria, Pakistan and Switzerland (See Figure 6). Nigeria and Chinese Taipei noted that their coverage has, in fact, changed to accommodate financial technologies. In Chinese Taipei, three such products have coverage: (i) stored-value payment accounts, (ii) e-payment accounts, and (iii) electronic stored-value cards, which are insured separately from other deposits at the same institutions. Nigeria provides equal coverage to mobile money, in addition to traditional deposits. Other jurisdictions have considered the new technologies and undertaken studies, but no changes have been made or recommended. Twenty-one percent (21%) of respondents said coverage has been extended to e-money accounts.

FIGURE 6: IMPACT OF TECHNOLOGY ON COVERAGE



COVID-19 Pandemic: Ninety-six percent (96%) of deposit insurers have not made any changes to the coverage level because of the COVID-19 pandemic. Brazil started monitoring the flow of deposits from banks and indicated it was planning to provide a special guarantee to deposit operations. Thailand reported that the current coverage limit had been extended by one more year, until August 2021, to shore up consumer confidence in the financial and banking systems.

The majority of respondents (92%) replied that they had not made any change to the scope of coverage since the start of the pandemic. Brazil responded that it would continue monitoring deposit flows before reaching any decision. Mexico highlighted that nothing had been decided yet, but if a change were to be made, it would need to be enacted through a legislative process. Mongolia was studying the possibility of excluding foreign currency deposits from coverage, and Thailand was considering the possibility of providing coverage to digital money.

3.6 Additional Information from the IADI 2020 Annual Survey²³

Characterisation of the sample: To avoid duplication, the coverage level and scope survey excluded several related questions that are part of IADI’s annual survey. The following data corresponds to the same group of jurisdictions that answered the coverage and scope survey.²⁴

All responding DIS are government legislated and administered and 84% report to be independent agencies. Fifty-seven percent (57%) have paybox or paybox plus mandates, 27% are loss minimisers, and 16% risk minimisers. Foreign deposit-taking institutions are covered in the same way as domestic ones in 69% of respondents. Seventy-six percent (76%) of DIS report being the only scheme in their jurisdiction.

Collectively, member deposit-taking institutions of the sample total more than 14,000 and have around USD 48 trillion in deposits. The types of members covered as a percentage of total members are detailed in Figure 7. All DIS cover natural persons and 86% cover companies (legal persons). The types of deposit products eligible for coverage are presented in Figure 8.

²³ This section presents additional information from IADI’s 2020 Annual Survey.

²⁴ With the exception of one jurisdiction that responded to the detailed survey but not the annual one.

FIGURE 7: TYPES OF INSTITUTIONS COVERED AND % OF TOTAL

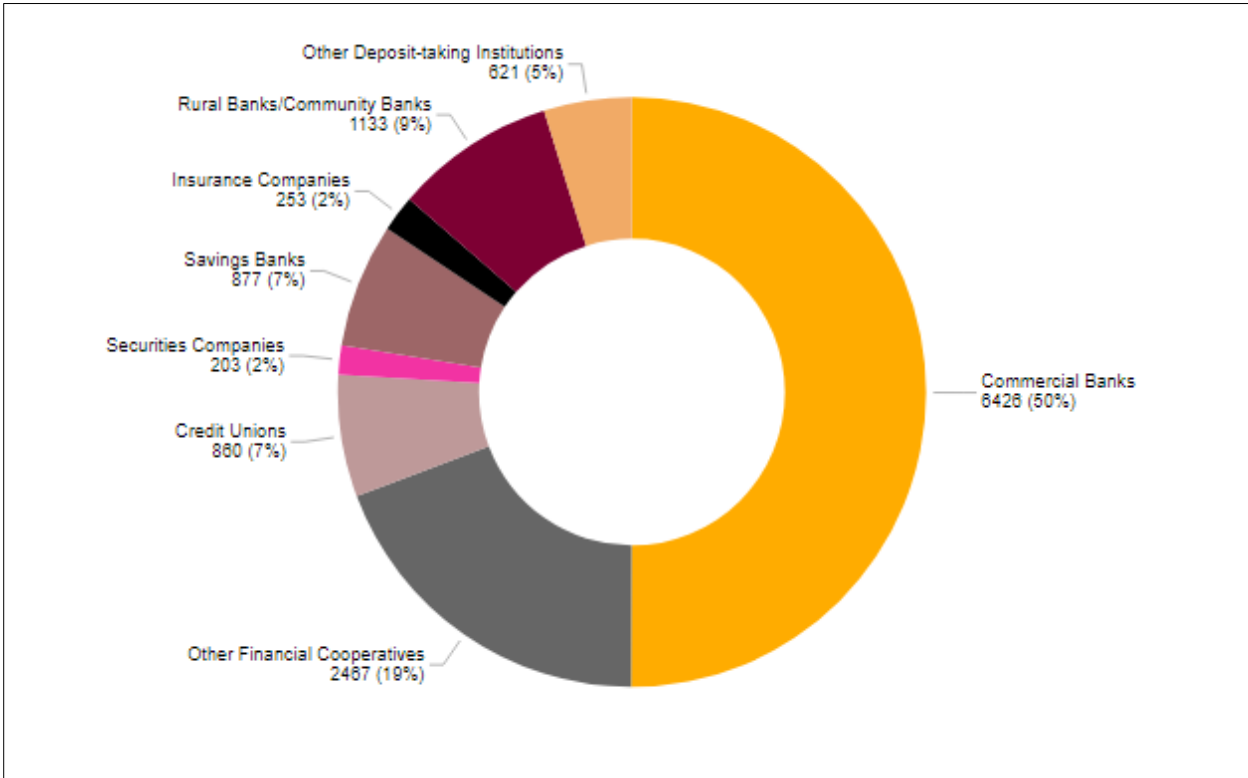
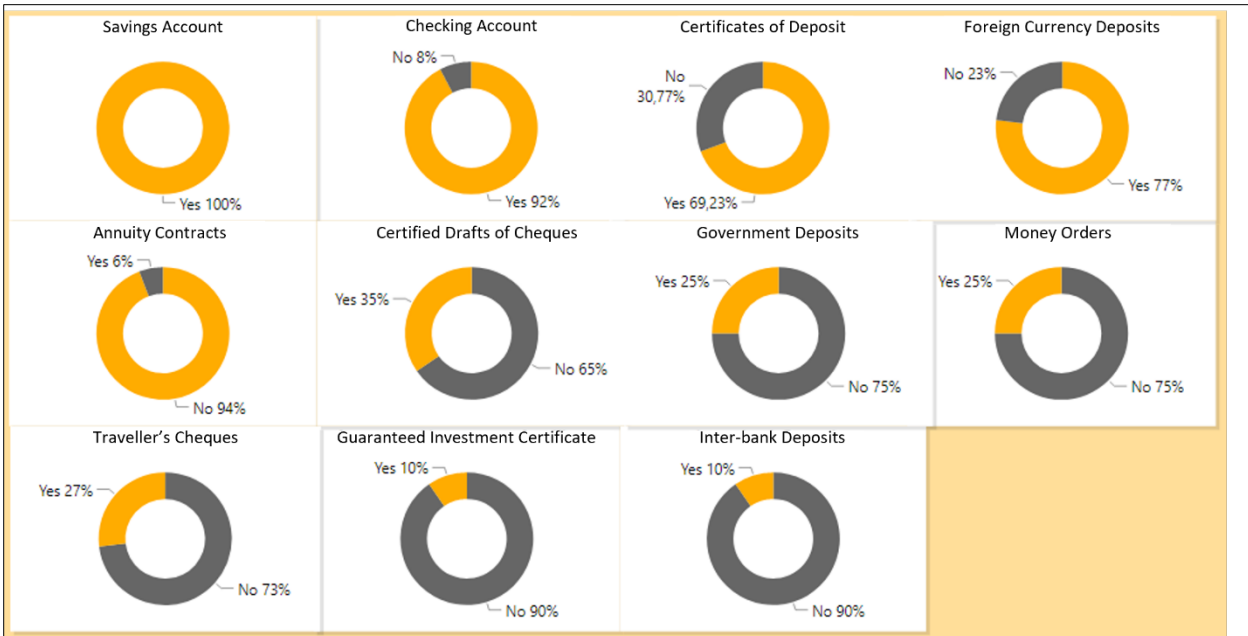


FIGURE 8: PRODUCTS ELIGIBLE FOR COVERAGE



Ninety-six percent (96%) of DIS replied that they have ex ante funding or a combination of ex ante and ex post funding. Seventy-three percent (73%) have a target fund size and 57% are involved in the process of handling a systemic crisis. Thirty-one percent (31%) have cross-border arrangements regarding resolution for home/host deposit insurers.

About two-thirds of the jurisdictions that responded to the survey have deposits in foreign currencies. These average around 28% of total deposits in this group. Generally, coverage is the same for local and foreign deposits in most jurisdictions, however about 15% report having different or no coverage for deposits in foreign currencies. Those that do cover deposits in foreign currencies mostly reimburse depositors in the local currency; only a handful of DIS do so in the foreign currency.

Finally, Islamic deposits are relevant and covered in close to 30% of DIS. About 86% of jurisdictions do not index the coverage level to a particular variable.

Further insights from the annual survey: Although the annual survey is limited in terms of relevant questions for coverage level and scope, it has the advantage of many more respondents – 114 in total. How do some of the statistics of this broader universe compare to those found in the sample that responded to the detailed survey?

The average coverage level is about USD 10,000 dollars higher, at USD 69,000, but the median value is still USD 50,000. Total deposits covered average about USD 5,000 less than for the reduced sample, but this is influenced by some jurisdictions that did not report this data and had zero as an answer. Once these anomalies are removed, total deposits covered are about 46% of total deposits – higher than the 40% reported previously for the smaller sample.

