



FULL REPORT

Discussion Paper on Cross Border Deposit Insurance Issues Raised by the Global Financial Crisis

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*Prepared by the IADI Research and Guidance Committee
Subcommittee on Cross Border Deposit Insurance Issues*

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I. Executive Summary

This report of the International Association of Deposit Insurers' (IADI) Research and Guidance Committee's Subcommittee on Cross Border Deposit Insurance Issues (Subcommittee) summarizes the cross border implications of deposit insurance events arising from the 2008 global financial crisis.¹ The report focuses on events stemming from the financial crisis, including the unprecedented emergency actions taken by deposit insurers across the globe in response to the financial turmoil, and the cross border deposit insurance issues that arose from the failure of large, internationally active Icelandic banks.² This report does not address cross border banking resolution issues that are treated comprehensively elsewhere.³

As part of this effort, the Subcommittee conducted a literature review on cross border deposit insurance issues, documented the enhancements to deposit insurance put in place by authorities around the globe in response to the crisis⁴, created a case study of the Icelandic banking crisis to highlight its deposit insurance implications, and made several observations and recommendations for suggested guidance.

The Subcommittee's work revealed that cross border differences in deposit insurance rules and regulations, particularly inadequacies in coverage, payout capabilities, and funding, can affect markets, financial stability, or consumer protections in at least three ways. First, as discussed in research prior to the financial crisis, a lack of convergence and harmonization in deposit insurance rules and regulations can create externalities, including potential conflicts of interest and competitive/regulatory arbitrage.⁵ Second, as evidenced during the recent financial crisis, unilateral adoption of emergency deposit insurance measures and full guarantees during a crisis can exacerbate such externalities and potentially add to financial instability. Third, home/host issues stemming from cross border banking present concerns for depositor protection, and these concerns can be particularly troubling in a systemic crisis.

¹ The Subcommittee on Cross-Border Deposit Insurance Issues is made up of members from the United States (Chair), the Czech Republic, France, Poland, Taiwan, Turkey and the United Kingdom.

² For the purposes of this report, "internationally active banks" include banks that conduct foreign business across national borders. The term "cross border banking issues" refers to issues raised by internationally active banks that conduct foreign business 1) by establishing a subsidiary, 2) by establishing a foreign branch, or 3) through the provision of cross border services through another means, such as the internet. When used in a supervisory context, the term "authority" may refer to supervisory responsibility that is shared among two or more authorities.

³ See "Report and Recommendations of the Cross-border Bank Resolution Group," Basel Committee on Banking Supervision Cross-border Bank Resolution Group, March 2010, for a discussion of cross border resolution issues, including those arising from the global financial crisis.

⁴ The information provided in this report on the enhancements to deposit insurance schemes is current as of July, 2010.

⁵ See for example, George G. Kaufman and Robert A. Eisenbeis, "Cross-border Banking and Financial Stability in the EU," *Journal of Financial Stability*, 2008, pp. 168–204.

As further discussed in the following paragraphs, the Subcommittee documented these findings in its literature review, its development of a chronology of deposit insurance changes resulting from the financial crisis, and its analysis of deposit insurance consequences of the Icelandic banking collapse, which highlights the issues presented by cross border banking on home and host jurisdictions in relation to deposit insurance protections.

The literature review revealed that while most existing cross border deposit insurance research prior to the crisis focused on resolution issues, multiple surveys documented the heterogeneous nature of deposit insurance rules and regulations across jurisdictions and a number of researchers had highlighted potential agency/conflict of interest and competitive/regulatory arbitrage issues created by these cross border differences. Researchers also noted home/host concerns related to deposit insurance arrangements subject to cross border banking situations. As the crisis unfolded, interest grew about the implications of a lack of convergence among deposit insurance rules and regulations.

The literature review also considered existing guidance on cross border issues. The IADI/Basel Committee on Banking Supervision (BCBS) issued Core Principles for Effective Deposit Insurance Systems in March 2009.⁶ In particular, Principle 7, Cross Border Issues, stresses the importance of cross border exchange of information and bilateral agreements when appropriate, and the need to provide clear information to depositors affected by cross border banking situations:

***Principle 7 – Cross-border issues:** Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety-net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognised in the determination of levies and premiums.*

The chronology of deposit insurance enhancements during the crisis revealed that at least 49 jurisdictions enhanced depositor protection schemes. Of these, at least 20 jurisdictions adopted full depositor guarantees, 22 jurisdictions adopted permanent increases in deposit insurance coverage, and seven adopted temporary increases in deposit insurance. Actions initiated in Europe, were geographically clustered, and quickly spread to nearly every continent, except Africa and Latin America. The early adoption of full guarantees was typically designed to address perceptions of inadequate coverage and payout capabilities. Elsewhere, adoption of full guarantees or enhancements in coverage was frequently preemptive and at least in part the result of spillover effects in neighboring jurisdictions (i.e., panic may have existed in capital and debt markets but had not appeared to affect

⁶ BCBS/IADI Core Principles for Effective Deposit Insurance Systems, March 2009.

depositor behavior). Overall, these events suggest that pre-crisis coverage levels were likely insufficient in many jurisdictions, as evidenced by the fact that many governments as much as doubled deposit insurance coverage during these months. As enhancements were enacted, gaps in coverage levels between jurisdictions widened, which may have increased pressure in affected jurisdictions to take similar actions, particularly in financially integrated regions of the world.

Two additional themes that came out of the chronology relate to international communication and cooperation and unwinding of the special measures taken. International communication and coordination among involved financial sector authorities in home and host countries was limited, which may have further contributed to the escalating nature of actions taken. Another area that has received attention as a result of these events has been the status of efforts to unwind the full guarantees and temporary emergency measures taken during 2008 and the cross border implications of such measures in the future.

The third component of the Subcommittee's work was the case study of the collapse of the Icelandic banking sector. The failure of three large, internationally active Icelandic banks amidst the rapid adoption of emergency deposit insurance measures in late 2008 served to highlight deposit insurance vulnerabilities underlying home/host cross border bank oversight arrangements. The Icelandic banks had built aggressive growth strategies and were highly reliant on deposits collected by foreign branches and subsidiaries and over the Internet. The foreign subsidiaries and branches were subject to a variety of home and/or host oversight arrangements that were not transparent to depositors. Significant underfunding of the Icelandic deposit insurance fund compelled jurisdictions affected by the collapses to use a diverse set of funding strategies under emergency conditions to compensate their domestic depositors in the Icelandic banks. Disruption among both affected depositors and authorities led the events to have a systemic impact that reached far beyond the borders of the home country.

As a result of this work, the Subcommittee made a number of observations and identified areas of suggested guidance which are summarized below.

Observations and Suggested Guidance

Observations and suggested guidance in this report are organized into the following five categories, each discussed briefly below: convergence; public awareness; communication, coordination, and cooperation; other cross border banking risks; and unwinding.

- **Convergence**

- ***Observations:***

- Differences in key attributes of deposit insurance systems, including perceived deficiencies as regards coverage, payout capabilities, and funding, can lead to certain externalities and create problems for

- During a crisis, unilateral adoption of extraordinary deposit insurance emergency measures and full guarantees can exaggerate existing differences among deposit insurance systems and can potentially add to financial instability.
- Regionally integrated economies may be most susceptible to the adoption of preemptive extraordinary measures such as full guarantees or very high coverage since they may face greater threats of contagion from outside the jurisdiction and thus have greater need to react during times of crisis. In addition, jurisdictions without explicit arrangements may make their arrangements explicit, involving more extensive changes to their insurance arrangements compared to those jurisdictions with existing explicit systems.
- Regional authorities such as the European Union (EU) can promote harmonization and convergence in deposit insurance rules and regulations among affected jurisdictions.
- Cross border harmonization of key deposit insurance features, particularly coverage, payout capabilities, and funding, as well as compliance with the Core Principles for Effective Deposit Insurance Systems, may help contribute to the alleviation of potentially destabilizing deposit insurance disparities among jurisdictions.

Suggested Guidance:

- Authorities should encourage compliance with the Core Principles for Effective Deposit Insurance Systems in order to generally promote convergence and harmonization of deposit insurance rules and regulations within regions, particularly as to coverage, payout capabilities, and funding.
- Authorities should periodically review, identify, and address the extent to which their deposit protection schemes may be exposed to such problems, including identifying any material issues or discrepancies in rules and regulations relative to those of neighboring systems and performing an evaluation of the adequacy of scope and coverage levels and the resolution and payout capabilities within their respective regions.

- **Public Awareness**

Observations:

- Appropriate steps/measures to achieve public awareness in the salient design features of deposit insurance systems could contribute to market discipline and a reduction of moral hazard.
- Prior to the financial crisis, most depositors were not sufficiently aware of the risks associated with maintaining deposits in a branch of a foreign bank, particularly in cases where protection was by the home, rather than the host state.
- The EU and Icelandic experiences illustrate the importance of effective public awareness in ensuring that depositors are well-informed in situations involving accounts at banks engaged in cross border banking and complex home/host authority responsibilities.
- Even well-informed depositors could not reasonably have foreseen that a home country responsible for providing deposit insurance coverage for foreign branches may have been insufficiently funded to meet its foreign obligations.

Suggested Guidance:

- The responsible deposit insurance system should be unambiguous and known to all depositors in all situations, and particularly for foreign depositors in a cross border banking situations.
 - All depositors, and particularly those with accounts held by a cross border bank, should be provided with clear and easily understandable information on the existence and identity of the deposit insurance system legally responsible for reimbursement, and its limits and coverage. Information on the system's source of funding and standard claims procedures and reimbursement options should also be made available to such depositors.
- Jurisdictions with banks engaged in cross border banking should consider developing supplemental public awareness campaigns to address the special information needs of depositors with accounts at such institutions and to promote full understanding of depositor benefits and limitations in such situations.
- Authorities should ensure that differences in deposit insurance rules and regulations (e.g., coverage limits) are not exploited in cross border banking situations.

- **Communication, Coordination, and Cooperation**

Observations:

- The crisis revealed that significant opportunities exist for jurisdictions to adopt cross border crisis management arrangements specifically pertaining to deposit insurance measures as suggested by the Core Principles for Effective Deposit Insurance Systems.
- A high level of pre-crisis communication, coordination, and cooperation appears to be a necessary condition for an efficient system of cross border crisis management, as the largely unilateral and uncoordinated responses of many jurisdictions' deposit insurance systems appear to have contributed to some aspects of financial instability during the systemic crisis.

Suggested Guidance:

- Jurisdictions with deposit insurance systems that extend beyond national borders due to cross border banking should develop pre-crisis coordinated crisis management arrangements that specifically address situations where deposit insurance coverage is provided by a deposit insurer in different jurisdictions. In particular, appropriate bilateral/multilateral arrangements should be in place in circumstances where cross border banking operations provide for depositor coverage or where home/host issues are present.
 - The arrangements should include all appropriate home/host authorities, should provide for ongoing close coordination and information sharing when necessary, should clearly specify which deposit insurer will be responsible for reimbursement as well as promote public awareness of issues raised by cross border banking, and should also be subject to peer review regarding the capacity of systems and funds to respond to a cross border failure.
 - To the extent possible, the arrangements should involve pre-crisis joint crisis simulation and preparedness testing amongst home/host jurisdictions as well as joint stress testing of the effects of stress situations in both home and host jurisdictions.
 - To facilitate adoption by a wide range of jurisdictions, authorities should consider encouraging the development of "model" memorandums of understanding (MOU) by bilateral jurisdictions that specifically address deposit insurance issues raised by cross border banking.

- Deposit insurance authorities should consider implementing early warning systems to provide for earlier awareness of potential issues and consider the likelihood of pre-crisis communication among relevant deposit insurance authorities during a crisis. An example of such a system would be an assessment of depositor awareness of cross border deposit insurance benefits and limitations. Such systems, coupled with an effective pre-crisis cross border communication and coordination arrangement, could help alert national regulators of impending potential deposit protection triggers, improve the ability of authorities in affected jurisdictions to coordinate actions during a crisis, and lessen the likelihood of potentially destabilizing preemptive and unilateral emergency national actions.

- **Cross Border Banking Risks**

Observations:

- The Icelandic case highlights concerns about situations in which host operations are branches or subsidiaries, since risks in the home state (e.g., the parent) may affect host state depositors and which depositor insurer is called upon to respond to the failure of a home state bank.⁷ Specifically, the Icelandic case illustrates that branch depositors in a host country branch may be unprotected in the event that:
 - The home operations of a branch fail and the home business is not able to act as a source of strength to an otherwise solvent (or insolvent) branch operation.
 - A home country deposit insurance system is insufficiently funded, and/or
 - A home country defaults.
- Cross border banking with foreign branching may raise special funding concerns if home country funding is perceived as insufficient to cover all deposit obligations and other jurisdictions lose confidence in that system.
- Host countries may find it necessary to take special measures to protect deposits in foreign branches if domestic depositors are not covered as expected by a home country authority.
- As illustrated by the Icelandic case, cross border banking under certain circumstances may give rise to home country moral hazard risks,

⁷ While the potential risks associated with branch and subsidiary concerns are manifested most clearly in the European Union/European Economic Area, such concerns are of potential concerns elsewhere as well due to the presence of large, internationally active banks.

potentially resulting in regional or broader financial stability issues extending well beyond the borders of the home country.

- The Icelandic case further demonstrates the importance of involving deposit insurance agencies in the review of resolution and recovery plans for systemically significant internationally-active financial firms to ensure that the plans recognize the key features of involved deposit insurance systems that may affect depositor reimbursement and that the plans provide for timely and appropriate handling of deposit insurance claims.

Suggested Guidance:

- Since the Icelandic case illustrates that situations in which host operations are branches or subsidiaries may affect host state depositor coverage protection, consideration should be given to whether the benefits of branch passporting arrangements outweigh the risks and the appropriate role of the host state with regard to host nation depositors in the event of a cross border bank failure resolution.
- Where cross border banking arrangements exist, national legal frameworks should clearly identify the circumstances in which the home country deposit insurance system will provide deposit insurance coverage to depositors of domestic banks' foreign branches and should establish availability of back-up funding arrangements for the home deposit insurance system in case of shortfall.
 - For situations involving foreign branches, in particular, the home state should agree to procedures in which the host state would act as a point of contact in a crisis situation so that affected home state depositors may deal with local, rather than foreign authorities.
- Where home/host arrangements exist, the responsible deposit insurance fund needs to be adequately funded to cover potential liabilities. In situations where the home deposit insurance system cannot provide coverage to depositors immediately following a failure, a framework should be in place for how the home country will procure funding either from its national Treasury or other sources such as the host country deposit insurance scheme (i.e., prearranged loan terms).
- Potential risks raised by the home country moral hazard issues associated with cross border banking should be studied and evaluated by international financial institutions as well as appropriate regional authorities on a regular basis.
- Deposit insurance authorities should be included in the review of resolution or recovery plans for systemically significant internationally-

- **Unwinding**

Observations:

- The cross border issues raised by the initiation of emergency deposit insurance measures at the onset of the crisis highlights the potential for similar effects to arise on the back end during the unwinding process. In particular, there is a potential first mover problem if jurisdictions are reluctant to unwind special measures due to concerns about disadvantaging the domestic banking system relative to foreign banks.
- Adequate coordination and communication efforts may help overcome the first mover problem, ensure a smooth unwinding experience, and avoid financial instability. Regional authorities or coalitions can play a significant role in helping to coordinate a smooth transition, particularly in regions with open economies characterized by a high degree of financial integration.

Suggested Guidance:⁸

- Jurisdictions that adopted full guarantees or temporary enhancements in deposit insurance coverage during the crisis should consider and incorporate into their planning clear options or principles, milestones, and time frames for the exit from public intervention, which act to restore public confidence in each affected jurisdiction as well as other jurisdictions potentially affected.
- Jurisdictions in regionally integrated areas should consider entering into joint exit strategies with neighboring jurisdictions to minimize external effects of national actions.
- Deposit insurers within regions should meet on a regular basis on contingency planning related to transitioning and unwinding of special measures where necessary (e.g., through IADI regional committees or

⁸ IADI's Research and Guidance Committee Subcommittee on Transitioning is currently developing a discussion paper that will describe and examine preconditions and key elements for making a transition process from a blanket guarantee to an explicit, limited coverage deposit insurance system; and will provide some guidance for the deposit insurance practitioners to be considered in a successful transition.

other means) and to develop close working relationships prior to any crises or other problems that may develop.

- International associations or regional authorities may play a useful role in helping to coordinate unwinding activities in closely integrated regions where some jurisdictions are susceptible to first mover reluctance to unwind special measures.

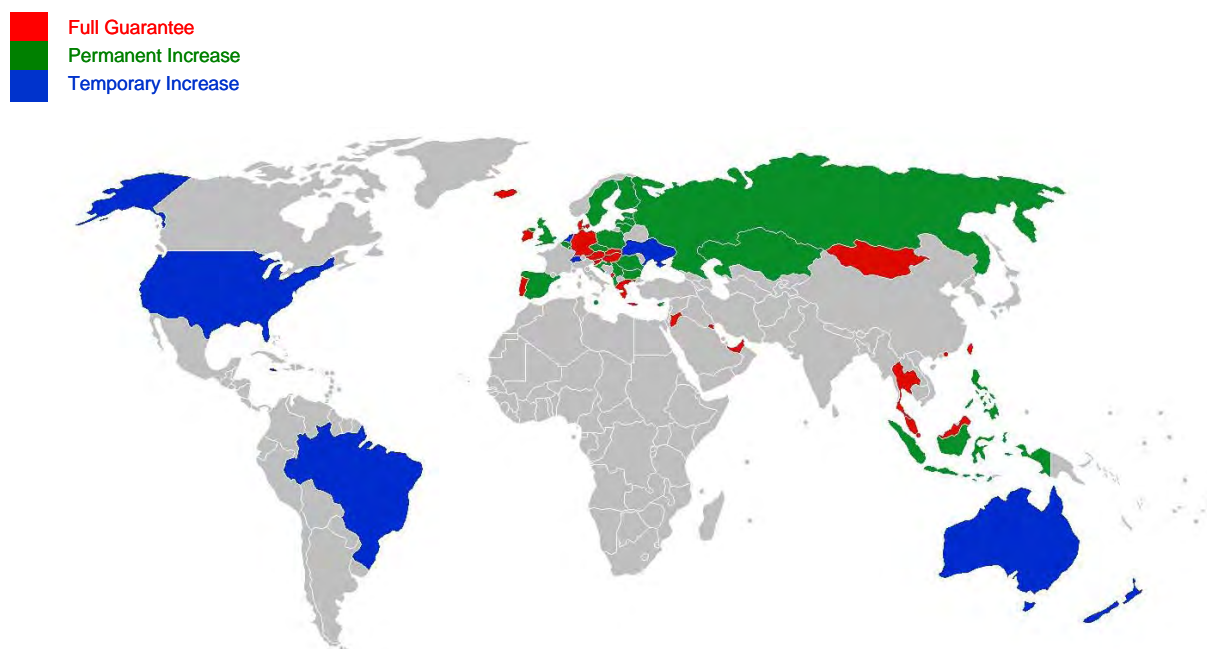
The full report is organized as follows: Section 2 provides general background on the issues discussed in the report, including highlights of the literature review, Section 3 presents an overview of changes in deposit insurance stemming from the financial crisis, Section 4 presents a case study of deposit insurance events triggered by the Icelandic banking crisis, and Section 5 contains a further discussion of observations related to these developments and suggested guidance. A summary of the literature review is contained in Appendix A, and Appendix B contains a country-specific chronology of deposit insurance enhancements resulting from the financial crisis.

II. Introduction and Background

A. Introduction

During the peak of the financial crisis, at least 49 countries took emergency measures designed to strengthen their deposit insurance systems and bolster public confidence in financial institutions (see Exhibit 1 and Table 1). These events occurred amidst a period of global financial turmoil. The emergency actions taken by the 49 jurisdictions included the adoption of explicit deposit insurance systems where such systems did not previously exist; temporary or permanent increases in coverage levels; elimination of co-insurance arrangements; extensions of full deposit insurance guarantees, either formally through legislation or regulatory action or through political statements; and expansion of coverage to bank liabilities not traditionally covered by existing arrangements.

Exhibit 1: Jurisdictions that Enhanced Deposit Insurance Protection



Note: Based on "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010; and press releases from media and agency websites.

This report, prepared by IADI's Subcommittee on Cross Border Deposit Insurance Issues, summarizes these and other related cross border events stemming from the crisis and explores their implications. The purpose of the IADI Subcommittee is to provide a forum for the discussion and analysis of current and evolving cross border issues related to deposit insurance. In light of events related to the financial crisis, in July 2009, the Subcommittee proposed to conduct research and develop a discussion paper on cross border deposit insurance issues related to the financial crisis and the implications of these developments. A proposed work plan was approved in July 2009, and this report is the initial result of that effort to date. Contained in this report is a detailed chronology of changes in deposit insurance

systems worldwide resulting from the financial crisis and a case study of deposit insurance issues arising from the collapse of Iceland's banking sector in late 2008. These facts have been used by the Subcommittee to identify the most significant potential lessons learned from the financial crisis related to cross border deposit insurance issues and to develop suggested guidance to address these lessons learned. This report does not address cross border banking resolution issues that are treated comprehensively elsewhere.^{9, 10}

⁹ See "Report and Recommendations of the Cross Border Bank Resolution Group," Basel Committee on Banking Supervision Cross-border Bank Resolution Group, March 2010, for a discussion of cross border resolution issues, including those arising from the global financial crisis.

¹⁰ For the purposes of this report, "internationally active banks" include banks that conduct foreign business across national borders. The term "cross border banking issues" refers to issues raised by internationally active banks that conduct foreign business 1) by establishing a subsidiary, 2) by establishing a foreign branch, or 3) through the provision of cross border services through another means, such as the internet. When used in a supervisory context, the term "authority" may refer to supervisory responsibility that is shared among two or more authorities.

Table 1. Actions Taken to Increase Deposit Insurance (Categorizations Based on Initial Actions Taken between September 20, 2008- March 30, 2009)

Full Depositor Guarantees	Deposit Insurance Coverage Increase	
	Permanent	Temporary
Austria ⁶	Albania	Australia
Denmark	Belgium	Brazil
Germany ¹	Bulgaria	Netherlands
Greece ¹	Croatia	New Zealand
Hong Kong, SAR	Cyprus	Switzerland
Hungary ¹	Czech Republic	Ukraine
Iceland ¹	Estonia	United States ⁴
Ireland ²	Finland	
Jordan	Indonesia	
Kuwait	Kazakhstan	
Malaysia	Latvia	
Montenegro ⁵	Lithuania	
Mongolia	Luxembourg	
Portugal ¹	Malta	
Singapore ¹	Philippines	
Slovakia	Poland	
Slovenia	Romania	
Taiwan	Russia	
Thailand ³	Serbia ⁵	
United Arab Emirates	Spain	
	Sweden	
	United Kingdom	
20	22	7

Source: "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010, and press releases from media and agency websites.

Notes: Full depositor guarantee consists of guarantees covering all deposits or the majority of all deposits in the banking system. In the case of Italy, no actual coverage increase has occurred; however, Law N.190 passed in December 2008 as a result of the international crisis, gives the Minister for Economy and Finance power to introduce a state guarantee for depositors for a period of 36 months. In the case of Saudi Arabia, a full guarantee in effect prior to the crisis was reaffirmed in October 2008 in response to the crisis.

¹ Political commitments by government.

² Full guarantee for seven specific banks representing 80 percent of the banking system.

³ Existing full guarantee in effect since 1997, originally set to expire in 2008. During the 2008 crisis, full guarantee was extended by two years.

⁴ Does not take into consideration program providing for temporary unlimited guarantee for non-interestbearing transaction accounts.

⁵ Not included in 2009 IADI/IMF Unwinding report.

⁶ Full deposit guarantee applied to individuals only.

B. Background

Cross border differences in deposit insurance rules and regulations and depositor protections can affect markets, financial stability, or consumer protections in at

least three ways. First, as discussed in research prior to the financial crisis and below, a lack of convergence and harmonization in deposit insurance rules and regulations can create externalities including potential conflicts of interest and competitive/regulatory arbitrage. Second, as evidenced during the recent financial crisis, unilateral adoption of emergency deposit insurance measures and full guarantees during a crisis can exacerbate such externalities and add to financial instability. Third, home/host issues stemming from cross border banking present concerns for depositor protection, and these concerns can be particularly troubling in a systemic crisis.

The Subcommittee addressed each of these areas in its literature review, its development of a chronology of deposit insurance changes resulting from the financial crisis, and its analysis of deposit insurance consequences of the Icelandic banking collapse, which highlights the home/host issues presented by cross border banking in relation to deposit insurance protections. Following the documentation and analysis of these topics, the Subcommittee categorized the consequent cross border deposit insurance issues into the following categories:

- **Convergence:** The extent to which a lack of convergence among various jurisdictions' deposit insurance rules and regulations (particularly the use of co-insurance, coverage, payout capabilities, and funding) may create externalities that may be exacerbated in a systemic crisis due to the adoption of extreme measures and full guarantees.
- **Public awareness:** The extent to which a lack of public awareness about deposit insurance coverage and/or its limitations, particularly the deposit insurance implications of doing business with foreign banks, may have been factors in the financial crisis.
- **Communication, coordination, and cooperation:** The extent to which multilateral communication, coordination, and/or cooperation regarding the implementation of emergency deposit insurance measures, or the lack thereof, may have played a role in the sequence of events as the crisis unfolded.
- **Cross border banking risks:** The extent to which issues related to the treatment of deposit insurance in the context of cross border banking, including deposit insurance issues raised by the failure of a cross border bank, home/host, topping up, and/or burden sharing issues, may have arisen in the financial crisis.
- **Unwinding:** Looking forward, the potential for the unwinding of temporary emergency deposit insurance measures to have undesired effects on international financial economies and markets.

Several of these issues have been the focus of pre-crisis research and guidance; others have attracted the attention of international organizations during and since

the crisis. The following paragraphs summarize relevant existing research,¹¹ guidance, and related activities of international organizations.

I. Research

The literature review included research and studies related to cross border deposit insurance issues. See Appendix A for the complete Literature Review. Much of this literature concerns resolution issues which are not the primary focus of the Subcommittee's work at this time. The Report and Recommendations of the Basel Committee on Banking Supervision (BCBS) Cross Border Bank Resolution Group (CBRG), finalized in March 2010, presents a thorough stocktaking of legal and policy issues related to cross border resolution issues.¹² The somewhat narrower issue of the effect of differences in deposit insurance systems and cross border banking on deposit insurance and related consumer protections was the topic of some pre-crisis research, however, as discussed below.

