Deposit Insurance in 2024

Global trends and key issues

April 2024

The report Deposit Insurance in 2024 – Global trends and key issues has been prepared by the IADI Secretariat (Bert Van Roosebeke and Ryan Defina) with input from members of the IADI Analysis and Policy Council Committees.

This publication is available on the IADI website (www.iadi.org).

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Executive summary

The IADI report on Deposit Insurance in 2024 provides an overview of the current state of deposit insurance, global trends and investigates key issues within the near future. This report has been prepared using the latest statistical data and analytical insights, profiting from a data validation project carried out by IADI in 2023. The results thereof fed into an upgrade of IADI's "Visualisation for IADI Data Analysis" (VIDA) tool, which allows for customised cross-sectional and time-series analysis. This report includes a selection of aggregated VIDA findings. Full results and functionality are only available to IADI members.

Some of the key findings of this report:

- The past decade has witnessed a global trend of deposit insurers' mandates being expanded significantly. At the same time, considerable regional variance in deposit insurers' mandates persist. IADI data offers some evidence that deposit insurers' mandates relate to the state of economic development in their jurisdictions.
- The role of deposit insurers in resolution decision making continues to expand over time. This is mainly driven by the increasing role of deposit insurers in bank resolution funding. The role of deposit insurers in resolution varies significantly by region but is not primarily driven by economic development. In addition to the growing involvement of deposit insurers in resolution, IADI data offers evidence that the resolution toolbox available to authorities has expanded over time.
- Prompt reimbursement by deposit insurers is a key component of the IADI Core Principles, and while significant challenges remain, a broad-based improvement in reimbursement practices has been observed globally during the past decade.
- Long-run funding trends for deposit insurers have not significantly changed. Deposit insurers continue to be funded mostly ex-ante, and to a considerable degree, premiums levels are differential based on risk. With few regional exceptions, relative fund sizes have not altered substantially.
- Trends on aggregate deposit coverage are mixed and depend on the measure applied. In high-income jurisdictions in particular, a decade-long decrease in deposit insurance coverage by total value of deposits is observed.

The report identifies four issues of importance to deposit insurers in 2024. These include:

- key elements of deposit insurance system design, including coverage and funding;
- the relevance to financial stability of bank failure management measures that allow for continued access to deposits;
- digitalisation, which comes with risks and opportunities to deposit insurance; and
- the importance of deposit insurance systems working in synergy with the frameworks for prudential regulation, supervision, and resolution, as well as the lender of last resort and public backstop function.

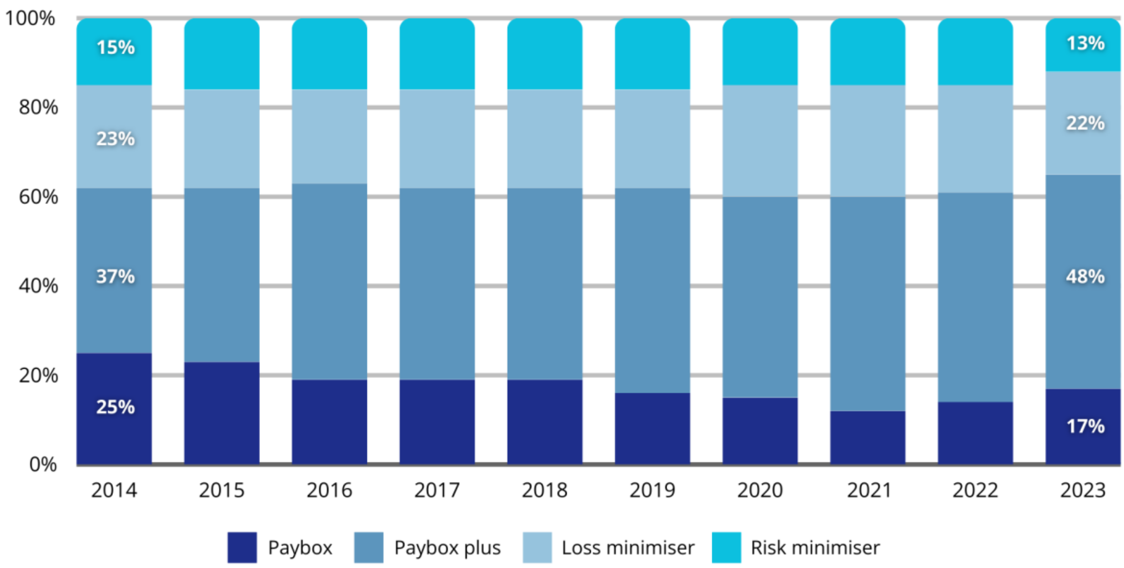
Snapshot of deposit insurance around the world

The following offers an overview of the current state of global deposit insurance by looking at some selected features of deposit insurance systems. These are informed by an annual IADI survey of deposit insurers which has produced insights for the last decade. Graphics presented leverage significantly from the VIDA – the IADI data visualisation tool, which was enhanced in its 2024 release.[1] The snapshot also draws from trends identified in the IADI publication of December 2023 titled *The 2023 banking turmoil and deposit insurance systems: Potential implications and emerging policy issues.*[2]

Deposit insurers' mandates

The past decade has witnessed a global trend of deposit insurers' mandates being expanded significantly. On a global scale (see Figure 1), the share of paybox deposit insurers, whose task is mostly limited to premium levying and reimbursing depositors, has fallen from 25% to 17%. Conversely, the share of deposit insurers with a paybox plus mandate, where the deposit insurer has additional responsibilities in resolution beyond reimbursement such as contributing to financing, operationalising, and/or decision-making in resolution, continues to grow significantly in prevalence.[3]

Figure 1 – Deposit insurers' mandates over time



Source: IADI Annual Survey and VIDA (2023)

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[1] VIDA has undergone considerable quality assurance and consists of approximately 80% of the full global dataset. VIDA is available to IADI members via the IADI Data Warehouse – https://www.iadi.org/en/research/data-warehouse/

[2] IADI (2023).