In the annual survey, 65% of DIS have paybox or paybox plus mandates, 18% are loss minimisers and 13% risk minimisers. Statistics regarding foreign deposit-taking institutions and multiple DIS are similar to those for the reduced sample. Member deposit-taking institutions total almost 30,000 and deposits USD 56 trillion. The types of members covered as a percentage of total members are detailed in Figure 9. The types of deposit products eligible for coverage are presented in Figure 10.

FIGURE 9: TYPES OF INSTITUTIONS COVERED AND % OF TOTAL (BASED ON THE ANNUAL SURVEY)

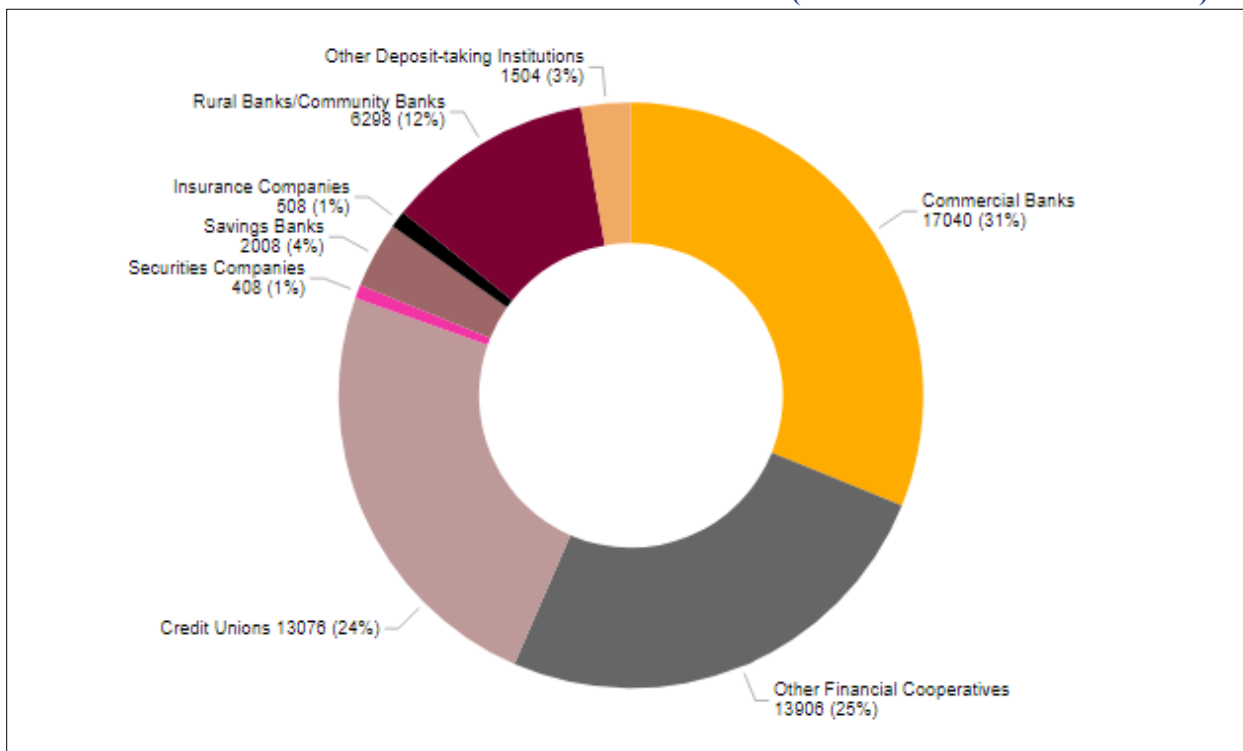
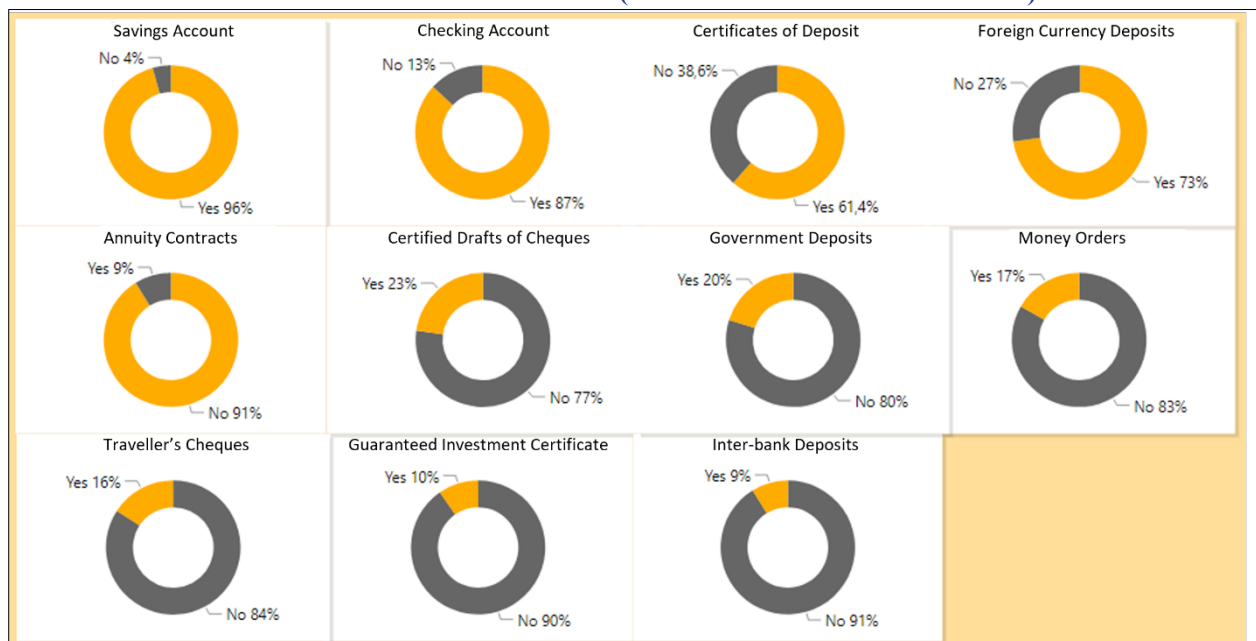


FIGURE 10: PRODUCTS ELIGIBLE FOR COVERAGE (BASED ON THE ANNUAL SURVEY)



About 53% of respondents have deposits in foreign currency. These average around 29% of total deposits in this group. In line with the reduced sample, coverage is the same for local and foreign deposits in most jurisdictions (10% report having different coverage or no coverage for deposits in foreign currency) and only a handful of DIS reimburse depositors in foreign currency. Statistics regarding Islamic deposits and indexing are also similar.

Ninety-three percent (93%) of DIS replied that they have ex ante funding or a combination of ex ante and ex post funding. Seventy-one percent (71%) have a target fund size and 52% are involved in the process of handling a systemic crisis. Twenty-eight percent (28%) have cross-border arrangements regarding resolution for home/host deposit insurers.

4 A Focus on Key Specific Themes

Following the June 2020 survey, several jurisdictions provided case studies of features that were identified as unique or novel. This section presents these additional details organised by theme.

4.1 Theme 1: Blanket Guarantees

Blanket guarantees are a declaration by an authority that, in addition to the protection provided by deposit insurance, certain deposits or other liabilities will receive full coverage for a period of time. They are often deployed during a financial crisis and reversed when the situation stabilises. The two cases presented describe a blanket guarantee that has already been eliminated and another that is in the final stages of being phased out.

Chinese Taipei: A blanket guarantee was first introduced in 2001 to manage a local financial crisis. The government established a mechanism referred to as the ‘Financial Restructuring Fund (FRF)’. With TWD 207.7 billion (USD 7.3 billion) in public funds, and the blanket guarantee provided to deposits and non-deposit debts of troubled financial institutions under the FRF list in place from 2001 to 2005, the Central Deposit Insurance Corporation (CDIC) successfully resolved 56 financial institutions using purchase and assumption transactions. These actions, together with other reform measures, helped stabilise the financial market.

A full deposit guarantee was once again implemented during the 2008 global financial crisis. Although the impact of the crisis on the domestic financial market was not significant, depositors still lost confidence in the financial system. As a result, they transferred large amounts of deposits from private commercial banks to government-owned banks in a short period of time. To strengthen depositor confidence and preempt any future issues, the government announced that all deposits would be temporarily provided with a full guarantee from October 2008 until the end of 2009.

To mitigate potential moral hazard associated with having a full guarantee, the financial supervisory agencies reinforced financial supervision measures. The CDIC, in particular, intensified its controls on insured risks. It charged a special premium on insured financial institutions’ interbank call loans to mitigate moral hazard. It also worked closely with the financial supervisors to monitor financial institutions and report any abnormal or irregular operation.

Since the global economic and financial conditions had not yet showed signs of stability, in September 2009 the government extended the blanket guarantee for another year to match the full coverage policy of neighbouring countries. The blanket guarantee was thus in place until it expired at the end of 2010.

To ensure a smooth transition, and to meet public expectations, in January 2011 the maximum coverage was double the original limit, from TWD 1.5 million to TWD 3 million (from approx. USD 53,000 to USD 106,000) and coverage scope was expanded to include interest accrued by deposits and foreign currency deposits. The process was accompanied by an extensive public awareness campaign in 2010 through different media channels to inform the public of the enforcement of the limited but expanded guarantee beginning 1 January 2011 – one year before returning to a limited coverage system. Moreover, the CDIC conducted an overhaul of the DIS that strengthened its risk management and resolution mechanisms in dealing with failing financial institutions. These changes equipped the CDIC to play a more active role in the local financial system as a risk minimiser. The CDIC also designed a plan that included increasing premiums as soon as economic and financial conditions stabilised, in order to rebuild the deposit insurance fund.