Multiple surveys documented the heterogeneous nature of deposit insurance rules and regulations across jurisdictions. This was true with respect to many characteristics and features of deposit insurance systems, including treatment of cross border issues. For example, cross border deposit insurance issues were explicitly addressed in a survey of 25 deposit insurance systems conducted in 2006 under the auspices of IADI by the Central Deposit Insurance Corporation (CDIC) of Taiwan.¹³ The CDIC survey examined home/host deposit insurance issues, safeguarding of foreign currency deposits, practices with regard to differences in coverage levels in home versus host countries, practices regarding liquidation of insolvent cross border banks, challenges perceived regarding cross border deposit insurance issues, and other related issues. The survey revealed a number of issues raised by the current treatment of cross border deposit insurance issues in the countries surveyed.

Other concerns noted by researchers prior to the crisis related to the implications of cross border differences in deposit insurance systems. Issues raised included uncertainties about funding, differences in deposit insurance coverage and pricing, questions related to the reliance on home versus host country in the event of a cross border bank failure, differences in treatment with respect to lender-of-last-resort, differences in approaches to bankruptcy resolution and priority of claims in troubled institutions, and differences in the treatment of deposits by European Market Union (EMU) versus non-EMU participants.¹⁴

¹¹ A more comprehensive literature review is contained in Appendix A.

¹² "Report and Recommendations of the Cross Border Bank Resolution Group," Basel Committee on Banking Supervision, Bank for International Settlements, March 2010.

¹³ Central Deposit Insurance Corporation (Taiwan), "Cross-border Issues: Questionnaire-Based Survey Analysis of Deposit Insurance Systems in Different Countries," October 2006. IADI also addressed the need for regional targeted training courses for employees of deposit insurers, given the increasing role of inter-relationship issues on the cross border level and widening multi-national risk exposures of deposit insurers in its 2007 research paper, "General Guidance for Effective Deposit Insurance Mandates."

¹⁴ George G. Kaufman and Robert A. Eisenbeis, "Cross-border Banking and Financial Stability in the EU," *Journal of Financial Stability*, 2008, pp. 168–204.

Researchers also discussed the effect of cross border differences in deposit insurance arrangements on capital flows, noting that the location of international deposits may be influenced by differences in deposit insurance schemes such as co-insurance requirements, coverage, and premiums; and that such differences can affect international depositor decisions regarding placement of funds.¹⁵

Finally, a number of researchers examined issues related to home versus host state responsibilities, particularly in cases in which a large bank chooses to locate its headquarters in a small country, resulting in a deposit guarantee obligation that is extremely large in relation to the resources of the home country.¹⁶ Such studies called for enhanced cooperation and coordination between home and host supervisors in both times of crisis as well as in non-crisis times due to the inherent difficulties in cross border resolutions and the ineffectual framework under which regulators operate internationally.¹⁷

II. Existing Guidance

The literature review also considered existing guidance on cross border issues. The IADI/Basel Committee on Banking Supervision (BCBS) issued Core Principles for Effective Deposit Insurance Systems in March 2009.¹⁸ In particular, Principle 7, Cross Border Issues, stresses the importance of cross border exchange of information and bilateral agreements when appropriate, and the need to provide clear information to depositors affected by cross border banking situations:

***Principle 7 – Cross-border issues:** Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety-net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognised in the determination of levies and premiums.*

¹⁵ Harry Huizinga and Gaëtan Nicodème, "Deposit Insurance and International Bank Deposits," European Commission Economic Papers, February 2002.

¹⁶ Jean Dermine, "European Banking Integration: Don't put the Cart before the Horse.," presentation at the conference on Cross-border Banking, Regulatory Challenges, Federal Reserve Bank of Chicago, October 6–7, 2005. Also, Henrik Borchgrevink and Thorvald Grung Moe, "Management of financial crises in cross-border banks," *Norges Bank Economic Bulletin*, 2004, http://www.norges-bank.no/upload/import/english/publications/economic_bulletin/2004-04/borchgrevink.pdf.

¹⁷ Robert A. Eisenbeis, "Home country versus cross-border negative externalities in large banking organization failures and how to avoid them," Federal Reserve Bank of Atlanta, 2006. Also, Eva H.G. Hupkes, "Too big to save – towards a functional approach to resolving crises in global financial institutions," paper for the Chicago Federal Reserve Bank Conference on Systemic Financial Crises: Resolving Large Bank Insolvencies, September 30–October 1, 2004.

¹⁸ BCBS/IADI Core Principles for Effective Deposit Insurance Systems, March 2009.

IADI's Guidance on Public Awareness¹⁹ also mentions the importance of public awareness of cross border deposit insurance issues and the difficulty faced by deposit insurers in clearly conveying this information to depositors, particularly in the event of a cross border bank failure.

III. Related Activities of International Organizations

During the crisis several international organizations became interested in issues related to deposit insurance.

In 2008, the Group of 20 (G-20) Summit on Financial Markets and the World Economy statement of November 15, 2008, requested that authorities and regulators study areas where convergence in regulatory practices including deposit insurance is making progress, is in need of accelerated progress, or where there may be potential for progress.²⁰ In response to the G-20 statement, IADI prepared an interim draft report, noting that the financial crisis had been accompanied by many sudden and significant changes in deposit insurance systems and that there were a number of areas where convergence among deposit insurance rules and regulations was in need of accelerated progress, including coverage and payout timeliness.²¹

In a report released in late 2008, the Organization for Economic Cooperation and Development (OECD) took note of the deposit insurance cross border issues raised by emergency measures taken during the financial crisis, suggesting that cross-country coverage differences (as well as a lack of coordination about measures) had the potential to create significant externalities.²² In early 2009, the G-20 also raised broad concerns about the lack of communication and multilateral coordination for many official actions taken during the financial crisis (these concerns were not confined to deposit insurance-related actions), encouraging regulators to "take all steps necessary to strengthen cross border crisis management arrangements, including on cooperation and communication with each other and with appropriate authorities, and develop comprehensive contact lists and conduct simulation exercises, as appropriate."²³ A similar theme was relayed in a subsequent IMF note.²⁴ Following on the G-20 Action Plan recommendation, on April 2, 2009, the Financial Stability Forum (FSF) released its Principles for Cross Border Cooperation

¹⁹ IADI Guidance Paper on Public Awareness of Deposit Insurance Systems, May 2009.

²⁰ "G20 Declaration of the Summit on Financial Markets and the World Economy," Washington, D.C., November 15, 2008, http://www.g20.org/Documents/g20_summit_declaration.pdf.

²¹ "Convergence in Regulatory Practices in Deposit Insurance," International Association of Deposit Insurers, February 21, 2009.

²² "Financial Crisis: Further Issues Regarding Deposit Insurance and Related Financial Safety Net Aspects," Organization for Economic Cooperation and Development, November 13–14, 2008.

²³ Group of Twenty Working Group 2, "G-20 Working Group on Reinforcing International Cooperation and Promoting Market Integrity," March 27, 2009.

²⁴ Note by the Staff of the International Monetary Fund on Stocktaking of the G-20 Responses to the Global Banking Crisis, Meeting of the Ministers and Central Bank Governors, March 13–14, 2009. Also, "Updated Stocktaking of the G-20 Responses to the Global Crisis: A Review of Publicly Announced Programs for the Banking System," International Monetary Fund, September 3–4, 2009.

on Crisis Management. These included a commitment to cooperation between relevant authorities in making advance preparations for dealing with financial crises and managing them.²⁵

In 2009 the Financial Stability Board became interested in the topic of unwinding of emergency deposit insurance measures. A Financial Stability Board (FSB) action point arising from a June 26–27, 2009 FSB meeting called for IADI and the IMF to prepare a report on unwinding temporary deposit insurance arrangements as part of the FSB's ongoing analysis of financial system conditions in light of the financial crisis. The IADI and IMF report summarized measures taken by deposit insurers in response to the financial crisis, plans for unwinding, and the extent to which jurisdictions reported coordination with others in the development of deposit insurance emergency measures, unwinding, and transitioning plans.²⁶ The report, which was updated in June 2010, concluded that while most jurisdictions had announced termination dates for the special measures taken, few had, to date, identified more detailed plans. In addition, several jurisdictions had not yet announced unwinding plans or dates, and most indicated they were only in the very early stages of unwinding planning. The report further concluded that opportunities appear to exist for jurisdictions to engage in regional coordination on the development of unwinding strategies.

²⁵ "Financial Stability Forum Principles for Cross-border Cooperation on Crisis Management," Financial Stability Forum, April 2, 2009.

²⁶ "Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, September 2009. The note was updated in March 2009, see "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010. Also see "Exit from extraordinary financial sector support measures," Note for G20 Ministers and Governors, November 6–7, 2009.

III. Deposit Insurance Events Stemming from the Financial Crisis

The following section presents a brief overview of deposit insurance events stemming from the financial crisis and taking place from September 2008 to March 2009. A country-specific chronology of these events is contained in Appendix B.

In response to the financial crisis, at least 49 jurisdictions²⁷ enhanced depositor protections to promote confidence in their financial systems in 2008 and early 2009 (refer back to Exhibit 1 and Table 1).²⁸ The majority of jurisdictions, 29 of the 49, increased deposit insurance coverage levels. Of these, 22 permanently increased their deposit insurance coverage levels, likely reflecting recognition that previous levels were insufficient. Seven of the 29 jurisdictions increased deposit insurance levels temporarily. Another 20 jurisdictions adopted full deposit guarantees, although the specific nature of the full coverage differs among the different jurisdictions. In addition, six of the jurisdictions that adopted full coverage did so by relying on public commitments rather than rules or regulation.

A. Overview of Deposit Insurance Events

Prior to the peak of the financial crisis in the fall of 2008, changes in deposit insurance rules and regulations had already begun to take place. Most notable among these was the near universal abandonment of co-insurance, which requires depositors to absorb some loss in the event of a bank failure. Co-insurance had been a feature of many European deposit insurance systems. Its effect on depositor behavior was destabilizing during events in the United Kingdom involving the failure of Northern Rock, however, and it was subsequently abandoned by most systems.

The deposit insurance changes that took place at the peak of the financial crisis in the fall of 2008 occurred over an extremely short time frame, exhibiting a broad geographical expansion characterized in many instances by escalating responses. Broadly speaking, events initially unfolded in the Western European region and the United States and spread quickly to Central and Eastern Europe, Asia, and the Middle East (see Table 2 and Table 3). Deposit insurance systems in Africa and South and Central America were largely unaffected by the crisis.

²⁷ The European Union is not included here as a separate jurisdiction.

²⁸ See "Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, September 2009. Also see "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010. The statistics regarding jurisdictions that made deposit insurance changes as a result of the financial crisis in this report differ slightly from those in the IADI/IMF notes due to the inclusion of Taiwan's actions in this report.

**Table 2. Emergency Deposit Insurance Measures:
Sep. 20, 2008–Mar. 30, 2009**

Measure Announced or Taken	Country	Coverage Limit as of Sept. 2008	New Coverage	Full Guarantee Adopted
20-Sep-08	Ireland ¹	EUR 20,000	Unlimited for 7 banks; EUR 100,000 for all other banks	Yes
2-Oct-08	Greece ²	EUR 20,000	EUR 100,000	Political Guarantee
3-Oct-08	UK	GBP 35,000	£50,000	
	USA* ³	USD 100,000	USD 250,000	
5-Oct-08	Germany ⁴	EUR 20,000	EUR 50,000	Political Guarantee
6-Oct-08	Denmark	DKK 300,000	Unlimited	Yes
	Iceland	EUR 20,887	Unlimited	Political Guarantee
	Sweden	SEK 250,000	SEK 500,000	
	Spain	EUR 20,000	EUR 100,000	
7-Oct-08	European Union	EUR 20,000	EUR 50,000	
	Belgium	EUR 20,000	EUR 100,000	
	Czech Republic	EUR 25,000	EUR 50,000	
	Netherlands*	EUR 40,000	EUR 100,000	
	Taiwan	TWD 1.5 million	Unlimited	Yes
8-Oct-08	Austria ⁵	EUR 20,000	Unlimited	Yes
	Cyprus	EUR 20,000	EUR 100,000	
	Finland	EUR 25,000	EUR 50,000	
	Hungary	HUF 6 million	HUF 13.5 million	Political Guarantee
	Lithuania	EUR 22,000	EUR 100,000	
	Romania	EUR 20,000	EUR 50,000	
	Slovenia	EUR 22,000	Unlimited	Yes
9-Oct-08	Bulgaria	BGN 40,000	BGN 100,000	
	Estonia	EUR 20,000	EUR 50,000	
	Malta	EUR 20,000	EUR 100,000	
10-Oct-08	Kazakhstan	KZT 700,000	KZT 5 million	
12-Oct-08	Australia* ⁶	Did not exist	AUS \$1 million	
	New Zealand* ⁶	Did not exist	NZD 1 million	
	Portugal	EUR 25,000	EUR 100,000	Political Guarantee
	United Arab Emirates		Unlimited	Yes
13-Oct-08	Croatia	HRK 100,000	HRK 400,000	
	Indonesia	IDR 100 million	IDR 2 billion	
	Latvia	EUR 20,000	EUR 50,000	
	Poland	EUR 22,500	EUR 50,000	
14-Oct-08	Hong Kong, SAR	HKD 100,000	Unlimited	Yes
	Russia	RUB 400,000	RUB 700,000	
15-Oct-08	Switzerland*	CHF 30,000	CHF 100,000	
	Ukraine*	UAH 50,000	UAH 150,000	
16-Oct-08	Malaysia	MYR 60,000	Unlimited	Yes
	Singapore	SGD 20,000	SGD 20,000	Political Guarantee
17-Oct-08	Luxembourg	EUR 20,000	EUR 100,000	
21-Oct-08	Philippines	PHP 250,000	PHP 500,000	
23-Oct-08	Jordan	JOD 10,000	Unlimited	Yes
24-Oct-08	Slovakia	EUR 20,000	Unlimited	Yes
	Thailand	Unlimited (to expire mid 2009)	Unlimited (extended)	Yes
26-Oct-08	Kuwait		Unlimited	Yes
28-Oct-08	Montenegro	EUR 5,000	Unlimited	Yes
25-Nov-08	Mongolia		Unlimited	Yes
26-Dec-08	Serbia	EUR 3,000	EUR 50,000	
30-Mar-09	Albania	ALL 700,000	ALL 2.5 million	
Mar-09	Brazil	BRL 60,000	BRL 20 million	

Sources: "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010; The Bank Guarantee Fund (Poland), April 2009; and press releases from media and agency websites. See the IADI/IMF notes and appendices for further details regarding actions taken by jurisdictions.

Notes: Dates reflect the date the coverage increase was announced or implemented.

* Indicates a temporary increase in coverage. In addition, full guarantees are usually temporary measures.

¹ On Sep 20, Ireland announced it would insure deposits up to EUR 100,000 and on Sep 30 it announced a full guarantee on all deposits held in seven Irish banks.

² Greece announced an unlimited deposit guarantee on Oct 12, but set an official guarantee limit of EUR 100,000 on Oct. 8.

³ The United States made its temporary increase permanent through the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (hereinafter "Dodd Frank Act") on July 21, 2010.

⁴ On Oct 5, Germany announced a full guarantee on deposits. In June 2009, the deposit guarantee coverage was formally increased to EUR 50,000 to comply with the recent EC Directives.

⁵ The unlimited coverage applied to natural persons while the deposit guarantee coverage for small enterprises was raised to EUR 50,000.

⁶ New Zealand and Australia announced unlimited deposit coverage on Oct 12, but later set a coverage limit (Australia on Oct. 24 and New Zealand on Oct. 22).

Table 3. Emergency Deposit Insurance Measures by Continent

Date Measure Taken or Announced	Europe	Asia	Middle East	Western Hemisphere
20-Sep-08	Ireland			
2-Oct-08	Greece*			
3-Oct-08	UK			USA
5-Oct-08	Germany*			
6-Oct-08	Denmark, Iceland* , Spain, Sweden			
7-Oct-08	European Union, Belgium, Czech Republic, The Netherlands	Taiwan		
8-Oct-08	Austria , Cyprus, Finland, Hungary* , Lithuania, Romania, Slovenia			
9-Oct-08	Bulgaria, Estonia, Malta			
10-Oct-08		Kazakhstan		
12-Oct-08	Portugal*	Australia, New Zealand	United Arab Emirates	
13-Oct-08	Croatia, Latvia, Poland	Indonesia		
14-Oct-08	Russia	Hong Kong, SAR		
15-Oct-08	Switzerland, Ukraine			
16-Oct-08		Malaysia, Singapore*		
17-Oct-08	Luxembourg			
21-Oct-08		Philippines		
23-Oct-08			Jordan	
24-Oct-08	Slovakia	Thailand		
26-Oct-08			Kuwait	
28-Oct-08	Montenegro			
25-Nov-08		Mongolia		
26-Dec-08	Serbia			
12-Mar-09	Albania			
Mar-09				Brazil

Sources: "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010; The Bank Guarantee Fund (Poland), April 2009; and press releases from media and agency websites.

Countries in bold reflect full guarantee measures.

*Indicates political commitment to fully guarantee deposits.

Actions initiated in Europe, were geographically clustered, and quickly spread to nearly every continent, except Africa and Latin America. The early adoption of full guarantees was typically designed to address perceptions of inadequate coverage and payout capabilities. Elsewhere, adoption of full guarantees or enhancements in coverage was frequently preemptive and at least in part the result of spillover effects in neighboring jurisdictions (i.e., panic may have existed in capital and debt markets but had not appeared to affect depositor behavior). Overall, these events suggest that pre-crisis coverage levels were likely insufficient in many jurisdictions, as evidenced by the fact that many governments as much as doubled deposit insurance coverage during these months. As enhancements were enacted, gaps in coverage levels between jurisdictions widened, which may have increased pressure in affected jurisdictions to take similar actions, particularly in financially integrated regions of the world.

Two additional themes that came out of the chronology relate to international communication and cooperation and unwinding of the special measures taken. International communication and coordination among involved financial sector authorities in home and host countries was limited, which may have further contributed to the escalating nature of actions taken. Another area that has received attention as a result of these events has been the status of efforts to unwind the full guarantees and temporary emergency measures taken during 2008 and the cross border implications of such measures in the future.

The following paragraphs briefly describe actions taken by region.

In Europe, from late 2007 through 2009, European states, like much of the developed world, experienced significant economic turmoil. The economic crisis destabilized the banking system in many European Economic Area (EEA) member and non-member countries. In late 2008, at the peak of the stress, many of these countries took unilateral actions to protect their banking systems. Countries' responses varied. Some took extraordinary measures to protect the retail banking system through full guarantees of deposits, while others took more moderate actions, including temporary increases in deposit insurance coverage levels. Several countries, including France and Norway, did not change or enhance their deposit guarantee schemes.

In Europe, Ireland was the first country to take action, increasing the deposit guarantee coverage to EUR 100,000 on September 20, 2008, and later adopting a full guarantee on September 30, 2008 (refer back to Table 2) for deposits in seven banks. Ireland's action was followed by increases in deposit insurance announced by Greece on October 2 and by the United Kingdom on October 3. Over the next 14 days, 19 European countries increased or announced an increase in deposit insurance coverage and seven adopted full guarantees.

The actions taken by member states during late 2008 to change or enhance their deposit insurance schemes can be divided into two periods—the period before the EU's Economic and Financial Affairs Council's (Ecofin)²⁹ decision on October 7, 2008 that the Directive on Deposit Guarantee Schemes needed to be amended, and the period following Ecofin's decision. Prior to October 7, member states took unilateral action to protect their domestic depositors and their national economies. Many of these measures were implemented in an extremely short period of time in an ad hoc fashion. After the European Commission (EC) passed the Amendment to the 1994 Directive on Deposit Guarantee Schemes, the majority of member states took action within days to implement the new Directive.³⁰

²⁹ Ecofin is composed of the Economics and Finance Ministers of the Member States, as well as Budget Ministers when budgetary issues are discussed. The Ecofin Council covers EU policy in a number of areas including economic policy coordination, economic surveillance, monitoring of Member States' budgetary policy and public finances, the euro (legal, practical and international aspects), financial markets, and capital movements and economic relations with third countries. It decides mainly by qualified majority, in consultation or co-decision with the European Parliament, with the exception of fiscal matters that are decided by unanimity.

³⁰ Directive 2009/14/EC, European Parliament and the Council of the European Union, March 11, 2009.

Actions taken by member states in response to the crisis highlighted a lack of convergence on coverage limits, but convergence did occur with regard to co-insurance, which has largely been eliminated from use. Member states also seem to be reaching a consensus that payout times need to be reduced.

In the United States, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA)³¹ was signed into law in an effort to restore liquidity and stability to all aspects of the banking and financial sectors. The most important aspect of the EESA with regard to deposit insurance was the temporary increase in coverage from USD 100,000 to USD 250,000, which was to initially last until December 31, 2009.³² The timeframe for increased coverage had been extended until December 31, 2013³³ and the increase was later made permanent.³⁴

In Latin America, Brazil was the only country to take action by increasing the deposit coverage limit from BRL 60,000 to BRL 20,000,000 in March 2009³⁵.

In Asia, certain financial markets in the Asia-Pacific region experienced significant stress following the collapse of Lehman Brothers. While some major Asian economies, including Japan and India, did not make changes in their deposit insurance coverage, many countries increased deposit insurance coverage and/or adopted temporary full guarantees in a series of rapid preemptive actions during October 2008. The first Asian country to react was Taiwan, which adopted a full guarantee on October 7. Three days later, Kazakhstan increased its deposit coverage seven fold. Full guarantees on deposits were announced in Australia and New Zealand on October 12 (later establishing temporary coverage limits), in Hong Kong on October 14, and in Malaysia and Singapore on October 16. Russia increased deposit insurance coverage on October 14 and the Philippines on October 21. Finally, Thailand and Mongolia extended or adopted full guarantees on October 24 and November 25, respectively.

The response in the Middle East to the financial crisis was mixed. The United Arab Emirates, Jordan and Kuwait guaranteed all deposits, while others left coverage levels unchanged. A few countries in the Middle East that do not have deposit insurance funds began discussions regarding implementing deposit guarantee schemes in light of the crisis.

³¹ Emergency Economic Stabilization Act of 2008, Public Law 110-343, 110th cong., 2d sess. (October 3, 2008), <http://www.gpo.gov/fdsys/pkg/PLAW-110publ343/html/PLAW-110publ343.htm>.

³² Amendment to H.R. 1424, Division A, Section 136.

³³ Helping Families Save Their Homes Act of 2009, Public Law 111-22, Section 204, May 20, 2009.

³⁴ The Dodd Frank Act, enacted on July 21, 2010, permanently increased the coverage limit to USD 250,000.

³⁵ The increase was targeted as relief to small and medium sized banks that rely on wholesale deposits for funding and was only applicable to nonnegotiable time deposits with maturities between 6 months and 5 years.

B. Impact on Coverage Levels

The impact of these measures on depositor protection measured in terms of GDP per capita (relative coverage) varied widely among affected countries. These differences can be seen across regions as well as within regions, particularly in the European Union (see Table 4).³⁶

In Europe, the minimum harmonization of coverage levels among different size economies also meant that differences in relative coverage significantly widened. Coverage levels in the more advanced European economies averaged 1 ½ - 2 ½ times per capita GDP while accession jurisdictions coverage levels ranged from four times GDP per capita to over 12 times per capita GDP.

In Asia, the relative protection levels were higher and ranged from five times GDP per capita to over 80 times.³⁷ Since most jurisdictions in Latin American and Africa did not adopt enhanced deposit insurance measures, disparities in relative coverage between these regions and Europe and Asia, may have widened.

³⁶ "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staff of IADI and IMF, June 2010. Coverage based on per capita GDP ratios is the only comparator across jurisdictions. It provides a statistical description, and should not be relied on as the only source of coverage analysis.

³⁷ As pointed out in the IADI/IMF note (2010): "the very high protection levels in Asia may reflect, in part, the legacy from the 1998 Asian crisis where blanket guarantees were introduced and have been slowly dismantled over the period".

Table 4. Coverage Levels by Selected Regions and Jurisdictions

Jurisdiction	Coverage ¹		Ratio ²	
	Old	New	Old	New
Europe ³				
Albania	ALL 700	ALL 2,500	2.0	6.9
Austria	EUR 20	EUR 50	0.6	1.5
Belgium	EUR 20	EUR100	0.6	3.2
Bulgaria	BGL 40	BGL 100	4.6	11.4
Croatia	HRK 100	HRK 400	1.3	5.3
Cyprus	EUR 20	EUR 100	0.9	4.7
Czech Republic	EUR 25	EUR 50	1.8	3.8
Denmark	DKR 300	...	0.9	...
Estonia	EUR 20	EUR 50	1.7	4.9
Finland	EUR 25	EUR 50	0.7	1.6
Germany	EUR 20	EUR 50	0.7	1.7
Greece	EUR 20	EUR 100	0.9	4.7
Hungary	HUF 6,000	EUR 50	2.3	5.3
Ireland	EUR 20	EUR 100	0.5	2.7
Latvia	EUR 20	EUR 50	2.0	6.0
Lithuania	EUR 22	EUR 100	2.3	12.5
Luxembourg	...	EUR 100	...	1.3
Malta	EUR 20	EUR 100	1.4	7.3
Netherlands	EUR 20	EUR 100	0.6	2.9
Poland	EUR 22.5	EUR 50	2.4	6.2
Portugal	EUR 25	EUR 100	1.6	6.5
Romania	...	EUR 50	...	9.2
Russia	RUB 400	RUB 700	1.4	2.5
Slovakia	EUR 20	...	1.6	...
Slovenia	EUR 22	...	1.2	...
Spain	EUR 20	EUR 100	0.8	4.4
Sweden	EUR 25	EUR 50	0.7	1.6
Switzerland	SWF 30	SWF 100	0.4	1.4
Ukraine	UAH 50	UAH 150	2.4	7.6
United Kingdom	GBP 5	GBP 50	1.5	2.2
Asia				
Australia	...	AUD 1,000	...	17.4
Indonesia	IDR 100,000	IDR 2,000,000	4.6	82.5
Kazakhstan	KZT 700	KZT 5,000	0.7	4.8
New Zealand	...	NZD 1,000	...	23.3
Philippines	PHP 250	PHP 500	3.0	6.0
Singapore	SGD 20	...	0.4	...
Middle East				
Jordan	JOD 10	...	3.9	...
Kuwait	...	...	...	...
Saudi Arabia	...	...	...	...
United Arab Emirates	...	...	...	...
Western Hemisphere				
Brazil	BRL 60	BRL 20,000	3.8	1218.5
United States	USD 100	USD 250	2.1	5.4

Source: "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010.

