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The Role of Deposit Insurance in Financial Crisis Resolution

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BELIZE

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ABSTRACT

Since the early 90's, more than 40 countries have adopted an explicit deposit insurance scheme. This paper considers the rationale for adopting these schemes and examines the varying design features and relative advantages and disadvantages of each type of scheme. Although the designs of these schemes vary considerably across countries, the primary motivation for its adoption is to protect depositors and promote financial stability.

The paper briefly discusses alternate crisis management tools, in addition to deposit insurance, that are available to policymakers. While there are several techniques for managing financial crises, the speed in which these methods are employed is the most important principle for reinforcing systemic stability.

This paper discusses the role of deposit insurance in financial crisis management. The financial crisis highlights flaws in the design and operation of the UK scheme following the run on Northern Rock. In particular, the UK scheme's low level of coverage and co-insurance provision did little to promote confidence among depositors. Public awareness of the benefits provided by the deposit insurer plays a vital role in advancing the financial stability objectives of any scheme. However, this important design feature is often overlooked as evidenced from the UK and others.

Observing the effectiveness of deposit insurance in light of the crisis offers insight with respect to the design of existing schemes. Examining the performance of deposit insurance should provide caution to policymakers considering the adoption of a deposit insurance scheme. Empirical evidence suggests that the introduction of deposit insurance to institutionally weak environments increases the likelihood of a financial crisis. Meanwhile, the practical experience of the UK and other countries indicate that poorly designed deposit insurance schemes do not contribute to financial stability and may actually make a crisis worse.

Generally, sweeping changes to 'improve' the schemes in response to the crisis should be measured as deposit insurance schemes were never designed to tackle widespread systemic crises.

1. INTRODUCTION

The global crisis has brought about many changes to the financial services sector, with governments taking on an increasingly greater role. Policymakers are forced to redirect scarce resources from national projects of equal importance in order to stabilize financial sectors. This proves very costly and disruptive, especially so to developing countries. For instance, Demirgüç-Kunt (2000) established that as measured by the increased debt generated in the crisis year, fiscal costs incurred in the 1997-1998 Asian crisis exceeded 30 percent of Gross Domestic Product (GDP) in Thailand and Korea and 50 percent in Indonesia (Kunt et al, 2002). This measure is brought into perspective when we consider that between the late 1970's to 1999, at least 16 countries in Latin America and the Caribbean have experienced a systemic crisis.

More recently as a result of the sub-prime implosion which originated in the US, countries have had to contend with the global crisis which, in some estimates has destroyed between 40 and 45 percent of the world's wealth[1]. It is against this backdrop and with revived discussion of regional economic integration that policy makers are revisiting the role and effectiveness of safety net participants, in particular deposit insurance, as it relates to financial stability and crisis resolution[2].

Encouraged by the lack of failures among large institutions following the US's adoption of deposit insurance in the 1930's, policymakers believed that deposit insurance was a low cost way of preventing banking crises. Although this belief has been dispelled by the US savings and loans crisis in the 1980's, some modern day theorists support and encourage countries to adopt deposit insurance as a means of promoting financial stability, among other reasons. Case in point, establishing explicit deposit insurance guarantees has become a principal feature of policy advice on financial architecture that outside experts give to counties undergoing reform (Garcia, 1999). Additionally, in 1994 deposit insurance became the standard for the

[1] Statement by Steven Scharzman CEO of private equity firm Blackstone Group LP, '45 percent of worlds' wealth destroyed: Blackstone CEO', Reuters 10 March 2009.

[2] In the context of this paper deposit insurance refers to an explicit deposit insurance which involves the creation of a deposit guarantee scheme by law, with specific rules concerning the extent of the protection, the operation and funding of the scheme, and the type of depositors protected.

newly created single banking market of the European Union, while the International Monetary Fund (IMF) endorses a form of deposit insurance, albeit limited, in its code of best practices (Kunt et al, 2000).

These recommendations have been embraced, as the number of countries offering explicit deposit guarantees has grown substantially from 12 in 1974 to 71 in 1999 (Figure 1), with more than half of the schemes adopted in the mid to late 90's alone (Table 1). The ubiquity of deposit insurance schemes gives the impression that designing and operating these systems is quite easy (Table 2). However, a study of empirical data paints a different picture. As Demirgüç-Kunt and Kane (2002) found, the presence of explicit deposit insurance schemes tends to increase the probability of a banking crisis. Further evidence suggests that the introduction of deposit insurance schemes into institutionally weak environments tend to increase the probability of systemic banking problems. In their deliberations, policymakers considering the adoption of deposit insurance schemes would greatly benefit from such findings.

This paper looks at the effectiveness of existing deposit insurance schemes in fulfilling its mandates of promoting financial development and contributing to stability. The paper examines the role of deposit insurance in financial crisis resolution and highlights the key design considerations of deposit guarantee schemes.