Regarding lessons learned, the CDIC highlights that the role played by the deposit insurance system in the financial safety-net is not only that of safeguarding the rights and interests of small depositors, but also contributing to financial stability. It was for this reason that the blanket guarantee was extended by one year. Also, it underscores that, to mitigate moral hazard and lower the costs of payouts, it is necessary to continue to strengthen financial supervision and the risk management of financial institutions, and to implement prompt corrective action. Finally, the CDIC mentions that all the financial safety-net participants must start to plan the supplementary measures for ending the blanket guarantee as early as possible.

Thailand: Thailand’s Deposit Protection Agency (DPA) has a paybox plus mandate. It was established in 2008, when the transition from a blanket guarantee to a limited coverage scheme was prescribed in the deposit insurance law. This transition was planned as a series of sequential reductions, with a final target coverage limit of THB 1 million by 2013 (approx. USD 34,000).

Due to a series of events since then (e.g. the global financial crisis, the Euro crisis), the transition period has been extended several times, as presented in Table 1. The latest extension was made in 2020 to maintain public confidence in the financial system due to uncertainties caused by the COVID-19 pandemic. The revision extended the THB 5 million (approx. USD 168,000) coverage for one more year, until August 2021. Under this latest extension, the coverage limit will be THB 1 million from August 2021 onward.

TABLE 1: REVISIONS TO THE COVERAGE LEVEL (DPA THAILAND)

Year	Original	Revision 1 (2008)	Revision 2 (2011)	Revision 3 (2016)	Revision 4 (2020)	
2008	Blanket	Blanket				
2009	THB 100 million					
2010	THB 50 million					
2011	THB 10 million	THB 50 million	THB 50 million			
2012	THB 1 million	THB 1 million				
2013						
2014						
2015				THB 25 million		
2016				THB 15 million		
2017				THB 10 million		
2018						
2019				THB 1 million	THB 5 million	THB 5 million
2020					THB 1 million	
2021						THB 1 million

4.2 Theme 2: Setting up a New Deposit Insurance Scheme

Setting up a new deposit insurance scheme is a task filled with challenges. Determining the coverage limit and scope of the products that will be covered is one of the first and, possibly, one of the most important. Few of the DIS design

features will be as visible as the coverage level and scope. This situation is detailed in the case of the Pakistan Deposit Corporation, which started operations less than three years ago.

Pakistan: The concept of explicit deposit protection first originated in Pakistan in 1974 with the nationalisation of all domestic private banks. The government provided a blanket guarantee on all the deposits of nationalised banks.

In the 1990s, a deregulation and privatisation drive was initiated by the government in many economic sectors, including banking. The market share of private sector banks increased over time and in 2016 it was almost 90%. This trend was accompanied by significant growth in the number and volume of deposits. The average growth in deposits of the conventional banking industry has been more than 10% per annum since 2011, while growth in deposits of Islamic banks has been 12–15%. The increased number of depositors along with private ownership of banks underscored the need for an explicit deposit guarantee scheme.

The Deposit Protection Corporation Act was passed by Parliament in 2016, paving the way for the establishment of the Deposit Protection Corporation (DPC) as a wholly owned subsidiary of the State Bank of Pakistan (SBP; the central bank of the country and banking supervisor).²⁵ The DPC commenced its operations in June 2018.

Membership in the DPC is mandatory for all banks operating in Pakistan. The DPC has a paybox mandate and the central bank is responsible for the supervision, regulation, and resolution of banks. The affairs of DPC are supervised by a seven-member Board of Directors, including the Deputy Governor of SBP as its Chairperson and a Managing Director of DPC, who is also appointed by the SBP. The other five Board members include four independent members from diversified fields and a member from the Government of Pakistan.

The banking industry in Pakistan comprises Conventional Banks as well as Shariah Compliant Islamic Banks. The DPC Act thus called for the development and establishment of a separate Shariah Compliant Deposit Protection Mechanism to provide coverage for depositors of Islamic Banking Institutions (IBIs).²⁶ Hence, the DPC operates two distinct and separate mechanisms for the protection of depositors. Policies related to both mechanisms are being developed and implemented by the DPC.²⁷

As the concept of a limited deposit insurance enacted through a specialised agency was a very new one, the DPC has faced quite a few challenges determining the coverage level and scope. The process started by examining data from other jurisdictions and gathering domestic deposit statistics. After deliberations with the central bank and the banking industry, it was decided that the coverage limit should be PKR 250,000 (approx. USD 1,600). This coverage limit fully protects almost 92% of depositors and about 14% of total deposits (in value terms).

Coverage includes all local chequing deposits in domestic and foreign currency, fixed-term deposits, and call and security deposit receipts. Mobile accounts are currently covered. Inclusion of other products is presently being assessed. The coverage of deposits is per depositor per bank.

The coverage limit is also related to the target fund size since this amount was identified based on analyses of bank failure scenarios. Thus, any future changes in the coverage limit would require adjustments in the target fund size.

Ongoing challenges for the DPC include public awareness of the new limited deposit coverage. This is by no means an easy task since people were used to the idea of an implicit, unlimited guarantee. To address this, the DPC has gradually stepped up its information campaign using both the member banks' websites and the media to bolster its message.

A second challenge is correctly identifying the depositors' and the bank's liability when depositors have multiple accounts in the same bank or various combinations of accounts, such as individual, joint and business accounts. Banks are in the process of developing a standard database that should address this concern and allow the DPC to have access to accurate information within 48 hours of request.

²⁵ https://www.sbp.org.pk/l_frame/Act-2016-DPC-NationalAssemblySec.pdf

²⁶ The term IBIs refer to full-fledged Islamic banks, as well as Islamic banking branches of conventional banks.

²⁷ See <https://www.sbp.org.pk/DPC/2018/C4.pdf> and <https://www.sbp.org.pk/DPC/2018/C5.pdf>

There are also still questions to be resolved regarding scope. Instruments such as bank cheques, demand drafts and pay orders, either made or sent for collection on behalf of eligible customers, are not currently covered by deposit insurance. The DPC has initiated work to address this issue, which will require engaging several stakeholders.

4.3 Theme 3: E-money

The use of e-money – mobile money or similar related terms – is prevalent and growing in many jurisdictions. There are differences in the types of products recognised/defined as e-money, as well as in the way they are embedded within financial systems. Not all e-money or related products are covered by deposit insurance schemes and, if they are, coverage diverges. Determining if and how to incorporate e-money into deposit insurance schemes seems to be a near-term priority for numerous DIS.²⁸

Ghana: Mobile money usage has seen substantial growth over the past years in Ghana. Recent guidelines released by the central bank (Bank of Ghana) have facilitated the growth of electronic money issuers (EMI). Mobile money products offer numerous benefits to users including convenience in service delivery and expanded mobile money agent networks. The implementation of mobile money interoperability by the government has also encouraged growth in this sector. Mobile money is now becoming the preferred channel for transactions and as a store of value.

Mobile money is held in a trust account with a universal bank and is therefore eligible for coverage under the Ghana Deposit Protection Act. It currently receives the same coverage as regular deposits, but the Ghana Deposit Protection Corporation (GDPC) is expecting to revise the coverage level soon. However, there are still some questions that need to be addressed to ensure an efficient reimbursement process. Some of the issues are related to data and trust requirements (e.g. the list of beneficiaries in each trust account, and the information regarding which bank holds each person's funds in each EMI). The GDPC relies on this data to be produced and disseminated promptly in the event of a failed insured institution. Work is in progress in these areas.

Thailand: Depositors in Thailand have increasingly turned to e-money products as a store of value for their deposits. The ratio of e-money balances to eligible deposits showed a tremendous 600% increase from 2017 to 2019. E-money is mostly concentrated in non-banks. As of December 2020, there are 31 e-money service providers. Of these, 7 are banks and 24 are non-bank e-money service providers. E-money issuing banks offer a variety of e-money products such as prepaid cards, cash cards, gift cards, welfare cards, and e-wallets. Non-bank e-money service providers offer prepaid cards, gift cards and e-wallets too.

E-wallets are the primary contributor to e-money adoption. The government e-wallet called 'G-Wallet' has attracted significant public interest. Throughout 2020, the Thai government launched various fiscal stimulus packages to boost domestic consumption and incorporated the G-Wallet as a payment channel. Since transactions do not need to involve a bank account, customers are able to conduct transactions without having to physically visit bank branches. So far, the primary objective of the G-Wallet has been to encourage the use of e-money as a means of payment. This is deemed a safe payment channel amidst the current COVID-19 situation. However, it is possible that in the future e-money products may gain further traction for the purpose of storing wealth.

For this to be the case, however, several hurdles still need to be resolved. E-money is not considered a financial product covered by the Deposit Protection Agency of Thailand. Nevertheless, the central bank (Bank of Thailand), which is the supervising authority for e-money service providers, has legislated that non-bank e-money issuers are required to segregate the funds received from e-money customers and to deposit this money in financial institutions (banks). Thus, when a financial institution that is protected under the Thai Deposit Protection Agency Act fails, non-bank e-money issuers will be reimbursed under the same coverage level as retail depositors. Pass-through coverage is being discussed by members of the Thai financial safety-net to ensure customers of e-money service providers are adequately compensated in the case of a failure of an insured financial institution.

Jamaica: The central bank (Bank of Jamaica) established a Financial Regulatory Sandbox (the Sandbox) with the objective of promoting innovation in financial services, as well as increasing competition and financial inclusion. For e-money products to be approved by the Bank of Jamaica, these products must be placed in the Sandbox and tested to ensure they satisfy all regulatory requirements and provide protection to financial consumers. Where funds are being

²⁸ Another relevant question that was not mentioned in the survey is the potential for fraud at the electronic money issuer given less rigorous supervision.

held for the benefit of others, e-money service providers must maintain a custodian account (deposit account) with a regulated deposit-taking institution. The regular coverage rules for Trust and Nominees Accounts are applicable to these custodian accounts.

