



IADI

International Association of Deposit Insurers

Questions on the Design of a Deposit Insurance System

Summary of Responses

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Foreword

The Research and Guidance Committee of the International Association of Deposit Insurers undertook some investigations into the design of deposit insurance systems and the factors surrounding their introduction in a number of countries. Questions were developed and responses were received from Argentina, Brazil, Canada, Hungary, Jamaica, Japan, Jordan, Korea, Mexico, Philippines, Russia (ARCO), Trinidad and Tobago and the U.S.A. This paper summarizes the responses and it is hoped that the information included here will provide helpful guidance to policy makers interested in establishing deposit insurance arrangements as an integral part of a banking financial safety net.

On behalf of the Research and Guidance Committee, I would like to thank all those individuals who contributed to the development of our findings.

George Hanc
Chair, Research and Guidance Committee

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Overview

The Research and Guidance Committee of the International Association of Deposit Insurers formulated a series of questions dealing with the establishment and design of deposit insurance systems. The questions were answered by deposit insurers in a number of countries and the responses are summarized below. It is our hope that this research will provide helpful guidance to policymakers wishing to establish a deposit insurance system or reform their deposit protection arrangements.

Thirteen deposit insurance systems represented on IADI's Research and Guidance Committee responded to the questionnaire on the design of a deposit insurance system.¹ As is evident from the replies detailed below, these systems vary greatly in size, mandates and powers, and operations.

They also differ in terms of the time-span of their existence. The newest deposit insurance system represented in the sample of replies is that of Jordan, which was established in 2000, while the oldest continuously operating system (since 1934) is the FDIC in the U.S. Other countries have other important milestones. Argentina's deposit insurance system was reestablished in 1995; previously, an implicit deposit insurance scheme administered by the central bank was established in 1946, made explicit in 1977, and discontinued in 1994. Russia's system was limited, at the time of the survey, to the institutions managed by the Agency for Restructuring Credit Organizations (ARCO). Since that time, after a long study, legislation to establish a federal deposit insurance system was adopted in Russia. These historical notes illustrate an important point also treated by this survey: in many cases the establishment of a deposit insurance system is the beginning of an evolutionary process, which may in time change the operations of the deposit insurance system substantially.

1. Situational Analysis of Conditions when the Deposit Insurance System was Established

At the outset of the report it would be useful to indicate when, why, and under what conditions deposit insurance was established in your country. In different countries, adoption of deposit insurance may have resulted from a banking crisis, from privatization of state-owned institutions, or from other circumstances. These conditions generally had an important influence on the particular design features that were adopted.

Most of the countries adopted deposit insurance in response to, or following, periods of banking distress. However, the severity of the banking problems varied considerably, as did the timing of action on deposit insurance in relation to the timing of banking system distress. For example, adoption of a federal deposit insurance system in Canada followed, not a full-blown crisis, but the failure of several second-tier institutions and the prospect that a number of provincial governments might proceed to establish deposit insurance systems. Establishment of the FDIC, on the other hand, occurred in the midst of the worst economic

1. Argentina, Brazil, Canada, Hungary, Jamaica, Japan, Jordan, Korea, Mexico, Philippines, Russia (covering the institutions managed by ARCO - the Agency for Restructuring Credit Organizations), Trinidad and Tobago, and the U.S.A.

and financial crisis in U.S. history. Banking problems of “crisis” magnitude also occurred in Argentina, Brazil, Japan, Korea and Mexico. However, in other cases, the adoption of deposit insurance came after the economy and banking systems had stabilized, often through the efforts of government-sponsored bank restructuring programs (Hungary, Jamaica, and Jordan). In Hungary’s case, bank failures occurred in the wake of liberalization of a state-run economy and the banking system, while in most other countries macroeconomic forces precipitated bank failures, thereby uncovering weaknesses in the banking and bank regulatory systems.

The replies to this question illustrate that deposit insurance may be adopted under widely different circumstances. The economic and financial climate at the time of adoption may be only one of the factors responsible for the successful launching of a deposit insurance system. Other actions preceding or accompanying the adoption of deposit insurance—the disposition of insolvent institutions (often with government financial support), improvements in supervision, and an enhanced legal system—may be equally or more important.

