

DEPOSIT INSURANCE

Trust is a prerequisite for financial intermediation. The recent financial crisis highlights how important depositors' trust in the financial system is. In order to protect depositors in the case of a bank failure and thereby foster confidence in the banking system nearly all OECD countries (with the exception of Austria and New Zealand) have established deposit insurance.

The World Bank (2007) provides an overview of the features of the deposit insurance schemes. However, recent events suggest that in the case of a systemic crisis often additional measures are needed in order to ensure that the depositors remain confident. Therefore, comparing the features of the deposit insurance scheme at the outset of the crisis can provide valuable insights.

Deposit insurance systems differ in their funding (Table 1). In nearly all OECD countries they are funded by the banks themselves. The funding can be ex ante by the regular collection of a premium which is then accumulated. The ratio of accumulated funds to total bank assets is rather low implying that the

accumulated funds may be enough to pay out depositors if only a single bank fails but cannot cover the expenses if the majority of banks cannot repay. Alternatively, the premium can and is in some countries collected ex post, meaning that all the other banks must pay out the depositors of a failing bank. In some countries, the premium is based on the assessment of the bank's risk. The management of the fund can be by the private banks or by the public or by both together. Interestingly, the allocation of the management of the fund does not depend on whether the deposit insurance is funded by the bank or by the state.

Another important characteristic of a deposit insurance scheme is its coverage (Table 2). Most importantly, there are limits per account, the amount of which differs quite substantially between countries. Sometimes the deposits are only partially insured because there is coinsurance. The deposit insurance systems vary with respect to whether they cover foreign currency deposits. Interbank deposits are usually not covered. Moreover, there are debt liabilities, such as subordinated debt or bonds, that are not protected. Notably, in all countries for which information is available non-residents may not be discriminated against with respect to coverage. Finally, in

Table 1

Deposit insurance – funding

	Is there an explicit deposit insurance protection system?	Is it funded by (check one): the government, the banks, or both?	Are premia collected regularly (ex ante)?	Do deposit insurance fees charged to banks vary based on some assessment of risk?	If prefunded, what is the ratio of accumulated funds to total bank assets?	Who manages the insurance fund? Is it managed:		
						solely by the private sector	jointly by private public officials	solely by public sector
Austria	Yes	banks	No	No	n.ap.	Yes	No	No
Belgium	Yes	banks	Yes	Yes	0.00065	No	Yes	No
Czech Republic	Yes	banks	Yes	No	0.00198	No	Yes	No
Denmark	Yes	banks	Yes	No	0.17	No	Yes	No
Finland	Yes	banks	Yes	Yes	0.0018	Yes	No	No
France	Yes	banks	Regular intervals, ex ante	Yes	0.0018	Yes	No	No
Germany	Yes	banks	Ex ante and ex post.	No	n.a.	No	No	No
Greece	Yes	banks	Yes	No	0.006	No	Yes	No
Hungary	Yes	banks	Yes	Yes	0.005	No	Yes	No
Ireland	Yes	banks	Yes	No	0.002	No	No	Yes
Italy	Yes	banks	No	Yes	n.ap.	Yes	No	No
Luxembourg	Yes	banks	No	No	n.a.	Yes	No	No
Netherlands	Yes	banks	No	No	n.ap.	No	No	Yes

Continued: Table 1

	Is there an explicit deposit insurance protection system?	Is it funded by: the government, the banks, or both?	Are premia collected regularly (ex ante)?	Do deposit insurance fees charged to banks vary based on some assessment of risk?	If prefunded, what is the ratio of accumulated funds to total bank assets?	Who manages the insurance fund? Is it managed:		
						solely by the private sector	jointly by private public officials	solely by public sector
Poland	Yes	banks	Ex ante and ex post	No	0.0054	No	Yes	No
Portugal	Yes	banks	Yes	Yes	0.004	No	Yes	No
Slovak Republic	Yes	banks	Yes	No	Negative 0.0221 i.e., negative due to reimbursements in 2000–04.	No	Yes	No
Spain	Yes	banks	Yes	No	0.003	No	Yes	No
Sweden	Yes	n.a.	Yes	No	0.001	No	No	Yes
United Kingdom	Yes	banks	No	No	n.ap.	No	No	No
Norway	Yes	banks	Ex ante and ex post.	Yes	0.015 of covered deposits + 0.005 of bank's assets.	No	Yes	No
Switzerland	Yes	banks	No	No	n.ap.	No	Yes	No
Australia	No	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
Canada	Yes	banks	Yes	Yes	n.a.	No	No	Yes
Japan	Yes	both	Yes	No	0	n.a.	n.a.	n.a.
New Zealand	No	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
United States	Yes	banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: n.a. = not available; – n.ap. = not applicable.

