

## Core Principles for Effective Deposit Insurance Systems – Executive Summary

The International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems are intended for jurisdictions that wish to establish or enhance their deposit insurance systems. The Core Principles (CPs) were originally published in 2009. In 2014, IADI issued the Revised Core Principles for Effective Deposit Insurance Systems in response to the lessons learnt from the 2007-09 Great Financial Crisis.

The revised CPs strengthened deposit insurance standards, including reimbursement speed, coverage, funding and governance, and added guidance on the deposit insurer’s role in crisis preparedness and management. The updated CPs also reflected the greater role played by many deposit insurers in intervention and failure resolution, while continuing to accommodate a diverse range of deposit insurance systems. Finally, the revisions ensured consistency with the Financial Stability Board (FSB) Key Attributes of Effective Resolution Regimes for Financial Institutions.

The IADI Core Principles are included in the FSB’s Key Standards for Sound Financial Systems. These standards have been designated by the FSB as critical for sound financial systems and deserving of priority implementation, depending on country circumstances. The standards are broadly accepted as representing good practices that countries are encouraged to meet or exceed.

### Core Principles for Effective Deposit Insurance Systems



**The principal public policy objectives for deposit insurance systems are to protect depositors and contribute to financial stability.** These objectives should be formally specified and publicly disclosed.

The deposit insurers’ **mandates can be broadly classified into four categories** (with a variety of combinations in between):

- a **“pay box”** mandate, where the deposit insurer is only responsible for the reimbursement of insured deposits

- a **“pay box plus”** mandate, where the deposit insurer has additional responsibilities, such as certain resolution functions (eg financial support)
- a **“loss minimiser”** mandate, where the insurer actively engages in a selection from a range of least-cost resolution strategies
- a **“risk minimiser”** mandate, where the insurer has comprehensive risk minimisation functions that include risk assessment/management, a full suite of early intervention and resolution powers, and, in some cases, prudential oversight responsibilities

According to the CPs, **the powers of the deposit insurer should include** (but are not limited to): (a) assessing and collecting premiums, levies or other charges; (b) transferring deposits to another bank; (c) reimbursing insured depositors; (d) obtaining directly from banks timely, accurate and comprehensive information necessary to fulfil its mandate; (e) receiving and sharing timely, accurate and comprehensive information within the safety net and with applicable safety net participants in other jurisdictions; (f) compelling banks to comply with their legally enforceable obligations to the deposit insurer (eg provide access to depositor information) or requesting that another safety net participant do so on behalf of the deposit insurer; (g) setting operating budgets, policies, systems and practices; and (h) entering into contracts.

The deposit insurer should be operationally independent, well-governed, transparent, accountable and insulated from external interference. Essential criteria for independence, appropriate governance, transparency and accountability are provided by the CPs.

To protect depositors and contribute to financial stability, there should be a formal and comprehensive framework for the coordination of activities and information sharing between the deposit insurer and other financial safety net participants.

Where there is a material presence of foreign banks in a jurisdiction, formal information sharing and coordination arrangements should be in place among deposit insurers in relevant jurisdictions.

The deposit insurer should have in place **effective contingency planning and crisis management policies and procedures** to ensure that it is able to effectively respond to the risk of, and actual, bank failures and other events. The development of system-wide crisis preparedness strategies and management policies should be the joint responsibility of all safety net participants.

**Membership in a deposit insurance system** should be **compulsory for all banks**, including state-owned banks (with or without explicit guarantees), and all banks should be subject to sound prudential regulation and supervision. The conditions, process and time frame for attaining membership should be explicitly stated and transparent. When membership is cancelled upon the revocation or surrender of a bank’s licence, immediate notice should be given to depositors to inform them that existing deposits will continue to be insured up to a specified deadline. When membership is terminated by the deposit insurer, arrangements are to be in place to coordinate the immediate withdrawal of the bank’s deposit-taking licence by the relevant authority.

**Coverage** should be **limited, credible** and **cover the large majority of depositors** but **leave a substantial amount of deposits exposed to market discipline**. The level and scope of coverage should be reviewed periodically (eg at least every five years) to ensure that it meets the public policy objectives of the deposit insurance system.

**Funding** for the deposit insurance system should be provided on an **ex-ante** basis, and funding arrangements should be clearly defined and established in law or regulation. Deposit insurers often require start-up funding from the government or international organisations. Although this “seed” public funding is permitted, the business-as-usual funding of the deposit insurance system **should be the responsibility of the member banks**. Emergency funding arrangements for the deposit insurance system – including

prearranged and assured sources of liquidity funding – should be explicitly set out (or permitted) in law or regulation.