2. Mandates and Powers

The report of the Financial Stability Forum’s Working Group on Deposit Insurance pointed out that the mandates and powers of deposit insurance systems vary widely. “Paybox” systems are generally confined to reimbursing depositors when a bank is closed. On the other hand, a “risk-minimizing” deposit insurer may (depending on the country) have the authority to control entry and exit from the system, assess and manage its own risk, conduct bank examinations or request such examinations, and undertake enforcement and failure-resolution activities. Briefly describe (in one or two paragraphs) the mandate and powers of your deposit insurance system. To the best of your knowledge, what factors/considerations/analyses were influential in important decisions on the mandate and powers?

In general, the objectives of deposit insurance systems cited by the respondents are broadly similar—promote financial stability and confidence in the banking system, protect unsophisticated depositors, and provide a mechanism for the orderly disposition of failed institutions. The response from the Philippines also cited the objective of attracting idle funds (hoarded currency) into the banking system. Not all countries would word these objectives in the same way or give individual objectives the same emphasis.

The powers individual deposit insurance systems are authorized to meet these objectives differ widely. Brazil operates a “paybox” system that guarantees credits held against a member institution in cases of insolvency or bankruptcy. Some other countries describe their systems as being close to a paybox system because their primary function is to reimburse depositors when the supervisory authority closes a bank. Deposit insurance systems in some countries are also authorized to participate, along with the supervisory authority and the central bank, in intervention designed to prevent the failure of an insured institution or to resolve a failure when it occurs.

Some systems may best be described as risk-minimizing systems because they have more extensive powers to assess and limit their risk—access to examination data from the supervisory agency, direct access to information from insured institutions, or authority or some influence over decisions to grant or terminate deposit insurance. As indicated in a later section, a number of systems are responsible for, or participate in, the resolution of failed institutions and some have receivership/liquidation powers to dispose of the assets and settle the claims of failed institutions.

The “more than paybox” powers vary greatly and may be illustrated by a few examples of intervention, risk-minimizing, or supervisory powers.

- Argentina’s deposit insurance system can provide capital or credit in bank restructuring initiatives and carries out swap programs with foreign banks.
- Canada has as one of its objectives of promoting the stability of the financial system in a manner that minimizes exposure to loss to the deposit insurance system. It can pursue these objectives through requests for information, communications of concerns, special and preparatory examinations, assessing premium surcharges, taking action to terminate insurance, petitioning for winding-up of a troubled institution, providing financial incentives to resolve failing institutions, and obtaining an order to vest the assets or shares of a member institution in the deposit insurance system for a restructuring.
- Hungary’s deposit insurance system, in agreement with the supervisory authority, may provide capital or credit on a least-cost basis to prevent insolvency.
- Jamaica’s deposit insurance system may make inquiries and recommendations to the Ministry of Finance with regard to a member institution that appears to be in distress, and can arrange for a restructuring of a failed institution in its capacity as receiver/liquidator.
- Japan’s deposit insurance system, directly or through its subsidiaries, may collect non performing loans, provide financial assistance to troubled institutions, serve as financial administrator for failed bank, operate bridge banks, take legal action against executives of failed banks, and undertake on-site inspections when ordered to do so by the Prime Minister.
- Jordan’s deposit insurance system may inspect a member bank jointly with the Central Bank and may undertake enforcement and resolution actions after the bank’s license has been revoked by the central bank.
- In Korea the deposit insurance system may require insured institutions to provide information to assess and collect premiums, request the supervisor to examine an institution or conduct a joint examination, provide assistance to institutions threatened with insolvency, and to recover funds provided to such institutions through liquidation proceedings.