Note: "..." indicates jurisdictions that either the coverage level was not reported, a full guarantee was enacted without a formal increase in the coverage limit, or a deposit insurance scheme was not in place.

¹ In thousands. For jurisdictions that reported a formal deposit coverage limit in addition to a full guarantee, the coverage limit is reflected in the table.

² Old ratio expressed as a factor of 2008 GDP per capita. New ratio (based on initial measure taken) expressed as a factor of 2009 GDP per capita. Based on IMF GDP per capita data.

³ All EU jurisdictions are expected to transpose 2009/14/EC Directive by the end of 2010 and raise coverage level to EUR100,000.

C. Adoption of Full Guarantees

A number of countries adopted full guarantees (see Table 5) while others seemingly similarly affected adopted lesser measures. Regionally integrated economies appear most susceptible to the adoption of preemptive extraordinary measures such as full guarantees. Jurisdictions that are regionally interconnected are likely to face greater threats of contagion from outside the jurisdiction and thus have greater need to react during times of crisis. Full guarantees may also be more likely to be adopted in countries that have a higher level of cross border banking, accompanied by fewer restraints on international banking and capital flows. This observation is based on the number of European and Asian jurisdictions that adopted full guarantees in rapid succession in the early stages of the crisis.

Table 5. Countries Adopting Full Guarantees in 2008

Date Measure Announced or Implemented	Country	Previous Coverage
Europe		
30-Sep	Ireland	EUR 20,000
2-Oct	Greece*	EUR 20,000
5-Oct	Germany*	EUR 20,000
6-Oct	Denmark	DKK 300,000
	Iceland*	EUR 20,887
8-Oct	Austria	EUR 20,000
	Hungary*	HUF 6 million
	Slovenia	EUR 22,000
12-Oct	Portugal*	EUR 25,000
24-Oct	Slovakia	EUR 20,000
Asia- Pacific		
7-Oct	Taiwan	TWD 1.5 million
14-Oct	Hong Kong, SAR	HKD 100,000
16-Oct	Singapore*	SGD 20,000
	Malaysia	MYR 60,000
24-Oct	Thailand	Unlimited (to expire mid 2009)
28-Oct	Montenegro	EUR 5,000
25-Nov	Mongolia	Not available
Middle East		
12-Oct	United Arab Emirates	Not available
23-Oct	Jordan	JOD 10,000
26-Oct	Kuwait	Not available

Sources: "Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, September 2009 and "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010; "Research paper on the changes in the EU Deposit Insurance Systems in the 4th quarter 2008 in response to the turmoil of the financial markets," The Bank Guarantee Fund (Poland), April 2009; and press releases from media and agency websites.

Note: Dates reflect the announcement or implementation of the unlimited deposit guarantee measure.

*Political commitments by government.

D. Unwinding of Temporary and Full Guarantee Measures

The cross border issues raised by the initiation of emergency deposit insurance measures at the onset of the crisis highlights the potential for similar effects to arise on the back end during the unwinding process. For example, a potential first

mover problem could arise if jurisdictions are reluctant to unwind special measures due to concerns about disadvantaging the domestic banking system relative to foreign banks. Such issues can be addressed through adequate coordination and communication efforts, which can ensure a smooth unwinding experience and avoid additional financial instability. Table 6 presents a summary of planned expiration dates for the temporary enhancements in deposit insurance taken by many jurisdictions in the crisis. As of the date of this report, not all countries had announced expiration dates. The expiration dates span from 2009 to the end of 2013, with most countries setting expiration dates in 2010 or 2011.

Table 6. Expiration of Temporary or Full Guarantee Emergency Deposit Insurance Measures

2009	2010	2011
Austria ⁵ Montenegro	Denmark Germany Hong Kong, SAR Jordan Ireland Malaysia Netherlands Singapore Slovenia Taiwan	Australia New Zealand ³ Switzerland ⁴ Thailand United Arab Emirates Ukraine
Countries that have not announced expiration dates for increases: Brazil Greece ¹ Hungary Iceland ² Kuwait Mongolia Portugal ¹ Slovak Republic		

Sources: "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010; press releases from media, agency websites, and other sources.

¹ Legal coverage limit valid until 12/31/11, but no expiration date reported for the political guarantee.

² As of May 2010, a bill has been recently introduced to set the deposit coverage limit to EUR 50,000 on a permanent basis.

³ Extension with lower coverage level.

⁴ The Swiss government presented a proposal to make coverage increase permanent.

⁵ Full deposit guarantee applied to individuals only.

IV. Iceland: A Case Study of Deposit Insurance Events Stemming from the Financial Crisis

As previously stated, home/host issues stemming from cross border banking presents concerns for depositor protection, and these concerns can be particularly troubling in a systemic crisis. Such concerns were highlighted by the collapse of the Icelandic banking sector in late 2008.³⁸ The third component of the Subcommittee's work was a case study of the deposit insurance events stemming from the collapse of the Icelandic banking sector.

The failure of three large, internationally active Icelandic banks amidst the rapid adoption of emergency deposit insurance measures in late 2008 served to highlight deposit insurance vulnerabilities underlying home/host cross border bank oversight arrangements. The Icelandic banks had built aggressive growth strategies and were highly reliant on deposits collected by foreign branches and subsidiaries and over the Internet.

During October 2008, the Government of Iceland took control of the country's three largest financial institutions amidst one of the most severe financial crises in the country's history. Consistent with the EU home country control policy, the Icelandic deposit insurance fund (Depositors' and Investors' Guarantee Fund, or DIGF) was responsible for deposits in all Icelandic bank branches up to minimum of EUR 20,887 per customer per bank.³⁹ When the liquidity crisis hit, the DIGF was unable to meet its deposit guarantee obligations due to an array of factors, including a banking sector that had far outgrown the domestic economy, extensive international operations, and high levels of foreign currency deposits.

The foreign subsidiaries and branches of the Icelandic banks were subject to a variety of home and/or host oversight arrangements that were not transparent to depositors. As a result, applicable deposit insurance arrangements and home/host authority accountability was not readily apparent to depositors and foreign authorities. Significant underfunding of the Icelandic deposit insurance fund made matters far worse and compelled jurisdictions affected by the collapses to use a diverse set of funding strategies under emergency conditions to compensate their domestic depositors in the Icelandic banks. Disruption among both affected depositors and authorities led the events to have a systemic impact that reached far beyond the borders of the home country.

The Icelandic experience highlights the problems with domestic deposit insurance systems in a cross border failure, particularly when public awareness and understanding of the system is lacking, burden sharing arrangements are

³⁸ For additional information and analysis of the processes leading to the collapse of the three main banks in Iceland, see Report by the Special Investigation Commission (SIC) delivered to Althing on April 12 2010. <http://sic.althingi.is/>.

³⁹ Kaarlo Jännäri, "Report on Banking Regulation and Supervision in Iceland: past present and future," March 30, 2009, http://eng.forsaetisraduneyti.is/media/frettir/KaarloJannari__2009.pdf.

nonexistent, and the level of currency reserves is insufficient . The next section provides background on the Icelandic sequence of events and documents the actions undertaken by the Icelandic and other European governments to protect domestic depositors amidst the collapse of the three largest Icelandic banks: Glitnir, Landsbanki, and Kaupthing.

A. Icelandic Banking Sector: Exponential International Growth of Kaupthing, Landsbanki, and Glitnir

Iceland's membership in the European Economic Area (EEA) facilitated the rapid expansion of Icelandic banks across Europe without major constraints from national supervisors. This growth was mainly driven by the establishment of foreign branches and the acquisition of foreign entities that became subsidiaries of Kaupthing, Landsbanki, and Glitnir. From 2004 to 2007, the assets of these banks grew nine fold to 900 percent of Iceland's gross domestic product (GDP).⁴⁰ By October 2008, the banks' assets peaked at nearly 11 times GDP (partly due to depreciation of the ISK).⁴¹

The United Kingdom, the Nordic countries, Luxembourg, the Netherlands, and Germany were the main areas where Kaupthing, Glitnir, and Landsbanki established their international retail presence.

Kaupthing's retail strategy included Internet-based Kaupthing Edge accounts launched in 2007–2008 and marketed to a rapidly expanding customer base in the UK, Belgium, Norway, Germany, Finland, Sweden, Luxembourg, the Isle of Man, Austria, and Switzerland. Customers were attracted to the accounts by the high interest rates.⁴² By September 2008, deposits in Edge accounts at branches were approximately EUR 1.2 billion.

Landsbanki introduced the Internet-based IceSave accounts in the UK through its London branch in October 2006 and expanded to the Netherlands in May 2008. In September 2008, the IceSave accounts were valued at GBP 4.8 billion in the UK and EUR 1.7 billion in the Netherlands.⁴³

By the end of 2007, over 50 percent of Kaupthing, Glitnir, and Landsbanki's assets were located abroad, and an average of more than 70 percent of the three banks' balance sheet totals were in foreign currency.⁴⁴ Total bank assets located within

⁴⁰ Willhelm Buiter and Anne Silbert, "The Icelandic banking crisis and what to do about it: The lender-of-last-resort theory of optimal currency rates," CEPR Policy Insight No. 26, October 2008.

⁴¹ *Ibid.*

⁴² In July 2008, Kaupthing's Isle of Mann subsidiary offered interest rates of 7.15 percent on one-year deposits.

⁴³ IMF Country Report No. 08/362, November 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr08362.pdf>.

⁴⁴ The banks' foreign exchange balances were minimal until 2005, when they started to go long on foreign exchange. This was largely due to increased international operations, which led to a need to hedge their own funds or capital against fluctuations in the ISK. *See id*; *See also*, Jännäri (2009)

Iceland, however, still amounted to almost four times Iceland's GDP⁴⁵ (see Appendix B for additional details on Kaupthing, Landsbanki, and Glitnir's asset size and cross border operations).

Consistent with the EEA framework, branches of Icelandic banks located in other EEA countries were mainly subject to the regulations and guarantee levels of the Icelandic Financial Service Authority (FME) and the DIGF and in some cases, the host country deposit insurer through "topping-up" agreements. Conversely, Icelandic subsidiaries were supervised and guaranteed mainly by their respective host country supervisor and deposit insurer.

B. The Collapse of the Icelandic Banking Sector

The exponential growth of the Icelandic banking sector was primarily funded through international wholesale markets and foreign debt financing. In early 2008, Kaupthing, Glitnir, and Landsbanki received about a third of their funding from deposits; the remaining two-thirds was from international wholesale markets.⁴⁶

The dependence on wholesale market funding became a source of concern in mid-2007 and caused a significant increase in the banks' credit default swaps spreads (CDS). These vulnerabilities were apparent to the FME, and by early 2008 the agency increased its monitoring and emphasis on liquidity management and contingency planning. The agency also intensified cooperation with host country supervisors, particularly the UK and the Nordic countries, in order to supervise foreign branches more effectively.⁴⁷ Despite these supervisory efforts, by September 2008, the Icelandic banks, the Central Bank of Iceland (CBI), and the Icelandic Government were no longer considered creditworthy by the international financial community.⁴⁸ After the collapse of Lehman Brothers on September 15, 2008, previously available credit lines were no longer an option.

In early October, the FME took over Glitnir, Landsbanki, and Kaupthing under the powers granted by emergency legislation passed on October 6, 2008.⁴⁹ The legislation enabled the FME to take over the operations of a financial firm in whole

⁴⁵ Buiter and Silbert (2008). Also: IMF Country Report No. 08/368, December 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr08368.pdf>.

⁴⁶ Buiter and Silbert.

⁴⁷ IMF Country Report No. 08/368.

⁴⁸ CDS rates for Landsbanki peaked at 850, for Kaupthing at 1140, and for Glitnir at 1026 in late March/early April 2008. The rates declined in May, but increased again in mid July 2008. These were some of the highest CDS rates in the world. See W. Buiter (2008).

⁴⁹ After Glitnir, Landsbanki and Kaupthing were taken over by the Icelandic authorities, they were partitioned into "old and new banks," with the old banks composed of the foreign assets and liabilities and the new banks handling domestic business. As of December 16, the Icelandic government and the Resolution Committee of Landsbanki Íslands hf and new Landsbankinn (NBI) agreed on the settlement of assets and liabilities of the collapsed bank. This agreement included the issuance of a debt instrument with a ten-year term to the old bank in the amount of ISK 260 billion.

or in part as well as merge the firm with another viable firm.⁵⁰ On October 8, 2008, the FME took control of Glitnir Bank and appointed a resolution committee.⁵¹

Prior to the takeover of Glitnir, on September 29, the Icelandic government had originally announced its intention to take a 75 percent stake in Glitnir by contributing EUR 600 million of new share capital.⁵² This announcement precipitated a credit downgrade of Iceland later that day and exacerbated a growing deterioration in depositor confidence in Icelandic banks. Daily deposit outflows from Landsbanki's IceSave accounts and Kaupthing's Internet Edge deposit accounts continued to worsen the banks' liquidity situations.

Liquidity pressures on Landsbanki worsened when concerned UK authorities requested that the bank pay an additional cash liquidity reserve to the Bank of England. Unable to fulfill liquidity and risk thresholds, on October 7, 2008, the FME took control of Landsbanki and appointed a resolution committee. At the same time, the situation for Kaupthing's UK operations was continuing to worsen, and after a period of intense supervision, on October 8, 2008, UK authorities closed Kaupthing, Singer & Friedlander (KSF), the UK subsidiary of Kaupthing, and the following day the FME took control of Kaupthing.

C. Government Interventions to Protect and Address Depositor Payments

Depositors in multiple countries were affected by the collapse of the three Icelandic banks. In December 2008, the IMF estimated the insured foreign deposit liabilities of the three Icelandic banks in the United Kingdom, the Netherlands, and Germany to be USD 5.8 billion. This estimate was reduced from USD 8.2 billion, "in part because ring-fencing of branches in other countries...made it possible to cover deposits through recovered assets."⁵³

After the takeovers, the FME announced that it would guarantee the deposits of the failed banks. However, at the time of the Icelandic banking collapse, the DIGF did not have the immediate funds to cope with the deposit liabilities of the failed banks. DIGF funds amounted to only to ISK 15 billion, which was 0.5 percent of deposits plus ISK 6 billion in guarantees. A contributing factor to the low funding levels of DIGF was its funding structure. Payments into the DIGF by banks were based on the sum of guaranteed deposits at the end of the preceding year (see Box 1). In a context where deposits, especially foreign currency deposits, were rapidly growing in 2007 and 2008, this funding structure contributed to an underfunded deposit insurance fund.

⁵⁰ "Joint press release by the Ministry of Finance and the Resolution Committee of Landsbanki Íslands hf, Landsbanki Ísland," December 16, 2009, <http://www.lbi.is/newsandevents/?NewsID=79>.

⁵¹ Buiter (2008).

⁵² Jännäri (2009).

⁵³ IMF Country Report No. 09/52, February 2009.

Box 1. Icelandic Financial Sector and Deposit Insurance Regulatory Framework

The Ministry for Business Affairs is responsible for financial sector legislation in Iceland (excluding Central Bank and pension fund legislation). This includes legislation regarding the supervisory authority (the Icelandic Financial Services authority, or FME) and financial undertakings such as banks, insurance companies, securities firms, and the deposit guarantee scheme. The FME was created in 1999 as an independent body under the auspices of the Ministry of Business Affairs. In cases of financial crisis, the Ministry of Finance can take measures to raise funds for recapitalization of the banking system. In the context of the current crisis, the Ministry of Finance has effectively become the owner of the failed Icelandic banks.⁵⁴

The Depositors' and Investors' Guarantee Fund (DIGF) is a private foundation operating pursuant to the Act on Deposit Guarantees and an Investor Compensation Scheme. The Act provides a minimum level of protection to investors and to depositors in commercial and savings banks in the event that a commercial or savings bank cannot meet its obligations. The DIGF is under the surveillance of the FME. Commercial banks, savings banks, companies providing investment services, and other parties engaged in securities trading and established in Iceland are required by law to be members of the DIGF. The same applies to any branches of such parties within the EEA. The DIGF is divided into two separate divisions—the Deposit Division and the Securities Division.

By law, the total assets of the DIGF's Deposit Division must amount to a minimum of 1.0 percent of the average amount of guaranteed deposits in commercial banks and savings banks during the preceding year, and the total assets of the Securities Division must amount to a minimum of ISK 100 million. Contributions in the form of payments or submission of liability declarations are required from banks by law in the event that the total assets of the Fund do not reach the 1.0 percent minimum. The general rule is that guaranteed deposits are to be paid in full. In the event that the assets of either division of the DIGF are insufficient to pay the total amount of guaranteed deposits and securities, payments from each division shall be divided among the claimants in the following manner: each claim up to EUR 20,887 shall be paid in full, and any amount in excess of this amount shall be paid in equal proportions, depending on the extent of each division's assets. No further claims may be made against the DIGF at a later stage in such a situation. Should the total assets of the DIGF prove insufficient to pay the initial EUR 20,887, the board of directors may take a loan to compensate losses suffered by claimants. Deposits in foreign branches of Icelandic banks may also decide to participate in topping-up schemes, whereby the amounts over EUR 20,887 are covered by supplemental insurance provided by the host country.

Shortly after the takeovers, the government of Iceland entered into negotiations with the IMF concerning a program to stabilize the economy. Negotiations led to a

⁵⁴ Jännäri (2009).

two year Stand-by Arrangement on November 19, 2008, in the amount of USD 2.1 billion, which included a commitment to work constructively toward agreements with other countries for the DIGF line with the EEA legal framework.⁵⁵

The takeover of Icelandic banks by the FME led other host country regulators to take immediate action to protect their domestic depositors and creditors. The British, German, Luxemburg, Finnish, Swiss, and Norwegian regulators placed the Icelandic banks' branches or subsidiaries under administration and, to different degrees, instituted asset and payment freezes. In light of the lack of DIGF funds available to compensate depositors in foreign branches of Icelandic banks, a number of governments facilitated funding through arrangements such as host government loans or payment advances granted to the Icelandic government (e.g., UK, the Netherlands, Germany, Norway), and private sector loans guaranteed by host governments in favor of Icelandic bank branches (e.g., Finland). In certain cases, host countries compensated or announced intentions to compensate affected depositors beyond the EUR 20,887 limit covered by the DIGF (e.g., UK, the Netherlands, Finland, and Norway).

Some jurisdictions that hosted subsidiaries of banks did not have deposit insurance schemes, which presented another problem following the Icelandic bank failures. Legally, these jurisdictions were not responsible for providing deposit insurance to depositors of failed banks; however, in the wake of the crisis these jurisdictions realized the immediate need to provide depositors with some level of protection to calm their domestic markets and restore public confidence. For example, Guernsey did not have a deposit scheme in place at the time of the Icelandic banking collapse, but the government was able to compensate depositors through the sale of assets from the failed Landsbanki subsidiary in its jurisdiction.

The establishment of foreign bank branches by foreign subsidiaries of the Icelandic banks (e.g., Swiss and Belgian branches of Kaupthing Luxemburg (subsidiary)) added an additional layer of complexity to depositor compensation. Specific actions taken by host governments to protect domestic interests and reimbursement of depositors across their jurisdictions are presented below.

United Kingdom

The main retail operations of Icelandic banks in the UK were Landsbanki's IceSave branch, a Landsbanki subsidiary (Heritable Bank), and a Kaupthing subsidiary (Kaupthing, Singer & Friedlander-KSF). As mentioned, the deposits at Landsbanki's UK branch were legally covered by the Icelandic deposit insurance scheme up to a minimum value of EUR 20,887. In addition, they were covered on a topping-up

⁵⁵ IMF Country Report No. 08/362. It is estimated that the IMF loan will fill about 42 percent of Iceland's 2008–10 financing gap, and the remainder will be met by bilateral creditors including Denmark, Finland, Norway, and Sweden. "Iceland Gets Help to Recover from Crisis," *IMF Survey Magazine*, Vol. 37, No. 12, December 2008. See also, J. Jackson, "Icelandic Financial Crisis," CRS Report to Congress RS22988, November 2008, <http://stuff.mit.edu/afs/sipb/contrib/wikileaks-crs/wikileaks-crs-reports/RS22988.pdf>.

basis by the UK Financial Services Compensation Scheme (FSCS), to which Landsbanki had chosen to opt-in.⁵⁶

During the week of September 29, 2008, after the Icelandic government had announced its intention to take an equity stake in Glitnir, Landsbanki suffered a crisis of confidence and approximately GBP 500 million flowed out of its IceSave accounts. On October 3, 2008, the UK government demanded that additional cash liquidity reserves be paid to an account with the Bank of England to meet potential further outflows from the IceSave accounts.⁵⁷ On October 5, 2008, the Icelandic Ministry of Business Affairs communicated to the UK authorities that the Icelandic government would support the DIGF in raising the necessary funds so that the DIGF would be able to meet the minimum compensation levels in the event of the failure of Landsbanki and its UK branch. However, in the following days the Icelandic government indicated to the UK authorities that it would not be in a position to meet the liabilities of the Icelandic deposit insurance scheme immediately. The website for the UK Icesave operation closed on October 6, 2008. On October 8, 2008, the UK authorities, using the powers under the UK Anti-Terrorism, Crime and Security Act of 2001,⁵⁸ froze assets relating to Landsbanki in the UK. Also on the same day, the UK FSA determined that Heritable Bank, as well as, KSF did not meet the threshold conditions for operating as a credit institution and closed the subsidiaries to new business. The subsidiaries were placed under administration. Through special resolution powers under the Banking (Special Provisions) Act 2008, the FSA transferred Heritable Bank's retail savings accounts to ING Direct.⁵⁹ Deposits of KSF's Edge business were also transferred to ING Direct to ensure continuity of operations for depositors. The FSA's actions and the administration triggered the UK FSCS.

As of the date of administration, there were approximately 170,000 Edge deposit holders with total deposits of GBP 2.6 billion. The non-Edge deposit book of KSF totaled approximately GBP 2.3 billion divided approximately among 3,000 accounts held by individuals, charities, corporate entities, and local authorities. The transfer to ING Direct was funded by the FSCS and the UK government. Along with transferring depositors' insured deposit amounts from KSF to ING Direct, the UK government also announced that it would protect all KSF and Heritable Bank depositors for any amounts over the compensation limit applied by the FSCS.

Depositors of Landsbanki's UK branch were eligible for deposit insurance coverage up to GBP 50,000—the Icelandic DIGF covering EUR 20,887 and the UK FSCS covering the additional amount above EUR 20,887 up to GBP 50,000. At the time of Landsbanki's failure, approximately GBP 800 million of deposit liabilities were

⁵⁶ "The Turner Review: a regulatory response to the global banking crisis," Financial Services Authority, March 2009.

⁵⁷ Landsbanki requested that the CBI and the Government grant it a loan of GBP 200 million against ISK collateral to meet the UK's demands. The Government and the CBI denied the loan request.

⁵⁸ While the legislation contains anti-terrorism provisions, the freezing order was made under separate provisions conferring the power to freeze assets where the UK authorities determine that action has been taken, or is likely to be taken, that is to the detriment of the UK economy.

⁵⁹ See HM Treasury, Press release 101/08 (www.hm-treasury.gov.uk/press_101_08.htm); www.heritablesavings.co.uk and www.heritable.co.uk/businessdeposits/informationforcreditors/.

uninsured (amounts above GBP 50,000). The UK government concluded that these deposits should be fully protected as well to maintain depositor confidence in the banking system and protect financial stability.⁶⁰ Because the Icelandic DIGF could not meet its obligations to the depositors of Landsbanki's UK branch, the initial costs of deposit insurance were met by a combination of funds from the UK government and the FSCS.⁶¹ In June 2009, the UK authorities lifted the asset freeze on Landsbanki⁶² after the UK and the Netherlands agreed to provide the Icelandic government with a loan of approximately USD 5.51 billion to cover the deposits of Landsbanki branch customers (although these loans have yet to be completed).⁶³

As of March 2010, talks to find a new repayment plan for the loans continue after a national referendum in Iceland rejected the terms of the loan agreement.⁶⁴

The Netherlands

In the Netherlands, Landsbanki operated an IceSave branch while Kaupthing's presence was established through a subsidiary. Consistent with EU directives on deposit guarantees, the Icelandic DIGF was responsible for covering deposits in Landsbanki's Netherlands branch for up to EUR 20,887 per person. On October 9, 2008, De Nederlandsche Bank (DNB) and the Dutch Ministry of Finance announced that current accounts, savings accounts, or special savings accounts such as fixed-term deposits at Icesave Nederland would be covered to a maximum of EUR 100,000 per account holder under the Dutch deposit guarantee scheme. The DNB assured customers that they would receive payment "as soon as possible."⁶⁵ The DIGF was able to cover its share of the deposit liabilities at Icesave Nederland (up to EUR 20,887 per person) through a loan provided by the Dutch government intended for this purpose. This arrangement was based on a Memorandum of Understanding between the Dutch and the Icelandic governments signed on October 11, 2008.⁶⁶

⁶⁰ The Turner Review.

⁶¹ Ibid.

⁶² HM Treasury Order 2009 No. 1392, Office of Public Sector Information, http://www.opsi.gov.uk/si/si2009/uksi_20091392_en_1.

⁶³ Loan Agreement between the Depositors' and Investors' Guarantee Fund of Iceland and Iceland and the Commissioners of HM Treasury, June 5, 2009.

⁶⁴ "Icelandic Government and Opposition Agree on Icesave," *Icelandic Review*, December 8, 2009. An acceptance and amendment agreement, which alters the terms of the initial loan repayment agreement of August 28, 2009, was submitted to the Icelandic Parliament on October 19, 2009. In the loan agreements as amended, the UK and the Netherlands have accepted the economic conditions set out in the August 28, 2009 agreement (Act No. 96/2009). Under the amended agreement, there is no expiration set for the Icelandic government's state guarantee of the funds to be repaid. See also, <http://www.icenews.is/index.php/2010/03/16/uk-and-nl-waiting-for-iceland%E2%80%99s-next-icesave-move/>.