Chinese Taipei: Electronic payment tools with stored-value functions have emerged in response to the rapid development of financial technology, the expansion of electronic payments, and changing consumer payment needs. Currently, deposit insurance coverage extends to the registered and unregistered electronic stored-value cards issued by domestic insured institutions as well as to the stored-value amount of the ‘e-payment accounts’ at insured institutions.

The balance of electronic stored-value cards is regarded as stored value. After the balances of each electronic stored-value card held by the same depositors are consolidated, the consolidated amount receives separate coverage up to TWD 3 million (approx. USD 106,000). However, balances of the stored-value amount of ‘e-payment accounts’ are consolidated with other insured deposit accounts to be protected up to this coverage limit.

Uruguay: In recent years, e-money instruments have risen in popularity in Uruguay. In particular, there are electronic money-issuing institutions which make use of ‘digital wallets’ in the market.

According to current regulations, e-money issuing institutions must retain the funds that back up the digital wallet as a deposit in a bank account. The bank-based account is covered by the DIS, the Corporación de Protección del Ahorro Bancario (COPAB). Under the current protection regime, coverage would only apply to the e-money issuer’s account, while the depositors whose funds are placed within the account would not receive coverage. To overcome this challenge, the COPAB is currently studying, together with the other members of the financial safety-net, the possibility of including e-wallets in the deposit insurance system.

4.4 Theme 4: Differentiated coverage levels

In some jurisdictions, deposit insurance contemplates different coverage amounts for different products and institutions. Some cases are presented below.

Ghana: The central bank (Bank of Ghana) categorises deposit-taking institutions into two buckets: Universal Banks (banks hereafter) and Specialised Deposit-Taking Institutions (SDI). This latter category comprises Savings and Loans Companies, Rural and Community Banks, Finance Houses and Microfinance Companies. Both categories of institutions have different capital requirements.

The average size of deposits held at the banks is generally higher than that at the SDIs. Based on this, and on advice by consultants at the time of drafting the law for deposit protection, a different coverage limit was implemented for bank and SDI depositors. There are also two separate funds for each group.

To determine the coverage level for each type of institution, aggregated deposit accounts data per depositor were collected in different ranges of deposit size. Coverage levels were then set so that deposit insurance covered 93–95% of depositors.

Ecuador: The law establishes that the coverage level shall be different for each of the insured financial sectors. For all banks it is USD 32,000, while for the popular and solidarity financial sector, coverage ranges from USD 1,000 to USD 32,000, depending on the financial institution’s assets (see Table 2).

Cooperatives usually offer higher interest rates, so differentiated coverage seeks to avoid moral hazard. It also reflects different supervisory standards.

TABLE 2: ECUADOR – COVERAGE FOR POPULAR AND SOLIDARITY FINANCIAL SECTOR

Segment	Assets	Coverage
1	Greater than USD 80 million	USD 32,000
2	Greater than USD 20 million up to USD 80 million	USD 11,290
3	Greater than USD 5 million up to USD 20 million	USD 5,000
4	Greater than USD 1 million up to USD 5 million	USD 1,000
5	Up to USD 1 million	USD 1,000

Table 3 presents average depositors covered for alternative potential coverage levels (scenarios) for banks and the different segments of the popular and solidarity financial sector (as defined in Table 2) using data from 2017 until 2019.

TABLE 3: ECUADOR – PERCENTAGE OF DEPOSITORS COVERED IN BANKS AND THE POPULAR AND SOLIDARITY FINANCIAL SECTOR FOR ALTERNATIVE COVERAGE LEVELS (USD)

Alternative coverage levels (USD)	% of Depositors Covered					
	Banks	Seg 1	Seg 2	Seg 3	Seg 4	Seg 5
up to 1	21.34	17.21	17.13	16.96	17.69	17.95
up to 1,000	86.31	86.84	90.98	91.68	93.83	94.59
up to 2,500	91.84	91.99	94.84	95.46	96.87	97.53
up to 5,000	94.77	94.59	96.65	97.17	98.18	98.74
up to 7,500	96.12	95.94	97.57	98.00	98.75	99.21
up to 11,290	97.21	97.08	98.28	98.64	99.19	99.52
up to 15,000	97.80	97.66	98.62	98.93	99.38	99.65
up to 17,500	98.08	97.96	98.80	99.09	99.48	99.71
up to 25,000	98.63	98.59	99.18	99.39	99.66	99.82
up to 32,000	98.95	98.99	99.42	99.57	99.77	99.88

Finally, there are four state banks, but only one of them collects deposits from the public. They are sovereign-backed and, in the event of a forced liquidation, their deposits would be transferred entirely to another financial institution. Therefore, these deposits are fully guaranteed.

Jamaica: The coverage limit is calculated per depositor, per deposit account ownership category, per member institution. Ownership categories are: Individual (single owner) accounts; Joint accounts; Business accounts (sole trader, partnership, company, and unincorporated association); Trust accounts and Nominee accounts.

Since the coverage is provided to the depositors for each ownership category, and the coverage limit is JMD 1,200,000 (approx. USD 8,000), a depositor would be eligible for up to USD 8,000 on their Individual account, up to USD 8,000 on their Joint account (regardless of the number of joint owners),²⁹ up to USD 8,000 on their Business account and up to USD 8,000 if they are a beneficiary of a Trust or Nominee account. All these limits apply per institution.³⁰

Japan: While deposits are protected per depositor per financial institution, the coverage limit of deposits for payment and settlement purposes is different from that of general deposits. They are a special type of deposit, which are fully guaranteed, bear no interest and are payable on demand. Further, they provide one of the following services: funds

²⁹ For the joint account this is for the account and not per person. Therefore, it is USD 8,000 for the entire account – the owners would have to distribute this amount among themselves.

³⁰ Separate coverage for Trust and Nominees Accounts was established in 2011, taking into consideration the legal relationship that exists between a policyholder and the account holder. Where such account holder is a trustee or nominee, the trustee or nominee is not himself entitled to the money (though legally he is entitled to access) in the deposit account but only holds the funds for the beneficiary or beneficiaries. The beneficiaries' interest in the account is recognised for the purpose of deposit insurance and this seeks to: protect the beneficiaries' entitlement to payment; avoid prejudicing and diminishing the beneficiaries' entitlement to deposit insurance payment (if there was no separate coverage, the beneficiaries would have been entitled to the USD 8,000 being shared among all beneficiaries); allow for legal certainty in a payout; and reduce undue litigation by claimants where uncertainty prevails.

transfer through the account, transactions/payments for settlement of bills or cheques, and direct withdrawal from the account. These deposits are separated from other deposits in financial institutions.

Settlement obligations are also fully insured until the settlement of funds is completed. These are obligations assumed by the insured financial institutions concerning transactions related to the settlement of funds (funds transfers, transactions for settlement of bills/cheques at the clearing house and those concerning self-addressed cheques drawn by financial institutions) based on the request of a customer. The obligations related to the settlements in progress are fully protected. An example is settlement obligations treated in accounting as suspense receipts.

Under the current limited coverage system, insured depositors were reimbursed only once – in 2010 on the failure of the Incubator Bank of Japan.³¹ As the Incubator Bank of Japan dealt only with time (fixed-term) deposits and did not provide payment and settlement services, the deposit insurer (the DICJ) did not face the challenges of having different limits for different types of accounts.

4.5 Theme 5: Recent revision

CDIC-Canada recently finalised a thorough revision of its deposit insurance scheme. The coverage level was found to be appropriate, and thus was not modified. However, several features regarding the scope of coverage were amended.

CDIC-Canada: In 2014, as part of the Government of Canada’s 2014 Budget, the Deposit Insurance Review (DIR) was launched as a comprehensive review of Canada’s deposit insurance framework. The objective of the review was to “ensure that deposit insurance provides adequate protection for the savings of Canadians, taking into account lessons from the recent financial crisis and significant shifts in the global banking landscape.”³²

In the context of the DIR, the Department of Finance and CDIC-Canada undertook the necessary research and analysis to develop a strong and comprehensive policy framework that would underpin a modern and responsive federal deposit insurance scheme for Canada. To achieve this objective, they agreed to develop discussion papers that touched on several key issues that fed into the DIR policy discussions. The coverage level and the scope of eligible products were among the important topics analysed during the DIR.

The review focused on the concept of depositor protection and the overall deposit insurance framework and explored issues that included: depositor preference; deposit insurance level/limit and scope; complexity and depositor comprehension, models/approaches for the provision of deposit insurance coverage; adequacy of its compliance and enforcement toolbox; opportunities for federal-provincial cooperation and coordination. Framework issues including matters related to funding were also a main area of the review.

CDIC-Canada additionally carried out a specific Data Call with its members to help ensure that there was adequate data and information available regarding the current state of deposits in Canada (i.e. nature, amount, distribution) to support the work undertaken.

In carrying out the key elements of the DIR, work was sequenced such that all the information required to feed into policy discussions and support the development of policy recommendation was available for review and consideration. As such, work for Phase One and Two of the DIR was coordinated through an interagency federal safety-net forum and the options were discussed at the CDIC-Canada Board of Directors. A detailed work plan that set out key areas of responsibility and support, deliverables and timeframes was also maintained.

In 2016, the Department of Finance published a consultation paper, and views were sought from the public on potential areas of improvement as identified by the DIR. In addition to discussion on coverage limits, the consultation paper featured potential enhancements. Consultation comments received were taken into consideration as part of the outcomes detailed below.

³¹ See the Annual Report p. 12, “Column 3: Failure resolution of the Incubator Bank of Japan”.