To protect depositors and contribute to financial stability, the general **public should be informed** on an ongoing basis about the benefits and limitations of the deposit insurance system and be notified on a timely basis about each event of bank failure and about the procedures to follow to obtain payments.

**Legal protection should be specified in legislation and provided to the deposit insurer**, its current and former directors, officers and employees, and any individual currently or previously retained or engaged by the deposit insurer. This protection should cover decisions made and actions or omissions taken in good faith in the normal course of their duties.

The deposit insurer (or other relevant authority) should be provided with the **power to seek legal redress against parties at fault in a bank failure**. The investigation of the conduct of such parties may be carried out by one or more of the following: the deposit insurer, supervisor or regulatory authority, criminal or investigative authorities, or any other professional or disciplinary body, as applicable.

**The deposit insurer should be part of a framework** within the financial safety net that provides **for the early detection of, and timely intervention in, troubled banks**. The framework should provide for intervention before a bank becomes non-viable.

Resolution and depositor protection procedures should not be limited to depositor reimbursement. The resolution authority or authorities should have effective resolution tools designed to help preserve critical bank functions and to resolve banks. These include, but are not limited to, powers to replace and remove senior management, terminate contracts, transfer and sell assets and liabilities, write down or convert debt to equity and/or establish a temporary bridge institution.

The deposit insurance system should **reimburse depositors' insured funds promptly**. There should be a clear and unequivocal trigger for insured depositor reimbursement. For the reimbursement process, the CPs set out a criterion of seven working days and several internal capacity requirements (like access to depositor data and adequate human and technical resources).

Regarding the recoveries, **the deposit insurer should have, by law, the right to recover its claims** in accordance with the statutory creditor hierarchy (having at least the same creditor rights or status as a depositor in the treatment in law of the estate of the failed bank).

## Importance of operating environment for deposit insurance systems

The effectiveness of a deposit insurance system is influenced not only by its design features but also by the environment in which it operates.

**In addition to the CPs, a series of preconditions** (also referred to as the operating environment) address some mainly external elements that are helpful to have in place for a deposit insurance system to be effective.

- **Macroeconomic conditions**, ie economic and market instability, can affect the ability of financial institutions to absorb and manage the risks and the behaviour of depositors.
- **The parameters of the financial system** can affect the likelihood of the deposit insurer being called to act and its funding and payments capacities.
- **Prudential regulation and supervision** should ideally comply with relevant international standards because late supervisory intervention or resolution can impose unnecessary burdens on the deposit insurance fund.

- **The legal and judicial framework**, including corporate bankruptcy laws, creditor rights, consumer protection, and the effectiveness of the judicial system, can significantly affect the execution of the deposit insurer's mandate.
- **The accounting and disclosure regime** should increase transparency and market discipline and allow the deposit insurer to take timely and correct decisions regarding the risk profile of an institution.

## Assessment of compliance with the CPs

The primary objective of an assessment should be to evaluate compliance with the CPs, after considering the structural, legal and institutional features of each jurisdiction's deposit insurance system(s). The assessment process should help the deposit insurer and policymakers benchmark their deposit insurance system against the CPs to judge how well the system is meeting its public policy objectives. The assessment, in turn, can also aid the deposit insurer and policymakers in making improvements to the deposit insurance system and financial safety net, as necessary.

The methodology proposes **a set of essential criteria for each CP**. The essential criteria are the only elements on which to gauge full compliance with a CP.

Assessments follow a five-grade scale:

- **Compliant** – when the essential criteria are met without any significant deficiencies
- **Largely compliant** – when only minor shortcomings are observed, and the authorities are able to achieve full compliance within a prescribed time frame
- **Materially non-compliant** – when there are severe shortcomings that cannot be rectified easily
- **Non-compliant** – no substantive implementation of the CP
- **Not applicable** – not considered given the structural, legal and institutional features of the deposit insurance system

This format was recommended by the International Monetary Fund and the World Bank for use by assessors in the context of Financial Sector Assessment Program or Offshore Financial Center Assessment Program missions. To maintain comparability and consistency, the same format was recommended for standalone assessments or self-assessments by a jurisdiction.

From 2013, IADI established the Self-Assessment Technical Assistance Program to enable jurisdictions to request an independent on-site review and validation of their self-assessment results by a team of IADI experts.

This Executive Summary and related tutorials are also available in [FSI Connect](#), the online learning tool of the Bank for International Settlements.