⁶⁵ "DNB activates deposit guarantee scheme for savers at Icesave," De Nederlandsche Bank, press release, October 9, 2008, <http://www.dnb.nl/en/news-and-publications/news-and-archive/persberichten-2008/dnb189090.jsp>.

⁶⁶ Under this nonbinding agreement, the terms of repayment were the following: the loan was to be repaid within ten years with a three-year grace period at 6.7 percent interest. As noted above, on August 28, 2009 the Icelandic Parliament approved the repayment terms for the loan. The legislation

Finland

In Finland, Kaupthing operated as a branch, while Glitnir Bank had established a subsidiary. On October 9, 2008, the Finnish Financial Supervisory Authority (FIN-FSA) suspended the operations of Kaupthing's Finnish branch with the consent of FME.⁶⁷ FIN-FSA also imposed a prohibition on asset transfers not related to ordinary business, as well as a prohibition on the withholding of deposits until the payout process was determined.

Approximately 10,500 Finnish customers held deposits in Kaupthing's Finnish branch. FIN-FSA announced that 65 percent of deposits in Kaupthing's Finnish branch were covered by a deposit guarantee scheme. The Icelandic deposit guarantee scheme covered up to EUR 20,887 per customer, and an additional coverage of EUR 4,113 per customer was being provided by the Finnish deposit guarantee scheme.⁶⁸

In Finland, payments to Kaupthing's Finnish branch depositors were financed through a EUR 100 million loan to the branch financed by Finnish banks Nordea Bank Finland, OP-Pohjola group, and Sampo Bank and guaranteed by the Finnish government on October 24, 2009. The loan arrangement covered all deposits other than claims of credit and financial institutions. Payments were made available to depositors' designated accounts within one to three banking days. The operations of the branch were terminated on January 30, 2009, and the loan was repaid through the liquidation of assets. Upon termination of its operations, the branch had no customer assets in its possession.⁶⁹

Isle of Man

Kaupthing Singer & Friedlander (Isle of Man) Limited was a subsidiary of Kaupthing Bank Iceland. On October 23, 2008, the Isle of Man announced that it would spend up to GBP 150 million (half of its disposable reserves and 7.5 percent of GDP) to partially compensate savers in the Isle of Man KSF subsidiary. Two weeks prior to this announcement, the Isle of Man had raised its compensation limit from GBP 15,000 to GBP 50,000. At a hearing in the Isle of Man High Court on May 27, 2009, a Winding-up Order was made placing the Company into liquidation, which in turn triggered the Isle of Man's Depositors' Compensation Scheme (DCS).

provides that repayments to the Netherlands may not exceed 2 percent of Iceland's GDP growth using a 2008 benchmark. The term of the repayment is also the same as the term for the repayment of the UK loan.

⁶⁷ "FIN-FSA explores possibilities for repaying depositors of Kaupthing Bank, Finnish Branch," FIN-FSA, news release, October 9, 2008, http://www.finanssivalvonta.fi/en/Publications/Archives/FIN_FSA_press_releases/Pages/11_2008.aspx

⁶⁸ Ibid.

⁶⁹ "Operations of Kaupthing Bank, Finnish Branch, terminated," FIN-FSA, press release, February 2, 2009, http://www.finanssivalvonta.fi/en/Publications/Press_releases/Pages/2_2009.aspx. The branch's non-liquidated assets were transferred to the Central Bank of Iceland for management by the resolution committee in charge of the parent bank's administration.

On July 17, 2009, the Isle of Man's parliament had approved a GBP 193 million government funding package to bring forward full repayment for more than three-quarters of depositors with KSF's Isle of Man subsidiary.⁷⁰ The money from the Isle of Man government reserves would help expedite payments of up to GBP 50,000 per individual depositor under the DCS. Approximately GBP 85 million has already been paid out to depositors under the government's Early Payments Scheme, providing advance payments of up to GBP 10,000 per depositor. The new funding package allowed for full DCS entitlement to be paid out to claimants by early September 2009, bringing a 100 percent return on deposits to more than three-quarters of the branch's depositors. The GBP 193 million package comprised GBP 73 million in direct support required from the government under the DCS regulations, plus an interest-free loan of GBP 120 million (GBP 21 million in advance of levies due from banks and GBP 99 million against future dividends payable by the liquidator).

Guernsey

There were approximately 2,000 depositors in Landsbanki's Guernsey subsidiary. When the FME took over the Icelandic parent company in October 7, 2008, an administrator was also appointed to the Guernsey subsidiary.⁷¹ These deposits were not protected under any guarantee scheme, and deposit payments relied on the bank's asset recovery tied to the UK. Landsbanki's Guernsey subsidiary had funds deposited in Heritable Bank, a UK subsidiary of Landsbanki that had also gone into administration.

The Joint Administrators in Guernsey and the UK announced that they would retain ring-fenced funds to meet the deposit commitment. At year-end 2008, approximately 30 percent of the GBP 120 million in deposits had been repaid to customers.⁷² As of December 17, 2009, the administrators announced they would be conducting a third round of payment distributions to creditors (including depositors) bringing the total payment to between 66 and 67.5 pence on the pound. The latest estimates regarding the recovery for creditors is between 85 and 91 pence on the pound. However, this estimate is dependent on property market conditions in the UK and the recoveries from the loan portfolio and Heritable Bank, which are outside the Guernsey Administrators control.⁷³

On November 26, 2008, Guernsey set up a deposit insurance scheme to cover all individual retail depositors, whatever their legal residence, up to GBP 50,000 per

⁷⁰ "The Isle of Man's response to the global financial situation," Isle of Man Government, July 17, 2009, http://www.gov.im/cso/faq_gfs.xml.

⁷¹ "Landsbanki Guernsey Limited (in Administration)," Deloitte, February 12, 2010, <http://www.deloitte.com/uk/landsbankiguernsey>.

⁷² "The Isle that Rattled the World," *Wall Street Journal*, December 27, 2008, <http://online.wsj.com/article/SB123032660060735767.html>.

⁷³ "Landsbanki Guernsey Limited Q & As," Deloitte, August 5, 2009, http://www.deloitte.com/view/en_GB/uk/services/corporate-finance/reorganisation-services/administrations/landsbanki-guernsey-limited-in-administration/article/89d45bb48bfd110VgnVCM100000ba42f00aRCRD.htm.

person per licensed bank. The scheme will pay compensation within three months of a bank failure.⁷⁴ Since the deposit guarantee provided by this new scheme is not retroactive, payments to Landsbanki depositors in Guernsey continue to be subject to asset recovery efforts.

Germany

The same day FME took over Kaupthing (October 9, 2008), the German financial regulator (BaFin) issued a stoppage of disposals and payments for the German branch of Kaupthing Bank Iceland, and prohibited the branch from receiving payments not intended for payment of debts toward it because there were risks that the branch was no longer able to meet its obligations.⁷⁵ The German branch had approximately 30,800 customers and deposit liabilities of EUR 308 million, including Internet-based accounts.

In mid-April 2009, Kaupthing Bank announced that it had secured sufficient funds to reimburse all Edge deposits in Germany. In effect, the German government agreed to loan the Icelandic deposit insurance scheme the money needed to repay German depositors. On June 22, 2009, repayments to Kaupthing Edge depositors in Germany commenced. Kaupthing Bank submitted instructions to a German financial institution to repay the deposits of about 20,000 customers. The repayment process for more than 34,000 Edge customers was expected to take a few weeks.⁷⁶ The Bank stated that "for efficiency and technical reasons, the repayment process has to be administered in steps and therefore not all depositors will receive their payment at the same time."⁷⁷

Luxembourg

Kaupthing, Landsbanki, and Glitnir operated subsidiaries in Luxembourg. In addition, Kaupthing Luxembourg had established branches in Switzerland and Belgium. On October 8, 2008, the Luxembourg financial regulator (CSSF) announced that administrators had been appointed for Landsbanki's Luxembourg subsidiary. The next day, Kaupthing Bank Luxembourg SA, a subsidiary of Kaupthing Bank Iceland, was also placed under administration and ordered a "sursis de paiement." The suspension of payments had universal effect and applied to branches and the assets of the establishment located outside Luxembourg. By virtue of the European Directive 2001/24/EC on the reorganization and winding up of credit institutions, the suspension of payments should have also applied to the Belgian and Swiss branches. However, since Switzerland is not an EU member, Swiss regulators are

⁷⁴ "Deposit Compensation Scheme Update," States of Guernsey, <http://www.gov.gg/ccm/treasury-and-resources/press-releases/2008/depositor-compensation-scheme-update.en;jsessionid=FB4AF474F99E0993AD053D671E638D59>.

⁷⁵ See "Moratorium," Section 46 Kreditwesengesetz.

⁷⁶ "Kaupthing Bank - Latest Alerts," Kaupthing Bank, June 22, 2009, www.kaupthing.com/Pages/4007?NewsID=4192.

⁷⁷ Ibid.

not bound by the directive and therefore a separate reorganization and winding-up proceeding was instituted in Switzerland for the Geneva branch on October 9.

Depositors of Landsbanki, Glitnir, and Kaupthing subsidiaries were informed on October 13, 2008, that they could file claims against the Luxembourg deposit guarantee scheme (AGDL) in an amount up to EUR 20,000.⁷⁸ On November 20, 2008, the AGDL agreed to reimburse depositors of Kaupthing's Luxembourg subsidiary and Belgium branch. The AGDL committed to paying out claims within three months of receiving a claim. To date, all depositor claims against Kaupthing's Luxembourg subsidiary have been paid out by the Luxembourg guarantee scheme (AGDL).⁷⁹

Belgium

Kaupthing operated a branch of Kaupthing Luxembourg in Belgium, and the suspension of payments instituted by the Luxembourg court on October 9, 2008, also applied to the Belgian branch. Also, by virtue of the European Directive on deposit guarantees, Belgian depositors were covered by the deposit guarantee scheme of Luxembourg (AGDL). AGDL handled Belgian depositor claims similarly to claims by Kaupthing Luxembourg depositors by covering up to EUR 20,000. As of July 16, 2009, Kaupthing Belgian branch depositors were able to access their funds after Belgian Edge accounts were transferred to the Internet arm of Credit Agricole Belgium (KeyTrade Bank) and all other accounts were transferred to Credit Agricole. Depositors with accounts in excess of EUR 20,000 that received compensation from AGDL could access the remainder of their funds from the new Credit Agricole or KeyTrade Bank accounts.⁸⁰

Switzerland

⁷⁸ See http://www.cssf.lu/uploads/media/communiqué_infoAGDL_eng_01.pdf;
http://www.agdl.lu/Landsbanki_AGDL_EN.html; http://www.agdl.lu/Kaupthing_AGDL_EN.html;
http://www.agdl.lu/Glitnir_AGDL_EN.html.

The new coverage limit implemented by the AGDL on October 17 was not retroactive. See AGDL website at <http://www.kaupthingbank.be/pages/3977>.

⁷⁹ On November 4, 2008, Nordea Bank S.A. (Luxembourg) announced that it had come to an agreement with Glitnir's Luxembourg subsidiary to take over its private banking clients (<http://www.nordeaprivatebanking.com/About+Nordea/Press+services/Press+releases/1069002.html?newsid=8d62d70c-e79d-49d9-93d0-c3360d97b371>). Non-private banking clients would remain subject to the administration of Glitnir in Luxembourg. On December 12, 2008, the District Court of Luxembourg ordered the dissolution and the winding-up of Landsbanki's Luxembourg subsidiary and liquidators were appointed.

(http://www.landsbanki.lu/Uploads/Documents/liquidation/judgement_en.pdf). Some of Kaupthing Luxembourg assets and liabilities were transferred to a newly created Luxembourg securitization company called Pillar Securitisation S.à r.l. Following this division, Kaupthing Bank Luxembourg S.A. was dissolved without being liquidated and transferred all of its assets and liabilities to New Bank and Pillar Securitisation S.à r.l. Banque Havilland S.A. will continue to conduct the banking operations of the former Kaupthing Bank Luxembourg S.A.

⁸⁰ Press Release, July 10, 2009,

http://www.banquehavilland.com/press/Press_release_administrators_EN.pdf.

In Switzerland, Kaupthing operated as a branch of Kaupthing's Luxembourg subsidiary. When Kaupthing Luxembourg was put under administration on October 9, 2008, Swiss authorities instituted winding-up proceedings on Kaupthing Bank Luxembourg SA's Swiss branch on the same day. Small deposits of up to CHF 5,000 were repaid on October 16 and 17, 2008.⁸¹ The Swiss deposit insurer reimbursed insured depositors up to the insurance limit of CHF 30,000 by the end of November 2008.

Norway

Glitnir's Norwegian subsidiary was a member of the Norwegian guarantee fund, under which deposits are guaranteed up to NOK 2 million (approximately EUR 250,000) per depositor. On October 9, 2008, the Norwegian guarantee fund granted USD 810 million in liquidity assistance to the subsidiary in an effort to keep the bank operational until a buyer could be found.⁸² On October 21, 2008, a group of Norwegian savings banks reached an agreement with Glitnir Bank Iceland to purchase the Norwegian subsidiary for NOK 300 million (approximately USD 46 million).⁸³

The Norwegian branch of Kaupthing was also a member of the Norwegian topping-up scheme, and therefore, the Norwegian guarantee scheme would cover deposits over EUR 20,887 up to the Norwegian statutory limit of NOK 2 million. Of the NOK 1.213 billion in deposits held at Kaupthing's branch, NOK 1.066 billion was covered by the Icelandic and Norwegian deposit guarantee schemes.

On October 13, 2008, the day after the Kaupthing branch was placed under administration with a freeze placed on the assets of the entity and related companies, the Norwegian government agreed to advance the payment of deposits that were supposed to be covered by the Icelandic DIGF. The total amount of the guarantee advanced was NOK 400 million. The process of repaying approximately 5,000 depositors in the Norwegian branch began on October 27, 2008.

Sweden

Kaupthing operated a Swedish subsidiary. On October 8, 2008, as deposit withdrawals put pressure on this subsidiary, the Swedish Central Bank granted liquidity assistance amounting up to SEK 5 billion (approximately USD 702 million) to pay both depositors with accounts in Kaupthing's Swedish branch (Kaupthing Edge) and depositors and other creditors of Kaupthing's Swedish subsidiary.⁸⁴

⁸¹ Kaupthing Bank Luxembourg, Geneva Branch, <http://www.kaupthing-geneva.ch/>.

⁸² "Bank Guarantee Fund backs Glitnir's Norway Unit," *International Business Times*, October 9, 2008, <http://www.ibtimes.com.au/articles/20081009/bank-guarantee-fund-backs-glitnirs-norway-unit.htm>.

⁸³ "Glitnir sells Norwegian subsidiary," *FIS World News*, October 21, 2008, <http://fis.com/fis/worldnews/worldnews.asp?monthyear=10-2008&day=21&id=30206&l=e&country=&special=&ndb=1&df=0>.

⁸⁴ "Riksbank grants liquidity assistance to Kaupthing Bank Sverige AB," Sveriges Riksbank, October 8, 2008, <http://www.riksbank.com/templates/Page.aspx?id=29186>.

Kaupthing's deposits were closed and repaid to depositors.⁸⁵ On February 2009, Alandsbanken of Finland acquired Kaupthing's Swedish subsidiary. Under the agreement, the SEK 5 billion loan that was provided to Kaupthing's subsidiary by the Riksbank will be repaid in full.⁸⁶

Glitnir operated a Swedish subsidiary (Glitnir AB) that was a brokerage firm targeting institutions and private individuals. Glitnir AB was sold to Sweden's HQ Bank on October 17, 2008, for SEK 60 million (USD 8.1 million).⁸⁷ The bank did not take on any obligations of the parent bank, such as client claims of payments due.

⁸⁵ Kaupthing Bank HF. Creditors' Report, Kaupthing Bank, February 5, 2009, <https://www.kaupthing.com/lisalib/getfile.aspx?itemid=20057>.

⁸⁶ As part of the agreement, Ålandsbanken's acquisition includes Kaupthing Bank Sverige's Private Banking, Asset Management and Capital Markets operations. The main part of the corporate loan book and other assets, including the indirect Lehman Brothers exposure, will be transferred to the Icelandic parent company, Kaupthing Hf, in connection with the closing of the transaction. See, http://www.alandsbanken.fi/info/export/sites/alandsbanken/pdf/pressmeddelande_130209_en.pdf

⁸⁷ "HQ acquires Glitnir AB," HQ, October 17, 2008, http://www.hq.se/upload/PDF/Om%20HQ%20Bank/Pressmeddelanden/Pressrelease_081017_ENG.pdf

V. Observations and Suggested Guidance

The sequence of deposit insurance events stemming from the financial crisis and the collapse of the Icelandic banking system illustrates numerous cross border deposit insurance issues with significant potential consequences for financial stability and depositor protection. The observations based on these events and from the Iceland case study are grouped in the following broad categories and discussed below, along with suggested guidance:

A. Convergence

This category focuses on the observations that relate to cross border variations in deposit insurance rules and regulations, including varying degrees of compliance with the Core Principles for Effective Deposit Insurance Systems. As cited earlier, pre-crisis literature pointed to agency and conflict of interest concerns related to differences in cross border deposit insurance arrangements. Such differences, particularly in coverage, payout capabilities, and funding, as shown earlier, were heightened during the crisis as some jurisdictions expanded coverage rapidly and dramatically to enhance depositor protection.

The first observation in this category is that *differences in key attributes of deposit insurance systems, including perceived deficiencies as regards coverage, payout capabilities, and funding, can lead to certain externalities and create problems for home/host jurisdictions, particularly in integrated economies during a systemic crisis*. This observation is backed by pre-crisis research and the implications of widespread adoption of emergency deposit insurance measures and full guarantees during the peak of the crisis. Such actions were taken preemptively in many countries due to perceptions of differences in deposit insurance system attributes leading to potential capital market and related concerns.

The second observation is that *during a crisis, unilateral adoption of extraordinary deposit insurance emergency measures and full guarantees can exaggerate existing differences among deposit insurance systems and can potentially add to financial instability*. Existing differences in key deposit insurance attributes, such as coverage, widened in many jurisdictions because of the widespread adoption of unilateral emergency measures.

The third observation is that *regionally integrated economies may be most susceptible to the adoption of preemptive extraordinary measures such as full guarantees or very high coverage, since they may face greater threats of contagion from outside the jurisdiction and thus have greater need to react during times of crisis. In addition, jurisdictions without explicit arrangements may make their arrangements explicit, involving more extensive changes to their insurance arrangements compared to those jurisdictions with existing explicit systems*. This observation is based on the number of European and Asian jurisdictions that adopted full guarantees in rapid succession. In addition, jurisdictions, which included Australia, New Zealand, Saudi Arabia, UAE, and Kuwait, that did not have an explicit deposit guarantee scheme adopted full guarantees or very high coverage

levels during the financial crisis. This suggests that interconnected economies would benefit the most from the adoption of bilateral and multilateral agreements during normal times so as to prevent such occurrences in times of crisis.

The fourth observation is that *regional authorities such as the European Union (EU) can promote harmonization and convergence in deposit insurance rules and regulations among affected jurisdictions*. For example, the proposed revised deposit insurance rules released by the EU in October 2008 appeared to have something of a calming effect in the European region. It appears that EU countries were less likely to adopt a full guarantee following the EU action and more likely to adopt the higher EU coverage level than an alternative amount. It is likely that this measure promoted stability in the region.

The fifth observation is that *cross border harmonization of key deposit insurance features, particularly coverage, payout capabilities, and funding, as well as compliance with the Core Principles for Effective Deposit Insurance Systems, may help contribute to the alleviation of potentially destabilizing deposit insurance disparities among jurisdictions*. Lack of convergence for coverage and payout capabilities may have heightened depositor concerns during the peak of the crisis. Compliance with the core principles, beginning with the adoption of an explicit system of deposit insurance that conforms to the principles, would help to promote greater convergence among deposit insurer rules and regulations and reduce some of the externalities associated with lack of harmonization among systems.

The following suggested guidance is based on the convergence observations:

- *Authorities should encourage compliance with the Core Principles for Effective Deposit Insurance Systems in order to generally promote convergence and harmonization of deposit insurance rules and regulations within regions, particularly as to coverage, payout capabilities, and funding.*
- *Authorities should periodically review, identify, and address the extent to which their deposit protection schemes may be exposed to such problems, including identifying any material issues or discrepancies in rules and regulations relative to those of neighboring systems and performing an evaluation of the adequacy of scope and coverage levels and the resolution and payout capabilities within their respective regions.*

B. Public Awareness

This category focuses on the public awareness issues raised by cross border deposit insurance events stemming from the financial crisis.

First and second, it is worthwhile to reinforce that *appropriate steps/measures to achieve public awareness in the salient design features of deposit insurance systems could contribute to market discipline and a reduction of moral hazard and that prior to the financial crisis, most depositors were not sufficiently aware of the*

risks associated with maintaining deposits in a branch of a foreign bank, particularly in cases where protection was by the home, rather than the host state.

It does not appear that clear and understandable guidance regarding deposit insurance protections in a cross border banking context was provided to many affected depositors. This was particularly evident in the fallout from the failure of the Icelandic banks, where it was evident that foreign depositors in Iceland's internet accounts did not adequately understand the risks and the benefits or limitations of the applicable deposit insurance arrangements.

Additionally, the EU and Icelandic experiences illustrate the importance of effective public awareness in ensuring that depositors are well-informed in situations involving depositors with accounts at banks engaged in cross border banking and complex home/host authority responsibilities. These events suggest that it may be simply unrealistic to expect the public to fully understand the relevant complexities, whether their foreign bank is a subsidiary or a branch, whether the home or host country is responsible for reimbursement, or whether the home or host country authority is operationally capable. Moreover, the complexity of cross border deposit insurance issues, including host versus home responsibilities, and topping-up and burden sharing arrangements, can impose almost insurmountable challenges to deposit insurers in promoting clear public awareness of the deposit insurance rules associated with cross border banking. Events in the EU coming out of the Icelandic crisis suggest that transparent guidance regarding cross border differences in deposit insurance protections when foreign banks are established as branches rather than subsidiaries has not always been made available to depositors and the public.

Finally, even well-informed depositors could not reasonably have foreseen that a home country responsible for providing deposit insurance coverage for foreign branches may have been insufficiently funded to meet its foreign obligations.

In some sense, cross border banking presents limitless unknown risks to depositors since it is not realistic to expect even informed depositors to fully understand whether the home country deposit insurance fund, if responsible for reimbursement, is adequately funded or the possibility that other intricacies of the home country situation may jeopardize the status of their deposit claim.

The following public awareness suggested guidance is based on the above observations:

- *The responsible deposit insurance system should be unambiguous and known to all depositors in all situations, and particularly for foreign depositors in a cross border banking situations.*
 - *All depositors, and particularly those with accounts held by a cross border bank, should be provided with clear and easily understandable information on the existence and identity of the deposit insurance system legally responsible for reimbursement, and its limits and coverage. Information on the system's source of funding and standard*

- *Jurisdictions with banks engaged in cross border banking should consider developing supplemental public awareness campaigns to address the special information needs of depositors with accounts at such institutions and to promote full understanding of depositor benefits and limitations in such situations.*
- *Authorities should ensure that differences in deposit insurance rules and regulations (e.g., coverage limits) are not exploited in cross border banking situations.*

C. Communication, Coordination, and Cooperation

This category focuses on the communication, coordination, and cooperation observations from these events.

First, significant opportunities exist for jurisdictions to adopt cross border crisis management arrangements specifically pertaining to deposit insurance measures as suggested by the Core Principles for Effective Deposit Insurance Systems. Such measures would include a commitment to cooperation and communication between relevant authorities in making advance preparations for dealing with financial crises and managing them, both across jurisdictions and potentially on a global basis.

Second, a high level of pre-crisis communication, coordination, and cooperation appears to be a necessary condition for an efficient system of cross border crisis management, as the largely unilateral and uncoordinated responses of many jurisdictions' deposit insurance systems appear to have contributed to some aspects of financial instability during the systemic crisis. Most countries' responses to the financial crisis were unilateral and largely uncoordinated, taken without advance notification or consultation with neighboring affected jurisdictions prior to the action taken. As a result, the crisis appeared to spiral out of control for a time, and actions taken by individual jurisdictions appeared to contribute to the turmoil. While most measures appear to have been successful in alleviating depositor concerns, it is possible that turmoil may have been lessened had affected jurisdictions engaged in formal information sharing and crisis management agreements in advance of the crisis.

Cross border agreements and memorandum of understanding (MOU) that specifically address the deposit insurance issues raised by cross border banking could play a critical role in facilitating communication, coordination, and cooperation during a systemic crisis. Such agreements would need to be sufficiently detailed and would need to address all pertinent risks and contingencies. It is also important that such agreements and MOUs be developed prior to, rather than during, a crisis. Well thought-out cross-border frameworks are unlikely to be developed during times of systemic crisis, when financial market developments demand immediate attention and political tensions are likely running high. The development of "model"

MOUs would also facilitate the adoption of such agreements among a greater number of jurisdictions in a timely manner.

These observations led to the following suggested guidance related to communication, coordination, and cooperation:

- *Jurisdictions with deposit insurance systems that extend beyond national borders due to cross border banking should develop pre-crisis coordinated crisis management arrangements that specifically address situations where deposit insurance coverage is provided by a deposit insurer in different jurisdictions. In particular, appropriate bilateral/multilateral arrangements should be in place in circumstances where cross border banking operations provide for depositor coverage or where home/host issues are present.*
 - *The arrangements should include all appropriate home/host authorities, should provide for ongoing close coordination and information sharing when necessary, should clearly specify which deposit insurer will be responsible for reimbursement as well as promote public awareness of issues raised by cross border banking, and should also be subject to peer review regarding the capacity of systems and funds to respond to a cross border failure.*
 - *To the extent possible, the arrangements should involve pre-crisis joint crisis simulation and preparedness testing amongst home/host jurisdictions as well as joint testing of the effects of stress situations in both home and host jurisdictions.*
 - *To facilitate adoption by a wide range of jurisdictions, authorities should consider encouraging the development of “model” memorandums of understanding (MOU) by bilateral jurisdictions that specifically address deposit insurance issues raised by cross border banking.*
- *Deposit insurance authorities should consider implementing early warning systems to provide for earlier awareness of potential issues and consider the likelihood of pre-crisis communication among relevant deposit insurance authorities during a crisis. An example of such a system would be an assessment of depositor awareness of cross border deposit insurance benefits and limitations. Such systems, coupled with an effective pre-crisis cross border communication and coordination arrangement, could help alert national regulators of impending potential deposit protection triggers, improve the ability of authorities in affected jurisdictions to coordinate actions during a crisis, and lessen the likelihood of potentially destabilizing preemptive and unilateral emergency national actions.*

D. Cross Border Banking Risks

This category focuses on observations related to cross border banking risks arising from these events.