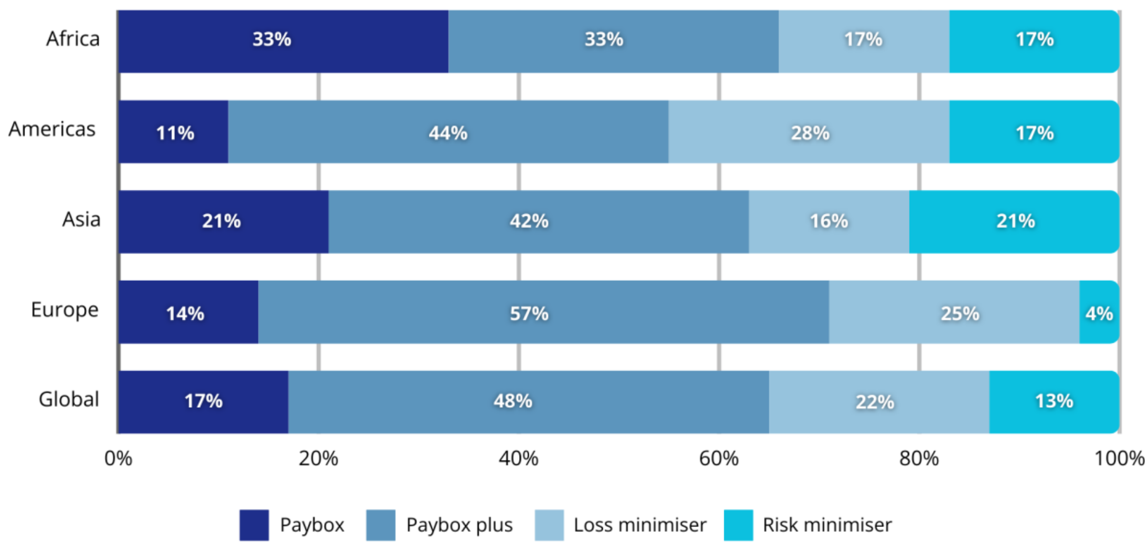
[3] Yearly totals in Figure 1 may not necessarily add to 100 due to rounding.

In the past decade, the share of paybox plus deposit insurers has grown from 37% to 48%. When combined with loss and risk minimisers, whose mandates explicitly recognise the involvement in resolution[4], paybox plus deposit insurers constitute 83% of all deposit insurers in 2023 compared to 75% in 2014. This broad expansion of deposit insurers' role in resolution is well-established in recent years.

Considerable regional variance in deposit insurers' mandates persist.

Although it is clear that the relatively narrow paybox mandate is diminishing in prevalence, there is considerable regional variance (see Figure 2). Paybox deposit insurers remain particularly relevant on the African continent and – to a lesser extent – in Asia. Whereas the relevance of deposit insurers with a resolution function as loss or risk minimisers is well above-average in the Americas, this share is even higher (75%) in the North America sub-region. In Europe, risk minimiser deposit insurers remain an exception (4% only).

Figure 2 – Deposit insurers' mandates by region



Source: IADI Annual Survey and VIDA (2023)

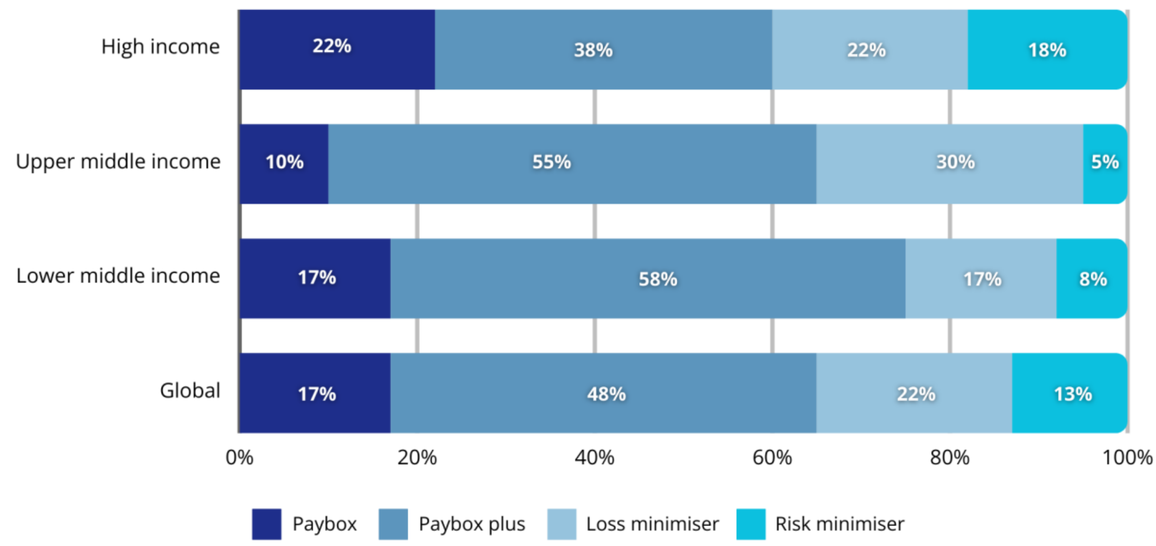
There is some evidence that deposit insurers' mandates relate to the state of economic development in their jurisdictions.

There are indications that support the assertion that advanced economies sustain deposit insurers with a broader mandate. There is some evidence that, when measured through World

[4] Loss minimiser deposit insurers actively engage in a selection from a range of least-cost resolution strategies. Risk minimiser deposit insurers have comprehensive risk minimisation functions that include risk assessment and management, a full suite of early intervention and resolution powers, and in some cases prudential oversight responsibilities.

Bank country classifications by income[5] (see Figure 3), the higher the income category of economies, the more prevalent combined loss and risk minimising deposit insurers are.

Figure 3 – Deposit insurers' mandates by income category



Source: IADI Annual Survey and VIDA (2023)

Resolution

The role of deposit insurers in resolution decision-making continues to expand over time mainly driven by the increasing role of deposit insurers in funding bank resolution.

Notwithstanding the general broadening of deposit insurers' mandates, only one third of deposit insurers globally identify themselves as bank resolution authority. This is up from one quarter a decade earlier. The share of deposit insurers which have no input or responsibility in resolution has almost halved in the past decade (now only 18%, see Figure 4). As a result, the share of deposit insurers with an involvement in resolution has grown in the past decade from 67% to 82%.

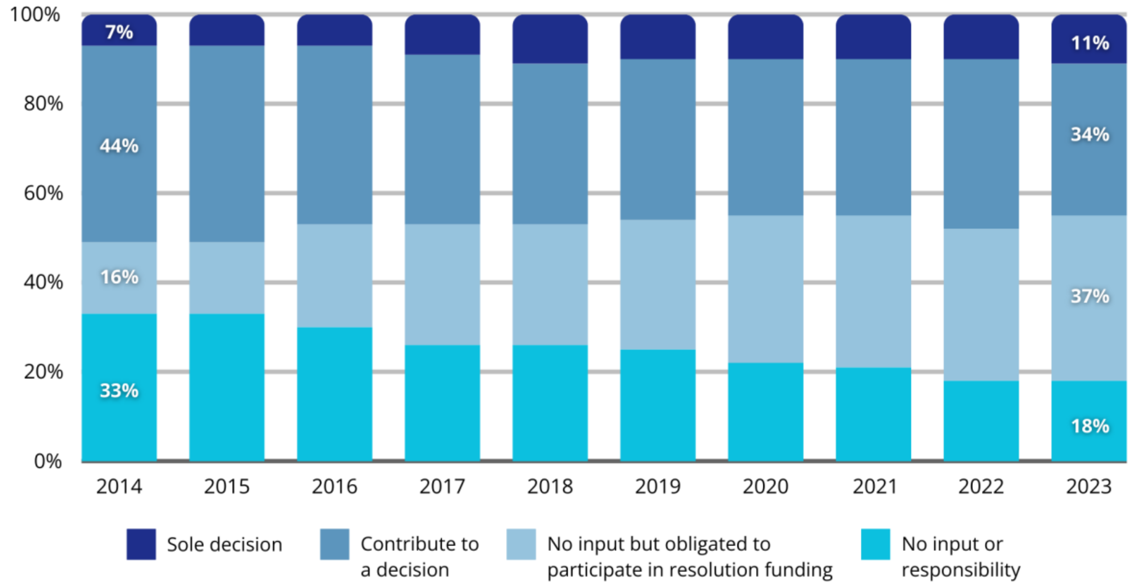
This increase has been instigated mainly by the growing relevance of deposit insurers that have no input but an obligation to participate in resolution funding. The share of this group has grown steadily (up 21 ppt[6] to 37%) throughout the last decade, which to a large degree goes back to European jurisdictions, where the 2014 BRRD legislation has introduced obligations for deposit insurers to contribute to the funding of bank failure management by