By providing general and objective definitions of banking crises, section one depicts the financial landscape or operating environment within which deposit insurance is most likely to be utilized. This section then goes on to discuss in brief various tools which are available to supervisors for banking crisis management.

The second section discusses the motivation for implementing deposit insurance schemes, namely to enhance the stability of the banking system and protect retail depositors from incurring large losses due to bank failures. This section examines the characteristics by which deposit insurance differs and delineates the relative advantages and disadvantages of each design[3]. Section two underlines that

[3] Considerable portions of Section II are based on "Core Principles for Effective Deposit Insurance Systems"; a voluntary framework for effective deposit insurance practices which was the result of a collaborative effort by Basel Committee on Banking Supervision and International Association of Deposit Insurers' "General Guidance for Developing Differential Premium Systems".

deposit insurance by itself is not designed to stop a bank from failing, nor is it meant to solely bear the costs of resolving a systemic crisis.

The final section examines the role of deposit insurance in financial crises, with particular focus on the effectiveness of the United Kingdom deposit insurance scheme following the run on Northern Rock.

1.2 DEFINITION OF A BANKING CRISIS

Generally, banking crises are characterized by insolvency of a systemically important bank or several systemically important banks, which through contagion has the potential to disrupt non-bank financial or real sectors. Broadly defined, a banking crisis occurs when the stability of the banking system is threatened and is characterized by a run or widespread runs on deposits.

Demirguc-Kunt and Detragiache provides an objective definition of a systemic banking crisis as one in which: non-performing loans were at least ten percent of total assets; cost of rescue operations exceeded two percent of gross domestic product; banking problems resulted in a large scale nationalization of banks; or emergency measures, such as deposit freeze, prolonged bank holidays, generalized deposit guarantees were introduced.

During a banking crisis, depositors typically lose access to their funds, while would-be borrowers find that credit has dried up. In countries where banks are responsible for the majority of financial intermediation and serve as the primary source of funding for firms and individuals, the terms ‘financial crisis’ and ‘banking crisis’ are used interchangeably.

1.3 TOOLS FOR BANKING CRISIS MANAGEMENT

The success of targeted approaches to resolving financial crisis are largely dependent on the adequacy of legislation (legislative framework), the existence of formal procedures inclusive of implementation capability and enhanced supervision (early intervention techniques) and timely action by government (lender of last resort,

blanket guarantees). The choice of the specific technique used depends in part on the underlying cause of financial distress.

Although there are a number of different resolution techniques, Shich (2008) points out that the timely and quick resolution of failed insured institutions reinforces systemic stability and promotes public confidence in the banking system. As such, the key aspect of bank failure resolution is speed.

1.3.1 Legislative Framework for Resolution

Law and regulation should facilitate an orderly and timely exit of failing banks. In particular, bankruptcy procedures must be conducive to quick resolution efforts. In some countries, bank resolutions are covered under general bankruptcy proceedings. The US has developed specific regimes for banks as it relates to bankruptcy proceedings, which remove banks from the scope of normal corporate insolvency proceedings and gives the supervisor and deposit insurer greater powers.

1.3.2 Intervention Powers

The US's Prompt Corrective Action framework is perhaps the most widely recognized tool for early intervention. This system is a time bound compulsory and progressively harsh intervention technique that reduces the opportunity for regulatory forbearance. An effective early intervention system removes "constructive" ambiguity as it relates to measures that will be taken against institutions in the event of breach of regulatory thresholds.

1.3.3 Lender of Last Resort, Blanket Guarantee

Intervention by the Central Bank in its role as lender of last resort involves providing liquidity to avert the failure of a financial institution. Generally, lender of last resort facilities is only extended to sound institutions and must be collateralized. For transparency it is recommended that the lender of last resort publicly state its policy. Alternatively, governments may choose to issue a blanket guarantee on all bank

liabilities, including both deposit and non-deposit liabilities, to restore confidence in the financial system, as evidenced in the EU.

2. PURPOSE OF DEPOSIT INSURANCE

The principal policy objectives of deposit insurance are to protect depositors and to contribute to financial stability. The first objective relates to the presumed inability of ordinary depositors to assess and monitor on an ongoing basis the riskiness of the institutions that are holding their deposits. In this light, deposit insurance ensures the safety and liquidity of the deposits of those small depositors that can least afford losses, such as retail and small business.

The second objective is motivated by the view that the banking system is inherently fragile. This assertion is supported by looking at the banks' business model of funding long term illiquid assets with shorter term liabilities. The obvious conflict between the bank's roles in making illiquid loans versus providing liquid deposit accounts lends to financial instability and potential crisis should creditors, depositors in this case, withdraw funds en masse. As such, deposit insurance is thought to promote financial stability by eliminating bank runs through increased depositor confidence.