³² Government of Canada, Budget 2014, Chapter 3.4 - Supporting Families and Communities, p. 186, <https://www.budget.gc.ca/2014/docs/plan/pdf/budget2014-eng.pdf>

Outcome:

The DIR suggested that deposit insurance coverage was largely functioning well and meeting its primary objectives. According to the review, the framework:

- Provided sufficient coverage for the savings of Canadians. Approximately 97% of all eligible retail deposit accounts are fully covered.
- Supported depositor confidence and financial stability. CDIC-Canada public awareness surveys indicate that depositor confidence in the safety of Canada’s banking system remains high (80%). In addition, there have been no member failures since 1996 and no evidence of bank runs.
- Promoted efficient and competitive financial services. Deposit insurance coverage is provided to all eligible deposits in the same manner at every member institution.

The review indicated that major changes to the framework were not required and that the current CAD 100,000 limit remained appropriate. The analysis undertaken for the review indicated that raising the deposit insurance limit would not enhance protection for the savings of most individuals in Canada, whose deposit accounts are currently covered under the framework. In line with IADI Core Principle 8 on coverage, Canada’s framework was found to cover the large majority of depositors but also to leave a substantial amount of deposits exposed to the possibility of loss in the event of a bank’s failure to address moral hazard and market discipline considerations. Therefore, uncovered depositors have an interest in the risk management practices of the member institution.

Increasing the limit was found to provide a proportionally higher benefit to corporate depositors, while increasing CDIC-Canada’s exposure. This would need to be offset through additional premiums paid by member institutions. It was decided that this would not further the objectives of deposit insurance and could shift the existing balance between financial stability and market discipline, contrary to IADI Core Principle 8.

In addition to discussion on coverage limits, the DIR featured potential enhancements to the scope of CDIC-Canada’s deposit insurance coverage to ensure the deposit insurance framework remains relevant in light of market developments and changing depositor behaviour. As a result of the DIR, the Government of Canada amended the CDIC Act to modernise and enhance Canada’s deposit insurance framework. The changes are summarised in Table 4 and Table 5 and they come into force in two phases – 30 April 2020 and 30 April 2022.

TABLE 4: CDIC CANADA – PHASE 1 CHANGES

Change to deposit protection	Rationale for change
Expanded coverage to eligible deposits held in foreign currencies	Foreign currency deposits (and protection thereof) are important for all depositors, but especially critical for Small and Medium Size Businesses (SMEs)
Expanded coverage to eligible deposits with terms greater than five years	To reflect the realities of market trends – the original policy rationale to limit protection for terms less than five years had waned
Elimination of coverage for traveller’s cheques (traveller’s cheques are no longer issued by member institutions)	To reflect the realities of the market trends – decline in the use of traveller’s cheques

TABLE 5: CDIC CANADA – PHASE 2 CHANGES

Change to deposit protection	Rationale for change
Separate coverage for up to CAD 100,000 in eligible deposits held under Registered Education Savings Plans (RESPs)	To provide greater uniformity among registered products
Separate coverage for up to CAD 100,000 in eligible deposits held under Registered Disability Savings Plans (RDSPs)	To provide greater uniformity among registered products
Removal of separate coverage for deposits in mortgage tax accounts (these deposits will be combined with eligible deposits in other categories such as savings in one name)	To reflect the realities of market trends and evolving depositor behaviour – there had been insufficient use of the category to warrant a separate coverage category
New requirements for deposits held in trusts, including nominee brokered deposits that enhance CDIC-Canada’s ability to extend protection to these deposits and reimburse them quickly after a member failure	To facilitate prompt trust deposit payout to depositors and extend appropriate protection to beneficiaries

4.6 Theme 6: Currency-related issues

Some jurisdictions face challenges relating to deposits in foreign currencies. This is the case if they decide to make payouts in the domestic currency or if they decide to do so in the foreign one, as the following two cases from Uruguay and Ukraine exemplify.

Uruguay: Considering the large number of deposits in US dollars, and the fact that this currency is perceived as a good store of value in the event of a financial crisis, deposit insurance in Uruguay covers both foreign and domestic currency deposits.³³ Deposits in local currency are associated with transactional reasons, while savings are mostly made in US dollars. It is noteworthy that in the event of a deposit insurance payout, it will be made in the currency of origin.

Currently, the coverage limit for domestic currency deposits is UYU 250,000 indexed units (equivalent to USD 28,120 as of January 2021), and for foreign currency deposits, the coverage limit amounts to USD 10,000. The two coverages are independent, so total coverage could reach USD 38,120 for a depositor with deposits in both currencies.

Considering that in Uruguay there are various measures aiming at promoting the de-dollarisation of the economy, the coverage for foreign currency deposits has always been lower than the coverage for domestic currency deposits. However, given the fact that the deposit insurance system is relatively new, and because there have been no failed banks since its inception, the level of public awareness of this system is very limited. The differentiated level of coverage has thus not been effective as an incentive for the de-dollarisation of the economy.³⁴

The main reason for paying foreign currency deposits in foreign currency is that depositor confidence could be bolstered by this measure. As previously mentioned, foreign currency savings are usually used as a store of value, and the confidence in this purpose could be threatened if payments were to be made in domestic currency.

Nonetheless, this dual currency coverage system does come with several challenges. The main difficulty is that, in the case of a deposit payout, most of it would need to be made in dollars, and Uruguay can only issue Uruguayan pesos. In view of this, funding in US dollars becomes one of the relevant issues in the management of the bank deposit guarantee fund. Also, in a small economy such as Uruguay, a bank failure is likely to generate financial stability problems, and consequently the foreign exchange rate is likely to increase significantly, raising the pressure on the funding sources.

³³ As of the end of 2020, 74% of deposits in Uruguay were made in foreign currency.

³⁴ Of course, there might be strong reasons why depositors prefer holding savings in USD and higher coverage levels might not be enough of an incentive to shift towards domestic currency deposits.

Ukraine: In 2014, amid an economic and political crisis, the central bank (National Bank of Ukraine (NBU)) initiated a large-scale cleansing of the banking sector. As a result, from 2014 to 2017, 96 banks – more than half of the total number of banks in the banking system – were declared insolvent and transferred to the Deposit Guarantee Fund (DGF) for resolution or liquidation. The DGF paid out to the depositors of these banks more than UAH 90 billion (USD 3.8 billion) of guaranteed compensation within the established coverage limit of UAH 200,000 (USD 10,600).

The DGF payouts helped to preserve depositors' confidence in the banking sector, as payments were made on time and within the coverage amount known by the public. Most depositors (over 90%) had deposits that were within the coverage limit. However, some depositors who had foreign currency deposits in an amount close to the coverage limit received less than expected. This was because in a short period of time the national currency depreciated, and their deposits were fixed at the coverage limit in hryvnia (UAH) – the DGF pays out all deposits in national currency.

As the funds accumulated by the DGF were clearly insufficient to reimburse the depositors of such a large number of failed banks simultaneously, the DGF was forced to apply for back-up funding from the government. It received a loan of UAH 80 billion (USD 3.4 billion) from the NBU and the ministry of finance at market interest rates which were approximately 10–14%. The debt to the NBU has been fully repaid and the debt to the ministry of finance has been partially repaid.

5 The Current Landscape and the Core Principles

This section highlights key themes from the survey regarding coverage levels and scope, looking at the current landscape through the lens of the IADI Core Principles for Effective Deposit Insurance Systems. First introduced in 2009, the IADI Core Principles identify broad policy directions for deposit insurance systems while preserving flexibility for national authorities to put in place additional measures necessary to address jurisdiction-specific considerations.³⁵

5.1 Coverage Level and Scope: Key Statistics

Median coverage levels seem to be in line with historical averages – twice GDP per capita (IADI (2013)), but a bit higher than prior to the global financial crisis. Although the IMF recommended 100–200% of GDP per capita as a rule of thumb for an appropriate coverage level, there seems to be no theoretical support for any particular level (Garcia (1999)). The literature generally supports the rationale that setting coverage limits is a jurisdiction-specific process and the Core Principles do not include GDP per capita as a criterion.

Nonetheless, the median value for fully covered depositors worldwide (97%) is high when compared to guidance in early IADI documents – 80% (IADI 2009) and 90–95% (IADI 2013). However, it may well comply with Core Principle 8, which states that coverage should cover “the large majority of depositors.” The Core Principle, however, has no consideration regarding an upward limit. Another question regarding this statistic is if it would be useful to monitor it at a more granular level. As a consolidated number, it is probably influenced by larger banks, but the percentage will be different at individual entities.

Finally, total deposits covered average 40% among respondents (the median value is similar). IADI's Core Principles state that a “substantial amount” of deposits should be exposed to market discipline and previous documents mention 20% of covered deposits as a relevant threshold (IADI 2009). Many jurisdictions have been able to maintain a high percentage of fully covered depositors but have left a smaller percentage exposed to market discipline. The overall increase in deposits covered captures increases in coverage levels worldwide following the global financial crisis, which were bolstered by cross-jurisdiction links and international comparisons. Do these new levels respond to additional responsibilities or to a different way of thinking about DIS or are they simply the result of a recent crisis? In this regard, coming up with some quantitative guidance in the Core Principles about what a “substantial amount” of deposits should mean seems useful and timely.

³⁵ This document was last updated in 2014. The Financial Stability Board replaced the 2009 Core Principles with the revised version in the compendium of international standards that same year.

5.2 Relevant Features of DIS

Most jurisdictions calculate coverage level on a per depositor per institution basis (85% of respondents). There is no specific guidance regarding how to calculate the coverage limit in the Core Principles. One of the main advantages of calculating it per depositor per institution is that the coverage level is easy to calculate and to communicate to the public. Jurisdictions that add an additional dimension, per deposit category or per deposit ownership category, have more flexibility to target specific objectives. In some instances, this additional layer seems to be useful to work with pass-through schemes where there are many individual depositors behind a specific deposit. Nonetheless, adding this nuanced coverage can make communicating about the coverage level more complex. It can also make the coverage level of individual depositors higher than otherwise, if they are able to have two types of accounts at the same bank.

