



**Federal Deposit Insurance Corporation**

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# **Transitioning from Blanket to Limited Coverage**

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# Unwinding Temporary Deposit Insurance Arrangements: IADI–IMF Survey

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- Depositor protection is a critical element of stabilizing a banking system.
- The Financial Stability Board requested that the International Association of Deposit Insurers (IADI) and the International Monetary Fund (IMF) report on strategies to unwind temporary depositor protection.
- Jurisdictions were surveyed for information on temporary depositor protection in the following respects.
  - Measures taken
  - Plans for unwinding
  - Coordination with other jurisdictions



# Jurisdictions Increasing Deposit Insurance

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- In the current crisis, 46 jurisdictions adopted some form of enhanced depositor protection.
- Full depositor guarantees were provided in 18 jurisdictions or 39 percent of the total respondents.
  - Including political commitments or guarantees issued in 5 jurisdictions.
- Increases in deposit insurance levels were adopted in another 28 jurisdictions or 61 percent of the total respondents.
  - Consisting of 21 jurisdictions with permanent increases and 7 jurisdictions with temporary increases.

# Actions Taken to Increase Deposit Insurance

## Full Depositor Guarantees (18)

## Deposit Insurance Coverage Increase

### Permanent (21)

### Temporary (7)

Austria	Denmark	Albania	Belgium	Australia
Germany <sup>1/</sup>	Greece <sup>1/</sup>	Bulgaria	Croatia	Brazil
Hong Kong, SAR	Hungary <sup>1/</sup>	Cyprus	Czech Rep.	Netherlands
Iceland <sup>1/</sup>	Ireland <sup>7/</sup>	Estonia	Finland	New Zealand <sup>8/</sup>
Jordan	Kuwait <sup>3/</sup>	Indonesia	Latvia	Switzerland
Malaysia	Mongolia <sup>3/</sup>	Lithuania	Luxembourg	Ukraine
Portugal <sup>1/</sup>	Singapore	Kazakhstan <sup>2/</sup>	Malta	United States <sup>4/</sup>
Slovakia <sup>6/</sup>	Slovenia <sup>3/</sup>	Philippines	Poland	
Thailand	UAE <sup>5/</sup>	Romania	Russia	
		Spain	Sweden	
		United Kingdom		

Note: Full depositor guarantee consists of guarantees covering all deposits or the majority of all deposits in the banking system.

1/ Political commitments by government

2/ Increased from 700,000 tenge to 5 million; will revert to 1 million 1/1/12 per law.

3/ Unlimited for banks operating in their jurisdiction

4/ Unlimited for non-interest bearing transaction accounts

5/ Unlimited for local and foreign banks with significant presence in their jurisdiction

6/ Unlimited for all physical persons and some categories of legal person.

7/ Unlimited for 7 specific banks representing 80 percent of the banking system.

8/ Full coverage up to NZ\$1 million per deposit (retail deposits and non-bank deposit takers).

# Expiration of Temporary Arrangements

2009	2010	2011	2012	2013
Austria <sup>2/</sup> Ireland <sup>2/</sup> Jordan	Denmark <sup>2/</sup> Hong Kong, SAR Malaysia New Zealand <sup>1/</sup> Singapore Slovenia <sup>2/</sup> Switzerland <sup>1/</sup>	Australia Greece Portugal <sup>2/</sup> Thailand UAE Ukraine <sup>1/</sup>	Mongolia	USA
Jurisdictions that have not announced expiration dates for temporary increases: Brazil <sup>1/</sup> Germany Hungary Iceland Kuwait Netherlands <sup>1/ 2/</sup> Slovakia <sup>2/</sup>				

1/ Jurisdictions with temporary deposit insurance coverage increases

2/ In consultation with the EU Directive



# Unwinding Temporary Arrangements

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- Most jurisdictions have announced specific dates of termination for the increased deposit insurance protection.
  - However, many plans do not yet include more detailed steps to help ease the transition back into long term arrangements.
- Unwinding plans have not been made and no termination dates have been announced in seven jurisdictions.
  - A majority of jurisdictions that have made political rather than legal commitments have not clarified termination of those commitments.
- Planning to unwind temporary measures will remain challenging in the current economic and financial environment.
  - Extensions of temporary measures have already been required in several instances.



# Strategies for Coordinating Transitions

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- A few jurisdictions that temporarily increased deposit insurance coverage or adopted full depositor guarantees have begun coordinating strategies to unwind depositor protection with other organizations in their region.
  - Malaysia; Singapore; and Hong Kong, SAR have announced a tripartite working group to map out a coordinated strategy for the planned unwinding of depositor guarantees by the end of 2010.
  - European nations plan to comply with EU Directive 2009/14/EC on deposit insurance coverage. The new rules will take full effect by the end of 2009, subject to an assessment of impact.
  - Other jurisdictions interested in or open to regional collaboration: Australia, Croatia, Denmark, Indonesia, Jordan, Kazakhstan, Kuwait, New Zealand, Russia, Thailand, UAE and US.



# Transitioning from Blanket Guarantee to Limited Coverage

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- Potential trade-offs and risks during transition:
  - Moral hazard
    - The costs of blanket coverage are potentially higher than the costs under limited coverage.
  - Destabilization
    - Moving from the security of a blanket guarantee to limited coverage can lead to potential instabilities.



# Preconditions for Transitioning

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- Successful transitioning to limited coverage depends on several fundamental conditions of readiness.
  - Macroeconomic conditions and stability
  - Safety and soundness of the banking system
  - Adequacy of the legal framework
  - Strength of prudential regulation and supervision
  - Suitability for banking system structure
  - Defined public policy objectives



# Elements of Transitioning

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- Limits of coverage
  - Sufficiency, credibility, confidence, etc.
- Sources of funds
  - Adequacy, reliability, capacity, etc.
- Public awareness
  - Communication, understanding, progress, orderliness, etc.
- Timing of transition
  - Gradual approach versus fast-track approach
- Coordination and cooperation
  - Safety net, interagency, international, etc.