[5] For further information on World Bank country classifications by income: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

[6] 'ppt' is used throughout to denote percentage points.

the resolution authority.[7] As a result, the share of paybox plus deposit insurers in Europe is high (see Figure 2). The proportion of deposit insurers with sole decision-making power in enacting resolution activities remains very low (about 10%), which speaks to the important role of financial safety-net coordination.

Figure 4 – Role of deposit insurers in resolution decision-making
(in % of deposit insurers)



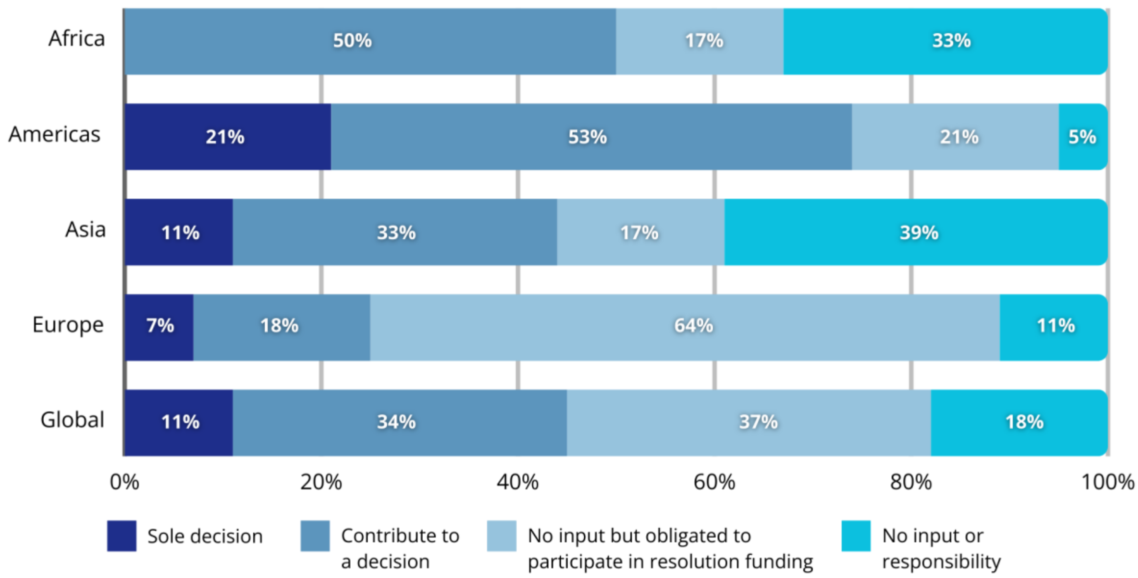
Source: IADI Annual Survey and VIDA (2023)

The role of deposit insurers in resolution varies significantly by region but is not primarily driven by economic development.

Given the significant differences in the institutional design of financial safety-nets, the regional relevance of resolution activities for deposit insurers differs (see Figure 5). In the Americas, deposit insurers are resolution decision-makers to a degree that is well above-average (21% vs 11% globally, while this share is significantly higher in North America). In Europe, deposit insurers stand out globally with a very high relevance of non-decision-making deposit insurers that contribute to the funding of resolution. The greatest proportion of deposit insurers with no involvement in resolution decision-making or funding are in Asia (39%) and Africa (33%).

[7] In accordance with the IADI Core Principles, this contribution by deposit insurers that are non the resolution authority is limited to the net costs of the payout counterfactual. In reality, the super-preference of deposit insurers in EU-laws governing the hierarchy of claims substantially reduces this net payout cost – and hence effectively caps the contribution of deposit insurers to the costs of resolution.

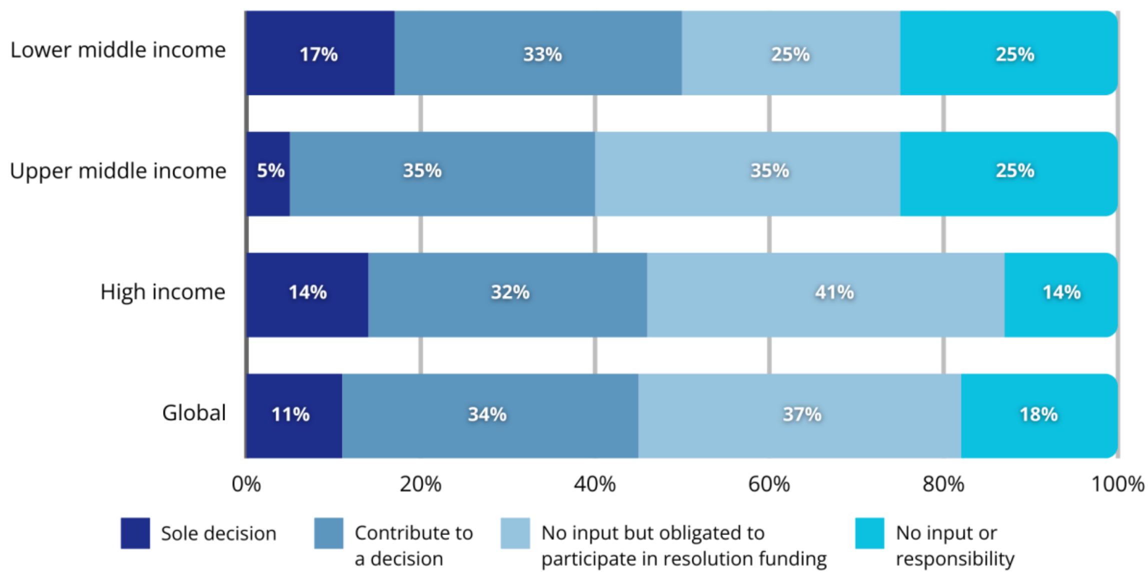
Figure 5 – Deposit insurers' role in resolution by region



Source: IADI Annual Survey and VIDA (2023)

There is little evidence to suggest that the level of economic development explains the role of deposit insurers in resolution funding and decision-making. Figure 6 illustrates no pattern of deviation from global averages on the basis of income categories.