- Mexico’s deposit insurance system may execute financial assistance programs. It administers assets and liabilities derived from the 1995 financial crisis and the conclusion of financial support programs and has the power to act as liquidator of failed banks.
- In the Philippines, the deposit insurance system may provide financial assistance to an institution in danger of closing (or to an acquirer of such institution) when it deems the institution to be “essential” in the provision of bank services or the stability of the economy.
- In Trinidad and Tobago, the deposit insurance system may recommend to the central bank the closure of an institution, provide guarantees to a failing bank, and serve as receiver/liquidator of a closed institution.
- In the U.S.A, the FDIC has full examination, supervisory, regulatory, and enforcement powers over nearly 5,000 state-chartered banks that are not members of the Federal Reserve System. In addition to safety and soundness, it is also responsible for examining these institutions for compliance with consumer protection and fair lending laws. The FDIC is responsible for resolution and receivership operations for all insured banks and savings institutions.

The wide variations in powers result from a number of factors. As already noted, some deposit insurance systems were recently organized and a grant of extensive powers would have involved either duplication or a transfer of authority from the supervisor or the central bank. In some cases, troubled banks were restructured or disposed of before the deposit insurance system was established so that there is little relevant bank failure experience to indicate whether the powers of the deposit insurance system are adequate in light of its mandate in periods of banking distress. A small number of insured institutions and limited human resources were also cited as reasons for restricting the powers of the deposit insurance system. The broad powers of the FDIC may be regarded as an outgrowth of the dual federal-state system of bank chartering (licensing). When the federal government undertook to protect depositors it decided that a federal agency should have supervisory authority over state-chartered banks that were regulated solely by state authorities and the FDIC was assigned the task.

3. Governance.

Briefly describe the governance system in your country. For example, is the deposit insurer a private organization, government entity or some combination thereof? Is it part of another entity (central bank or supervisor) or separate? How are members of the governing board selected? How would you characterize the “independence” of the deposit insurer? To the best of your knowledge, what factors/considerations/analyses were influential in important decisions on governance?

The deposit insurance systems in Argentina and Brazil are private-sector entities. As noted above, Argentina’s previous forms of deposit insurance system were operated by the central

bank. The reply from Brazil indicated that the decision to have a private corporation serve as the deposit insurance system was part of a more general privatization program and was motivated by a concern that a government entity might imply blanket guarantees.

All of the remaining respondents represented public-sector corporations or agencies. In most cases, the deposit insurance system has a legal status that implies some independent position within the public sector. At the same time, government, central bank, or other banking agency officials serve as *ex officio* members of the governing bodies and other members may be appointed by government agencies or may be approved by the legislature. Jamaica replied that this governance structure reflected a desire to avoid the possible moral hazard effects of a purely government entity and the potential conflicts of interest in a private sector deposit insurance system. The combination of legal separateness or independent status and government board membership appears to be an attempt to balance the independence of the deposit insurance system and its ultimate accountability to government.

In Russia, the Agency for Restructuring Credit Organizations (ARCO), an agency of the Russian Federation, has provided deposit insurance for the five banks under its management. As noted earlier, legislation has been enacted to establish a federal deposit insurance system in Russia.

4. Relations with Other Safety-Net Participants

Legal or other institutional structures. Do other safety-net participants sit on the deposit insurer's governing board or otherwise have the authority to participate in the insurer's decision-making process? Are the deposit insurer and other safety-net participants members of some other governing body designed to ensure cooperation in policies and activities? If so, in what kind of policies and activities? Are the inter-relations among safety-net participants set forth in statute, by formal agreement, or by tradition?

Information sharing. What kind of information on insured banks (for example, audited statements, examination reports, risk and performance data) can the deposit insurer require from the banks or the supervisor? What kind of information on insured banks can the deposit insurer request from the supervisor? If the deposit insurer requests certain information, is the supervisor required to respond (either positively or negatively) within a specified time period?

Participation in supervisory activities. To what extent, if any, does the deposit insurer participate in examinations of insured banks, analyses of the risk characteristics of individual banks or the banking industry, enforcement actions against banks or bank personnel, and intervention in the activities of troubled banks?

To the best of your knowledge, what factors/considerations/analyses were influential in decisions on relations with other safety-net players?

In public-sector deposit insurance systems, cooperation and exchanges of information between the deposit insurance system and other safety-net players are accomplished mainly by the membership of other safety net players on the deposit insurance system's governing body. In Korea, however, the Ministry of Finance and the Economy has by law certain powers over the deposit insurance system, including approval of the budget of the deposit insurance system and any changes in its articles of incorporation and may make recommendations to the President of Korea regarding the appointment of the deposit insurance system president.