First, *the Icelandic case highlights concerns about situations in which host operations are branches or subsidiaries, since risks in the home state (e.g., the parent) may affect host state depositors and which depositor insurer ultimately is called upon to respond to the failure of a home state bank.* Deposit insurance risks to depositors in a cross border environment characterized by branch passporting arrangements appear to have received insufficient attention by authorities. While the risks associated with foreign branching and home/host issues were well documented prior to the crisis, the Icelandic situation highlights the challenges such arrangements present for depositors and authorities. Specifically, the Icelandic case illustrates that branch depositors in a host country may be unprotected due to the simultaneous occurrence of the following factors:

- A home operation of a branch fails and the parent is not able to act as a source of strength to an otherwise solvent (or insolvent) branch business.
- A home country deposit insurance system is insufficiently funded, and/or
- A home country defaults.

Second, *cross border banking with foreign branching may raise special funding concerns if home country funding is perceived as insufficient to cover all deposit obligations and other jurisdictions lose confidence in that system.* In such instances, should countries with affected depositors lack confidence in the home system's ability to fund obligations they could take unanticipated actions designed to protect their domestic depositors. Similarly, it is important that countries have adequate levels of international reserve currency to safeguard its banking system and to prevent funding liquidity crises, including crises of confidence and depositor bank runs. This is especially the case for countries with financial institutions with a high degree of foreign currency deposits and liabilities.

Third, these events demonstrate that *host countries may find it necessary to take special measures to protect deposits in foreign branches if domestic depositors are not covered as expected by a home country authority.* If a host country believes that its domestic depositors will not be covered by a home country, the host country will likely ring fence assets, freeze payments to protect its depositors, or take other unanticipated actions. This was illustrated by the host country reactions to the deterioration in the state of Iceland's banking system.

Fourth, as illustrated by the Icelandic case, *cross border banking under certain circumstances may give rise to home country moral hazard risks, potentially resulting in regional or broader financial stability issues extending well beyond the borders of the home country.* In the case of Iceland, while authorities acknowledged the risks presented by the growth of its internationally active

banking sector, no action was taken to address the lack of credibility of the deposit insurance system in relation to those risks.

Fifth, the Icelandic case further demonstrates the importance of involving deposit insurance agencies in the review of resolution or recovery plans for systemically significant internationally-active financial firms to ensure that the plans recognize the key features of involved deposit insurance systems that may affect depositor reimbursement and that the plans provide for timely and appropriate handling of deposit insurance claims. The G-20 has called for such plans and numerous jurisdictions, including the U.S. and the EU, are implementing or considering implementing such requirements. Including deposit insurance authorities in the review of such plans would help ensure that the plans recognize the key features of involved deposit insurance systems that may affect depositor reimbursement and that the plans provide for timely and appropriate handling of deposit insurance claims.

Cross Border Banking Risk suggested guidance:

- *Since the Icelandic case illustrates that situations in which host operations are branches or subsidiaries may affect host state depositor coverage protection, consideration should be given to whether the benefits of branch passporting arrangements outweigh the risks and the appropriate role of the host state with regard to host nation depositors in the event of a cross border bank failure resolution.*
- *Where cross border banking arrangements exist, national legal frameworks should clearly identify the circumstances in which the home country deposit insurance system will provide deposit insurance coverage to depositors of domestic banks' foreign branches and should establish availability of back-up funding arrangements for the home deposit insurance system in case of shortfall.*
 - *For situations involving foreign branches, in particular, the home state should agree to procedures in which the host state would act as a point of contact in a crisis situation so that affected home state depositors may deal with local, rather than foreign authorities.*
- *Where home/host arrangements exist, the responsible deposit insurance fund needs to be adequately funded to cover potential liabilities. In situations where the home deposit insurance system cannot provide coverage to depositors immediately following a failure, a framework should be in place for how the home country will procure funding either from its national Treasury or other sources such as the host country deposit insurance scheme (i.e., prearranged loan terms).*
- *Potential risks raised by the home country moral hazard issues associated with cross border banking should be studied and evaluated by international*

- *Deposit insurance authorities should be included in the review of resolution and recovery plans for systemically significant internationally-active financial firms, where appropriate, to ensure that the plans recognize the key features of involved deposit insurance systems that may affect depositor reimbursement and that they provide for timely and appropriate handling of deposit insurance claims.*

E. Unwinding

This category focuses on observations related to the need for unwinding of emergency measures in the future.

First, the cross border issues raised by the initiation of emergency deposit insurance measures at the onset of the crisis highlights the potential for similar effects to arise on the back end during the unwinding process. In particular, there is a potential first mover problem if jurisdictions are reluctant to unwind special measures due to concerns about disadvantaging the domestic banking system relative to foreign banks. It is reasonable to assume that there may be potential cross border implications of unwinding these emergency measures, particularly given the lack of convergence in planned dates of unwinding the temporary measures. In particular, there is a potential first mover problem if jurisdictions are reluctant to unwind special measures due to fears of disadvantaging the domestic banking system relative to foreign banks.

Second, adequate coordination and communication efforts may help overcome the first mover problem, ensure a smooth unwinding experience, and avoid financial instability. Regional authorities or coalitions can play a significant role in helping to coordinate a smooth transition, particularly in regions with open economies characterized by a high degree of financial integration. Regional authorities or coalitions can play a significant role in helping to coordinate a smooth transition, particularly in regions with open economies characterized by a high degree of financial integration.

Unwinding suggested guidance:

- *Jurisdictions that adopted full guarantees or temporary enhancements in deposit insurance coverage during the crisis should consider and incorporate into their planning clear options or principles, milestones, and time frames for the exit from public intervention, which act to restore public confidence in each affected jurisdiction as well as other jurisdictions potentially affected.*
- *Jurisdictions in regionally integrated areas should consider entering into joint exit strategies with neighboring jurisdictions to minimize external effects of national actions.*

- *Deposit insurers within regions should meet on a regular basis on contingency planning related to transitioning and unwinding of special measures where necessary (e.g., through IADI regional committees or other means) and to develop close working relationships prior to any crises or other problems that may develop.*
- *International associations or regional authorities may play a useful role in helping to coordinate unwinding activities in closely integrated regions where some jurisdictions are susceptible to first mover reluctance to unwind special measures.*

Appendix A: Literature Review

A large body of literature exists discussing the issues raised by a troubled international bank with subsidiaries and branches in many countries. This section presents an overview of some of the more recent literature pertaining specifically to cross border deposit insurance issues. Literature discussed is grouped into the following three categories:

- Survey-related findings pertaining to deposit insurance cross border issues;
- Studies discussing deposit insurance cross border issues; and
- Studies on cross border bank resolution issues.

A. Survey-related findings pertaining to deposit insurance cross border issues

Numerous surveys have been conducted of deposit insurance systems over the past 15 years, including many by World Bank and International Monetary Fund researchers. The earliest of these surveys focus on the different types of implicit and explicit deposit insurance systems in existence, best practices for deposit insurance systems, and the implications of differences in deposit insurance systems on domestic banking soundness and market discipline.⁸⁸ The literature identifies critical practical issues for effective deposit insurance systems, including eligibility for inclusion, funding, setting and adjusting the level of coverage, establishing premiums, setting a target for the fund, governance issues, back-up supervisory and closing powers, and cooperation and information sharing (see, for example, Garcia (1999)).

Overall, these early survey-based studies seek to identify and explain significant differences among deposit insurance systems along a number of dimensions (see Garcia, 1999 and Demirgüç-Kunt and Huizinga, 2003, "Internationally, deposit insurance schemes vary widely in their coverage, funding, and management.") Implications of such differences are assessed with regard to their effect on the soundness of the country's domestic banking system, the exercise of effective market discipline on banks, banking stability, financial development, and crisis management. Demirgüç-Kunt and Huizinga (2003), for example, highlight the tradeoff between increased depositor safety and reduced market discipline on banks created by higher coverage limits, coverage of interbank deposits, existence of an earmarked fund, and other factors. Demirgüç-Kunt and Kane (2001) rely on early World Bank deposit insurance survey research to argue that countries should identify and foster institutional prerequisites before adopting deposit insurance systems and make efforts to design and redesign systems appropriate for the

⁸⁸ See, for example, Kyei (1995), Lindgren and Garcia (1996), Garcia (1997), Folkerts-Landau and Lindgren (1998), Garcia (1999), Beck (2003), Demirgüç-Kunt and Kane (2001), Beck and Laeven (2006), Demirgüç-Kunt, Kane, and Laeven (2006), and Hoelsher, Taylor, and Klueh (2006).

institutional framework. Beck and Laeven (2006) note that there is broad variation in countries' framework and practice to resolve failing banks as well as significant variation in the degree to which bank failure resolution interacts with deposit insurance, despite the widespread adoption of explicit deposit insurance systems. They use World Bank survey research to demonstrate that banks are more stable in countries where deposit insurers have a greater role in bank failure resolution, as long as the deposit insurer is politically independent and has sufficient access to supervisory information.

This broad survey literature effectively documents the key differences in deposit insurance systems worldwide but does not address the cross border implications of these differences. Cross border deposit insurance issues are explicitly addressed in a survey of 25 deposit insurance systems⁸⁹ conducted in 2006 under the auspices of the International Association of Deposit Insurers (IADI) by the Central Deposit Insurance Corporation (CDIC) of Taiwan. The CDIC survey examines home and host deposit insurance coverage practices with respect to foreign branches, safeguarding of foreign currency deposits, practices with regard to differences in coverage levels in home versus host countries, practices regarding liquidation of insolvent cross border banks, challenges perceived regarding cross border deposit insurance issues, and other related issues (CDIC, 2006).

The CDIC survey results reveal significant differences among countries in the treatment of cross border deposit insurance issues. Differences in regulations among countries and the lack of effective systems for communication, coordination, and cooperation are the biggest challenges perceived by deposit insurance systems in the handling of cross border problem financial institutions.

Major findings from the CDIC survey are as follows:

- With respect to deposit insurance coverage of a foreign bank branch, the majority of the countries surveyed do not recognize the deposit insurance offered by the foreign bank's parent country. Instead, they require that such branches participate in the local mandatory deposit insurance systems, i.e., the host country guarantee principle. Since the deposit insurance in the parent country is not recognized, participation of the branch in the deposit insurance system is not analyzed in the survey.
- The majority of countries surveyed adopt the host country guarantee principle.⁹⁰ Therefore, they do not provide deposit insurance for the overseas branches of domestic banks.
- The majority of countries surveyed provide guarantees for the foreign currency deposits of all banks within their borders (including foreign bank branches).

⁸⁹ The following countries were surveyed: the United States, Canada, Mexico, Colombia, El Salvador, Venezuela, Uruguay, Peru, Bulgaria, Hungary, the Netherlands, Romania, Russia, Spain, Japan, the Philippines, South Korea, Jordan, and Turkey.

⁹⁰ The majority of countries surveyed were not EU member states and therefore are not subject to the EU directive on deposit insurance and do not allow "passporting" of branches.

- The deposit insurers in most of the countries surveyed do not have the authority to terminate the membership qualifications of a problem bank at any time.
- The deposit insurers in most of the countries surveyed can legally serve as liquidators of closed banks.
- The biggest challenges faced in the handling of cross border problem financial institutions pertain to regulatory differences between countries and the lack of systems for communication, coordination, and cooperation.
- The majority of countries surveyed agree that if a major incident occurs at a bank with cross border operations, they should request that the parent country immediately send related information to the supervisory authority of the host country. Channels for accomplishing this could include the signing of bilateral or multilateral agreements or the establishment of international standards.

B. Studies discussing deposit insurance cross border issues

Deposit insurance cross border issues have been studied by some researchers, usually in the context of broader issues related to cross border banking and/or in the context of foreign ownership of banking and banking in the European Union (EU). More recently, since the financial crisis, several researchers have taken note of cross border deposit insurance issues raised by emergency measures taken by governments and finance ministries, financial supervisory authorities, and deposit insurers. These studies are briefly described below.

Pre-financial crisis

As stated previously, to the extent that deposit insurance cross border issues have been studied prior to the financial crisis, it has usually been in the context of broader issues related to cross border banking and/or in the context of foreign ownership of banking and banking in the EU.

The Directive (94/19/EU) on Deposit Guarantee Schemes in the European Union (EU Directive) sets forth general characteristics of a deposit insurance system with the aim of protecting deposits of all credit institutions and safeguarding the stability of the overall financial system, but leaves responsibility for deposit insurance coverage and other critical factors up to individual member states.⁹¹ As such, it is a decentralized deposit insurance system. It requires systems to provide minimum

⁹¹ This directive was recently updated by Directive 2009/14/EC of the European Parliament and of the Council, which was adopted on March 11, 2009, and proposes revisions to Directive 94/19/EC, the existing EU rules on deposit guarantee schemes. The new rules are designed to improve depositor protection, particularly the coverage level and the payout delay. The directive calls for increased coverage for aggregate deposits of each depositor to EUR 100,000 unless a Commission impact statement submitted to the European Parliament and the Council by the end of 2009 concludes that such an increase and harmonization are inappropriate.

coverage of EUR 20,000.⁹² Interbank deposits are excluded, as well as other liabilities at the discretion of the national government. Co-insurance is permitted but not required. Foreign branch depositors should be protected by the home member state, that is, where the bank has its head office, in order to locate responsibility for deposit protection in the jurisdiction that has supervisory responsibility. An optional “top-up” provision allows branches to join a host country deposit insurance scheme where the host country is more generous than the home country. Foreign branches may supplement coverage through bilateral agreements to level the playing field in the host country, but the details of the agreement are left to the discretion of the individual member states. More than one deposit insurance scheme may exist within a country. Many aspects of the deposit insurance structure are not prescribed, including funding, pricing, whether the system should be public or private, resolution of troubled institutions, and how deposit insurance scheme conflicts should be resolved if institutions with top-up coverage fail.

Under the EU directive, thus, significant differences in rules and procedures exist among EU member states with regard to deposit insurance, bank supervisory, and resolution issues. Even within a country, banks may be subject to different deposit insurance arrangements depending on how the EU member state chooses to treat foreign banks operating within its territory. Moreover, while bank subsidiaries under foreign ownership and domestic licensed banks face the same deposit insurance regulations in principle, host country treatment of foreign banks may differ in some respects if, for example, less information on the foreign banks is available to the host country supervisor.

Researchers have noted that such differences in deposit insurance arrangements can result in significant market and competitive distortions, leading to a wide array of potential cross border complications. Although one of the objectives of the EU directive was the establishment of a level playing field for institutions competing within the single market, concerns have been raised about the potential for competitive and market distortions. For example, within the EU, certain countries have offered deposit insurance in excess of the minimum, allowing banks to compete for consumers’ perceptions of levels of coverage by changing their place of business. Dale, Bruni, and Boissieu (2000) note that the EU directive leaves open the possibility for serious market distortions, particularly with regard to bank resolution policy.

Research has further revealed that the location of international deposits may be influenced by differences in deposit insurance schemes such as co-insurance requirements, coverage, and premiums. Huizinga and Nicodeme (2002) find that countries with co-insurance, low premiums, and private administration are more attractive to international depositors and that differences in deposit insurance schemes can affect international depositor decisions regarding placement of funds and allow banks to capture a greater share of international deposits.

⁹² EU deposit insurance coverage levels have since been raised due to the 2008 crisis. See discussion in Section 4, *infra*.

Kaufman (2007) (see also Eisenbeis and Kaufman (2007)) notes that the EU patchwork set of deposit insurance schemes “seems fraught with the potential for agency and conflicts of interest problems arising from several sources,” including:

- Uncertainties about funding;
- Differences in deposit insurance coverage and pricing;
- Reliance on home versus host country in the event of trouble;
- Differences in treatment with respect to lender-of-last-resort;
- Differences in approaches to bankruptcy resolution and priority of claims in troubled institutions; and
- Differences in EMU versus non-EMU participants.

Pluchino (2008) reiterates areas of concern previously identified by Kaufman (2007) relating to differences in deposit insurance schemes among EU countries, stating that such differences could interfere with efficient bank resolution activities and rise to potential conflicts of interest among and between different supervisory authorities. Kaufman recommends adoption of principles to ensure the efficient resolution of cross border banks.

Overall, existing research on the topic of cross border deposit insurance issues prior to the financial crisis suggests that differences, such as those that exist within the EU, have the potential to create significant market and competitive distortions, and create confusion for consumers and bank supervisors alike. This is of greatest concern in jurisdictions where a large number of foreign branches coexist in a host country, leading to a potentially broad array of deposit insurance arrangements available to consumers.

Post financial crisis

Cross border deposit insurance issues have been of increased interest since the financial crisis because of the rapid emergency measures taken by many deposit insurers during the peak of the crisis. The Organization for Economic Cooperation and Development (OECD) was among the first to note deposit insurance cross border issues raised by emergency measures taken during the financial crisis. The OECD suggests that cross-country coverage differences and lack of coordination about measures taken can create significant externalities (OECD, 2008):

...differences in (retail deposit insurance and other) guarantees across countries can also have implications for competition among banks. Co-ordination with regard to deposit insurance policy measures taken was not always as close as one might have hoped. On a related but different issue, the coexistence of different levels of deposit insurance for host country banks

and branches of foreign banks within a country can give rise to consumer protection issues.

Hardy and Nieto (2008) examine whether deposit guarantee provisions in different countries affect financial stability and how they interact with prudential supervision. They recommend that maximum, as well as minimum, deposit guarantee levels be established to limit topping-up arbitrage opportunities for banks that may opt in or out of them depending on the likely cost of such arrangements. They also suggest that deposit insurance schemes include the de facto protection of creditors and that risk premiums take into account the potential negative externalities of supervisory discretion in the case of cross border banks.

International and multilateral organizations have also addressed deposit insurance cross border issues related to the financial crisis in recent notes. In its Action Plan No. 36 on Cross Border Crisis Management, the Group of Twenty (G-20) Working Group on Reinforcing International Cooperation and Promoting Market Integrity, states:

Regulators should take all steps necessary to strengthen cross border crisis management arrangements, including on cooperation and communication with each other and with appropriate authorities, and develop comprehensive contact lists and conduct simulation exercises, as appropriate. (G-20, 2009a)

A note prepared by the staff of the International Monetary Fund for the G-20 dated March 13-14, 2009 relays a similar theme:

*[C]ountries did not fully coordinate national policies in the face of the global crisis during the first few months of the crisis. National policies to address the immediate liquidity needs of domestic financial institutions have forestalled widespread panic and deposit runs. Similarly, bank restructuring measures responded to separate events rather than being developed as part of a forward-looking strategy. **Global coordination of these actions could have strengthened their effectiveness, both over time and across countries.** [Emphasis added] (G-20, 2009b.)*

Following on the G-20 recommendation, on April 2, 2009, the Financial Stability Forum released Principles for Cross Border Cooperation on Crisis Management (FSF, 2009). These include a commitment to cooperation between relevant authorities in making advance preparations for dealing with financial crises and managing them. On June 18, 2009, the BCBS and IADI published jointly the Core Principles for Effective Deposit Insurance Systems.

C. Studies on cross border bank resolution issues

A significant body of literature exists on the topic of cross border bank resolution issues. Research areas discussed below include theories of cross border resolution, relationships between home and host rule, calls for cooperation and coordination,

risks surrounding foreign branch banks versus separately incorporated subsidiaries, capital and liquidity maintenance requirements, early intervention and other resolution tools, and maintaining systemically important functions.

Two theories of cross border resolution: Universalist versus Territorialist

There are two methods/theories for handling international insolvencies—the universal or single entity approach⁹³ and the territorial approach, commonly referred to as ring fencing.⁹⁴

The United Nations Commission on International Trade Law (UNCITRAL) has taken steps to develop a more universal, procedural framework or recognition system by developing a model law to govern international insolvencies. The model law, however, specifically exempts banks from its framework. While a number of countries subscribe to the universalist approach in ideology⁹⁵ and work is ongoing in this area (particularly within the European Union), recent events have shown that in practice a territorial approach will be taken. To move toward a more universalist approach for bank resolutions, a number of resolution elements must first be present, most importantly of which, countries must agree on the fiscal burden sharing that will take place when a cross border institution fails. *See* Brockmeijer (2009). Countries such as New Zealand, institutions such as the IMF, and academics have advocated for some sort of pre-arranged agreement on burden sharing. *See* Brockmeijer (2009), Goodhart (2008), and Bollard (2004). No agreement, however, on how burdens should be allocated has occurred thus far.

There are a number of reasons why countries ring fence when a financial firm becomes insolvent. The obligation to protect local markets and local creditors' interests typically takes precedence over a more global perspective that encompasses markets and creditors in other countries. *See* Eisenbeis (2006) and Hupkes (2004). Uncertainty regarding national laws and insolvency procedures create incentives for authorities to intervene and ring fence assets and institute national proceedings. *See* Bliss (2005) and Hupkes (2004).

While ring fencing can provide a level of certainty regarding how an institution and its subsidiaries and affiliates will be resolved, it does not mean that it is economically efficient or advantageous. *See* Eisenbeis (2006). As Bliss (2005) notes, the failure of BCCI produced a ring-fenced proceeding in the United States that

⁹³ The universalist approach to cross border resolution places primacy on the resolution of all domestic and cross border activities of a failing financial institution by a single jurisdiction.

⁹⁴ The territorialist or ring fencing approach to cross border resolutions describes a process in which host countries separately resolve branches and agencies of insolvent cross border financial institutions. Subsidiaries of cross border institutions will similarly be resolved by the host country as the chartering authority. Under this procedure, the host national supervisor seizes and administers the local assets, with a preference for creditors of the branch or other entity in the host country, in a resolution that is separated from the resolution of the cross border bank as a whole. *See* Report from the Task Force on the Winding Down of Large and Complex Financial Institutions (2001).

⁹⁵ The European Union, the European Central Bank, Norway, New Zealand, (Sweden, France, and Germany most recently in CBRG meetings expressed their desire for a more universalist approach) have been supportive of the universalist ideology. *See* Bollard (2004); Borchgrevink (2004).

resulted in all U.S. creditors being paid in full, while coordinated proceedings in Europe were subject to different host country laws, which led to disparate results for European creditors. The cross border collapses of Lehman Brothers, the Icelandic banks, and Fortis and Dexia have further highlighted the problems associated with ring fencing and territorialist approaches; however, until there can be a greater convergence or harmonization of national laws in the areas of insolvency and bank resolution, it appears that countries will continue to ring fence in times of crisis. The Basel Committee's Cross Border Resolution Group (2010) published a set of recommendations that promote further harmonization of national laws so that possibly in the future countries can work toward a more universalist approach to bank insolvency.

Home versus Host

The Basel Concordat is the internationally agreed framework for the supervision of multinational banks by national authorities. Home and host countries undertake their banking supervision roles and responsibilities within this framework, and it is the difficulties associated with this framework that have been the subject of a number of articles and publications. In particular, difficulties arise in the home-host supervisory framework when contemplating or dealing with resolutions, as the framework is designed for supervision, not resolution or liquidation.

Consolidated supervision of multinational financial firms by the home supervisor was at one point thought to be the best method of supervision (this underlies the Basel Concordat framework), but the events of late 2007 and 2008 have shown that some financial firms have grown too large and too complex to be sufficiently regulated by a home supervisor on a consolidated worldwide basis.

The current arrangements for cross border banking supervision and the relationship between host and home supervisors do not take into account the heightened need for information of host countries where systemically relevant functions are operated in the host country by a large institution headquartered in a foreign jurisdiction. Furthermore, in the event of a failure, supervisors in the home country may be more concerned with their national interest than with the economic stability and policy objectives of the host country. Since host country authorities have to bear the costs for the sound functioning of their banking system, they need to retain adequate supervisory powers on all institutions that perform systemically important functions in their jurisdiction and, for instance, they need to know what assets are available to meet obligations in their domestic jurisdiction. See Hupkes (2004) and Mayes (2001). The Icelandic banks are a good example of where home country supervision broke down and host country supervisors did not have adequate information to assess the full scope of risks to the host economies.

Some specific problems regarding deposit guarantee schemes have been highlighted in the context of home versus host state responsibilities. For example, in the European Union, deposit guarantees are a home country responsibility. Therefore, if a large EU bank chooses to locate its headquarters in a small country, the deposit guarantee obligation may be a heavy burden for the home country

guarantee fund, and ultimately for the home country's taxpayers if the state has to cover any guaranteed deposits that the guarantee fund is not able to cover. During the crisis, there were examples of home countries being unable to cover the guarantees on deposits in a host country. In some such instances, the host country made a loan to the home country to cover the guaranteed funds. Some have argued that this practice severs the link between supervision and insurance since the host country is funding the deposit guarantees of a bank outside its supervisory responsibility. See Campbell (2009), Dermine (2005) and Borchgrevink (2004). This was exemplified by the failure of the Icelandic banks.

Enhanced cooperation and coordination

Because of the inherent difficulties in cross border resolutions and the ineffectual framework under which regulators operate internationally, there has been a call for enhanced cooperation and coordination between home and host supervisors in both times of crisis as well as in non-crisis times. See Brockmeijer (2009), Mayes (2008), Eisenbeis (2007)(2006), and Hupkes (2004). Without adequate and timely information, host countries in particular are in a poor position to assess potential risks or externalities, and the economy and taxpayers may be exposed to economic losses and unexpected deposit insurance burdens from foreign branches operating within their borders. Bollard (2004) (Reserve Bank of New Zealand) suggests that countries should agree to a formal understanding of the respective roles of the home and host supervisors, central banks, and finance ministries in response to a cross border bank failure. Some have observed that the current system under the Basel Concordant does not go far enough and should include enhanced colleges of regulators led by home country regulators, operating under a common rule book and with access to a common databases.