A welcomed benefit from deposit insurance is that it discourages regulatory forbearance of problem institutions. The existence of reserves, in conjunction with logical exit procedures, gives supervisors greater freedom to safely allow troubled institutions to fail without substantial loss to the mass of depositors.

It is important to note that deposit insurance, by itself, is not intended to deal with systemic crisis; that is the role of governments. In addition deposit insurance schemes were never designed to solely bear the costs of dealing with systemic failures. Rather it is an integral part of the financial safety net which includes prudential regulation & supervision and a lender of last resort (Figure 2).

2.1 TYPES OF DEPOSIT INSURANCE SCHEMES

Deposit insurance designs vary widely across countries. Generally, schemes are differentiated by the scope of the deposit insurer's authorization, insurance coverage, and the method of funding which includes such considerations as whether to fund the scheme before or after crisis, and calculation of premium or assessments to be paid by members. In general, schemes are managed in a government agency and membership is compulsory.

Even though policymakers may incorporate other relevant aspects and varying elements when designing schemes, the resonating theme for an effective deposit guarantee scheme is that[4]:

- The framework upon which a deposit insurance system is established should explicitly define its benefits, including insurance coverage and limits;
- There should be mandatory bank participation in the deposit insurance system;
- There should be clear mandates and defined roles and responsibilities for the deposit insurer, the regulatory and supervisory agencies, and the Central Bank (the agencies). Arrangements should include an accountability regime and close coordination and the free flow of timely information among the agencies;
- The deposit insurer should have well-defined funding mechanisms in place to quickly meet its obligations to depositors; and
- The public should be informed of the key elements of the deposit insurance system to instill confidence.

2.1.1 Mandates & Powers

Existing deposit insurers have mandates which range from narrow, referred to as "paybox" systems, to insurers with broader powers and responsibilities, such as loss or risk minimization/management, with a variety of combinations in between.

[4] International Research Journal of Finance and Economics: A Research on Designing an Effective Deposit Insurance Scheme by Okan Veli Şafakli and Erdal Güryay. Also promulgated by the Study Group on Deposit Insurance is a working group created by the Financial Stability Forum.

Paybox systems do not have prudential regulatory or supervisory responsibilities or intervention powers and are generally confined to paying the claims of depositors after a bank has been closed.

Risk-minimization/management insurance schemes on the other hand, have a relatively broad mandate and more powers. These powers may include the ability to: assess and manage its own risk; control entry and exit from the deposit insurance system, and conduct examinations of banks or request such examinations. In such cases, the deposit insurer is a part of the framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks. Some deposit insurers with extensive failure resolution powers include the United States, Japan, Canada and Korea.

Bestowing resolution or other powers on the deposit insurer promotes independence and reduces the chance of forbearance on the part of the regulator. However, such a move might be an unnecessary and oftentimes costly (human resource and monetary) duplication of prudential supervision.

2.1.2 Coverage

Coverage refers to the level and type of deposits that is guaranteed by the program. As coverage is perhaps the most evident indicator of perceived protection exhibited by a deposit insurance scheme, policymakers strike a balance by establishing realistic coverage limits which cover the vast majority of small depositors, while leaving larger institutional depositors exposed to market discipline.

Usually, the level of coverage is standardized by dividing the coverage level by per capita GDP. As a rule of thumb the IMF recommends a minimum coverage ratio of 2 times GDP, however, as noted in Figure 3 and Table 3, schemes vary widely in the amount of coverage. Generally, the majority of deposit insurance schemes do not provide coverage to foreign deposits of domestic banks, domestic deposits of foreign banks and interbank balances.

Relatively higher coverage limits may instill more confidence in depositors and add credibility to the fund thereby advancing the goal of the scheme. On the

other hand, too high of a limit may increase moral hazard by encouraging excessive risk-taking by depositors and deposit-taking institutions. In addition, a relatively higher coverage means relatively higher levels of reserves to fund payouts, resulting in larger contribution and an increased cost burden to participating institutions.

Conversely, low coverage contradicts the primary purposes of deposit insurance and may not be effective in instilling confidence in depositors and preventing bank runs.

2.1.3 Funding

In order to fulfill its mandate effectively, it is necessary that the deposit insurer either has adequate financial resources on hand or a funding mechanism whereby the required funds can be easily obtained. Financial resources are needed to cover the reimbursement of insured depositors should an institution fail; to cover operating expenses related thereto and for the resolving of a failed institution should the insurer have the responsibility for this.

(i) Ex-ante versus Ex-post

Deposit insurance schemes are funded by ex-ante premiums, ex-post levies or assessments or through hybrid arrangements which combine both types. Funding methods are unique, each with its relative advantages and disadvantages.

Similar to traditional consumer insurance to which the public is accustomed, ex-ante schemes are funded by its members through contributions, insurance premiums and other means in advance of a failure. Contrarily, ex-post schemes are funded only when an institution has failed, at which time member institutions are assessed and contribute.