In the private deposit insurance systems of Argentina and Brazil the insured institutions are heavily represented on the governing bodies. In Argentina, however, decisions with regard to intervention and resolution are made by a steering committee headed by a representative of the central bank who has veto power over its decisions. In Brazil, a monetary council that has responsibilities for monetary control, foreign exchange policy, and financial institution operations makes decisions with respect to premium rates and fund levels.

Other examples of coordinating bodies are found in other countries. In Canada, committees of officials of the deposit insurance system and the supervisory authority have been formed to facilitate and provide a forum for consideration of all matters of mutual interest. In Jamaica a statutory committee composed of representatives of the central bank, deposit insurance system, ministry of finance, and supervisory authority has been established to facilitate information sharing and to coordinate regulatory policy. In the U.S. the various banking agencies are members of a council whose mission is to promote consistency and progress in federal examination and supervision and to prescribe uniform principles,

standards, and reporting forms and systems, and make recommendations in the interest of uniformity. Inter-agency groups and other mechanisms for coordination exist in Mexico and other countries.

Information sharing is one of the vital areas in the relationship of the deposit insurance system and other safety net players. The types of information to be shared may be specified by law, formal agreement, or informally. Canada, for example, has a legislated requirement to exchange all information between the deposit insurer and the supervisor.

The information needs of paybox systems are generally limited to information required for the calculation of insurance premiums, investment decisions, and for the reimbursement of depositors in the event an insured institution fails. The information needs of risk-minimizing insurers, however, are more extensive. Deposit insurance systems with risk minimizing powers generally have access to financial statements and other reports of the insured institutions. An important issue concerns access to the results of on-site examinations that produce information on the institution's condition not otherwise available. In most countries, the supervisory authority or central bank has the responsibility for conducting on-site examinations. The access of the deposit insurance system to examination reports or critical data from such reports differs among the countries represented in the survey.

Most of the deposit insurance systems represented in this survey do not have general supervisory authority, but have the authority to request certain actions or information from the supervisor. In Canada, the deposit insurance system has access to all supervisory information by Statute and may examine, or use an agent to examine, an insured institution when there is concern about the institution's soundness and when the deposit insurer may be exposed. In Hungary, the supervisor is legally required to inform the deposit insurance system if a member institution's solvency ratio falls below 50 percent of the minimum requirement so that the deposit insurance system may consider preventive action or prepare for a possible payout. In Jamaica, the deposit insurance system is entitled upon request to receive copies of examination reports. In Jordan, subject to the central bank's consent, the deposit insurance system may jointly participate in its examinations. In Mexico, the supervisor is required by law to inform the deposit insurance system of the condition of an institution where there is a prospect that intervention may be required. In Korea, the deposit insurance system may investigate an institution deemed by the deposit insurance system's governing body to be threatened by insolvency, request the supervisory authority to conduct an examination and provide the results, or conduct a joint examination. In the U.S., the deposit insurance system examines banks for which it has regulatory responsibility and regularly receives examination information for other insured institutions. In addition, it has back-up examination authority, under certain circumstances, to examine banks it does not supervise.

5. Membership and Coverage

Is membership in the deposit insurance system compulsory? How are decisions made as to whether a particular institution will be granted membership? Who has the authority to terminate insurance? What is the coverage limit (in U.S. dollars) per depositor per bank? Is

there coinsurance and, if so, on what terms?² Who has the authority to make changes in coverage limits and have they kept up with inflation? What types of deposits and depositors are covered? To the best of your knowledge, what factors/considerations/analyses were influential in determining the initial coverage limit and any subsequent changes?