Figure 6 – Deposit insurers' role in resolution by income category

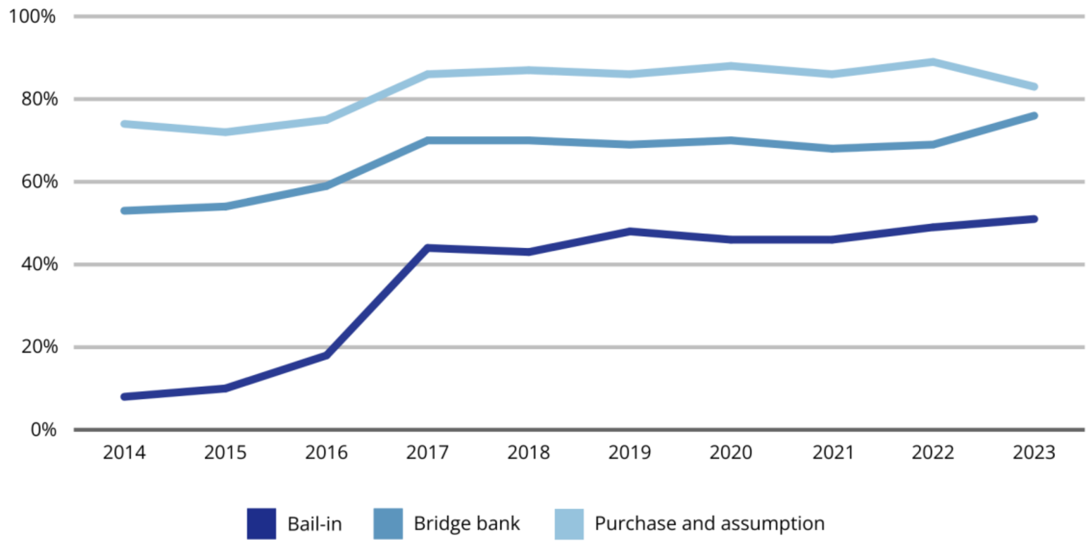


Source: IADI Annual Survey and VIDA (2023)

In addition to the growing involvement of deposit insurers in resolution, the resolution toolbox available to authorities has evolved over time.

Adjacent Figure 7 illustrates the increasing availability of three of the major resolution tools (bail-in, bridge bank, and purchase and assumption) in jurisdictions' safety-nets. Notably, and likely a result of the development of a resolution standard for systemically important banks by the Financial Stability Board, following the 2008 Global Financial Crisis that provides for bail-in as a resolution tool, the availability of bail-in has increased from a negligible base a decade ago to availability in approximately half of all jurisdictions globally. Availability in high-income jurisdictions is at 71%.

Figure 7 – Resolution tools available over time
(in % of jurisdictions)



Source: IADI Annual Survey and VIDA (2023)

A considerable expansion has also been observed in the availability of bridge bank powers (up 23ppt over the last decade to 76%), which can be combined with other resolution strategies such as subsequent purchase and assumption (available in 83% of jurisdictions) once a suitable buyer is identified. IADI survey questions concerning the availability of resolution tools are targeted at the jurisdiction level. Hence, any given resolution tool might not necessarily be available to the deposit insurer, but to other financial safety-net participants, such as the resolution authority, supervisor and/or central bank.

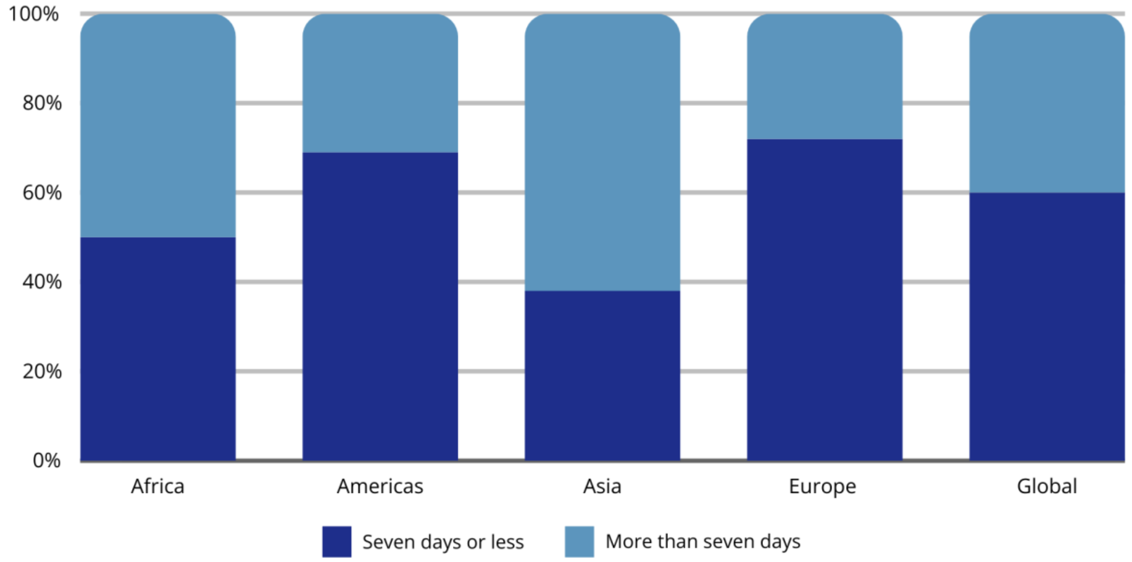
Reimbursement

Prompt reimbursement by deposit insurers is a key component of the IADI Core Principles, and while significant challenges remain, a considerable improvement in reimbursement practices has been observed globally.

The reimbursement of insured depositors is a core responsibility of the deposit insurer. The IADI Core Principles for Effective Deposit Insurance Systems provide in Core Principle 15 that "the deposit insurer is able to reimburse most insured depositors within seven working days". Even though for a number of deposit insurers, meeting this standard remains a challenge, a considerable improvement in the speed of reimbursement by deposit insurers is observed globally.

The share of deposit insurers commencing reimbursement within seven days has consistently grown over the last decade, from just over 30% in 2013 to approximately 60% now.[8] Importantly, findings differ by region, ranging from 70% of European deposit insurers to 40% of Asian deposit insurers commencing payout within seven days (see Figure 8).