Perhaps the greatest advantage of ex-ante funding is that it provides certainty and credibility as a result of the accumulation and maintenance of a fund to cover deposit claims and related expenses prior to a failure actually occurring (Campbell, 2009). It is no surprise then that roughly 80 percent of deposit insurance systems worldwide involve ex-ante funding.

When compared to an ex-post system, ex-ante funding has the relative advantage of spreading the cost of insurance losses over time. As the International Association of Deposit Insurers (2009) points out, ex-ante schemes contain an anti-cyclical feature and buffer for the industry; the fund continues to accumulate premiums during stronger economic condition, when losses may be low, as a hedge against future needs when economic circumstances may be less favorable and losses higher. As such, it avoids further weakening of the overall banking industry at the time of a failure.

Additionally, ex-ante systems are more equitable than ex-post, because all member institutions, including those that fail, will have helped to support the system financially through payments into the fund. An added benefit of ex-ante funding is that it allows policymakers the opportunity to implement differential or risk-based premiums in support of bank capital standards and discourage harmful risk-management practices by imposing a financial penalty to which management is accountable.

(ii) Premium Setting

Deposit insurers collecting premiums from member institutions usually choose between adopting a flat-rate premium or a risk-based system that seeks to differentiate premiums on the basis of individual-bank risk profiles.

Although flat-rate premium systems have the advantage of being relatively easy to understand and administer, they do not take into account the level of risk that a bank poses to the deposit insurance system and can be perceived as unfair in that the same premium rate is charged to all banks regardless of their risk profile. As such flat-rate deposit premiums provide no disincentive for an insured member to engage in unsound and risky activities. The typical flat-rate premium would lie in the range of an annual premium of .1 to .5 percent of insured deposits. However, in a few countries where the level of financial risk is high, annual deposit insurance premiums exceed 1 percent of the insured deposits such as in the Turkish Republic of Northern Cyprus (as of 2007).

Assessing members based on the risk they pose to financial system is more equitable and provides members an incentive to take a more prudent approach in risk management. A typical mechanism countries use to determine risk-based deposit insurance premiums is to impose a charge based on the percentage of the bank's non-performing loans. In addition to assessments based on quantitative factors, policymakers may employ qualitative means such as the institution's CAMEL rating based on on-site examinations[5]. In general, differential assessments require more resources and are more complex to develop and administer.

When a deposit insurance system is in its early phase of development, it is difficult to put necessary infrastructure in place. As such, the introduction of a differential premium system is usually deferred until the deposit insurance system is well established.

3. ROLE OF DEPOSIT INSURANCE IN FINANCIAL CRISIS

3.1 THE UNITED KINGDOM – NORTHERN ROCK

3.1.1 Background

In autumn of 2007, the financial crisis developing in the US hit the UK with sledgehammer force, resulting in a bank run - an occurrence not seen since the run on the City of Glasgow Bank in 1878. This time the victim was Northern Rock, a former building society based in the city of Newcastle in the north of England.

In the mid 1980's following the passage of new legislation, Northern Rock would transform from a building society to a bank and by 2006 had become the fifth largest mortgage lender in the UK. Northern Rock experienced tremendous earnings growth and as late as July 2007 the company announced a 16.5% increase in profits which led to dividend increase of 30%, all spurred by a 23% rise in lending (BBC News). This aggressive growth was the result of a change in Northern Rock's

[5] Under CAMEL, each bank is subject to an on-site examination and is typically evaluated on the basis of five common factors. These are Capital, Asset Quality, Management, Earnings and Liquidity. Each of the component factors is rated on a scale of 1 (best) to 5 (worst).

business model which saw the institution, at some point, enter the sub-prime market and abandon its traditionally conservative lending policy of funding mortgages predominantly from customer deposits.

By the middle of September 2007, global credit concerns were growing following the announcement of a decision by French bank, BNP Paribas, to suspend three of its investment funds which were exposed to the US sub-prime market. Meanwhile, in the local market, banks were reluctant to lend as evidenced by the London Interbank Offer Rate (LIBOR), which now stood above the Bank of England's emergency lending rate. By this time, Northern Rock which had funded 75% of it's lending by way of the money markets and securitization, experienced severe liquidity problems and was unable to meet its commitments. On 13 September, Bank of England, in its role as lender of last resort, provided emergency financial support to Northern Rock; which eventually was nationalized.

3.1.2 Deposit Insurance Design Considerations since the Crises (the UK and More Widely[6])

Even before the official announcement that the Bank of England had provided liquidity assistance to Northern Rock, rumors about the mortgage lender's problems began to circulate and was leaked to media houses on September 13th. Despite the existence of a deposit insurance scheme, with a co-insurance provision which covered 100% of the first £2,000 in deposits and 90% of deposits above £2,000 up to a maximum of £35,000, depositor confidence was shaken. The panic that had started on the evening of the 13th by way of on-line and telephone transfers was fully underway by the 14th with massive queues outside most of Northern Rock's branches.