Source: http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/Banking_regulation_Survey_III_061008.xls.

most countries membership in the deposit insurance scheme is compulsory.

The recent crisis so far has brought changes in the amounts covered and now the amounts covered are often guaranteed by the government.

Reference

World Bank (2007), Bank Regulation and Supervision Database, World Bank, Washington DC.

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Table 2

Deposit insurance – coverage

	What is the deposit insurance limit per account?		Is there formal coinsurance, that is, are depositors explicitly insured for less than 100% of their deposits?	Does the deposit insurance scheme also cover foreign currency deposits?	Are inter-bank deposits covered?	As a share of total assets, what is the value of large denominated debt liabilities of banks (e.g., subordinated debt, bonds, etc.) that are definitely not covered by any explicit or implicit savings protection scheme?	Are non-residents treated less favorably than residents with respect to deposit insurance coverage (either in terms of coverage for which they are entitled or the actual protection provided)?	Is participation in the deposit insurance system compulsory for all banks?
	in USD	in EUR unless otherwise stated						
Austria	25,500	20,000	No	Yes	No	n.a.	No	Yes
Belgium	25,500	20,000	No	Yes	No	n.a.	No	Yes
Czech Republic	31,875	25,000	Yes	Yes	No	0.08	No	Yes
Denmark	54,900	300,000 DKK	No	Yes	No	0.39	No	Yes
Finland	31,875	25,000 per bank per client	No	Yes	No	0.36	No	Yes
France	89,250	70,000	No	No	No	n.a.	No	Yes
Germany	25,500	20,000	Yes	No	No	n.a.	No	Yes
Greece	25,500	20,000	No	Yes	No	n.a.	No	Yes
Hungary	32,520	6,000,000 HUF	Yes	Yes	No	0.31	No	Yes
Ireland	25,500	20,000	Yes	Yes	No	n.a.	No	Yes
Italy	131,696	103,291	No	Yes	No	0.60	No	Yes
Luxembourg	25,500	20,000	No	Yes	No	0.01	No	Yes
Netherlands	25,500	20,000	No	Yes	No	n.a.	No	Yes
Poland	28,496	22,350	Yes	Yes	No	n.a.	No	Yes
Portugal	31,875	25,000	Yes	Yes	No	0.24	No	Yes
Slovak Republic	29,314	727,400 SKK	Yes	Yes	No	n.a.	No	Yes
Spain	25,500	20,000 per depositor	No	Yes	No	0.15	No	Yes
Sweden	36,750	250,000 SEK	No	Yes	n.a.	n.a.	No	Yes
United Kingdom	63,387	31,700 GBP	Yes	Yes	n.a.	n.a.	No	Yes
Norway	339,400	2 mill. NOK	No	Yes	No	0.39	No	Yes
Switzerland	24,888	30,000 CHF	No	Yes	No	0.54	No	Yes
Australia	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
Canada	92,500	100,000 CAD	No	No	Yes	n.a.	No	Yes
Japan	n.a.	n.a.	n.a.	No	No	n.a.	No	Yes
New Zealand	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
United States	100,000	100,000 USD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: n.a. = not available. – n.ap. = not applicable.

Source: http://siteresources.worldbank.org/INTRES/Resources/4692321107449512766/Banking_regulation_Survey_III_061008.xls, http://siteresources.worldbank.org/INTRES/Resources/4692321107449512766/DepositInsuranceDatabase_2003_040408.xls, <http://efdi.net/scarica.asp?id=102&Types=DOCUMENTS>.