Figure 8 – Days to begin payout by region



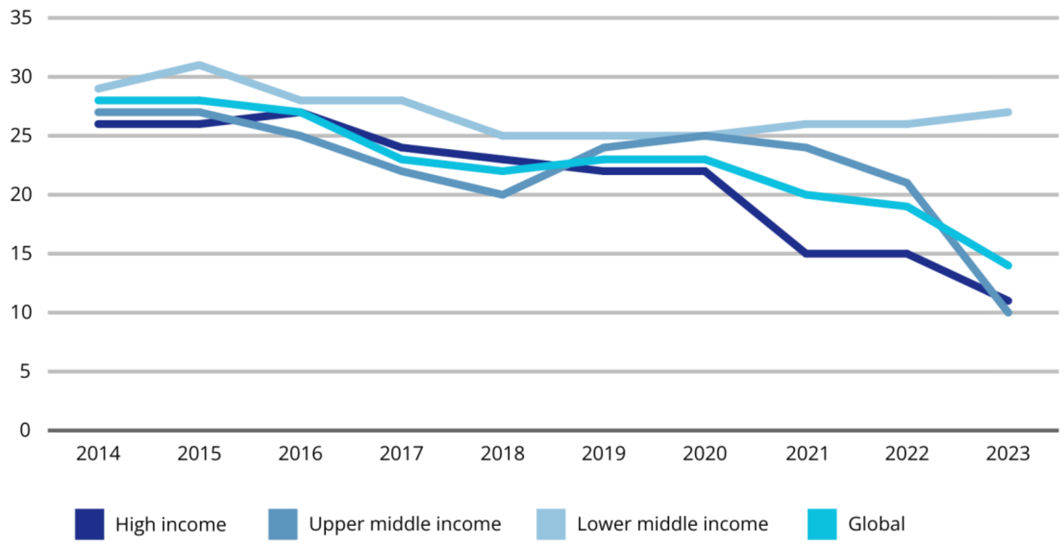
Source: IADI Annual Survey and VIDA (2023)

As Figure 9 illustrates, the average number of days needed for deposit insurers to commence reimbursement processes has been continuously declining in the past decade. On a global scale, this number has decreased by 50% from 28 days in 2014 to 14 days in 2023. An even

[8] IADI (2023a)

stronger improvement is observed in upper middle-income jurisdictions (-64% to 9.5 days in 2023) and high-income jurisdictions (-58% to 11 days in 2023). Although unweighted average numbers of days to commence reimbursement may bias the analysis somewhat, the fact that these averages across all regions are above the 7 days referred to in the IADI Core Principles illustrates that efficient reimbursement remains a challenge in general. This holds true in particular in lower middle-income jurisdictions, where improvements in the past decade have been modest (-6% to 27 days in 2023).

Figure 9 – Average number of days to commence reimbursement process by income category



Source: IADI Annual Survey and VIDA (2023)

In an actual bank failure, several factors may impede fast reimbursement by the deposit insurer, including[9]:

- Poor availability and quality of information on deposits or depositors;
- Depositors lacking an alternative bank account; and
- Issues with the identification of depositors.

Based on a 2023 IADI study of 32 reimbursement cases that occurred between 2016 and 2021[10], more than 75% of insured depositors were reimbursed within seven working days in 41% of cases. In half of the cases, more than 75% of insured deposits were accessible within seven working days.

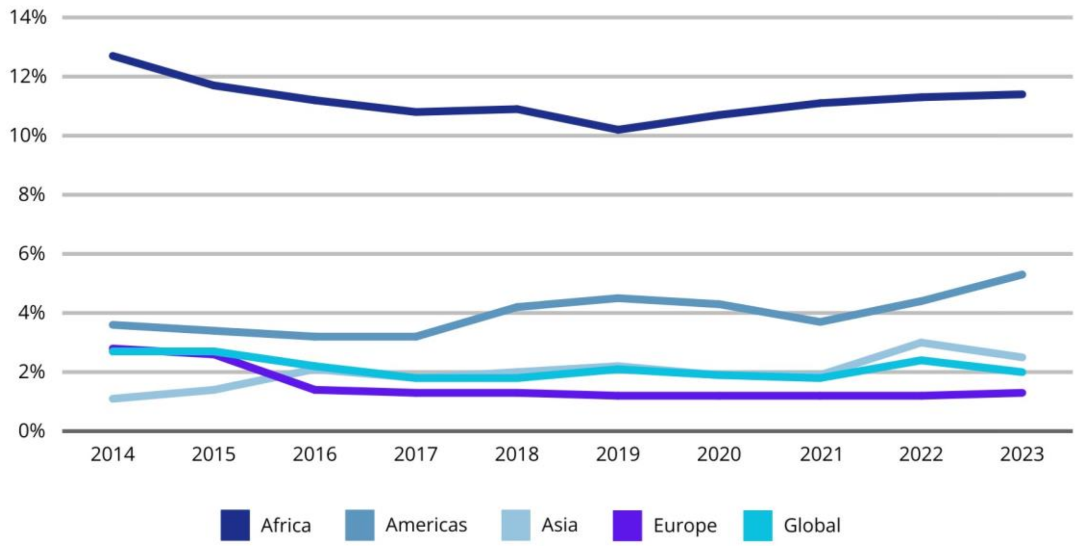
[9] Idem
[10] IADI (2023b)

Funding

Long-run funding trends for deposit insurers have not changed significantly. Deposit insurers continue to be funded mostly ex-ante, and to a considerable degree, premiums are risk-based. With few regional exceptions, relative fund sizes have not altered substantially.

Funding of deposit insurance overwhelmingly continues to occur on an ex-ante basis (96% of surveyed jurisdictions) by levying premiums on member institutions. Largely unchanged in recent years, approximately half of deposit insurers levy differential premiums which incorporate additional risk measures and thus price risk on a more granular basis. In 2010, this share was 30%. The average size of deposit insurance funds (measured in USD equivalent) has doubled from 2.6 to 5.2 billion USD over the last decade.

Figure 10 – Fund size
(in % of covered deposits)



Source: IADI Annual Survey and VIDA (2023)

On a global scale (see Figure 10), median fund sizes of deposit insurers expressed as a share of covered deposits have remained in the vicinity of 2% for the last decade.[11] Africa has some of the largest funds by this measure, generally exceeding 10%. European funds are the lowest by this measure, reflecting the 0.8% minimum target set out in European law.[12] Asian fund sizes (2.5%) are of a comparable size and more similar to European data. Fund sizes on the American

[11] Trend measure presented in the adjacent chart is a symmetric five-year moving average with numerous end point corrections to eliminate any temporal phase shift.
[12] Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes, Art 10(2),

continent have grown markedly since 2021 to reach 5.3% in 2023. Both growth and absolute fund sizes are highest in Latin America (10.3% in 2023) and in the Caribbean (6.4% in 2023). In both North America and Europe, relative funds sizes since 2016 have changed very little. Differences in fund sizes may reflect a number of factors. Mandates by deposit insurers differ considerably across regions and jurisdictions, as do the default probabilities of member institutions within the deposit insurance system. Institutional arrangements also play a role. As an example, resolution funds may co-exist with deposit insurance funds (e.g. in the European area). All of these variables directly impact the size of funds deemed adequate by the deposit insurer.

As a global median, deposit insurers hold funds that are close to 80% of their target fund levels (see Figure 11). Ratios are considerably inferior in lower middle-income jurisdictions. One third of deposit insurers may access backup funding through private markets (e.g. through borrowing), whereas 76% may mobilise funds by members. Three out of four (75%) deposit insurers report having access to a public backup funding facility with the government and/or the central bank (see Figure 12). Backup funding with governments is more widespread (62%) than with central banks (44%). One in four (27%) deposit insurers have access to backup funding by development banks or international organisations.