Twenty-three percent (23%) of respondents use different coverage limits for different types of institutions or different depositors or accounts. The case for using different coverage limits for different institutions seems to go against the statement in Core Principle 8, Essential Criterion 3: “The deposit insurer applies the level and scope of coverage equally to all its member banks.” Jurisdictions that use different coverage limits for different institutions likely benefit from fine-tuning coverage levels to achieve specific outcomes. However, a risk emerges in that it might make communication about the coverage levels complex. It might also indirectly influence competition or market discipline.

On the other hand, the case for using different coverage levels for different accounts or depositors does not seem to be addressed by the Core Principles. Once again, jurisdictions seem to be using this differentiation as a tool to achieve specific outcomes or to address detailed situations. Future surveys could look for ways to get a better understanding of this. A notable case in responses was foreign and local deposits having different coverage levels.³⁶ All in all, it seems that the case for a single coverage level compared to a multi-tier coverage system could benefit from further guidance in the Core Principles. A starting place could be recognising that in some cases multiple coverage levels makes sense but that key considerations need to be established to support communication and protect from undesirable side effects, such as a preference for certain deposits over others.

Finally, most jurisdictions (92%) exclude certain types of deposits or depositors from coverage. The Core Principles directly state that some deposits might be excluded or considered ineligible for protection by the DIS. Indeed, the type of depositors mentioned there – government-related, interbank and those connected with a bank’s liquidation – are the most commonly excluded. The Core Principles mention that excluded deposits should be clearly specified, easily determined and that they should not affect the speed of reimbursement. In this sense, no additional guidance seems necessary. DIS seem to be clear about these exclusions, but payout implications might be less tested since many jurisdictions have not conducted recent payouts and these exclusions could make this process more cumbersome.

5.3 Changes in Coverage Levels and Scope

Most respondents (70%) increased the coverage level the last time they made a change to it, and only a few (9%) reduced it. This observation is of course biased because many of these changes were made as a reaction to the last global financial crisis, and for this period all changes were increments in the level. However, changes in the last five years also correspond only to increases and, more importantly, the accumulated effect of all these changes has been an increase in coverage levels worldwide. Whereas it might be useful to increase coverage levels during a financial crisis, more guidance could be provided about how levels should be adjusted afterwards instead of having permanent increases as a result. The Core Principles do not discuss this issue in general but do so for cases where blanket guarantees are deployed. Similar guidance on downward adjustments following temporary increases in coverage could be useful.

A related observation is that only about one-third of respondents have reviewed the coverage level since they last changed it and a periodic review of the coverage limit is not obligatory in most jurisdictions (64%). The Core Principles advocate a periodic review of the level of coverage – at least every five years. According to the survey results, most jurisdictions do not comply with this criterion. A possible reason could be data availability issues. On the other hand, it could be that in the absence of a change in the financial landscape, for instance a financial crisis, there is not enough variation in the data to justify any changes. Thus, having periodic revisions could be less useful. If that is the case, the Core Principles could consider revising the coverage level whenever there are material changes in the financial landscape, to complement the idea of doing it on a regular basis.

³⁶ A second example is temporary high balances (THB) related to life events, which enjoy higher coverage, but THB only offer extra coverage to deposits in a rather short timeframe after receiving the deposit.

Regarding scope, 47% of jurisdictions have changed the scope of products covered since 2010. Most of the changes since 2010 correspond to the inclusion of new products, such as electronic deposits, Islamic and foreign currency deposits. Regarding foreign currency deposits, the Core Principles state that they should be insured if they are widely used, and Islamic deposit considerations are analysed in a separate set of standards recently issued by IADI and the Islamic Financial Services Board (IFSB). There seems to be less guidance about the scope of electronic deposits or similar ‘new’ e-money products. Jurisdictions appear to be taking decisions based on their own circumstances, a process that could be supported by additional guidance in the Core Principles.

As with the coverage level, only a few respondents have reviewed the scope of coverage since it was last changed, and most jurisdictions are not obligated to have it periodically reviewed. The Core Principles state that the scope should be revised periodically. In the case of coverage scope, even fewer jurisdictions have set periodic revisions as an obligation; they seem to do them on an ad hoc basis, whenever there are specific changes that need to be addressed. This makes sense, since there seems to be no standard methodology that DIS apply to define scope. Thus, the previous comment regarding the need to link revisions to material changes as a complement to, or instead of, regular revisions applies to scope as well.

Finally, most of the respondents do not have any concerns regarding the current coverage limit and about half do not foresee any change in the coverage limit in the next five years. Interestingly, although there is evidence that coverage levels increased following the financial crisis, there does not seem to be any concern among DIS about present levels being high. Similarly, most of the respondents do not have any concerns regarding the current products eligible for coverage and only one-third believe there will be changes in the next five years in the products eligible for coverage. In the case of scope, however, some of the jurisdictions that have concerns do have fundamental ones. Some of them are related to new types of products where, as previously argued, further guidance could be useful. Others go back to the need to have timely and detailed information about certain products to be able to conduct efficient payouts in a liquidation. Issues regarding foreign currency deposits are also relevant for some jurisdictions.

5.4 Methodologies/Procedures for Calculating Coverage Level and Scope

Most deposit insurers have a consultative process for decisions regarding coverage levels and scope. A consultative process certainly benefits from perspectives of the different participants in the financial safety-net. Nonetheless, it would be interesting to get a better sense of the role of DIS within the process. The decision-making process can be complex, and the role of other involved parties may impact DIS interests in it. If that is the case, offering further guidance in the Core Principles about the meaningful role that DIS could play in decision-making would be useful, as it is not currently addressed.

Respondents employ a combination of tools to determine the coverage level and the scope, and most of them said that they have no issue with the approach they follow and have no plans to change it. DIS seem to be defining both the coverage level and the scope of products covered as per their own jurisdictions’ characteristics, needs and limitations. Although a clearer methodology to determine the coverage level might be useful, its absence allows each jurisdiction to tailor the coverage level using the levers it believes are relevant. Similarly, guidelines regarding scope in the Core Principles are broad, allowing jurisdictions to take decisions based on the individual circumstances of each DIS. Thus, the way they define the products covered reflects their needs. All in all, this could mean that DIS have the required tools to do the job. Alternatively, it could also signal that there are no current alternatives that could be regarded as ‘best practices’.

5.5 Relationship Between Levels, Scope, and Other Factors

About half of the respondents reported that their target fund has a relationship with their current coverage limit and about two-thirds replied to that question positively with regard to premiums collected. It makes sense that DIS consider funding levels and premiums collected when setting coverage levels. It is also in line with recommendations presented in IADI (2013), although the Core Principles do not mention this issue directly. However, linking the funding status or premiums collected to decisions regarding coverage levels could also limit the flexibility of DIS to take decisions when needed. The Core Principles have no guidance regarding this issue.

Most respondents do not have any considerations relating to the coverage level or scope that apply only during times of crisis. This might be for several reasons. On the one hand, some of the literature suggests that deposit insurance considerations should not change based on economic conditions, and as such it may be a conscious ex ante decision. On the other, the thinking might be that all crises are different, and measures need to be analysed and taken as they happen – designing issues ex ante could impact a deposit insurer’s ability to comprehensively respond to the crisis. In any case,

including considerations about coverage levels and financial crises in the Core Principles could probably support DIS in addressing these issues.

Almost no deposit insurer has made changes relating to the coverage level because of a natural disaster. This almost unanimous response probably reflects the unique features of these types of events which make it even more difficult to think and plan ahead.³⁷ Certainly, it is something that was on DIS agendas in 2020 and considerations relating to the COVID-19 pandemic should be expected in forthcoming discussions regarding the Core Principles. Almost none of the respondents had made any changes to the coverage level or the scope because of the COVID-19 pandemic when they completed the survey. As of June 2021 and for coverage levels, this still seems to be the case.

Only a handful of jurisdictions surveyed currently have a blanket guarantee. In terms of the Core Principles, it is noteworthy that it is one of the themes where there is more information and detail. This might reflect the timing of the last revision to the Core Principles – following the global financial crisis, when this was one of the key issues in the landscape. A current revision of the Core Principles could have less emphasis or detail on this specific issue as it is less prevalent nowadays. Guidance about the appropriateness of blanket guarantees could also be useful, but there does not seem to be consensus about this in the literature to support a specific position.

Regarding moral hazard, limited coverage and risk-adjusted premiums seem to be the main tools used by DIS to reduce it. This is in line with the Core Principles that also state that there is a role for strong regulation and supervision. Since limited coverage appears to be at the centre of moral hazard reduction, previous comments regarding the appropriateness of current levels, as depicted by the percentage of deposits covered, are pertinent.

Some respondents use the coverage level in other jurisdictions or countries as reference. This is useful since having different coverage levels in neighbouring jurisdictions can create problems for the DIS with the lower coverage level. Nevertheless, it can also lead to higher coverage levels than needed or appropriate in some DIS, in particular when neighbours do not share the same level of financial development. The Core Principles do not offer guidance on this. It is probably a difficult problem to address: not good to change just because others do so, but even worse not to change at all. In aggregate, it can lead to higher coverage levels than needed or desired worldwide.

Finally, most jurisdictions considered that the coverage level has not been impacted by technology. However, new products that these new technologies have made available seem to be one of the main issues that DIS are currently grappling with. In terms of coverage levels, this includes either setting new standards for these ‘new products’ or including them within the current scheme and attempting to mimic features of current products. Guidance about some of these developments in the Core Principles might be necessary and useful. The challenge might be that developments are still in the early stage in many jurisdictions.

5.6 For Further Study

Most jurisdictions did not reply when asked about the percentage of deposits covered at half or two times the current coverage level, indicating that the information was not available. IADI (2013) underscores that DIS need to have access to timely and detailed information regarding deposits. In terms of data, this is the core input to any type of analysis regarding coverage levels – without granular information about depositors at different coverage levels it is difficult for jurisdictions to be able to analyse the benefits and costs of lowering or increasing their coverage levels. Availability of depositors’ data seems to be at the core of any analysis regarding coverage levels.³⁸ It is explicit in IADI (2013) but seems to be rather implicit in the Core Principles. An explicit requirement for better stratification of deposits may improve DIS efforts to have direct and easy access to these key data. This new criterion could enhance future coverage level assessments.