Deposit insurance is legally or effectively compulsory for institutions that accept retail deposits in all countries represented in this survey. The motive for making insurance mandatory is to avoid adverse selection, whereby the strongest institutions withdraw from the system, which is left to insure only the weakest. In most cases deposit insurance is automatically granted to any institution that has received a license from the supervisory authority, central bank or other responsible party. Separate decisions for granting insurance are made in Canada and the U.S.A. Deposit insurance is generally terminated when the licensing authority revokes the institution's license or the institution is closed. In the U.S. and Canada, the deposit insurer has authority to take action to terminate deposit insurance. In Jamaica insurance may be revoked by a joint decision by the deposit insurance system and the central bank that an institution is or is about to be insolvent. In the Philippines, the deposit insurance system may revoke insurance for nonpayment of premiums.

With respect to coverage limits, respondents from a number of the newer deposit insurance systems referred to international comparisons, the percentage of depositors fully covered, or the ratio of the coverage limit to per capita GDP in describing their particular coverage levels. It appears that such measures may have provided a basis for coverage decisions when these systems were established. Among the older funds, the U.S. limit as established in 1934 was equivalent to the then-existing maximum deposits in the U.S. postal savings system. It was shortly increased to insure more large depositors and has since been periodically increased, mainly in response to inflation. Mexico is transitioning to a limit whose level has been set with regard to that of the U.S., its principal trading partner. Of the countries represented in the sample only Hungary has adopted coinsurance. Countries seeking to join the European Union are also mindful of the prospect that they will be subject to EU coverage rules.

Changes in coverage levels require action by the legislature in most cases. In some countries -- for example, Brazil, Jamaica, and Trinidad and Tobago -- increases can be made by the minister of finance or some other government body, in response to inflation or foreign exchange depreciation. In Mexico coverage limits are indexed for inflation.

Membership in the deposit insurance system is typically designed to include all institutions that offer deposit services, with some exceptions. Both in Jamaica and the U.S. credit union deposits are insured by a separate entity. The Korean deposit insurance system insures deposit instruments in a wide variety of institutions and businesses -- banks, securities companies, insurance companies, merchant banks, mutual savings banks, and (until 2004) credit unions. Membership is mandatory for all financial institutions that offer deposit products and are licensed to do business in Korea.

2. Coinsurance refers to an arrangement whereby depositors are insured for a pre-specified portion, less than 100 percent, of their deposits.

With respect to types of depositor protected, the newer deposit insurance systems tend to exclude deposits of other banks, other financial institutions, government bodies, and officials and others connected with failing banks. Older deposit insurance systems tend to be more inclusive, as is also true of countries that are in the process of transitioning from blanket to limited protection.

6. Funding

Is the deposit insurer funded ex-ante or ex-post? If ex-ante, is there a required or target fund ratio? If there is a required target ratio, how was it determined? What happens if the fund drops below the required/target ratio? Does the deposit insurer have the authority to borrow from the public, from the government? If from the government, at government or private sector rates of interest? Are insurance premium rates specified in statute, or does the insurer have some discretion? Are there provisions for refunds or rebates if the insurance fund is "too high?" Are premium rates uniform for all banks, or graduated according to risk? If risk based, how is the risk posed by different banks measured? Which safety net organization assigns risk classes to individual banks for purposes of risk-based premiums? To the best of your knowledge, what factors/considerations/analyses were influential in decisions on funding?

Most deposit insurance systems represented in this survey engage in *ex ante* funding, using premium and other income to provide resources to meet possible future insurance losses. However, Canada's funding arrangements have both *ex ante* and *ex post* features, in that the deposit insurance system makes a general provision for losses, which represents an estimate of the potential cost associated with insuring the members of the system, and maintains a surplus in addition. In Mexico, the deposit insurance system uses 25 percent of its premium income to meet expenses and add to a fund for possible future losses and 75 percent to service the debt assumed by the deposit insurance system from the financial crisis of 1995; the latter use may be regarded as *ex post* funding of past bank failures.

In the U.S., the collection of premiums from the safest banks is prohibited by law when an insurance fund is above 1.25 percent of insured deposits; premiums would be collected from these institutions if the fund is pushed below that level as a result of insurance losses and/or growth of insured deposits. These provisions reflect a long-standing concern in the U.S. about balancing the need for an adequate fund and concern that the fund might become too large and unnecessarily divert funds from insured institutions. A number of other countries have targets for their funds; if these targets are reached premiums may be suspended. Outside of the U.S., however, this is not an immediate concern in most cases.