Figure 11 – Fund to fund target ratios (F2FT)

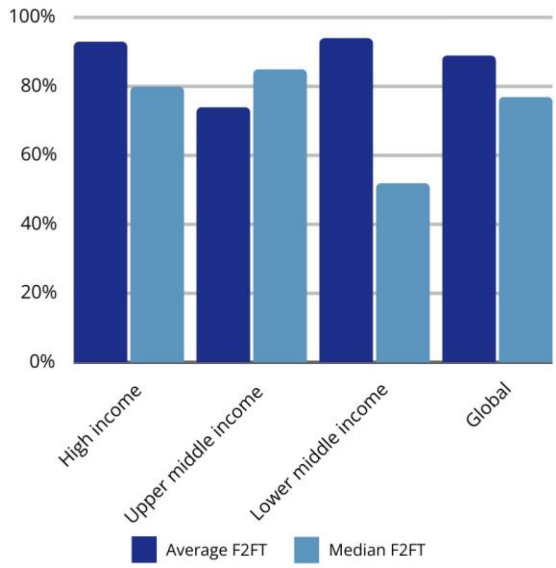
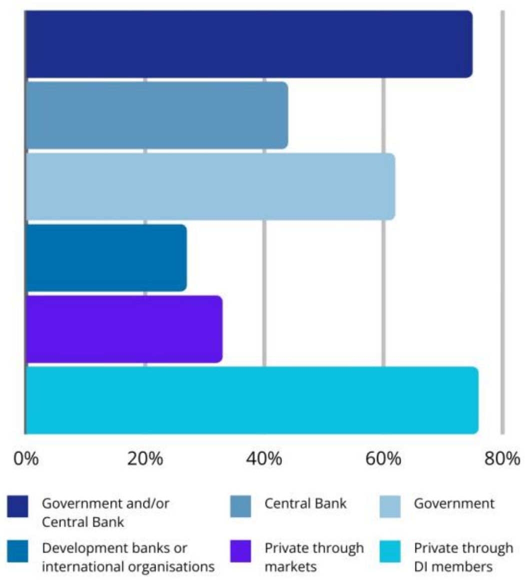


Figure 12 – Public and private backup funding for deposit insurers



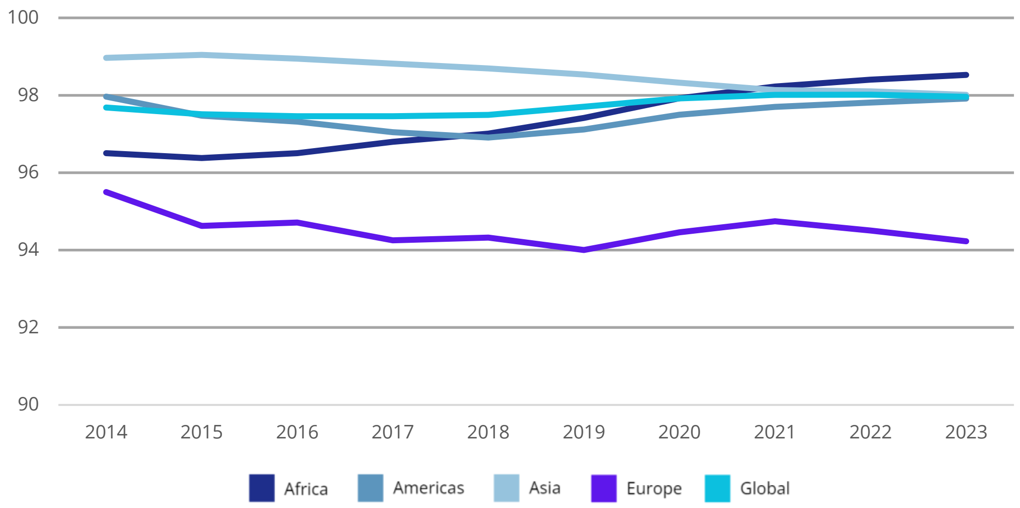
Source: IADI Annual Survey and VIDA (2023)

Coverage

IADI Core Principle 8 on coverage differentiates between coverage of depositors and of deposits. It prescribes deposit insurance coverage to be "limited, credible and cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline".

Coverage of depositors has been consistently very high globally during the past decade. Across all regions, coverage ratios on a by-account and by-depositor basis are very high (see Figure 13).[13] This suggests that almost all accounts and depositors are fully covered by deposit insurance at a global level. It is only accounts with very high balances that are potentially exposed to incurring losses in the event of a failure.

Figure 13 – Coverage ratio per account by region (trend)



Source: IADI Annual Survey and VIDA (2023)

Trends on global aggregate deposit coverage are mixed and depend on the measure applied. In high-income jurisdictions in particular, a decade-long decrease in the coverage by total value of deposits can be observed.

Coverage can be expressed via numerous measures, all of which zoom in on different underlying dynamics (see Figures 14 and 15). Expressed as a multiple of nominal GDP per

[13] Trend measure presented in the adjacent chart is a symmetric- five-year moving average with numerous end point corrections to eliminate any temporal phase shift.

capita[14], the global median has increased by 6% in the past decade to now 3.3 times GDP/capita (see Figures below). This increase took place notably in upper middle-income jurisdictions (+15%) and with paybox plus deposit insurers (+20%).

Figure 14 – Coverage limit (multiple of GDP per capita) by income category

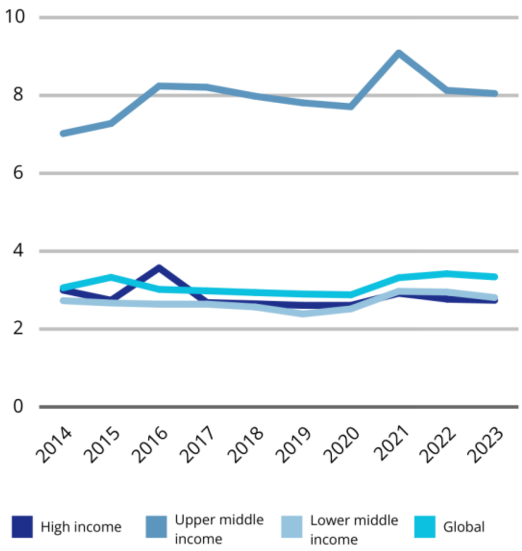
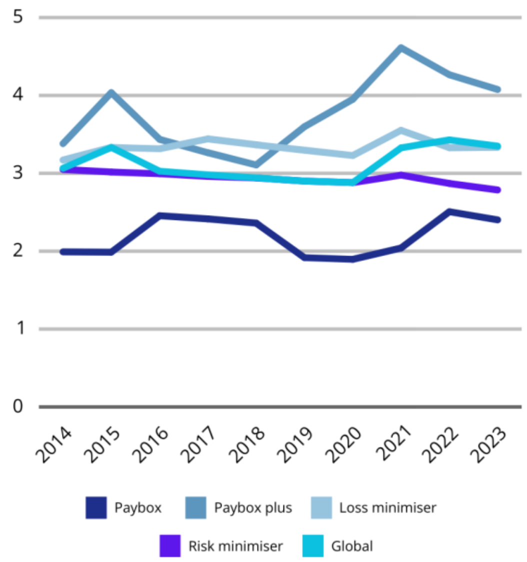