Two issues that were not asked directly in the survey and were not mentioned in responses either, were co-insurance and the effect of residency status or nationality on coverage. With regard to the former, the Core Principles directly state that DIS should not have co-insurance and it seems to have been mostly abolished worldwide. This blacklisting of co-insurance appears to follow the global financial crisis. It is mentioned in Moretti et al. (2020), although no evidence relating to the problems of co-insurance was given. Regarding the effect of residency status or nationality on coverage,

³⁷ See also: IADI Survey Brief No. 1 – Impact of the COVID-19 Pandemic on Deposit Insurance (May 2021).

³⁸ See also: IADI Policy Note No. 1 - Effective Reimbursement Systems and Processes (follow-up) (June 2021).

exclusions with respect to these criteria were not mentioned by respondents, so it does not seem to be common practice either.

6 Concluding Thoughts

The coverage level and scope are key considerations in DIS frameworks. The survey regarding coverage levels and scope conducted in 2020 shows a diverse landscape that responds to jurisdictions' specific circumstances. In aggregate terms, coverage levels increased following the financial crisis and have remained high. In terms of scope, new products, such as e-money and related products, seem to be the focus of DIS thinking now, and jurisdictions are making decisions depending on individual institutional and demographic characteristics. Another relevant issue in DIS current agenda is the impact of the COVID-19 pandemic and the effects it might have on the financial system. So far, coverage levels or scope have not substantially changed in response to the pandemic.

The Core Principles were last revised in 2014 and are generally still relevant and well suited to address most issues regarding coverage levels and scope. More detailed guidance about certain issues could, nonetheless, bolster their ability to guide specific issues towards best practices. These include additional considerations in connection with the meaning of 'substantial' in relation to deposits covered, and considerations when there are different coverage levels or scope for different institutions or depositors. Considerations regarding the information that DIS should have access to could also bolster their ability to analyse information and obtain a more complete picture of coverage levels and scope within their jurisdictions.

Additionally, Core Principle 8 on coverage references IADI's 2013 paper on coverage for additional guidance, and there may be value in including the relevant points from the paper into the Core Principles directly.

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Appendix A - Survey Instrument

Survey name: Deposit Insurance: coverage level and scope

Objectives: a) Identify the various methodologies used by deposit insurance schemes (DIS) worldwide to determine and assess coverage levels and scope of coverage; b) Understand the interaction of these features with other relevant issues such as: financial crisis, availability of funds, complexity and interconnection of the financial system, technological evolution and premiums collected.

Information as of: 31 December 2019 (exception: last two questions should reflect the most up-to-date information).

Key terms: coverage level and the scope of coverage are used in the sense that these terms have in Principle 8 - Coverage of IADI's Core Principles for Effective Deposit Insurance Systems.

A. Key information regarding the organisation responding to the survey

Name of organisation:

Contact person for entries in survey Deposit Insurance: coverage level and scope:

- Last name, First name
- Email/Alternate email
- Name of DIA

B. Coverage level and scope

a) Maximum coverage level (coverage limit) and current scope

1. Is the coverage limit calculated per depositor per member institution?
 - a. Yes
 - b. Yes, but with some exceptions
 - c. No
 - d. If the answer is b or c, please elaborate exceptions and how coverage limit is calculated:
2. If the answer to Question 1 is YES, what is the coverage limit?
 - a. Per depositor per institution (local currency)
 - b. Per depositor per institution (USD)
 - c. Per depositor per institution (as % of GDP per capita)
 - d. Answer supplementary text (optional):
3. If the answer to Question 1 is NO, what is the coverage limit?
 - a. In local currency
 - b. In USD
 - c. As % of GDP per capita
 - d. Answer supplementary text (optional):
4. What is the percentage of accounts (number of accounts) that are ...?
 - a. Fully covered 100% at the actual coverage limit
 - b. Fully covered at least 50% at the actual coverage limit
 - c. Fully covered less than 25% at the actual coverage limit
 - d. Answer supplementary text (optional):
5. What is the percentage of deposits (total account balances) that are fully covered?
 - a. At the actual coverage limit
 - b. At two times the actual coverage limit
 - c. At half the actual coverage limit
 - d. Answer supplementary text (optional):

6. Are there different coverage limits for different types of institutions or different depositors or accounts (e.g. depending on interest rates or ownership of the account)?
 - a. Yes
 - b. No
 - c. If the answer is Yes, please specify the limits for institutions/depositors
7. Are any deposits, type of deposits or type/class of depositors excluded from coverage?
 - a. Yes
 - b. No
 - c. If the answer is Yes, please specify
8. Are there different products eligible for coverage (scope) for different types of institutions or different type of depositors?
 - a. Yes
 - b. No
 - c. If the answer is Yes, please specify

b) Changes and revisions

Coverage Limit

9. With respect to the coverage limit:
 - a. Year when it was last changed:
 - b. Increased/decreased (%) in coverage at the time of last change:
 - c. What were the reasons for changing it?
 - d. What approach was used to determine the new coverage limit and what factors were taken into consideration?
 - e. Was a third party engaged to support this process?
10. With respect to the coverage limit: has it been reviewed since the last time it was changed?
 - a. Yes
 - b. No
 - c. If the answer is YES, what decisions were taken then and what were the reasons for not changing it?
11. Is a periodic review of the coverage limit obligatory?
 - a. Yes, by Law/Regulation
 - b. Yes, by internal policies
 - c. No
 - d. Answer supplementary text:

Scope of coverage

12. With respect to products eligible for coverage (scope):
 - a. Year when this was last changed:
 - b. Changes made in that revision:
 - c. What were the reasons for changes made?
 - d. What approach was used to determine the new scope and what factors were taken into consideration?
 - e. Was a third party engaged to support this process?
13. With respect to products eligible for coverage (scope): has this been reviewed since the last time it was changed?
 - a. Yes
 - b. No
 - c. If the answer is YES, what decisions were taken then and what were the reasons for not changing it?
14. Is a periodic review of the products eligible for coverage (scope) obligatory?
 - a. Yes, by Law/Regulation
 - b. Yes, by internal policies
 - c. No
 - d. Answer supplementary text:

c) Views about current level and scope

15. Do you have any concerns regarding the current coverage limit?
- Yes
 - No
 - If the answer is YES, what are your concerns regarding it?
16. Are there any products or depositors in your jurisdiction that could be considered for a different coverage limit?
- Yes
 - No
 - If the answer is YES, please specify which ones, why is this the case and how should the level be different.
17. Do you have any concerns regarding the current products eligible for coverage (scope)?
- Yes
 - No
 - If the answer is YES, what are your concerns regarding them?

d) Plans for future changes

18. Do you envisage any changes in the coverage limit in the next five years?
- Yes
 - No
 - Please specify (Yes)
 - Answer supplementary text:
19. Do you envisage any changes in the next five years in the products eligible for coverage (scope)?
- Yes
 - No
 - Please specify (Yes)
 - Answer supplementary text:
20. Are there specific factors (e.g. % change in GDP, inflation, average account balance, financial crisis/downturn, politics, legislation or policy, etc.) or circumstances that automatically trigger a revision of the coverage limits?
- Yes
 - No
 - Please specify (Yes)
 - Answer supplementary text:
21. Are there any specific factors (e.g. % change in GDP, inflation, average account balance, financial crisis/downturn, politics, legislation or policy, etc.) or circumstances that automatically trigger a revision of the products eligible for coverage (scope)?
- Yes
 - No
 - Please specify (Yes)
 - Answer supplementary text:

C. Methodologies/procedures for calculating coverage level and scope

a) Current methodologies/method of calculation

22. What is the decision-making process for determining the coverage limit?
- Solely by the DI
 - DI in consultation with Central Bank
 - DI in consultation with other inter-regulatory body e.g. Financial Stability Committee
 - DI in consultation with Government

e. Other

23. What methodology/method of calculation do you use to determine the coverage level?
- Statistical method
 - Discretionary method or expert opinion
 - Combination of a and b
 - Other
 - Answer supplementary text:
24. What is the decision-making process for determining the products eligible for coverage (scope)?
- Solely by the DI
 - DI in consultation with Central Bank
 - DI in consultation with other inter-regulatory body e.g. Financial Stability Committee
 - DI in consultation with Government
 - Other
25. What methodology do you use to determine the products eligible for coverage (scope)?
- Statistical method
 - Discretionary method or expert opinion
 - Combination of a and b
 - Other
 - Answer supplementary text:

b) Challenges regarding methodologies/method of calculation

26. Do you have any concerns regarding the methodology you use to calculate the current maximum coverage level?
- Yes
 - No
 - If the answer is YES, what are your concerns regarding it and the challenges you face?
27. Do you have any concerns regarding the methodology you use to determine products eligible for coverage (scope)?
- Yes
 - No
 - If the answer is YES, what are your concerns regarding them and the challenges you face?

c) Changes and revisions

28. Have you made any changes in the methodology/method of calculation to define the coverage level since 2008?
- Yes
 - No
 - Please specify (Yes)
 - Answer supplementary text:
29. Have you made any changes in the methodology/method of calculation to define the products eligible for coverage (scope) since 2008?
- Yes
 - No
 - Please specify (Yes)
 - Answer supplementary text:

d) Plans for future changes

30. Do you envisage any changes in the methodology/method of calculation to define the coverage level in the next five years?