Although the lines would later subside following announcement that the government would guarantee all deposits held by Northern Rock, queries remained about the credibility of deposit insurance in fulfilling its mandate of contributing to

[6] Lessons learned based on the perspective of current deposit insurance practitioners as encapsulated in a Consultative Paper developed by Deposit Insurance Working Group of the Financial Stability Forum to provide practical guidance on deposit insurance issues (2000). Study Group representatives included Canada, Chile, Jamaica, US, IMF and the World Bank among others.

financial stability by preventing bank runs. While there are no universal standards along which to establish deposit insurance schemes a general consensus seems to be mounting regarding the effectiveness of the varying design features in light of the crises.

Since the crisis, the UK has removed co-insurance and 100% cover has been increased to £50,000 up from £35,000; as has the EU which has doubled basic coverage to Euro 50,000 (Table 4). Countries have followed suit and have raised insurance coverage limits with Hungary, Ireland, Netherlands, Poland and Russia all abolishing co-insurance. Prior to the full run on Northern Rock experts pointed out that due to the extent of coverage provided by the UK deposit insurance scheme, depositors risked losing 10% of deposits in excess of £2,000 up to £35,000 and 100% thereafter. This reality was less than reassuring to depositors and did little to arrest the run on Northern Rock, thus validating the theory that: a low level of coverage is not effective in preventing bank runs, in practice co-insurance is ineffective and people will run on a bank no matter how small the size of the potential loss of their deposits.

In the UK depositors were unaware of the extent and limits of protection provided by the deposit insurance. The publics' reaction following the declaration by experts regarding the levels of protection affirms Campbell's *et al* (2009) assertion that uninformed depositors tend to underestimate risk and overestimate the level of coverage until a crisis arrives, at which time they panic when they suddenly realize that they may suffer losses. More concerning still is a Turkish Republic of Northern Cyprus study which found that 86% of bank employees were potentially misinforming depositors of the level of coverage guaranteed by the deposit insurance scheme (Safakli *et al* 2007). Public awareness plays a vital role in reinforcing the financial stability objective of a deposit insurance scheme (Shich 2008), but it is a factor often overlooked in deposit insurance system design (FSF Study Group).

In addition to the threat of losing funds, uncertainty regarding the length of the loss of access to funds may encourage runs as was evident with Northern Rock. The deposit insurance scheme's effectiveness and the deposit insurer credibility are

largely dependent on the timeliness of payout to depositor in times of crisis. Caribbean deposit insurance schemes in Trinidad & Tobago and Jamaica noted an expected payout time of three months, which depositors may find this unacceptable. The run on Northern Rock highlights the importance of adequate information management by banks, in order to quickly and accurately identify protected depositors to facilitate quicker payouts. Deficiencies in the flow and availability of information undermine the ability of several deposit insurance systems in carrying out their mandates. As FSF Study Group points out this shortcoming is prevalent in many jurisdictions.

CONCLUSION

While the designs of deposit insurance schemes vary considerably across countries, the resounding commonality is that in most countries these schemes have been adopted in order to protect the mass of small depositors and to promote financial stability by preventing bank runs.

The crisis has revealed potential flaws in the design and operation of the UK's scheme. In addition, a broad consultative process undertaken by the FSF before this crisis, revealed the prevalence of similar deficiencies within many other schemes.

Since the crisis, almost all policymakers have increased the level of coverage to historically high levels while extending coverage to areas where it had not existed before. In instances where the crisis has presented significant banking distress or perceived systemic risk to financial systems, governments have oftentimes opted to issue blanket guarantees on bank liabilities to stop or avoid widespread bank runs (Laeven and Valencia 2008). Consequently, the majority of safety net participants, in particular deposit insurance, remain untested following the recent crisis.

In light of the crisis, it is difficult to determine whether deficiencies in the performance of the schemes were wholly attributable to inadequate design or was the result of flaws in other safety net participants. As such, the importance of risk mitigation, early warning systems and timely intervention must be recognized and safety net participants must provide strong incentives for banks to exercise sound

governance and risk management practices. Owing to this policymakers would be wise to re-evaluate other safety net participants in addition to deposit insurance. However, caveats should accompany hasty deep-seated change to deposit insurance schemes solely in light of this crisis. Policymakers should be reminded that these deposit insurance schemes were never designed to handle rare "abnormal" system threatening events that have afflicted many countries as a result of the current crisis.