Subsidiaries versus Branches

Much of the literature has focused on risks surrounding foreign branch banks versus separately incorporated subsidiaries.

In trying to address these risks, New Zealand requires foreign banks to be locally incorporated as subsidiaries. According to Bollard (2004), local incorporation enhances the Reserve Bank's ability to supervise the banks on an ongoing basis in the interests of the New Zealand financial system. It enables the imposition of minimum capital requirements and risk limits, and provides a degree of separation between the subsidiary and the parent, thereby reducing intragroup contagion risk. Furthermore, local incorporation in New Zealand makes it more difficult, legally and practically, for assets to be removed from the subsidiary to the parent.

While requiring banks to operate through subsidiaries may reduce the risks to a host country to some extent, host country supervisors need to be concerned with whether the foreign parent institution will act as a source of strength to its subsidiaries, either through recapitalization or through the provision of essential services. See Eisenbeis (2007).

Capital and Liquidity Maintenance Requirements

As noted by Bollard (2004), there can be a conflict of interest between home and host authorities in the allocation of capital and liquidity across a multinational banking group.

One of the reasons that local or host state capital and liquidity maintenance requirements have received so much attention in recent years is due to the centralization of core bank functions. There is a growing tendency for foreign-owned banks to move large parts of their core functions to the parent or in some cases to third parties. *See Eisenbeis (2007)*. This issue was acutely highlighted in the Lehman bankruptcy. Lehman Brothers Holdings Inc (LBHI—the parent) maintained the centralized treasury functions for the group, which meant that many of the subsidiaries (such as Lehman Brothers Europe) did not have sufficient liquidity to meet daily obligations at the time of the parent’s bankruptcy filing.

Early Intervention Tools and Other Resolution Tools

There has been significant discussion regarding the need for authorities to have the legal authority and necessary tools to intervene in a failing financial institution before it is too late. *See Eisenbeis (2007)*, Nieto and Wall (2006), and Bliss (2005). A number of authors have focused on the prompt corrective action (PCA) measures available to U.S. and Japanese regulators; specifically, an insolvent institution should be legally closed when its capital or liquidity reaches some sort of internationally agreed upon threshold minimum. Clear, mandatory criteria permit prompt and decisive action before the bank’s equity is exhausted. *See Mayes (2008)* and Krimminger (2006). At the moment, however, there are no internationally agreed upon threshold minimums for PCA-type intervention.

Along with early intervention tools, many countries do not have the legal authority or tools to deal with a bank once it has failed. For example, many countries do not have the ability to arrange private purchases, create bridge banks, or transfer financial contracts. According to Krimminger (2006), insolvency laws should give the resolution authority the immediate power to control, manage, marshal, and dispose of the bank’s assets and liabilities once the authority is appointed. *See also*, Mayes (2008) and Eisenbeis (2006).

The recent events involving Northern Rock, Hypo Real Estate, Fortis, and IKB have also revealed the absence or limited scope of special resolution regimes. These events have prompted a number of countries to propose and implement special resolution legislation. *See UK Banking Act 2009*; European Financial Regulation Report, June 19, 2009.

The high profile banking failures of 2007 and 2008, have led some authors to suggest that firms should have explicit wind-down plans in the event of insolvency. *See Eisenbeis (2007)*. In particular, this feature is part of the UK Treasury’s Proposal, *Reforming Financial Markets* (July 2009) and is part of the CBRG’s recommendations published in March 2010.

Maintaining Systemically Important Functions

Much of the literature on cross border resolution has focused on the need for clear legal and operational capacity for authorities to assume control of and to maintain operations within banks that are in acute distress or have failed. Hupkes (2004) suggests that once the systemically relevant functions within a jurisdiction have been identified, regulators should take measures to insulate those functions from disruptions or at least mitigate any harmful effects that could occur in the event of a failure. Such measures could include the replacement of the institution as provider of the systemically important function with another financial intermediary, the dismemberment of the institution and detachment of the relevant function, or the immunization of the systemically relevant function from a default or disruption in the institution's operations.

Although it is important to provide continuity of services in the wake of a bank failure, Krimminger (2006) also notes that it is important to maintain functions while limiting moral hazard. Moral hazard can be limited and market discipline imposed by terminating shareholder and management control, imposing first losses on shareholders, and assessing losses against other creditors and uninsured depositors when necessary. *See also*, Hoggarth (2003). The tools to limit moral hazard were recommended in the CBRG's March 2010 report.

The most recent function that has received considerable attention coming out of the financial collapse of Lehman Brothers is the need to maintain stability surrounding financial markets contracts, such as credit default swaps.⁹⁶ Collateralization and netting are techniques used to strengthen the financial infrastructure, such as payment, clearing, and settlement systems. *See* Eisenbeis (2006), Hupkes (2004), and Hoggarth (2003). The Committee on Payment and Settlement Systems has developed a number of recommendations that have become accepted minimum standards to reduce cross border settlement risk and insulate payment and securities settlement systems from the failure of market participants. Work is ongoing in this area, and a number of national governments have recently introduced proposals to better regulate and reduce risk in financial market contracts.

⁹⁶ This was also a concern in the case of Long-Term Capital Management.

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Appendix B: Country-Specific Chronology of Deposit Insurance Enhancements Resulting from the Financial Crisis

The following region-by-region and country-by-country discussion of deposit insurance events is organized by events in the following regions: European Economic Area (EEA) member states, European countries outside the EEA, North America, Asia and the Pacific, and the Middle East. See Table 1 for a summary of these deposit insurance changes.

European Economic Area (EEA) member states

In Europe, from late 2007 through 2009, EEA member states, like much of the developed world, experienced significant economic turmoil. The economic crisis destabilized the banking system in many of the member countries. In late 2008, at the peak of the stress, many member countries took unilateral actions to protect their banking systems. The responses varied. Some countries took extreme measures to protect the retail banking system through full guarantees of deposits, while other countries had more moderate responses, which included raising deposit insurance coverage levels. Many responses were ad hoc and were undertaken extremely quickly. The following discussion highlights the deposit insurance and debt guarantee actions taken by individual member countries as well as actions taken by the European Commission (EC) in an attempt to harmonize deposit insurance actions among member countries.

The actions taken by member countries in response to the crisis have demonstrated a lack of convergence on coverage limits; however, convergence has occurred with regard to co-insurance, which has largely been eliminated from use. Member countries also seem to be reaching a consensus that payout times need to be reduced.⁹⁷

The actions taken by member states during late 2008 to change or enhance their deposit insurance schemes can be divided into two periods—the time period before the European Union’s Economic and Financial Affairs Council’s (Ecofin)⁹⁸ political decision on deposit insurance coverage standards on October 7, 2008, and the period following Ecofin’s action. During the period preceding October 7, member countries took unilateral action to protect their domestic depositors and their national economies. Many of these measures were implemented in an extremely short period of time in an ad hoc fashion. After the EC passed the Amendment to

⁹⁷ Directive 2009/14/EC. European Parliament and the Council of the European Union, March 11, 2009.

⁹⁸ Ecofin is composed of the Economics and Finance Ministers of the Member States, as well as Budget Ministers when budgetary issues are discussed. The Ecofin Council covers EU policy in a number of areas including economic policy coordination, economic surveillance, monitoring of Member States’ budgetary policy and public finances, the euro (legal, practical and international aspects), financial markets and capital movements and economic relations with third countries. It decides mainly by qualified majority, in consultation or co-decision with the European Parliament, with the exception of fiscal matters that are decided by unanimity.

the 1994 Directive on Deposit Guarantee Schemes, the majority of member states took action within days to implement the new directive.

Ireland

On September 20, 2008, the Irish Government announced that it had decided to increase the statutory limit for the deposit guarantee scheme for banks, building societies, and credit union savers from EUR 20,000 to EUR 100,000 per depositor per institution. The coverage applied to 100 percent of each individual's deposit.⁹⁹

On September 30, 2008, the Government announced a guarantee arrangement to safeguard all deposits (retail, commercial, institutional, and interbank), covered bonds, senior debt, and dated subordinated debt (lower tier II), with the following banks: Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Life and Permanent, Irish Nationwide Building Society, and the Educational Building Society and such specific subsidiaries as may be approved by the Government following consultation with the Central Bank and the financial regulator.¹⁰⁰ Postbank Ireland limited was later added to the full guarantee coverage scheme.¹⁰¹ The guarantee is provided at a charge to the institutions concerned and is subject to specific terms and conditions. The guarantee covers all existing aforementioned facilities with the institutions and any such new facilities issued from midnight on September 29, 2008. The guarantee is set to expire at midnight on September 28, 2010.¹⁰²

The increased deposit insurance coverage and full guarantee for the seven institutions specified above was formally authorized under the Credit Institutions (Financial Support) Act 2008,¹⁰³ the Credit Institutions (Financial Support) Scheme 2008,¹⁰⁴ and three Orders. The Credit Institutions Act came into effect on October 2, 2008, and the Scheme came into effect on October 20, 2008.¹⁰⁵

The Irish government approved the new Financial Services (Deposit Guarantee Scheme) Bill 2009 in April 2009. The Bill provides a statutory basis for the changes to the Irish deposit guarantee scheme (DGS) announced by the government on September 20, 2008. The follow-on regulations will also transpose the recently published EU Directive 2009/14/EC, amending the Deposit Guarantee Schemes Directive of 1994.

⁹⁹ "Ministry of Finance announces increase in Deposit Guarantee Limit," Department of Finance, September 20, 2008,

[http://www.finance.gov.ie/viewdoc.asp?DocID=5466&CatID=1&StartDate=01+January+2008&m=.](http://www.finance.gov.ie/viewdoc.asp?DocID=5466&CatID=1&StartDate=01+January+2008&m=)

¹⁰⁰ "Government Decision to Safeguard Banking System," Ministry of Finance, September 30, 2008, <http://www.finance.gov.ie/documents/pressreleases/2008/bo11.pdf>.

¹⁰¹ "List of Covered Institutions," Ministry of Finance, November 6, 2008, <http://www.finance.gov.ie/viewdoc.asp?DocID=5531>.

¹⁰² "Government Decision to Safeguard Banking System," Ministry of Finance, September 30, 2008, <http://www.finance.gov.ie/documents/pressreleases/2008/bo11.pdf>.

¹⁰³ Credit Institutions (Financial Support) Act of 2008, Ministry of Finance, October 2, 2008, www.finance.gov.ie/documents/publications/legi/creditinstsupp08.pdf.

¹⁰⁴ S.I. No. 411 of 2008: Credit Institutions Scheme, Ministry of Finance, October 20, 2008, www.finance.gov.ie/documents/publications/statutoryinstruments/2008/si4112008.pdf.

¹⁰⁵ The guarantee scheme was approved by the Commission in its Decision of 13 October 2008 in Case No. NN 48/08 *Guarantee Scheme for Banks in Ireland*.

The legislation is intended to complement the Credit Institutions (Financial Support) Scheme, 2008. The Guarantee Scheme provides a state guarantee for all deposits and certain liabilities of the guaranteed institutions to the extent they are not covered by existing deposit protection schemes in the state or any other jurisdiction. It is also important to emphasise that while the Credit Institutions (Financial Support) Scheme 2008 applies to the seven covered credit institutions, the deposit guarantee scheme legislation applies to all credit institutions authorized in the state. This includes credit unions that did not previously benefit from statutory deposit protection.

The main provisions of the Bill itself are

- To empower the Minister of Finance to make regulations prescribing the amount payable to an eligible depositor of a credit institution that fails; and
- To empower the Minister to prescribe by regulation the contribution to be made by credit institutions to the Central Bank to fund the DGS.

Follow-on provisions to be made by the Minister of Finance will

- Increase the statutory limit for the DGS for banks and building societies from EUR 20,000 to EUR 100,000 per eligible depositor per institution from September 20, 2008;
- Abolish the co-insurance requirement for the depositor to bear the first 10 percent of his/her loss;
- Extend DGS coverage to credit union savers;
- Reduce the minimum time period within which duly verified depositor claims must be made from 3 months to 20 working days; and
- Make various other amendments, mainly of a technical nature, to update the 1995 scheme.¹⁰⁶

Greece

On October 2, 2008, the Minister of Economy and Finance, George Alogoskoufis, declared a full guarantee for deposits in Greek banks. As of that date, all deposits would be fully insured by the Greek government.¹⁰⁷ In addition to the political commitment to guarantee all deposits, on October 8, 2008, one day after the Commission passed the Amendment to the 1994 Directive on Deposit Guarantee Schemes, the Finance Minister announced that the government would raise its

¹⁰⁶ Available on the Ministry of Finance's website at: www.finance.gov/ie/documents/.

¹⁰⁷ "Greek Finance Minister Gives Blanket Guarantee On Bank Deposits," *The Foreign Exchange Market*, October 2, 2008, <http://www.fxstreet.com/news/forex-news/article.aspx?StoryId=5238d770-912c-4fdc-b401-c697f9d397a0>.

official deposit guarantee limit from EUR 20,000 to EUR 100,000.¹⁰⁸ On October 23, 2008, a scheme of guarantees, recapitalizations, and loans came into effect under the Law on the Enhancement of Liquidity.¹⁰⁹ The amount committed to the scheme is EUR 15 billion.¹¹⁰ The legal coverage limit is set to expire on December 31, 2011.

The United Kingdom

On October 3, 2008, the Financial Services Authority (FSA) announced its decision to raise the deposit coverage limit from GBP 35,000 to GBP 50,000.¹¹¹ The new coverage level became effective four days later on October 7, 2008. The announced coverage did not include all deposits, but as noted by Chancellor of the Exchequer Alistair Darling, "98% of accounts held in British banks were 'fully covered'."¹¹² Unlike Ireland and Germany where deposit insurance coverage increases were a temporary measure, the UK announced its intention to make the GBP 50,000 coverage limit last beyond the crisis period. The FSA also held consultations with the Financial Services Compensation Scheme (FSCS) regarding payout times because there was growing concern after Northern Rock's failure that the payout time to depositors needed to be shortened.¹¹³

One week later on October 8, 2008, HM Treasury announced a comprehensive package of measures to help ensure the stability of the financial system.¹¹⁴ The overall commitment by the government under the scheme was GBP 250 billion. On January 19, 2009, the UK government announced a second rescue package for UK banks extending some of the existing measures as well as introducing new measures.

On July 24, 2009, the FSA published its policy statement entitled "Banking and Compensation Reform."¹¹⁵ This policy statement introduced new rules for the FSCS on banks, building societies, and credit unions, which will require that individuals and small businesses be compensated faster and ensure protection for an increased number of people. The fast payout rules (that will become effective on December

¹⁰⁸ "Greece to Raise Bank Savings Guarantee to 100,000 Euros," Embassy of Greece, October 8, 2008, <http://www.greekembassy.org/embassy/content/en/Article.aspx?office=3&folder=361&article=24323>.

¹⁰⁹ Law 3723/2008, Parliament of Greece. Also, Decision 54201/B2884/26.11.2008 of the Minister for Economy and Finance.

¹¹⁰ "Greece: 2009 Article IV Consultation Concluding Statement of the Mission," IMF, May 25, 2009, www.imf.org/external/np/ms/2009/052509.htm.

¹¹¹ "Compensation Scheme to Cover Savers' Claims up to £50,000," Financial Services Authority, October 3, 2008, <http://www.fsa.gov.uk/pages/Library/Communication/PR/2008/114.shtml>.

¹¹² Deborah Summers, "Alistair Darling: 98% of accounts are fully covered" *The Guardian*, October 6, 2008, <http://www.guardian.co.uk/politics/2008/oct/06/gordonbrown.economy>.

¹¹³ "Compensation Scheme to Cover Savers Up to £50,000," Financial Services Authority, October 3, 2008, <http://www.fsa.gov.uk/pages/Library/Communication/PR/2008/114.shtml>.

¹¹⁴ The Commissioner of Her Majesty's Treasury: Rules of the 2008 Credit Guarantee Scheme, UK Debt Management Office, October 13, 2008, www.dmo.gov.uk/documentview.aspx?docname=cgs/press/cgsrules.pdf. The original package of measures was approved by the Commission in its Decision of 13 October 2008 in Case No. N 507/08 *United Kingdom Guarantee and Other Forms of Equity Intervention*.

¹¹⁵ Banking and Compensation Reform – Policy Statement 9/11, Financial Services Authority, July 2009, http://www.fsa.gov.uk/pubs/policy/ps09_11.pdf.

31, 2010) will mean that certain individuals and small businesses will receive compensation within a target of 7 days and all payments within 20 days as required under the Deposit Guarantee Schemes Directive. Furthermore, payouts will be made on a "gross" basis. At present, any outstanding loan or debt held with a firm would have been deducted from the amount of an individual's or small business's savings before compensation was paid out. The new rules changed this arrangement and ensured that the customer's savings will be protected to the limit of GBP 50,000 and will not be used to offset loans.

Germany

In Germany the Deposit Guarantee and Investor Compensation Act provided for EUR 20,000 of deposit insurance coverage prior to the 2008 crisis. Germany also has a voluntary, privately managed, and privately funded scheme outside government supervision that provides coverage above EUR 20,000 at private banks.¹¹⁶ The statutory deposit guarantee covered approximately 90 percent of deposits, but during the height of the crisis, the German government announced on October 5, 2008, that it would guarantee all private savings.¹¹⁷ The deposit insurance coverage level was later officially increased to EUR 50,000 to comply with the Commission's new directive. By adopting the new changes, the 10 percent depositor retention was abolished as well. Beginning December 31, 2010, the German Government plans to further increase the amount of coverage to EUR 100,000.¹¹⁸

Along with raising its deposit insurance coverage levels, Germany also implemented a number of state guarantees in response to the financial crisis. The German guarantee scheme was authorized under the Law on the Financial Market Stabilization Fund,¹¹⁹ which came into effect on October 18, 2008, and the Order implementing the law,¹²⁰ which became effective the following day. The measures included guarantees, recapitalization, acquisition of risk positions, and nationalization.

Guarantees are issued by the Financial Market Stabilisation Authority within the framework of the German Special Fund for Financial Market Stabilisation (SoFFin). The amount of the scheme is limited to EUR 400 billion.¹²¹ Eligible institutions under the scheme are solvent financial sector entities that have their registered office in Germany. Debt securities issued by financial sector entities, as well as obligations

¹¹⁶ Thorsten Beck, "Deposit Insurance as a Private Club: Is Germany a Model?: Policy Research Working Paper 2559," World Bank, 2001.

¹¹⁷ Gernot Heller and Kevin Krolicki, "Germany Tries to Shore up Confidence in Economy," *Reuters*, October 5, 2008, <http://www.reuters.com/article/idUSTRE49267J20081005?feedType=RSS&feedName=topNews>.

¹¹⁸ "Questions About Deposit Protection," Deutsche Bundesbank, http://www.bundesbank.de/presse/presse_aktuell_einlagensicherung.en.php.

¹¹⁹ *Gesetz zur Umsetzung eines Maffnahmenpakets zur Stabilisierung des Finanzmarktes*, October 17, 2008.

¹²⁰ *Verordnung zur Durchführung des Finanzmarktstabilisierungsfondsgesetzes*, 2008.

¹²¹ Press Release, SoFFin, October 27, 2008, http://www.soffin.de/en/press/press-releases/2008/20081027_press_release_soffin.html.

from deposits of financial sector companies (newly issued senior debt or refinancing instruments), are eligible for guarantees. The active phase of the fund was phased out starting on December 31, 2009 and extended to year-end 2010.¹²²

Denmark

On October 6, 2008, Denmark guaranteed all of its domestic deposits.¹²³ This was also the same day that Iceland provided a full guarantee for its deposits. The guarantee was adopted on October 10, 2008, and retroactive to October 5, 2008. The guarantee is expected to last until September 30, 2010, and covers both personal and corporate deposits as well as all simple and unsecured credit claims of solvent credit institutions established in Denmark.¹²⁴ For branches of foreign banks in Denmark, only claims that are related to the Danish funds for depositors and investors and those related to their Danish branches are eligible for guarantee protection. The money for the deposit guarantee will come from taxpayers; up to DKK 35 billion (about USD 6.4 billion). On January 18, 2009, the Danish Ministry of Economic and Business Affairs announced that as of October 1, 2010, the new deposit guarantee scheme will be capped at DKK 750,000.¹²⁵

On October 6, Denmark also announced a debt guarantee program for all new and existing debt for Danish banks as well as branches of foreign banks in Denmark. The guarantee is available for debt issued between October 5, 2008 and September 30, 2010.¹²⁶ On January 18, 2009, it was announced that the debt guarantee program would have a three-year transition to ensure a gradual phase out of debt issued between October 1, 2010 and January 1, 2013. During the transition period, fees will be assessed for the guarantee at the lower of the median five-year credit default swap (CDS) spread (Jan 07–Aug 08) or of the median five-year CDS for the rating category of the regulated institution.

Iceland

On October 6, 2008, the Icelandic government announced that it would guarantee all bank deposits in Iceland through its adoption of amendments to the Act on Deposit Guarantees and Investor Compensation Scheme.¹²⁷ At the time of the

¹²² IMF Country Report No 10/85.

¹²³ "Denmark Guarantees that Depositors and Senior Debt Will Not Suffer Any Losses in Banks and Savings Banks in Denmark," Ministry of Economic and Business Affairs, October 6, 2008, <http://oem.dk/sw22745.asp>. Also: "Political Agreement on Financial Stability," Ministry of Economic and Business Affairs, <http://www.oem.dk/sw22730.asp>.

¹²⁴ The guarantee scheme was approved by the Commission in its Decision of 10 October 2008 in Case No. NN 51/08 *Liquidity Support Scheme for Banks in Denmark*. See, "The Danish Parliament Adopts Financial Guarantee Provided by the Danish Government," Danish Ministry of Economy, October 10, 2008, <http://oem.dk/sw22890.asp>.

¹²⁵ "Credit Package Agreement in Place," Danish Ministry of Economic and Business Affairs, January 18, 2009, <http://oem.dk/sw24128.asp>.

¹²⁶ "Political Agreement on Financial Stability," Danish Ministry of Economic and Business Affairs, <http://www.oem.dk/sw22730.asp>.

¹²⁷ "Iceland acts to avoid chaos," *BBC News*, October 6, 2008, <http://news.bbc.co.uk/2/hi/7655227.stm>. Also, "Act providing for special powers in exceptional

announcement, the government had already announced that it intended to take a 75 percent stake in the country's third-largest bank, Glitnir Bank h.f. The decision to guarantee all depositors' savings in Iceland, but not in foreign branches of Icelandic banks, also came with a freeze on trading in the country's six largest banks and firms.

For a more detailed account of deposit insurance events in Iceland, refer to Section 4 of this report.

Sweden

On October 6, 2008, Sweden became the first EU member country to raise its deposit insurance coverage level to the equivalent of EUR 50,000 (SEK 500,000).¹²⁸ This occurred one day before Ecofin formally decided on a EUR 50,000 minimum coverage level. The increased coverage applies to all savings accounts. The government also widened the deposit insurance scheme to cover affiliates of foreign banks in Sweden, should the deposit insurance in the home country not be fully met.

The Swedish government also established a debt guarantee scheme, which came into effect on October 30, 2008.¹²⁹ The Government Stabilisation Guarantee Scheme (SGS)¹³⁰ provides for support to be granted in the form of state guarantees for new short- and medium-term debt issuance. The SGS is limited to an amount of SEK 1,500 billion (approximately EUR 140 billion). The government announced an extension of the measures on January 29, 2009.¹³¹ On April 2, 2009, the government announced a further extension of the program. Debt issued up until October 31, 2009, will now be eligible for guarantees, and the scheme has been broadened to include guarantees for securities with maturities between three and five years.¹³²

Spain

On October 6, 2008, the Spanish government announced that it would increase the deposit coverage limit from EUR 20,000 to EUR 100,000 to boost confidence in the financial system.¹³³ The increase became effective on October 13, 2008, when the

financial Market circumstances," Ministry for Foreign Affairs, October 7, 2008, <http://eng.utanrikisraduneyti.is/speeches-and-articles/nr/4489>.

¹²⁸ "Expanded Deposit Insurance," Swedish National Debt Office, October 6, 2008, <https://www.insattningsgarantin.se/en/Om-verksamheten/Nyheter2/Expanded-deposit-insurance/>>.

¹²⁹ Case No. N 533/08: Support Measures for the Banking Industry in Sweden, European Commission, October 29, 2008.

¹³⁰ The Ordinance on State Guarantees for Banks (Forordning om Statliga Garantier till Banker m.fl. SFS. 29) October 2008.

¹³¹ Case No. N 26/09 Amendments to the Support Measures for the Banking Industry in Sweden, European Commission, January 29, 2009, http://ec.europa.eu/community_law/state_aids/comp-2009/n026-09.pdf.

¹³² "Government Extends and Broadens Guarantee Scheme for Borrowing by Banks" Government Offices of Sweden, April 2, 2009, www.regeringen.se/sb/d/586/a/123819.

¹³³ "UPDATE 3-Spain ups deposit guarantees to boost confidence," *Reuters*, October 6, 2008, <http://www.reuters.com/article/idUSL637018020081006>.

Spanish government issued Royal Decree 1642.¹³⁴ On the same day the new coverage increase was announced, Spain also announced that measures would be undertaken to provide guarantees and increase liquidity to eligible financial institutions. The state guarantee for new financing operations by credit institutions came into effect on October 14, 2008.¹³⁵ The overall amount committed by the government was EUR 100 billion in 2008.¹³⁶ On December 23, 2008, the government announced that it would extend the debt guarantee program until December 15, 2012.¹³⁷

October 7, 2008: European Commission's Response

At the meeting of Ecofin on October 7, 2008, the Council developed and implemented a common response to the financial crisis. Although member states implemented a number of different actions after the meeting, consensus was reached on a number of issues and policy initiatives.¹³⁸

The member states decided to establish a uniform EUR 50,000 minimum deposit insurance coverage level for individual depositors. Prior to October 7, 2008, member countries were subject to the EU's 1994 Directive on Deposit Guarantee Schemes (1994/19/EC), which had a minimum coverage level of EUR 20,000 for individual depositors. The Council also agreed that, after one year, countries should raise their coverage level to EUR 100,000.¹³⁹ This deposit insurance coverage increase would cover 90 percent of eligible deposits. After October 7, 2008, member countries either immediately implemented the EUR 50,000 or EUR 100,000 guarantee.