- a. Yes
- b. No
- c. Please specify (Yes)
- d. Answer supplementary text:

31. Do you envisage any changes in the methodology/method of calculation to define the products eligible for coverage (scope) in the next five years?
- a. Yes
 - b. No
 - c. Please specify (Yes)
 - d. Answer supplementary text:

D. Relationship between levels, scope and other factors

a) Financial crisis

32. Do you have any considerations relating to coverage level that apply only during times of crisis?
- a. Yes
 - b. No
 - c. Please specify (Yes)
 - d. Answer supplementary text:
33. Have you ever made any changes related to coverage level because of a natural disaster (e.g. earthquake, typhoon, tsunami, epidemic, war)
- a. Yes
 - b. No
 - c. If answer is A please elaborate:
 - d. Answer supplementary text:
34. Do you have any considerations relating to products eligible for coverage (scope) that apply only during times of crisis?
- a. Yes
 - b. No
 - c. Please specify (Yes)
 - d. Answer supplementary text:
35. Have you ever made any changes related to products eligible for coverage (scope) because of a natural disaster (e.g. earthquake, typhoon, tsunami, epidemic, war)?
- a. Yes
 - b. No
 - c. If answer is A please elaborate:
 - d. Answer supplementary text:

b) Funding (ex ante funding, target fund sizes, emergency back-up funding)

36. If your Fund has a target fund size, is there any relationship between the target and the coverage limit?
- a. Yes
 - b. No
 - c. We do not have a target fund size
 - d. Please specify (Yes)
 - e. Answer supplementary text:
37. If your Fund has emergency back-up funding, is there any relationship between this and the coverage limit?
- a. Yes
 - b. No
 - c. We do not have emergency back-up funding

- d. Please specify (Yes)
- e. Answer supplementary text:

c) Premiums collected

38. Is there any relationship between the premiums collected and the coverage limit?
- a. Yes
 - b. No
 - c. Please specify (Yes)
 - d. Answer supplementary text:
39. Is there any relationship between the premiums collected and the products eligible for coverage (scope)?
- a. Yes
 - b. No
 - c. Please specify (Yes)
 - d. Answer supplementary text:

d) Payout

40. Have there been payouts in the last five years (up to December 2019)?
- a. Yes
 - b. No
 - c. If YES, please specify aggregate payout as % of total deposits as of the date of the payout.
 - d. Answer supplementary text:

e) Blanket Guarantee

41. Have you ever had a blanket guarantee for some or all your covered deposits?
- a. Yes, currently
 - b. Yes, but not currently
 - c. No
 - d. If you have or have had a blanket guarantee please specify for what type of depositors this was the case and the dates it has been (or had been) active
42. If you have or have had in the past a blanket guarantee:
- a. If the blanket guarantee is not current, please specify the process for lifting the blanket guarantee
 - b. If there is a blanket guarantee at the moment, please specify any plans for lifting it in the future

f) Moral Hazard

43. What specific design features in your deposit insurance system do you consider mitigate against the risk of moral hazard? (Multiple choice with multiple answers)
- a. Limited coverage
 - b. Risk-based premiums
 - c. Early intervention tools
 - d. Other, please specify

g) Other reference or relevant countries

44. Is coverage level in any other jurisdiction or country used as reference?
- a. Yes
 - b. No
 - c. Please specify (Yes)
 - d. Answer supplementary text:
45. Are products eligible for coverage (scope) in any other jurisdiction or country used as reference?

- a. Yes
- b. No
- c. Please specify (Yes)
- d. Answer supplementary text:

h) Complexity and interconnection of the financial system

46. Do you consider complexity and interconnection of the financial system in any way when determining the coverage limit or products eligible for coverage (scope)?
- a. Yes
 - b. No
 - c. Please specify (Yes)
 - d. Answer supplementary text:

i) Technological evolution

47. Has technological evolution (e.g. Stored-Value Cards, Digital Cash) impacted the way you think about the maximum coverage level or the products eligible for coverage (scope) in any way?
- a. Yes
 - b. No
 - c. Please specify (Yes)
 - d. Answer supplementary text:
48. Is deposit insurance coverage extended to e-money accounts?
- a. Yes
 - b. No
 - c. If YES, please explain the legal and operational provisions for coverage eligibility (may insert link to reference documents)

j) COVID-19 Global Pandemic

49. Have you made any changes related to coverage level because of the COVID-19 pandemic?
- a. Yes
 - b. No
 - c. No, but planning to
 - d. If answer is A or C please elaborate:
 - e. Answer supplementary text:
50. Have you made any changes related to products eligible for coverage (scope) because of the COVID-19 pandemic?
- a. Yes
 - b. No
 - c. No, but planning to
 - d. If answer is A or C please elaborate:
 - e. Answer supplementary text:

Appendix B - List of Respondents to the Survey

No.	Jurisdiction	Name of Deposit Insurer
1	Albania	Albanian Deposit Insurance Agency
2	Angola	Fundo de Garantia de Depósitos
3	Australia	Australian Prudential Regulation Authority
4	Bahamas	Deposit Insurance Corporation
5	Bangladesh	Bangladesh Bank
6	Belarus	Agency of Deposit Compensation
7	Belgium	Guarantee Fund for Financial Services
8	Brazil	Fundo Garantidor do Cooperativismo de Crédito/Credit Cooperatives Guarantee Fund
9	Brunei	Brunei Darussalam Deposit Protection Corporation
10	Bulgaria	Bulgarian Deposit Insurance Fund
11	Canada	Canada Deposit Insurance Corporation
12	Canada (British Columbia)	Credit Union Deposit Insurance Corporation of British Columbia
13	Canada (Québec)	Autorité des marchés financiers (AMF)
14	Chinese Taipei	Central Deposit Insurance Corporation
15	Colombia	Guarantee Fund for Financial Institutions/ Fondo de Garantías de Instituciones Financieras (FOGAFIN)
16	Colombia	Guarantee Fund for Cooperative Entities/Fondo de Garantías de Entidades Cooperativas (FOGACOOOP)
17	Czech Republic	Deposit Insurance Fund
18	Ecuador	Corporación del Seguro de Depósitos (COSEDE)
19	Finland	Finnish Financial Stability Authority
20	Ghana	Ghana Deposit Protection Corporation
21	Greece	Hellenic Deposit and Investment Guarantee Fund (TEKE)
22	Hong Kong SAR	Hong Kong Deposit Protection Board
23	Italy	Interbank Deposit Protection Fund/Fondo Interbancario di Tutela dei Depositi
24	Jamaica	Jamaica Deposit Insurance Corporation
25	Japan	Deposit Insurance Corporation of Japan
26	Jordan	Jordan Deposit Insurance Corporation
27	Kazakhstan	Kazakhstan Deposit Insurance Fund JSC
28	Kenya	Kenya Deposit Insurance Corporation
29	Korea	Korea Deposit Insurance Corporation
30	Kyrgyz Republic	Deposit Protection Agency of the Kyrgyz Republic
31	Malaysia	Malaysia Deposit Insurance Corporation
32	Mexico	Instituto para la Protección al Ahorro Bancario
33	Mongolia	Deposit Insurance Corporation of Mongolia (DICOm)
34	Morocco	Moroccan Deposit Insurance Corporation/Société Marocaine de Gestion des Fonds de Garantie des Dépôts Bancaires (SGFG)
35	Nicaragua	Fondo de Garantía de Depósitos de las Instituciones Financieras
36	Nigeria	Nigeria Deposit Insurance Corporation
37	Pakistan	Deposit Protection Corporation (Pakistan)
38	Palestine	Palestine Deposit Insurance Corporation
39	Philippines	Philippine Deposit Insurance Corporation
41	Romania	Bank Deposit Guarantee Fund

42	Saudi Arabia	Saudi Arabian Monetary Authority
43	Spain	Fondo de Garantía de Depósitos de Entidades de Crédito
44	Sweden	Swedish National Debt Office
45	Switzerland	esisuisse
46	Thailand	Deposit Protection Agency
47	Trinidad and Tobago	Deposit Insurance Corporation
48	Turkey	Savings Deposit Insurance Fund (SDIF)
49	Ukraine	Deposit Guarantee Fund
50	United States	Federal Deposit Insurance Corporation
51	Uruguay	Corporación de Protección del Ahorro Bancario (COPAB)
52	Vietnam	Deposit Insurance of Vietnam
53	West African Economic and Monetary Union (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo)	West African Monetary Union Deposit Insurance Fund

Appendix C - Deposit Insurance Coverage Level and Scope Technical Committee Members

No.	Name	Organisation
1	Camielle Frazer	Jamaica Deposit Insurance Corporation (JDIC) Jamaica
2	Catherine Meng-Hsuan Chou	Central Deposit Insurance Corporation, Chinese Taipei
3	Gabriel Lemus	Corporación de Protección del Ahorro Bancario Uruguay (COPAB)
4	Javier Orlando Bernal Gómez	Guarantee Fund for Cooperative Entities (FOGACOO)
5	Jose G. Villaret, Jr. (Chairperson, from October 2021)	Philippine Deposit Insurance Corporation (PDIC) Philippines
6	Juan Carlos Quintero Valdivieso (Former Chairperson, May 2019 ~ September 2021)	Fondo de Garantías de Instituciones Financieras Colombia (FOGAFIN)
7	Kanokrat Hirunburana	Deposit Protection Agency (DPA) Thailand
8	Mansoor Zaidi	Deposit Protection Corporation (DPC Pakistan)
9	Sun Hee Won	Korea Deposit Insurance Corporation (KDIC), Korea
10	Phan Thi Thanh Binh	Deposit Insurance of Vietnam (DIV)
11	Rishanthi Pattiarachchi	Canada Deposit Insurance Corporation (CDIC), Canada
12	Shilpa Shah	Federal Deposit Insurance Corporation (FDIC) United States
13	Syed Irfan Ali	Deposit Protection Corporation (DPC) Pakistan
14	Taewook Chang	Korea Deposit Insurance Corporation (KDIC) South Korea
15	Vladimir Kovalev	State Corporation Deposit Insurance Agency (DIA) Russian Federation