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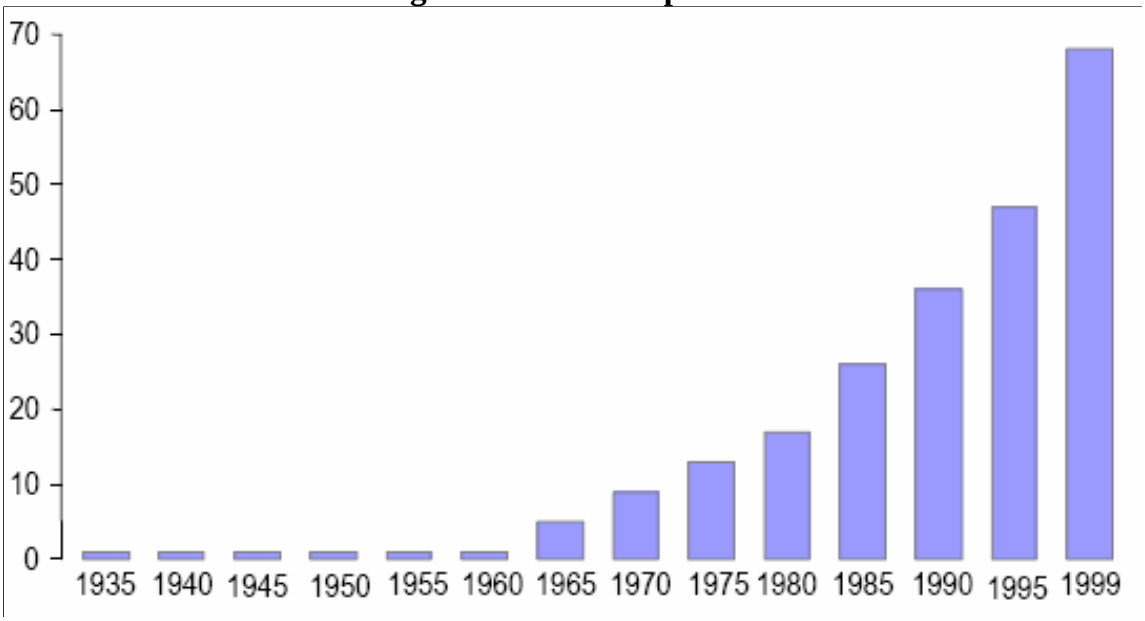
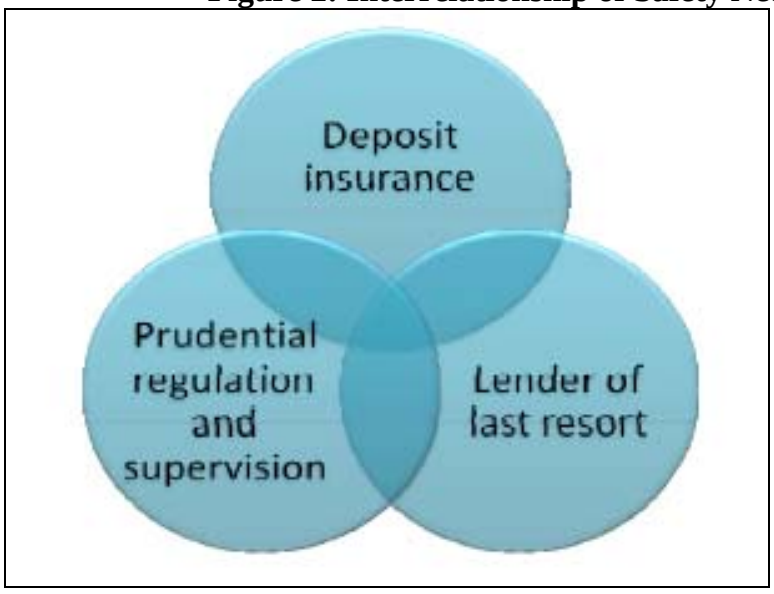
Figure 1: Rise of Deposit Insurance around the World