Most countries have the authority to borrow funds to meet emergencies or smooth the flow of premium income over the cycle. However, sources of funds and interest rates on such borrowings differ. Brazil's private deposit insurance system is prohibited from borrowing from public sources. Canada's deposit insurance system is a federal government entity and must pay a credit enhancement fee to the federal government when it needs to borrow for liquidity purposes either from the financial markets or the federal government. Mexico's deposit insurance system must pay market rates on its borrowings, while in the U.S. such borrowings would be at essentially the rate paid by the government on its borrowings.

Most countries responding to the survey charge flat rate premiums uniform for all insured institutions of the same type. In Korea all banks pay premiums at the same rate, but this rate differs for other types of institutions that offer deposit instruments. Canada and the U.S charge differential or risk-based premiums. In Argentina, the central bank may charge different rates to individual institutions based on risk but the additional assessment may not exceed the normal premium. While a number of countries

indicated a preference for risk-based premiums, they believe that differential premiums are not practical at present because they are engaged in building up their insurance funds, a process that generally requires payment of substantial premiums by all institutions, including the safest. Some believe that charging the weaker banks premiums fully commensurate with the risk they pose might also cause more failures.

7. Transition from Blanket to Limited Coverage

Some countries have completed, or are in the process of completing, transitions from 100 percent coverage for all depositors and creditors—usually adopted in response to a banking crisis—to a system of limited coverage. Such transitions involve a number of important decisions—whether the transition should be on a “fast track” or proceed gradually; how to deal with the fact that protection for depositors and other creditors is being reduced; how to determine that the banking industry, regulatory system, legal and accounting regimes are sufficiently strong; and whether to reduce coverage of all accounts simultaneously or temporarily grandfather some account types.

Committee members whose countries have undergone, or are undergoing, transitions from blanket to limited coverage are asked to describe briefly what decisions were reached on the issues indicated above or other important issues and what factors/circumstances/analyses were influential in making these decisions.

Blanket guarantees have existed in Hungary, Jamaica, Japan, Korea, and Mexico among other countries. In Hungary’s case, the transition was from a centrally planned to a market economy, from centralized, state-owned banks to a privatized system, and from full protection to an explicit, limited system of deposit insurance. In other countries, banking systems were threatened by economic and financial crises that led to the adoption of blanket guarantees.

A relatively rapid transition occurred in Jamaica where blanket guarantees were adopted in January 1997 and replaced by limited coverage in August 1998. Hungary’s transition was largely completed by the end of the 1990s and that of Korea in 2001. In Japan full protection for current, ordinary, and specified deposits is scheduled to continue until March 2005, but limited coverage has applied to other deposits (including time and installment; savings deposits) since April 2002. Mexico is in the process of a six-stage transition, which is scheduled to end on January 1, 2005, and has two phases—the gradual elimination of types of bank obligations that are no longer insured and the gradual reduction in coverage levels. Decisions on the pace of transition are generally made on the basis of judgments as to the strength of the banking system; the pace of improvements in bank supervision, disclosure requirements, and the legal system; and the dangers of moral hazard. Reductions in coverage are generally accompanied by public awareness campaigns. The response from Mexico

indicates that by the end of the transition it is expected that banks will comply with international standards of capital adequacy and risk-management best practices.

8. Public Awareness and Communication Strategies.

Communicating with the public to ensure that depositors are aware of the main design features of a deposit insurance system is crucial at all times, but particularly important when major changes are made such as the initial establishment of the system, during transitions from blanket to limited coverage, when banks fail, or when major design changes are made.

Members whose countries

experienced such major changes are requested to describe briefly any special public awareness initiatives undertaken in response to these changes. All members are asked to describe briefly the main public awareness instruments utilized on a recurring basis (e.g., advertising, outreach, and seminars).

All of the respondents make an effort to inform the public about deposit insurance but they differ greatly in terms of the intensity and extensiveness of these efforts. In some cases, the dissemination of information is largely confined to information on the insurer's web site or to the distribution of booklets and an annual report. In other cases, the deposit insurance system utilizes a variety of channels, including web sites, telephone "hot-lines", publications, training programs for bank employees, seminars and other outreach efforts, and an interactive tool to provide the individual depositor information on his/her coverage.