Figure 15 – Coverage limit (multiple of GDP per capita) by mandate



Source: IADI Annual Survey and VIDA (2023)

Another perspective on coverage is given in terms of the percentage of the value of deposits that is fully covered by deposit insurance. In the past decade, this global coverage ratio fell by 6.5% (or 3.3 ppt) to 47% in 2023 (see Figure 16). This trend was particularly strong in high-income jurisdictions (-17.3% or -11.5 ppt), even though this group maintains the one with the highest coverage ratios (55%). These coverage ratios are markedly lower in upper middle income (43%) and lower middle income jurisdictions (30%). A regional perspective of changes in coverage ratios confirms this picture (see Figure 17).[15] Starting from a high level, declines in coverage ratios in the past decade were pronounced in Europe (-14.6% or -9.8 ppt) and North America (-12.3% or -7.8 ppt)[16]. In Asia (-13.9% or -7.2 ppt) and to a lesser degree in Latin-America (-8.7% or -4 ppt) similar trends – starting from lower coverage ratio levels – were observed.

[14] Nominal GDP is used rather than real GDP as it enables the effects of inflation to be stripped away. Hence changes in the ratio can be mostly attributed to coverage adjustments and growth in the nominal size of an economy.
[15] Due to a lack of sufficient data, the Africa region has been omitted and coverage ratios in Latin America are displayed starting 2016.
[16] Data on North America excludes the cooperative sector with blanket coverage.

Figure 16 – Coverage ratio by income category

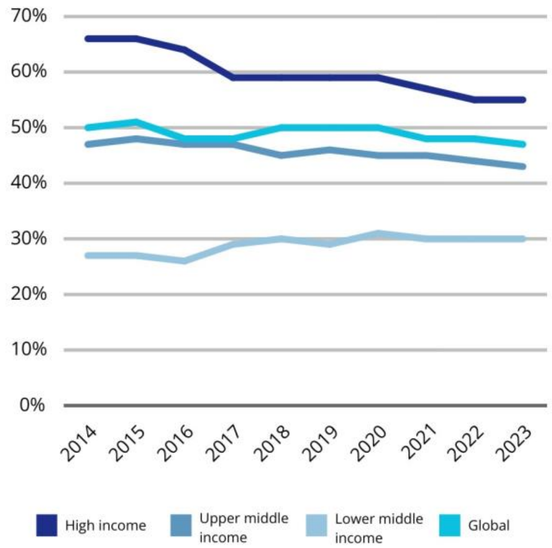
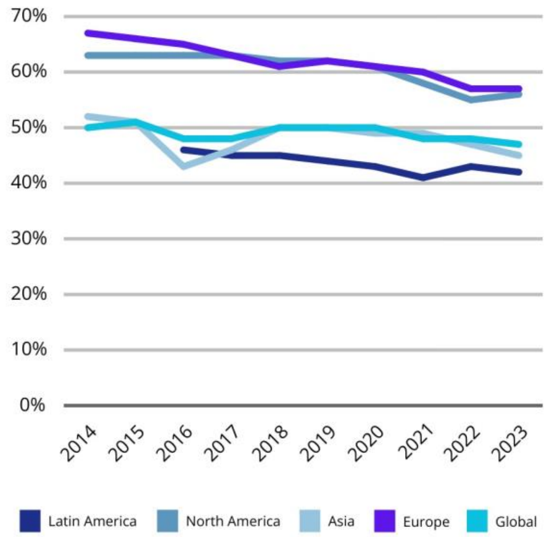


Figure 17 – Coverage ratio by region



Source: IADI Annual Survey and VIDA (2023)

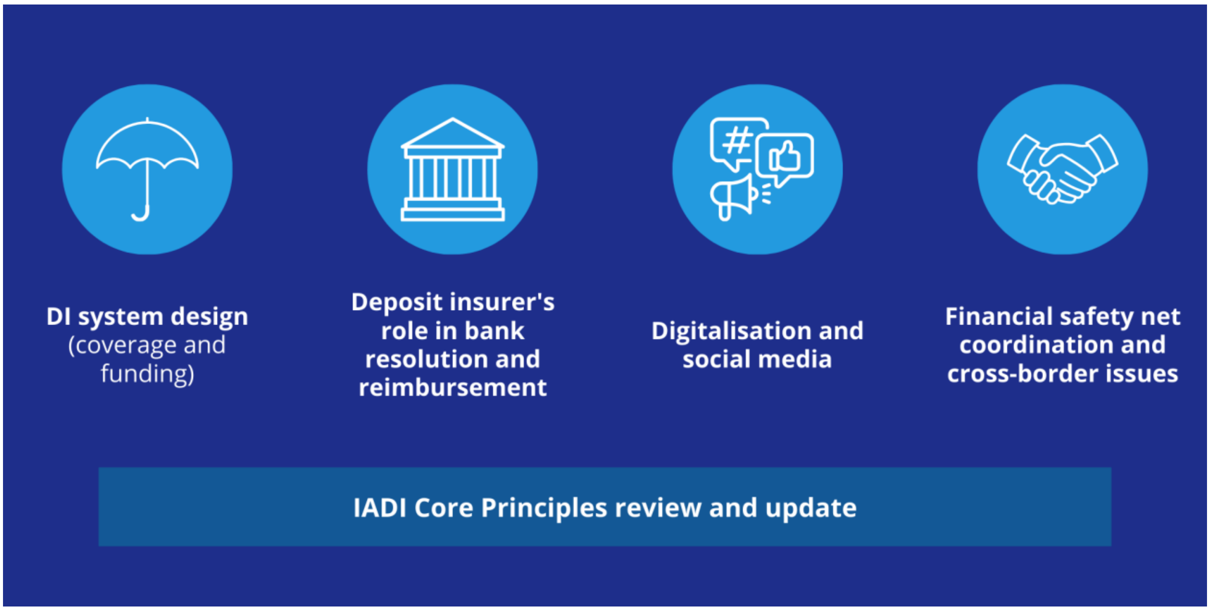
Key issues for deposit insurers in 2024

This report identifies four categories of issues of significant importance to deposit insurers globally in 2024 which correspond to those identified in the IADI publication of December 2023 titled *"The 2023 banking turmoil and deposit insurance systems: Potential implications and emerging policy issues."*[17] They have also been identified to inform the review of the IADI Core Principles and accompanying Handbook which forms the centrepiece of the 2024 work programme.[18]

The key 2024 issues cover:

1. Deposit insurance system design (coverage and funding)
2. Deposit insurers' role in bank resolution and reimbursement
3. Digitalisation and social media
4. Financial safety-net coordination and cross-border issues