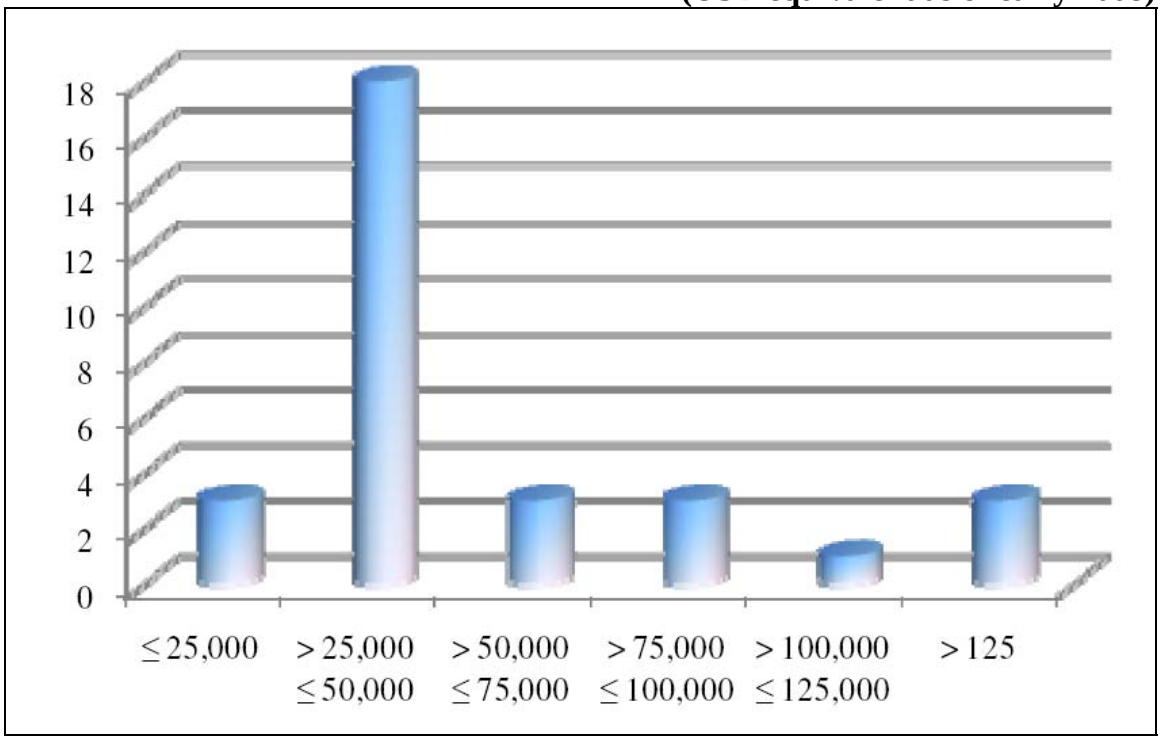
Source: Demirgüç-Kunt and Sobaci (2001).

Figure 2: Interrelationship of Safety Net Participants



Source: OECD.

Figure 3: Distribution of Deposit Insurance Coverage Limits (USD equivalent as of early 2008)



Source: OECD Secretariat estimates.

Table 1: Recent Adoptions of Deposit Insurance Systems

Year Adopted	Countries that established an explicit system
2006	Hong Kong, Singapore
2005	Indonesia, Malaysia
2003	Malta, Paraguay, Russia, Zimbabwe
2002	Albania
2001	Nicaragua, Serbia and Montenegro, Slovenia
2000	Cyprus, Jordan, Vietnam
1999	**Bahamas**, Bulgaria, Ecuador, **El Salvador, Guatemala**, **Honduras**, Kazakhstan, **Mexico** (Cameroon, Central Africa Republic, Chad, Equatorial Guinea, Gabon, Republic of Congo: deposit insurance law ratified by two out of these six CEMAC countries)
1998	Bosnia-Herzegovina, Estonia, Gibraltar, Jamaica, Latvia, Ukraine
1997	Algeria, Croatia
1996	Korea, Lithuania, Macedonia, Romania, Slovak Republic, Sweden
1995	Belarus, Brazil, Oman, Poland

Source: Demirgüç-Kunt, Kane and Laeven. (2006), IADI (2006)

Table 2: Adoption of Explicit Deposit Insurance Schemes Around the World By Income Level (as of 2003)

High income countries [30]			
Austria (1979/1996)	France (1980/1986/1999)	Korea (1996)	Spain (1977/1996)
Bahamas (1999)	Germany (1966/1969/1998)	Liechtenstein (1992/2003)	Sweden (1996)
Bahrain (1993)	Greece (1995/2000)	Luxembourg (1989)	Switzerland (1984/1993)
Belgium (1974/1995/1998)	Iceland (1985/1996)	Malta (2003)	Taiwan (1985)
Canada (1967)	Ireland (1989/1995)	Netherlands (1978/1996/1998)	United Kingdom (1982/1995)
Cyprus (2000)	Isle of Man (1991)	Norway (1961/1997)	United States (1934/1991)
Denmark (1987/1995)	Italy (1987/1996)	Portugal (1992/1995)	
Finland (1969/1992/1998)	Japan (1971)	Slovenia (2001)	
Upper middle income countries [17]			
Argentina (1979/1995)	Hungary (1993)	Mexico (1986/1990/1999)	Uruguay (2002)
Chile (1986)	Latvia (1998)	Oman (1995)	Venezuela (1985/2001)
Croatia (1997)	Lebanon (1967)	Poland (1995)	
Czech Rep. (1994)	Lithuania (1996)	Slovak Republic (1996/2001)	
Estonia (1998)	Malaysia (1998)	Trinidad & Tobago (1986)	
Lower middle income countries [30]			
Albania (2002)	Colombia (1985)	Kazakhstan (1999/2003)	Russia (2003)
Algeria (1997)	Dominican Republic (1962)	Macedonia (1996/2000/2002)	Serbia and Montenegro (2001)
Belarus	Ecuador (1998)	Marshall Islands (1975)	Sri Lanka (1987)
(1996/1998/2000/2001/2004)	El Salvador (1999)	Micronesia (1963)	Thailand (1997)
Bolivia (2001)	Guatemala (1999)	Paraguay (2003)	Turkey (1983/2000)
Bosnia-Herzegovina (1998)	Honduras (1999)	Peru (1991)	Turkmenistan (2000)
Brazil (1995/2002)	Jamaica (1998)	Philippines (1963)	Ukraine (1998)
Bulgaria (1996/1998/2001/2002)	Jordan (2000)	Romania (1996)	
Low income countries [10]			
Bangladesh (1984)	Kenya (1988)	Tanzania (1994)	Zimbabwe (2003)
India (1961)	Nicaragua (2001)	Uganda (1994)	
Indonesia (1998)	Nigeria (1988/1989)	Vietnam (2000)	