The new directive also put pressure on member states to reduce the time to effect a payout, stating that the "payout delay of three months currently provided for, which can be extended to nine months, runs counter to the need to maintain depositor confidence and does not meet [depositors'] needs. The payout delay should therefore be reduced to a period of 20 working days."¹⁴⁰ The new directive also eliminated co-insurance. Some member states, such as the UK, had already eliminated co-insurance, but many member states, such as the Czech Republic and Hungary, were still implementing co-insurance. The Council stated in the directive

¹³⁴ "Summary of Government Interventions in Financial Markets Spain," Mayer Brown, May 26, 2009, http://www.mayerbrown.com/public_docs/0298fin-Interventions_Spain.pdf.

¹³⁵ Royal Decree-Law 7/2008, Treasury of Spain, October 13, 2008, <http://www.tesoro.es/doc/SP/Avales/RDLey.pdf>.

¹³⁶ Information on the amount committed for 2009 is not yet available.

¹³⁷ Law 3748/2008, Treasury of Spain, December 23, 2008, http://www.tesoro.es/doc/SP/Avales/Modificaci%C3%B3n_Orden_3364_Boe.pdf.

¹³⁸ Ana Petrovic and Ralf Tutsch, "National Rescue Measures in Response to the Current Financial Crisis," European Central Bank, June 2009.

¹³⁹ DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay, February 20, 2009, European Parliament, <http://register.consilium.europa.eu/pdf/en/08/st03/st03743.en08.pdf>.

¹⁴⁰ Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay Text with EEA relevance, European Parliament, March 13, 2009. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:068:0003:01:EN:HTML>.

that co-insurance “has been demonstrated to undermine depositor confidence and should thus be discontinued.”¹⁴¹

During the weeks after October 7, 2008, member states either raised deposit insurance coverage levels to EUR 50,000, EUR 100,000, or continued to provide full guarantees.¹⁴²

EEA Member State Actions after the Announcement of the New Directive

Belgium

On October 7, 2008, directly after the meeting of Ecofin, Belgian authorities announced that the deposit guarantee would increase to EUR 100,000. This decision was transposed into Belgian legislation by Royal Decree dated November 14, 2008, in accordance with the Law of October 15, 2008, on measures promoting financial stability.¹⁴³ On October 9, 2008, the Belgian PM announced that the government would guarantee all new bank loans of “systemic” Belgian banks until October 31, 2009. These guarantees would be provided on the same terms as the guarantee given to Dexia, the Belgian-French financial services group and the world’s largest municipal lender.¹⁴⁴ On September 30, 2008, the governments of France, Belgium, and Luxembourg pledged to guarantee new borrowings by Dexia and provided a EUR 6.4 billion (USD 9.21 billion) cash injection to improve the institution’s solvency. On May 29, 2009, the Ministry of Finance announced that the debt guarantee would be updated to include off-balance sheet financial instruments.¹⁴⁵

Czech Republic

On October 7, 2008, the Czech Republic government decided to increase its deposit insurance coverage from EUR 25,000 with 10 percent co-insurance to EUR 50,000. The co-insurance element would also be abolished. The new level of coverage became effective on December 15, 2008.¹⁴⁶

¹⁴¹ DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay.

¹⁴² Denmark, Germany, Ireland, Austria, Slovak Republic, and Slovenia offered full deposit guarantees. Greece and Hungary did not implement formal full guarantees, but made political guarantees to cover all deposits. The decision to provide full deposit insurance coverage tended to be more of a response to regional events than a reaction to the new directive.

¹⁴³ “Protection Fund for Deposits and Financial Instruments, Summary Report 2008,” Protection Fund, http://www.protectionfund.be/en/pub_rapport.html.

¹⁴⁴ “State aid: Overview of national rescue measures and deposit guarantee schemes,” EUROPA, October 14, 2008, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/619&format=HTML&aged=0&language=EN&guiLanguage=en>. Also, Belgian Royal Decree, October 16, 2008.

¹⁴⁵ “Communiqué de presse du Conseil des ministres,” Belgian Ministry of Finance, May 29, 2009, <http://www.presscenter.org/archive/20090529/d7223c14a2a33e8e1f083378ff414d9b/?lang=fr>.

¹⁴⁶ “Czech Finance Ministry plans deposit guarantee hike,” Radio Praha, October 8, 2008, <http://www.radio.cz/en/news/109097#1%20>. Also, “Czech govt approves bill to raise deposit guarantee,” Forbes, October 14, 2008, <http://www.forbes.com/feeds/afx/2008/10/14/afx5550141.html>.

Netherlands

On October 7, 2008, the Dutch government announced that it would raise its deposit insurance coverage limit to EUR 100,000 for at least one year.¹⁴⁷ In March 2009, the government decided to extend the EUR 100,000 coverage level until the end of 2010.¹⁴⁸ Before October 7, the deposit guarantee scheme covered 100 percent of the first EUR 20,000 in deposits and 90 percent of the second EUR 20,000. Under the Dutch deposit guarantee scheme, all Dutch banks that operate under a license from the Dutch National Bank (DNB) are covered. Claims of Dutch branches of banks having their registered offices in the EEA fall under the deposit guarantee scheme applicable in the country of origin. Branches of EEA-based banks operating in the Netherlands may opt for additional participation in the Dutch deposit guarantee scheme if their own deposit guarantee arrangement has more limited coverage. Branches of foreign banks operating in the Netherlands that do not have their registered offices in the EEA may opt for (additional) participation in the Dutch deposit guarantee scheme. They may do so if they do not fall under a deposit guarantee scheme that provides coverage equal to the minimum prevailing in the EEA.¹⁴⁹

On October 13, 2008, the Dutch Government also announced a series of measures designed to ensure the stability of the financial system and to protect ordinary savers, depositors, businesses, and borrowers. These measures included guarantees and recapitalization measures. Specifically, the Credit Guarantee Scheme (CGS) came into effect on October 23, 2008, and was most recently amended on February 18, 2009.¹⁵⁰ Access to the CGS was available until December 31, 2009, and the overall amount committed by the government is EUR 200 billion. Also, the Netherlands undertook a number of individual guarantee measures for specific institutions after implementing the CGS as well as a number of individual recapitalizations.¹⁵¹ Prior to the passage of the CGS at the end of September 2008, the Netherlands had taken nationalization measures toward Fortis Bank Nederland Holding.

Austria

On October 8, 2008, Austrian Chancellor Alfred Gusenbauer announced that the government would offer a full guarantee on all retail savings deposits retroactive to

¹⁴⁷ "DNB to Consult with Icelandic Authorities over Icesave," De Nederlandsche Bank, October 7, 2008, <http://www.dnb.nl/en/news-and-publications/news-and-archive/persberichten-2008/dnb188903.jsp>.

¹⁴⁸ "Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staff of IADI and IMF, September 2009.

¹⁴⁹ "Deposit Guarantee Scheme," De Nederlandsche Bank, <http://www.dnb.nl/openboek/extern/id/en/all/41-117052.html>.

¹⁵⁰ "Implementation of Dutch Guarantee Scheme," De Nederlandsche Bank, October 21, 2008, <http://www.dnb.nl/en/news-and-publications/news-and-archive/persberichten-2008/dnb189541.jsp>.

¹⁵¹ Specifically providing individual guarantees for Fortis Bank Netherlands (Holding) NV, ING Bank NV, LeasePlan Corp. NV, NIBC Bank NV and SNS Bank NV, and recapitalizations were provided for Aegon NV and ING Groep NV. Ana Petrovic and Ralf Tutsch, "National Rescue Measures in Response to the Current Financial Crisis," European Central Bank Legal Working Paper Series, No. 8, June 2009.

October 1, 2008. At the same time, the deposit coverage for small and medium enterprises was set to EUR 50,000. These actions were taken to stem the flow of deposits into German banks, as deposits in Germany were already subject to a full guarantee by the German government. The full guarantee applied to individuals only was set to expire on December 31, 2009; coverage is now EUR 100,000. Prior to Austria's announcement of a full guarantee, the deposit guarantee limit was EUR 20,000.¹⁵² In addition to providing a full guarantee, Austria eliminated the 10 percent co-insurance policy for companies and any other non-individuals.

Austria also implemented a number of measures to help stabilize the financial markets, which included guarantees, 153 recapitalization and state loans, as well as legislation on nationalization.¹⁵⁴ These measures went into effect on October 27, 2008.

Cyprus

On October 8, 2008, the Cypriot government raised the deposit guarantee from EUR 20,000 to EUR 100,000.¹⁵⁵ On July 24, 2009, the Regulations on the Establishment and Operation of the Deposit Protection Scheme were amended.¹⁵⁶ The following changes have been introduced:

- The maximum amount of compensation per depositor per bank has increased from EUR 20,000 to EUR 100,000;
- All currencies are now covered, whereas before only the currencies of member states of the EU were covered; and
- Co-insurance has been abolished and, therefore, claims up to EUR 100,000 are fully reimbursed (whereas before only 90 percent of claims were covered).

Finland

On October 8, 2008, Finland raised its deposit insurance coverage limit from EUR 25,000 to EUR 50,000.¹⁵⁷ The branches of foreign banks established in Finland are subject to the coverage scheme of their home state.

¹⁵² "Austria pledges unlimited bank deposit guarantee," *Reuters*, October 8, 2008, <http://uk.reuters.com/article/rbssFinancialServicesAndRealEstateNews/idUKL833368420081008>. Also, http://english.bmf.gv.at/ministry/austriangovernmentt_376/_start.htm?q=deposit.

¹⁵³ New bank debt is guaranteed up to €75 billion under the Interbank Market Support Act (IBSG). The guarantee program is set to terminate June 30, 2012. Also BIS, Financial Sector Rescue Plan Database.

¹⁵⁴ The aid scheme was approved by the Commission in its Decision of 9 December 2008 in Case No. N 557/08 *Austrian Scheme*.

¹⁵⁵ "Cyprus to raise deposit guarantee to 100,000 euro," *Forbes*, October 8, 2008, <http://www.forbes.com/feeds/afx/2008/10/08/afx5525212.html>. Also, "eResearch Paper on the Changes in the EU Deposit Insurance Systems in 4th Quarter 2008," The Bank Guarantee Fund Poland.

¹⁵⁶ "Deposit Protection Scheme," Central Bank of Cyprus, http://www.centralbank.gov.cy/nqcontent.cfm?a_id=2794&lang=en.

¹⁵⁷ "Finland to Increase the Level of Deposit Guarantee," Finnish Government, October 8, 2008, <http://www.government.fi/ajankohtaista/tiedotteet/tiedote/en.jsp?oid=240771>.

In addition to raising the deposit insurance limit, Finland also enacted a state guarantee scheme on December 12, 2008, to counter the effects of the financial crisis.¹⁵⁸ The overall limit to the scheme is EUR 50 billion. The scheme was initially in force until April 20, 2009, but has been extended to December 31, 2014. Prior to the enactment of the December 12 guarantee scheme, Finland had taken measures to guarantee the Finnish branch of the Icelandic bank, Kaupthing Bank h.f., through a private sector agreement. The participants, three commercial banks and a special purpose vehicle, took over credit claims and other assets of Kaupthing Bank h.f. to settle its deposit claims in Finland. The state guarantee covered legal risks in the arrangement, such as the economic loss suffered from any recovery claim made against the participating banks or depositors. This guarantee was issued on October 24, 2008.¹⁵⁹

Italy

On October 8, 2008, Italy enacted Decree Law 9 October 2008 No. 155 that authorized the Ministry of Finance to provide supplementary coverage as a “complement to and in addition to” the existing depositor guarantee scheme in favor of depositors with Italian banks. The measure is expected to end on October 9, 2011.¹⁶⁰ No specific deposit coverage increase was announced. At the same time that the Italian government passed Decree Law No. 155 with respect to deposit guarantees, the government also passed Decree Law No. 157, which authorizes the Ministry of Finance to provide a state guarantee, at market conditions, for liabilities of Italian banks with a maturity up to five years and issued from October 9, 2008 through December 31, 2009.

Hungary

On October 8, 2008, the Hungarian government announced a legislative proposal to increase its deposit insurance scheme from HUF 6 million (approximately EUR 25,000) to HUF 13 million (approximately EUR 50,000).¹⁶¹ Prior to October 8, the guarantee scheme provided coverage for 90 percent of deposits greater than 1 million forint.¹⁶² Although the proposed legislation limited deposit insurance coverage to 13 million forint, Finance Minister Janos Veres stated at a press conference on October 8, 2008, that all Hungarian deposits would be guaranteed.¹⁶³ The final legislation was adopted on May 18, 2009. The new law sets the coverage limit to HUF-equivalent of EUR 50,000 and maximizes the payout period available to 20 working days (with one possible extension of 10 working days). The new

¹⁵⁸ Parliamentary Decision No. EV 110/2008 of 12 December 2008.

¹⁵⁹ Petrovic and Tutsch.

¹⁶⁰ Unofficial translation of Decree law N. 155, Committee of European Banking Supervisors, http://www.c-eps.org/getdoc/4dea15b0-7fec-49d0-8aa8-0ceb31ccf537/2008-10-10-Bank-of-Italy_Decree-Law_unofficial-tra.aspx. Law 190 was later enacted in December 2008 that confirmed the deposit insurance measure of Decree law 155.

¹⁶¹ “Hungary to guarantee all bank deposits,” *Sydney Morning Herald*, October 9, 2008, <http://news.smh.com.au/business/hungary-to-guarantee-all-bank-deposits-20081009-4wxh.html>.

¹⁶² “Research Paper on the Changes in EU Deposit Insurance Systems...,” The Bank Guarantee Fund Poland.

¹⁶³ “Hungary to guarantee all bank deposits,” *Sydney Morning Herald*.

coverage limit is effective from July 1, 2009, while the new regulation for the payout period is effective from January 2010.¹⁶⁴

Lithuania

On October 8, 2008, Lithuania announced that it would increase its deposit insurance from EUR 22,000 to EUR 100,000. The amendments to the existing deposit guarantee legislation were passed on October 14 and went into effect on November 1, 2008.¹⁶⁵

Romania

On October 8, 2008, the Romanian Ministry of Economy and Finances announced that it would increase its deposit insurance coverage from EUR 20,000 to EUR 50,000 for all private deposits in local banks.¹⁶⁶ The measure became effective on October 15, 2008.¹⁶⁷

Slovenia

On the same day that Austria announced its full guarantee for retail savings, Slovenia's Finance Minister Andrej Bajuk announced that Slovenia would be amending its banking law and providing a guarantee on all savings deposits.¹⁶⁸ The announcement indicated that the full guarantee would be temporary.¹⁶⁹ One week later on October 14, 2008, Prime Minister Janez Janša announced that the guarantee would remain in place at least until December 31, 2009.¹⁷⁰ Official amendments to the Banking Act became effective on November 11, 2008,¹⁷¹ which, *inter alia*, extends the guarantee until December 31, 2010.

The Slovenian government also adopted measures in November 2008 that provided for state guarantees and loans to eligible institutions as well as recapitalizations.

¹⁶⁴ "Changes in the Deposit Insurance Legislation," National Deposit Insurance Fund of Hungary, May 19, 2009, <http://www.oba.hu/index.php?m=news&aid=473>.

¹⁶⁵ "Lithuania Government Prepared to Guarantee Stability," *Bloomberg*, November 4, 2008, http://www.bloomberg.com/apps/news?pid=20601095&refer=&sid=aRGvtW75_Od4#.

¹⁶⁶ "Romanian policy makers increase the amounts covered by the deposit insurance schemes to 50,000 euros," *Wall-Street*, October 13, 2008, <http://www.wall-street.ro/articol/English-Version/50380/Romanian-policy-makers-increase-the-amounts-covered-by-the-deposit-insurance-schemes-to-50-000-euros.html>.

¹⁶⁷ "The individuals' deposits at credit institutions are guaranteed up to 50.000 EUR," Government of Romania, Press Release, October 17, 2008, http://www.gov.ro/the-individuals-deposits-at-credit-institutions-are-guaranteed-up-to-50-000-eur__l2a102751.html.

¹⁶⁸ "Joint Statement of the Government of Slovenia and the Bank of Slovenia," Bank of Slovenia, October 8, 2008. <http://www.bsi.si/iskalniki/sporocila-za-javnost-en.asp?MapaId=202&VsebinaId=13442>.

¹⁶⁹ "Slovenia guarantees banks' deposits," SeeBiz, October 9, 2008, <http://www.seebiz.eu/en/macro/slovenia/slovenia-guarantees-banks'-deposits,27177.html>.

¹⁷⁰ "The Government has placed an unlimited guarantee on savings deposits in Slovenian banks," Republic of Slovenia - Prime Minister of the Republic of Slovenia, October 14, 2008, <http://www.nekdanji-pv.gov.si/2004-2008/nc/en/splosno/cns/news/article/1914/3274/index.html>.

¹⁷¹ "Which Deposits are Guaranteed Within the Deposit Guarantee Scheme in the Republic of Slovenia?" Bank of Slovenia, <http://www.bsi.si/en/guarantee-scheme.asp?MapaId=1052>.

The overall amount committed by the government to the guarantee scheme is EUR 12 billion.¹⁷²

Bulgaria

On October 9, 2008, the Bulgarian Prime Minister announced that the Bulgarian Cabinet would propose a legislative change to the deposit guarantee scheme that would increase the guarantee from BGN 40,000 (EUR 25,000) to BGN 100,000 (EUR 50,000).¹⁷³ The new coverage level became effective on November 18, 2008. On May 28, 2009, the Bulgarian Parliament passed amendments to the Bank Deposit Guarantee Act. These amendments transposed the requirements of the new EU directive. The amendments also reduced the payout timeframe from 45 days (calendar days) to 20 working days effective September 1, 2009.¹⁷⁴

Estonia

On October 9, 2008, the Ministry of Finance increased the deposit insurance coverage level to EUR 50,000 and abolished its previous 10 percent co-insurance requirement.¹⁷⁵ More than 90 percent of the Estonian financial institutions are owned by Swedish and Danish banking groups. The Minister of Finance confirmed that any actions regarding troubled institutions would be coordinated to consider cross border impacts: "If Estonia needs to apply measures to guarantee the reliability of the financial system, this will be done in cooperation with Sweden and other concerned countries in the region."¹⁷⁶

The government also made provisions for special fast-track parliamentary procedures for the acquisition of shareholdings or other financial assets, grants of state guarantees, lending, borrowing, or acquisition of other obligations as well as the use of stabilization reserve funds. This scheme will remain in force until July 1, 2010.¹⁷⁷

¹⁷² Law amending the law on public finance, adopted on 11 November 2008. Also, Decree on criteria and conditions for issuing guarantees under Article 86.a of the Law on public finance.

¹⁷³ "Bulgaria's Prime Minister issues new assurances after Wall Street crisis," *The Sofia Echo*, October 10, 2008, http://sofiaecho.com/2008/10/10/653100_bulgarias-prime-minister-issues-new-assurances-after-wall-street-crisis.

¹⁷⁴ "Amendments to the Law on Bank Deposit Guaranty," Bulgarian Deposit Insurance Fund, June 12, 2009, <http://www.dif.bg/pressrelease.php?lang=en&id=058>. Also, "Research Paper on the Changes in the EU Deposit Insurance Systems in 4th Quarter 2008 in Response to the Turmoil on the Financial Markets," The Bank Guarantee Fund Poland.

¹⁷⁵ "Estonia raising deposit guarantee 50,000 Euros," *EUBusiness*, October 9, 2008, <http://www.eubusiness.com/news-eu/1223546521.77>.

¹⁷⁶ "Estonian Government Agreed Measures to Improve Crisis Management Tools," Ministry of Finance of the Republic of Estonia, October 30, 2008, <http://www.fin.ee/index.php?id=80966>.

¹⁷⁷ Petrovic and Tutsch.

Malta

On October 9, 2008, the Finance Minister announced that Malta would be increasing its deposit guarantee from EUR 20,000 to EUR 100,000.¹⁷⁸

Portugal

On October 12, 2008, the Portuguese government approved a full guarantee of all domestic deposits. At the same time, the official deposit insurance coverage limit was raised to EUR 100,000 from its previous coverage level of EUR 25,000.¹⁷⁹ A statement from the Office of the Minister of State and Finance noted that "the term for reimbursing deposits [was also] significantly reduced."¹⁸⁰ One week later, on October 20, 2008, the parliament adopted a new law that allows the government to provide guarantees to eligible institutions.¹⁸¹ The overall amount committed by the government to the guarantee scheme is EUR 20 billion. Individual guarantees are to be authorized separately by the Minister for Finance. The legal coverage limit is set to expire on December 31, 2011.

Latvia

On October 13, 2008, the government of Latvia agreed to increase deposit insurance coverage from EUR 20,000 to EUR 50,000.¹⁸² This was enacted through amendments to the Deposit Guarantee Law adopted by the Parliament of the Republic of Latvia (Saeima) and became effective on October 16, 2008.¹⁸³ Latvia has also put in place legislation providing for state guarantees and nationalization. The Latvian guarantee scheme is based on the regulation establishing procedures for issue and supervision of guarantees for loans received by banks.¹⁸⁴ This guarantee scheme came into effect on February 14, 2009.

¹⁷⁸ "Maltese Deposits Not Affected," *Times of Malta*, October 9, 2008,

<http://www.timesofmalta.com/articles/view/20081009/local/maltese-deposits-not-affected>.

¹⁷⁹ "Initiatives for Strengthening Financial Stability," Ministry of Finance and Public Administration, October 12, 2008. <http://www.c-ebs.org/getdoc/63dfdf04-8225-4c89-a00a-8cfe620f4ba0/2008-10-12-Portuguese-initiatives-to-strenghten-fi.aspx>.

¹⁸⁰ "Initiatives for Strengthening Financial Stability," Ministry of Finance and Public Administration.

¹⁸¹ Law No. 60-A/2008: Portuguese State Guarantee Scheme, October 12, 2008, www.min-financas.pt/inf_economica/Portuguese_Guarantee_Scheme_23Oct2008.pdf.

¹⁸² "Finance ministry to increase deposit insurance," *The Baltic Times*, October 16, 2008, <http://www.baltictimes.com/news/articles/21562/>.

¹⁸³ "Information on Deposit Guarantee System in Latvia.," Financial and Capital Market Commission, October 20, 2008,

http://www.fktk.lv/en/publications/other_publications/20081020_information_on_deposi/.

¹⁸⁴ This guarantee scheme was approved by the European Commission in its Decision of 22 December 2008 in Case No N 638/08 *Guarantee Scheme for Banks in Latvia*. Also, Ministry of Finance website at www.fm.gov.lv/?eng/

Poland

Poland announced on October 13, 2008, that it would raise its coverage to the equivalent in zloty of EUR 50,000 (from EUR 22,500).¹⁸⁵ The Act on the Bank Guarantee Fund was amended on October 23, 2008, and the new coverage became effective on November 28, 2008, as a mandate of the Bank Guarantee Fund.¹⁸⁶ On October 14, 2008, the National Bank of Poland (NBP) announced a "Confidence Pact," which was aimed at increasing liquidity in the Polish banking system.¹⁸⁷ On March 13, 2009, a final package of measures came into effect, including the Law on the Provision of State Treasury Support to Financial Institutions.¹⁸⁸ Poland was also one of many countries whose deposit coverage legislation also included eliminating co-insurance. Before November 2008, Poland had only guaranteed 100 percent of deposits up to EUR 1,000 and 90 percent of the remaining coverage amount up to EUR 22,500.¹⁸⁹

Luxembourg

On October 17, 2008, the Luxembourg Minister for Treasury and Budget announced that the Luxembourg government had resolved to increase the deposit guarantee scheme from EUR 20,000 to EUR 100,000.¹⁹⁰ The Minister highlighted the fact that the increase of the deposit guarantee will not have a retroactive effect. This is of note because three Icelandic banks (Landsbanki Luxembourg S.A., Glitnir Bank Luxembourg S.A., Kaupthing Bank Luxembourg S.A.) were given the benefit of suspension of payments proceedings (*sursis de paiement*) on October 8 and 9, 2008. The Minister stated, however, that in respect to Kaupthing Bank Luxembourg S.A. (and its Belgian branch), if the bank does not recover or is not taken over, then "the Luxembourg government together with the Belgian government will seek to implement a solution in order to provide the bank's clients with a [guaranteed] amount in excess of the EUR 20,000 current maximum guarantee. In addition to increasing its deposit insurance coverage, the Luxembourg government provided a joint guarantee on October 9, 2008, with the governments of Belgium and France to the Dexia financial group. Luxembourg covered 3 percent of the guarantee in the amount of EUR 2.4 billion. Following approval by the European Commission, the Belgian, French, and Luxembourg governments agreed to establish a guarantee mechanism covering Dexia's liabilities, bonds, and

¹⁸⁵ "Poland sets 50,000 euro limit for bank deposit guarantees," *EUbusiness*, October 13, 2008, <http://www.eubusiness.com/news-eu/1223917322.38>.

¹⁸⁶ "New guarantee limit," Bank Guarantee Fund, http://www.bfg.pl/?a_id=833. Also, "Parliament increases guarantee level in bank accounts," *Polskie Radio Online*, October 23, 2008, <http://www.polskieradio.pl/thenews/business/?id=94242>.

¹⁸⁷ "Statement of the National Bank of Poland following the NBP President's meeting with representatives of the banking sector on 14 October 2008," National Bank of Poland, October 14, 2008, http://www.nbp.pl/homen.aspx?f=/en/aktualnosci/2008/081014_en.html.

¹⁸⁸ *Ustawa z dnia 12 lutego 2009 r. o udzielaniu przez Skarb Państwa wsparcia instytucjom finansowym*.

¹⁸⁹ "Research Paper on the Changes in the EU Deposit Insurance Systems...," The Bank Guarantee Fund Poland.