Among the programs cited by respondents is a multi-year campaign under way in Canada and surveys to document the extent of public awareness of deposit insurance. In the U.S., in addition to providing information on deposit insurance, the FDIC has programs to provide information on consumer rights and the disclosures due consumers under applicable law and has developed a training program used by banks and other organizations to enhance the money skills of adults outside the financial mainstream. Jamaica has outreach programs for Jamaicans who reside in other countries. Changes in deposit insurance rules generally require intensified efforts to inform the public. This is particularly true in countries that have moved from blanket to limited coverage.

9. Participation in the Disposition of Failed Institutions

Briefly describe the role of the deposit insurer in the disposition of failed banks, as prescribed in statute or agreement. Does the insurer have the authority to participate in deposit payout transactions, merger or sale of failed banks, or open-bank assistance? Does the deposit insurer have the authority to participate in receivership activities, such as the sale of failed-bank assets or the settlement of claims?

In reimbursing insured depositors, does the deposit insurer pay depositors primarily on the basis of the failed banks' own records or on the basis of claims submitted by depositors? Based on the statute or agreement, does the insurer have access to the names, identification

numbers (if any), and amounts of account balances of depositors? Based on statute or agreement, is such information available to the insurer before the bank fails or is closed? If not, how soon after the bank is closed? Are there legal or institutional impediments (for example, bank secrecy laws) that inhibit prompt access by the deposit insurer to needed information?

All deposit insurers have the responsibility of reimbursing, or arranging for the reimbursement, of insured depositors when an institution fails. Reimbursement is generally accomplished using the failed bank's own records, although depositors may also be required to file claims. In some cases (Brazil, Jordan, and the Philippines, for example) bank secrecy laws preclude access to the bank's deposit records until the institution is closed.

In most countries represented in this survey the deposit insurance system plays some role in the resolution of failed institutions by means other than a deposit payout. Some countries also have receivership powers and thus are responsible for liquidating the assets of the failed bank and settling its claims (Jamaica, Jordan, Mexico, Philippines, Trinidad and Tobago, and the U.S.)

Resolution methods include mergers, purchase-and-assumption transactions, and open-bank assistance. Canada, Hungary, Japan and the U.S. also have bridge bank arrangements, allowing the temporary ownership or control of the failed institution in order to preserve its value, explore resolution alternatives and allow potential bidders more time to examine its operations. Choices among resolution methods are generally made on the basis of cost estimates with the least-costly method being chosen. "Least cost" may have somewhat different meanings in different countries. In some cases, it is the "least costly of all possible methods," while in others it signifies less costly than a deposit payout.

10. Revisions in the Design

What are the most important issues facing deposit insurance in your country? What changes in the design features do you regard as most important to the continued effectiveness of your deposit insurance system? How would such changes enhance the effectiveness of your system? What are the main obstacles to the achievement of such changes?

As noted at the outset, the design of a deposit insurance system is frequently an evolutionary process. Many of the countries represented in this survey are contemplating or actively seeking changes in their powers. The single most frequently mentioned change is the adoption, or the study, of differential or risk-based premiums (Brazil, Hungary, Jamaica, Jordan, Korea, Mexico, and Trinidad and Tobago). However, a number of countries indicated that differential premiums may not be feasible at the present time because the need to accumulate an insurance fund requires substantial premiums from all institutions or that the banking system may be too fragile.

A number of countries mentioned broader resolution powers, including earlier access to information needed for a payout. In the Philippines, amendments to the law are being sought to increase coverage, restore examination powers to the deposit insurance system, provide prompt corrective action powers, and strengthen the immunity of deposit insurance system

personnel from civil, criminal, and administrative liability. The most comprehensive change was the recent adoption of deposit insurance in Russia. In the U.S. the FDIC seeks legislation to merge its present two funds, provide greater flexibility in managing the size of the combined fund and charging risk-based premiums, index coverage limits, and provide higher limits for retirement accounts.