Source: Demirgüç-Kunt et al (2005)

Table 3: Deposit Insurance Coverage Levels

Coverage Ratio (Coverage Limit/GDP Per Capita	
0-1	Austria, Bahrain, Belgium, Bulgaria, Chile, Denmark, Estonia, Finland, Gabon, Germany, Hungary, Iceland, Ireland, Latvia, Lebanon, Luxemburg, Macedonia, Netherlands, Poland, Portugal, Spain, Sweden, Switzerland, Ukraine, United Kingdom
2	Canada, Colombia, Czech Republic, **El Salvador**, Greece, **Jamaica**, Lithuania, Nigeria, Romania, Slovak Republic, Sri Lanka, Tanzania, **Trinidad & Tobago**, Venezuela
3-5	Argentina, Brazil, Croatia, Equatoria Guinea, France, Kenya, Philippines, Republic of Congo, Taiwán, United States
6-8	Bangladesh, Dominican Republic, India, Italy, Norway, Uganda
9-15	Cameroon, Oman, Peru, Central African Republic, Chad
FULL	**Colombia** (until 2001 then 2), Ecuador (until 2001), Indonesia, Japan (until March 2001), Korea (until 2000), Malaysia, Mexico (until 2005), Thailand, Turkey

Source: Demirgüç-Kunt and Sobaci (2001).

Table 4: Deposit Insurance Coverage Levels – Selected Countries

Country	January 2008 Local currency (before crisis)	November 2008 Local currency (during crisis)	Comments
Germany	e20,000 – unlimited	Unlimited	All private accounts-a
Austria	e20,000 – unlimited	Unlimited	
Ireland	e20,000	Unlimited	Temporary 1yearb
Iceland	e20,000	Unlimited	
Denmark	e20,000	Unlimited	
Greece	e20,000	Unlimited	Temporary 1year
Portugal	e25,000	Unlimited	
Hungary	e24,000	Unlimited	
Hong Kong	HK$100,000	Unlimited	Temporary 2 years
Malaysia	R60,000	Unlimited	Temporary 2 years-c
Singapore	S$20,000	Unlimited	Temporary 2 years
Australia/NZ	None	Unlimited	Temporary 3 years-d
Taiwan	NT$1,500,000	Unlimited	Temporary 1 year
USA	$100,000	$250,000 – unlimited	Interbank full, temp-e
Italy	e100,000	e100,000	Interbank full
The Netherlands	e40,000	e100,000	Interbank full
Spain	e20,000	e100,000	Interbank full
Japan	Y10,000,000	Y10,000,000	Interbank full
France	e70,000	e70,000	Interbank full
UK	£35,000	£50,000	Interbank full, temp-f
Canada	$100,00	$100,000	Interbank full six months
Sweden	K250,000	K500,000	Interbank full
EU-Directive	e20,000	e50,000	Temporary one year
Belgium	e40,000	e50,000	increase
Switzerland	CHF30,000	CHF100,000	Interbank full, retail , 50E

Notes: World Coverage Ratio (estimated average coverage level over GDP per capita); 2008 October estimate ¼ 5.1X (2003 estimate ¼ 2.6X); athere are six schemes in Germany with varying levels of coverage (from e50K to unlimited for private) but all the schemes will be raised to private unlimited levels. The EU has raised coverage temporarily to e50,000 and is proposing e100,000 after one year; ball depositors in six banks (extended to foreign banks) and temporary; call depositors and banks (including foreign) through 2010. Extra premiums to be assessed; dall deposits in all deposit taking institutions and premiums to be charged; e$250,000 plus a blanket guarantee on non-interest bearing transaction accounts; fnew scheme up to £50k retail deposits (widely assumed full coverage implicit) plus a full interbank guarantee for new debt of £250 billion. Coinsurance has been abolished. Source: David K. Walker, CDIC