Figure 18 – Global key issues for deposit insurers in 2024

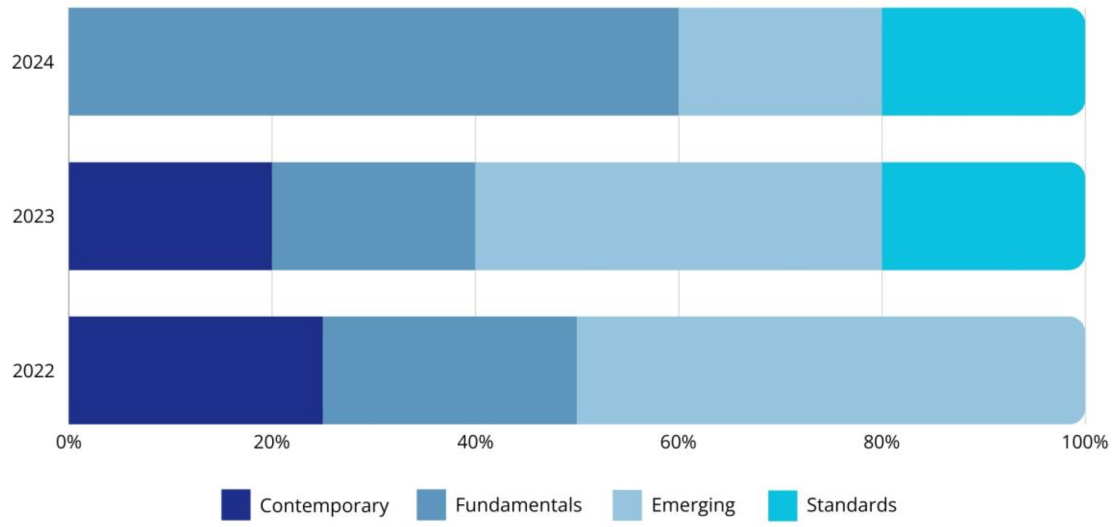


As compared to corresponding reports published[19] by IADI in the last two years, the key issues identified in this report demonstrate a upweighting of the core issues of deposit insurance. In past years, greater focus was placed on contemporary issues such as the implications of

[17] IADI (2023)
[18] For more details see: https://www.iadi.org/en/about-iadi/iadi-2024-work-priorities/
[19] IADI (2023a); IADI (2022)

COVID-19 (2022)[20] and the macroeconomic environment (2023)[21]. Emerging topics such as fintech and digitalisation remain relevant in this year but are increasingly treated as factors affecting fundamental issues of deposit insurance such as coverage or reimbursement.

Figure 19 – Trends in IADI global key issues



Source: IADI Trends Report

Key issue 1: Deposit insurance system design (coverage and funding)

Deposit insurance system design has received renewed focus following the bank failures occurring in 2023. Particular focus has been placed on coverage and funding.

- ***Coverage.*** The 2023 bank failures have fuelled discussions about coverage levels and currently, several jurisdictions are undertaking a review of their coverage levels due to recent events. Coverage is assessed in light of the two public policy objectives of deposit insurers – protecting depositors and contributing to financial stability.[22] IADI data shows an overall global decrease in coverage ratios (see page 16).
  However, coverage ratios cannot be considered in isolation, but also need to take account of moral hazard risks, the direct financial costs of higher coverage to member institutions and eventually society, the availability of alternatives to reimbursements in resolution, including the availability of any additional loss absorbing capacity; as well as the principles guiding deposit insurers in selecting bank failures tools, such as "least cost" tests. These issues are very jurisdiction-specific. Moderate increases in coverage may have only limited effects on high-value deposits.

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[20] IADI (2022)
[21] IADI (2023a)
[22] These are articulated in the IADI Core Principle on Public Policy Objectives – see IADI (2014).

- ***Funding.*** The degree of coverage extended by deposit insurance has an impact on the funding needs of the deposit insurance system. Insufficient funding may negatively influence the credibility of deposit insurance and hence financial stability. Access to backup sources of funding – including public (central bank and treasury), private (extraordinary premiums and via market funding) and from international organisations – is a crucial element in such deliberations as ex-ante funds are at risk of being substantially depleted during periods of sustained financial sector stress. Pre-authorisation and formalisation of access by the deposit insurer to such sources of funding is a necessary precondition to ensure prompt access to such funds, maintain market confidence, predictability in resolution decision-making, and minimise political interference. Differential premium systems may play a role in managing moral hazard risks if their design features are incentive-consistent (considering, for example, the share of uninsured deposits at individual banks and the availability of loss-absorbing capacity).

Key issue 2: Deposit insurers' role in bank resolution and reimbursement

Recent bank failures have highlighted the relevance to financial stability of bank failure management measures that allow for continued access to both insured and uninsured deposits. Such measures can contribute to limiting contagion effects which can cause an idiosyncratic bank crisis to gain systemic dimensions. Given the trend of expanding deposit insurers' mandates, their growing involvement in resolution and the increasing availability of non-payout resolution tools (see pages 6-8), further research is needed on how the interaction between deposit insurers and bank resolution authorities can be further improved. This includes the role of early intervention measures and the involvement of deposit insurers therein, where these measures are to restore the viability of an ailing bank.

In numerous jurisdictions and circumstances, non-payout measures may not be available as a resolution tool. In such cases, the IADI Core Principles demand for a swift reimbursement of most depositors within seven working days. Given technological innovation, fast payment and 24/7 banking, depositors may expect faster payouts or quasi uninterrupted access to their funds. It is therefore important for deposit insurers to further accelerate reimbursement and work towards addressing any obstacles to swift reimbursement.

Key issue 3: Digitalisation and social media

Digitalisation comes with risks and opportunities to deposit insurance. Innovation and digitalisation of finance come with efficiency and convenience gains, and may change both depositor behaviour and the way banking services more generally are provided. It is of vital interest to the deposit insurance community to anticipate the potential impact of digital innovation on financial stability, bank intermediation and bank business models. Amongst others, this relates to digital public and private currencies (central bank digital currencies, tokenised deposits and stablecoins), but also to social media and artificial intelligence, which may impact on deposits as a bank product and hence on deposit insurance systems.

Digitalisation can also be a helpful tool for deposit insurers to fulfil their mandates. Deposit insurers require a strong empirical foundation to effectively monitor their member institutions, price the risks they pose, and to appropriately prepare for resolution and swift reimbursement. Recent technological developments allow for datasets (e.g. on deposit flows) to be compiled and updated at unprecedented speed and facilitate detailed breakdowns. These developments underscore the importance of cybersecurity, data governance and data powers by the deposit insurer so as to ensure that access and usage is safe and meets business needs of the deposit insurer.

Key issue 4: Financial safety-net coordination and cross-border issues

To be efficient, deposit insurance systems must work in synergy with the frameworks for prudential regulation, supervision, and resolution, as well as the lender of last resort and public backstop function. These elements of the financial safety-net are mutually interdependent and hence require a holistic approach to financial stability. Cooperation, coordination, and information sharing among financial safety-net participants during "business-as-usual" times as well as in crisis need to be underpinned by an explicit framework and subject to periodic testing. This is all the more important given the increasing role of deposit insurers in resolution.

As a consequence of increasing cross-border activity by banks, the complexity associated with financial safety-net coordination has grown. This calls for additional efforts by both deposit insurers and other financial safety-net participants.

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