¹⁹⁰ "La garantie nationale des dépôts bancaires sera portée de 20.000 à 100.000 euros," Ministry of Finance – Luxembourg, October 17, 2008, http://www.mf.public.lu/actualites/2008/10/declaration_gouv_garantie_171008/index.html.

securities that mature by October 31, 2011, which were issued in the period from October 9, 2008 through October 31, 2009.¹⁹¹

Slovakia

On October 24, 2008, Slovak lawmakers approved a government proposal to expand insurance coverage to the full amount of bank deposits. The guarantee became effective on November 15, 2008. Prior to this action, Slovak Republic covered up to EUR 20,000 in deposits.¹⁹²

As of June 2009, Slovakia had not adopted any rescue measures. However, the Ministry of Finance has prepared a draft law on measures to mitigate the effects of the global financial crisis on the banking sector as well as amendments to certain other laws.¹⁹³

EEA Member States that did not make changes to their deposit guarantee schemes

Thus far, France and Norway have not made any changes or enhancements to their deposit guarantee schemes. However, France participated in a joint guarantee with Belgium and Luxembourg for newly issued debt by Dexia in the amount of EUR 54.75 billion; France also announced on October 13, 2008, that it would guarantee debt issued by SFEF from which French banks can borrow up to EUR 265 billion.¹⁹⁴

1. European Countries outside the EEA

A number of European countries outside the EEA have made important changes to their deposit insurance schemes. These countries' deposit guarantee responses to the financial crisis are discussed below in chronological order.

Croatia

On October 13, 2008, Croatian authorities announced an increase in the deposit insurance limit on insured household deposits from HRK 100,000 (approximately EUR 14,000) to HRK 400,000 (approximately EUR 56,000).¹⁹⁵ The Parliament is also authorized to increase the coverage if it is deemed necessary in the future.

¹⁹¹ "State Aid to Dexia," European Commission, March 13, 2009.

¹⁹² "Slovak Republic approves full bank deposits insurance," *Forbes*, October 24, 2008, <http://www.forbes.com/feeds/afx/2008/10/24/afx5601802.html>.

¹⁹³ Petrovic and Tutsch.

¹⁹⁴ "France's Plan for Insuring the Finances of the Economy and Restoring Confidence," French Ministry of Finance, October 13, 2008, http://www.minefe.gouv.fr/presse/dossiers_de_presse/081013plan_economie_version_anglaise.pdf.

¹⁹⁵ "Government Moves Raising Insured Amount of Private Deposits to Over EUR 50,000," Government of the Republic of Croatia, October 13, 2008, http://www.vlada.hr/en/naslovnica/novosti_i_najave/2008/listopad/vlada_osigurana_stednja_sa_100_na_400_tisuca_kuna. Also: "PM Sanader: Croatia Has Prepared Itself for Possible Scenarios of Financial Crisis," Government of the Republic of Croatia, 15 October 2008,

Russia

On October 14, 2008, amendments to the federal law On Insurance of Household Deposits in Banks of the Russian Federation took effect.¹⁹⁶ These amendments increase the country's deposit coverage from RUB 200,000 to RUB 700,000 rubles (USD 26,800) and abolish previously existing co-insurance arrangements. The new parameters of the deposit insurance system are applicable to banks which failed after October 1, 2008. Russia also has a debt guarantee program in place.

Ukraine

On October 15, 2008, the Central Bank of Ukraine announced that it would raise coverage for deposits from UAH 50,000 to UAH 150,000 (approximately USD 20,000).¹⁹⁷ The announcement came after a run on the country's sixth-largest bank, Prominvest, which occurred after speculation of a takeover deal. The run prompted the central bank to place Prominvest in receivership. The legal amendment that reflects the new deposit guarantee limit was passed on October 30, 2008.¹⁹⁸ The limit will expire on January 1, 2011.¹⁹⁹

Switzerland

On October 15, 2008, Switzerland announced that it would make changes to improve its financial system, which it formally did on November 5, 2008, when the Swiss Federal Council adopted the Dispatch on the package of measures to strengthen Switzerland's financial system.²⁰⁰ In the Dispatch, the Federal Council decided to implement immediate amendments to the Swiss deposit guarantee scheme as well as provide measures for the recapitalization of UBS. The revision proposed by the Federal Council to the deposit guarantee scheme has five elements:

- Protected deposits should be increased from CHF 30,000 to CHF 100,000. This would make the level of protection for deposits in Switzerland higher than the October 7, 2008 increase in the EU minimum limit of EUR 50,000;

http://www.vlada.hr/en/naslovnica/novosti_i_najave/2008/listopad/hrvatska_se_uspjela_priprediti_z_a_sve_moguce_scenarije_financijske_krize.

¹⁹⁶ "Changes in Basic Financial Parameters of Deposit Insurance System," Russian Deposit Insurance Agency, October 15, 2008, <http://www.asv.org.ru/en/arc/show/?id=114497>.

¹⁹⁷ "Ukraine's CBank Ups Deposit Insurance," *Forbes*, October 15, 2008,

<http://www.forbes.com/feeds/afx/2008/10/15/afx5559018.html>.

¹⁹⁸ Law N 639-VI amended law N 358-V, November 16, 2006,

http://www.fg.org.ua/ua/zakonodavstvo/zakon_fond.rtf.

¹⁹⁹ "Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, September 2009.

²⁰⁰ "Two Dispatches on the Financial System Measures Package Adopted," Swiss Federal Department of Finance, November 5, 2008,

<http://www.efd.admin.ch/dokumentation/medieninformationen/00467/index.html?lang=en&msg-id=22499>.

- Banks are obliged, in relation to their customers' preferred deposits, to hold domestic secured claims or other domestically held assets at all times;
- More generous immediate payments of insured deposits from the resources of the bank in difficulties are envisaged. The SFBC will determine the size of the immediate payment in each individual case. The amount should, however, be considerably more than the current CHF 5,000;
- The depositor protection system upper limit was increased from CHF 4 billion to CHF 6 billion; and
- The Federal Council is recommending granting privileges separately to deposits in employee benefits foundations and to already insured bank deposits.

The emergency provisions outlined in the Dispatch were extended by 1 year until the end of 2011. A government proposal is expected to make the coverage increase permanent.²⁰¹

Montenegro

On October 28, 2008, the government of Montenegro published law 64/08, to guarantee the payments of deposits of natural and legal persons placed with banks founded and operated in Montenegro above the previous coverage level of EUR 5,000.²⁰² This law expired on December 2009. A new draft law progressively increases coverage to EUR 20,000 through December 31, 2010, to EUR 35,000 until December 31, 2011 and to EUR 50,000 thereafter.²⁰³

Serbia

On December 25, 2008, the Serbian government published law No. 61/05 and 116/08 increasing the deposit guarantee from EUR 3,000 to EUR 50,000.²⁰⁴ The law came into effect on December 26, 2008.

²⁰¹ See "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010, and "Frequently Asked Questions," Deposit Protection of Swiss Banks and Security Dealers, and

<http://www.einlagensicherung.ch/en/bankkunden-link/bankkunden-faq.htm>.

²⁰² "Law on Measures for Protection of the Banking System," Official Gazette 64/08, October 27, 2008, <http://www.fzdcg.org/Documents/LAW%20ON%20MEASURES%20FOR%20PROTECTION%20OF%20THE%20BANKING%20SYSTEM.pdf>. Also, <http://www.fzdcg.org/Important.htm>.

²⁰³ "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staff of IADI and IMF, June 2010.

²⁰⁴ Law on Deposit Insurance, RS Official Gazette No. 61/2005 and 116/08, December 26, 2008, http://www.aod.rs/levimeni_eng/pravni_okvir/5.html. Also, http://www.aod.rs/glavnimeni_eng/osiguranje_depozita/gradjani/osiguranje_depozita_JA.html

Albania

On March 12, 2009, the Albanian government announced an increase in the guarantee on savers' deposits from ALL 700,000 (approximately EUR 5,000) to ALL 2.500.000 (EUR 25,000).²⁰⁵ The deposit insurance law was amended on March 30, 2009 to reflect the limit increase and included amendments aimed at "approaching the ADIA legal framework to the European Union Deposit Guarantee Directives, as well as strengthening the role of the Albanian Deposit insurance Agency." These measures were also taken to reassure domestic savers and Albania's migrant community in neighboring Greece and Italy. The increased guarantee covers over 90 percent of deposits in Albanian banks.

2. Western Hemisphere

The United States

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA)²⁰⁶ was signed into law in an effort to restore liquidity and stability to all aspects of the banking and financial sectors. The most important aspect of the EESA with regard to deposit insurance was the temporary increase in coverage from USD 100,000 to USD 250,000, which was to initially last until December 31, 2009.²⁰⁷ The timeframe for increased coverage has since been extended until December 31, 2013²⁰⁸ and the increase was later made permanent.²⁰⁹

In addition to increasing the deposit insurance coverage level, EESA authorized the Troubled Asset Relief Program (TARP). This program provided the Secretary of the Treasury with USD 700 billion to purchase distressed assets, such as mortgage-backed securities. The Secretary used the appropriation to make capital injections into banks. Of the USD 700 billion provided under TARP, the Treasury had allocated nearly USD 600 billion as of June 2009.²¹⁰

Ten days later, on October 13, 2008, the FDIC established the Temporary Liquidity Guarantee Program (TLGP) to provide a full guarantee for noninterest-bearing transaction accounts (the Transaction Account Guarantee, or TAG) and temporarily guarantee certain newly issued senior unsecured debt issued by banks and their

²⁰⁵ See "Albania increases savers' deposit guarantee to 25,000 euros," *Reuters*, March 12, 2009, <http://www.forexpros.com/news/financial-news/albania-increases-savers%27-deposit-guarantee-to-25,000-euros-35467>, and Laws no. 8873 amended by Law no. 10 106, March 30, 2009, Albanian Deposit Insurance Agency, <http://www.dia.org.al/eng/default.shtml>.

²⁰⁶ Public Law 110-343, Government of the United States, October 3, 2008, <http://www.gpo.gov/fdsys/pkg/PLAW-110publ343/html/PLAW-110publ343.htm>.

²⁰⁷ Amendment to H.R. 1424, Division A, Section 136.

²⁰⁸ Section 204 of the *Helping Families Save Their Homes Act of 2009*, P.L. 111-22, May 20, 2009.

²⁰⁹ The Dodd Frank Act, enacted on July 21, 2010, permanently increased the coverage limit to USD 250,000.

²¹⁰ "Supervisory Insights," Federal Deposit Insurance Corporation, Summer 2009, http://www.fdic.gov/regulations/examinations/supervisory/insights/sisum09/si_sum09.pdf, 11.

eligible affiliates (the Debt Guarantee Program).²¹¹ In fewer than three months, 7,207 insured depository institutions were participating in the Transaction Account Guarantee Program, and 8,191 institutions had opted into the Debt Guarantee Program, 64 of which had issued guaranteed debt as of year-end 2008.²¹² On August 26, 2009, the FDIC extended the TAG portion of the TLGP for six months, through June 30, 2010. For institutions that choose to remain in the program, the fee was raised and adjusted to reflect the institution's risk.

Canada

Thus far, the Canada Deposit Insurance Corporation (CDIC) has not made any changes to its CAD 100,000 deposit insurance coverage level; however, actions were taken on a provincial level by the credit union deposit guarantee schemes to fully insure deposits held in credit unions.

On October 22, 2008, Gordon Campbell, the premier of British Columbia, announced a full guarantee for all deposits held in credit unions within the borders of British Columbia, up from its previous coverage of CAD 100,000.²¹³ On November 27, 2008, the Provincial legislature passed amendments to the province's Financial Institutions Act, which made the full coverage official.²¹⁴ The implementation of full deposit insurance coverage for credit unions brought British Columbia in line with Alberta, Saskatchewan, Manitoba, Prince Edwards Island, and New Brunswick, all of which provide full provincial deposit insurance protection. Nova Scotia and Newfoundland cover CAD 250,000, while Ontario and Quebec provide CAD 100,000 per registered account.²¹⁵

On October 23, 2008, the Canadian Department of Finance announced a new program called the Canadian Lenders Assurance Facility (CLAF). The CLAF makes available government insurance of up to three years, on commercial terms, for borrowings by banks and other qualifying deposit-taking institutions. The initiative is designed to help secure access to longer-term funds so that Canadian financial institutions can continue lending to consumers, homebuyers, and businesses in Canada.²¹⁶

Brazil

In March 2009, the National Monetary Council of Brazil extended the coverage limit of deposit guarantees from BRL 60,000 (about USD 30,000) to BRL 20,000,000

²¹¹ The FDIC Board of Directors approved the final rule for the program on November 21, 2008.

²¹² "Supervisory Insights," Federal Deposit Insurance Corporation, 12.

²¹³ "Economic Plan Supports Families and Boosts Productivity," British Columbia - Office of the Premier, October 22, 2008, http://www2.news.gov.bc.ca/news_releases_2005-2009/2008OTP0260-001612.htm.

²¹⁴ "Responsibilities – CUDIC," Financial Institutions Commission of British Columbia, <http://www.cudicbc.ca/>.

²¹⁵ "Responsibilities – CUDIC," Financial Institutions Commission of British Columbia.

²¹⁶ Canadian Department of Finance. www.fin.gc.ca.

(about USD 9,000,000 in March 2009).²¹⁷ The measure (Resolution 3692/2009) was very limited, in that it targets small- and medium-sized banking institutions, which rely mainly on wholesale deposits for their funding. It was designed to increase the credit supply for these smaller-scale banks.

3. Asia and the Pacific

Certain financial markets in the Asia-Pacific region experienced significant stress following the collapse of Lehman Brothers. While some major Asian economies, including Japan and India, did not make changes in their deposit insurance coverage, many countries increased deposit insurance coverage and/or adopted temporary full guarantees in a series of rapid preemptive actions during October 2008.

Taiwan

On October 7, 2008, Taiwan's Financial Supervisory Commission announced that it would temporarily double the deposit insurance coverage level from 1.5 million TWD (USD 45,000) to 3 million TWD (USD 90,000). Later on the same day, on October 7, 2008, Taiwanese Premier Liu Chao-shiuan announced that the government would provide a full guarantee on deposits.²¹⁸ The full coverage was in effect until December 31, 2009, but was extended until December 31, 2010.²¹⁹ The decision to provide a full guarantee was aimed at increasing confidence in the domestic financial system, as well as stemming the flow of deposits from private banks into government-controlled institutions like the Bank of Taiwan. Unlike the previous deposit insurance coverage, the full guarantee covered most of deposits such as foreign currencies deposits, negotiable certificates of deposits and deposits from the central bank etc, as well as interbank call loans.²²⁰

Kazakhstan

On October 10, 2008, Kazakhstan announced an increase in the deposit insurance level from KZT 700,000 to KZT 5 million.²²¹ The increased coverage went into effect on October 24, 2008, and will remain in force until January 1, 2012.²²² It will revert

²¹⁷ <http://www.forbes.com/2009/04/14/banks-latin-america-business-oxford.html>. Also, "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010.

²¹⁸ "Taiwan provides temporary unlimited guarantee on bank deposits," *Forbes – Thomson Financial News*, October 7, 2008, <http://www.forbes.com/feeds/afx/2008/10/07/afx5522023.html>.

²¹⁹ "Deposit Insurance System," Central Deposit Insurance Corporation, <http://www.cdic.gov.tw/ct.asp?xItem=1373&CtNode=701&mp=2>.

²²⁰ "Recent Developments in Asian Deposit Guarantee Programs," Asia Focus-Federal Reserve Bank of San Francisco, October 2008, http://www.frbsf.org/publications/banking/asiafocus/2008/Asia_Focus_Deposit_Insurance_Oct_08.pdf

²²¹ "Kazakhstan boosts bank deposit insurance payout," *Forbes*, October 10, 2008, <http://www.forbes.com/feeds/afx/2008/10/10/afx5534918.html>.

²²² "Kazakhstan boosts bank deposit insurance payout," *Forbes*. Also, "Kazakhstan Deposit Insurance Fund," <http://www.kdif.kz/en/news/newsarchive>.

to KZT 1 million on that date, but it is expected that the insurer will recommend maintaining the KZT 5 million coverage level.

Australia

On October 12, 2008, Australia announced that it would be introducing a deposit insurance scheme. Prior to this date, no explicit deposit insurance system was in place.

The Australian Prime Minister announced that in response to the economic crisis, all deposits would be protected over a three-year period and later established a coverage limit.²²³ The guarantee will expire on August 12, 2011. This measure came on top of existing mandates of Australian Prudential Regulation Authority and Australian Securities and Investments Commission to monitor Australian banks and deposit-taking institutions to ensure that their risks do not compromise the safety of depositors' funds.

The Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding (the Guarantee Scheme) formally commenced on November 28, 2008.²²⁴ Interim arrangements applied until November 28, with deposits and eligible wholesale borrowing guaranteed without charge during the interim period. Under the Guarantee Scheme, eligible institutions can obtain guarantees for deposit balances totaling over AUD 1 million per customer and for wholesale funding liabilities. Access to the Guarantee Scheme is voluntary. Separate arrangements apply for deposit balances totaling up to and including AUD 1 million per customer per institution. Such deposits are guaranteed by the Australian Government under the Financial Claims Scheme, and this guarantee is free.²²⁵ Eligible institutions wanting to access the guarantee for their large deposit balances or wholesale funding from November 28, 2008, need to apply to the Scheme Administrator.

New Zealand

On October 12, 2008 New Zealand announced the creation of a deposit insurance scheme. The scheme introduced by New Zealand was more limited than the three-year full guarantee announced on the same date by Australia, and later the coverage was capped at NZD 1 million.²²⁶ The New Zealand plan is an opt-in plan limited to retail deposits. The scheme was originally scheduled to last for two years,

²²³ "Australian Government's 2008 Deposit and Wholesale Funding Guarantees," Australian Treasury, October 28, 2008, <http://www.treasury.gov.au/contentitem.asp?NavId=017&ContentID=1431>.

²²⁴ Australian Government Guarantee Scheme, <http://www.guaranteescheme.gov.au/>.

²²⁵ The Australian Financial Claims Scheme (FCS) is initially funded from government revenues to make payments to depositors when a bank fails or to insurance company policy holders when an insurance company becomes insolvent. The FCS may make up any shortfall by applying a levy on Australian depository institutions or on the general insurance sector.

²²⁶ "Amendments to the Crown Retail Guarantee Scheme," The Treasury and Reserve Bank of New Zealand, October 22, 2008, <http://www.treasury.govt.nz/publications/media-speeches/media/22oct08>.

but on August 25, 2009, the government extended it to December 2011.²²⁷ The scheme is offered free of charge for institutions with total retail deposits under NZD 5 billion, and a fee of 10 basis points per annum will be charged on total deposits above NZD 5 billion.²²⁸

On November 1, 2008, New Zealand announced a wholesale funding guarantee facility for investment grade financial institutions in New Zealand.²²⁹ The facility is available to financial institutions that have an investment grade credit rating and have substantial New Zealand borrowing and lending operations. The facility operates on an opt-in basis, by institution and by instrument.²³⁰ New issues of senior unsecured negotiable or transferable debt securities are eligible for inclusion. A guarantee fee is charged, differentiated by the credit rating of the issuer and the term of the security being guaranteed. As a condition of continuing to receive fresh guarantees on new issues, banks utilizing the guarantee facility are required to maintain an additional 2 percent capital buffer, on top of the existing required 4 percent Tier 1 capital.

Indonesia

On October 13, 2008, the Indonesia Deposit Insurance Corporation (IDIC) raised its deposit insurance coverage limit from IDR 100 million to IDR 2 billion, covering approximately 97 percent of all deposits.²³¹

Hong Kong

On October 14, 2008, the Hong Kong SAR government announced that a full guarantee would be provided for deposits through the utilization of the government's Exchange Fund through the end of 2010.²³² The guarantee applies to both Hong Kong-dollar and foreign-currency deposits with authorized institutions in Hong Kong, including those held with Hong Kong branches of overseas institutions. Prior to the institution of the full guarantee, Hong Kong deposits were insured up to HKD 100,000. Also announced on October 14 was the establishment of a Contingent Bank Capital Facility (CBCF), which was designed for the purpose of making available additional capital to locally incorporated licensed banks, if needed.

²²⁷ "Deposit Guarantee Scheme Introduced," Reserve Bank of New Zealand, October 12, 2009, <http://www.rbnz.govt.nz/news/2008/3462912.html>. See also "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010, Appendix A.

²²⁸ Richard Kilner, "New Zealand introduces deposit guarantee scheme," *Banking Times*, October 13, 2008, <http://www.bankingtimes.co.uk/13102008-new-zealand-introduces-deposit-guarantee-scheme>.

²²⁹ "Guarantees," New Zealand Treasury, February 11, 2010, <http://www.treasury.govt.nz/economy/guarantee>.

²³⁰ As of August 25, 2009, the following institutions have opted-in to the scheme: ANZ National Bank Limited, Bank of New Zealand, Westpac New Zealand Limited, and Kiwibank Limited.

²³¹ Indonesian Deposit Insurance Corporation, <http://www.lps.go.id/v2/home.php>.

²³² "Deposit Protection," Hong Kong Monetary Authority, http://www.info.gov.hk/hkma/eng/consumer/deposit_protection_index.htm.

The government characterized the guarantee measures as preemptive. The implementation of the guarantee also came in the wake of a bank run on September 24–25, 2008 at the Bank of East Asia (BEA), Hong Kong's third-largest bank, which was triggered by Lehman Brothers collapse. Even though BEA had enough cash on hand to meet the depositors' requests, the bank run highlighted the need for the government to step in and take action to reassure the public that they could trust the territory's banks.

Malaysia

On October 16, 2008 Malaysia implemented a temporary government deposit guarantee (GDG) on October 16, 2008, which will expire on 31 December 2010. The GDG was characterized as a pre-emptive and precautionary measure designed to maintain public confidence and financial stability. In implementing the GDG, the Malaysia Deposit Insurance Corporation (MDIC) continued to administer the explicit and limited deposit insurance system and, in addition, the Malaysian government entrusted MDIC to administer the GDG for deposits over Ringgit 60,000. The GDG covers all Ringgit and foreign currency deposits with commercial, Islamic, deposit taking development and investment banks regulated by Bank Negara Malaysia. MDIC also introduced measures to contain moral hazard problems associated with the GDG, including a prohibition on using the GDG as a device to market or attract deposits, heightened supervision and reporting, and the imposition of a guarantee fee on guaranteed institutions (administered by MDIC on behalf of the government) assessed on deposits over Ringgit 60,000. Banks which are members of MDIC pay differential risk premiums to MDIC as well as a guarantee fee to the Government.

Singapore

On October 16, 2008, Singapore announced a full guarantee to remain in place until the end of 2010.²³³ The official deposit insurance coverage in Singapore remains at SGD 20,000.²³⁴ The full guarantee covers all Singapore dollar and foreign currency deposits of individual and nonbank customers in licensed banks, finance companies, and merchant banks up to SGD 150 billion, which the government stated is well in excess of any possible liabilities posed by a bank failure in Singapore.²³⁵

²³³ "Ministerial Statement by Mr Lim Hng Kiang Minister for Trade & Industry and Deputy Chairman, Monetary Authority of Singapore on Government Guarantee on Deposits," Monetary Authority of Singapore, October 21, 2008, http://www.mas.gov.sg/news_room/statements/2008/Ministerial_Statement_by_Mr_Lim_Hng_Kiang_Minister_for_Trade_and_Industry_and_Deputy_Chairman_Monetary_Authority_of_Singapore_on_Government_Guarantee_on_Deposits.html.

²³⁴ "Frequently Asked Questions," Singapore Deposit Insurance Corporation, <http://www.sdic.org.sg/faq.html>.

²³⁵ "Singapore Guarantees \$102 Billion of Deposits," Sulekha, October 17, 2008, http://newshopper.sulekha.com/singapore-guarantees-us-102-billion-of-deposits_news_982433.htm.

Thailand

On October 17, 2008 the Bank of Thailand issued a statement that there would be no change to the Thai deposit insurance scheme, which already had full coverage as enacted under the Act on the Institute for Deposit Protection 2008.²³⁶ Under the Act, blanket coverage is only to be in effect for one year from the date of enactment; subsequently, the guarantee will be scaled back in steps over a five-year period with a final coverage level of Bt1 million per person per bank.²³⁷ On October 24, 2008, the Finance Ministers announced that the 100 percent state guarantee on deposits would be extended for three years until August 2011.²³⁸

Philippines

On October 21, 2008, the Philippines announced its intent to increase the deposit insurance coverage limit from PHP 250,000 to PHP 500,000. The new coverage level became effective on June 1, 2009, and is prospective in nature.²³⁹

South Korea

On November 3, 2008, South Korea announced that its deposit guarantee scheme would cover foreign currency deposits; previously it had only covered deposits in Korean won. The amount of coverage, however, would remain the same at KRW 50 million.²⁴⁰ Prior to the enhancement of the deposit insurance guarantee, the South Korean government had established a debt guarantee program, under which the government would provide payment guarantees for Korean banks' external debt. The guarantee covers any newly issued debt between October 20, 2008 and June 30, 2009, and the guarantee is for three years. On February 12, 2009, the government created the Emergency Credit Guarantee Program, which was in force through the end of 2009. The main initiatives of the program were

- To roll over all existing guarantees maturing in 2009 that are covered by the Korea Credit Guarantee Fund and Kibo Technology Fund;
- To apply a more generous selection criteria and guarantee limit for new guarantee applications; and

²³⁶ "No changes needed to blanket guarantee for bank deposits, says BOT," *The Nation*, October 18, 2008, http://nationmultimedia.com/2008/10/18/business/business_30086326.php.

²³⁷ The guarantee will be reduced from full coverage to Bt100 million, Bt50 million, Bt10 million and finally Bt1 million in successive one year periods.

²³⁸ "Plan to extend bank guarantee," *Bangkok Post*, October 25, 2008, http://www.bangkokpost.com/251008_Business/25Oct2008_biz32.php.

²³⁹ "UPDATE 1-Philippines plans four-fold rise in deposit insurance," *Reuters*, October 21, 2008, <http://www.reuters.com/article/idUSMAN9514720081021>. Also, "Bank Deposits Now Insured Up To P500,000 New Deposit Insurance Law takes effect June 1," Philippine Deposit Insurance Corporation, http://www.pdic.gov.ph/index.php?nid1=8&nid2=1&nid=356&rend=10&page=2&bcsi_scan_9216688CDB981F62=vvvAVUR/a3nnzCoQSXtL84B0wmgBAAAAW/EYAA==&bcsi_scan_filename=index.php.

²⁴⁰ BIS Financial Sector Rescue Plan Database, July 14, 2009.

- To allow small and medium-size enterprises (SMEs) to be eligible to receive guarantees, if they are eligible for one of the programs.²⁴¹

Mongolia

On November 25, 2008, the Mongolian parliament passed a law providing for a full guarantee on “all types of bank deposits” in all commercial banks registered in Mongolia for a period of four years.²⁴²

4. The Middle East

The response in the Middle East to the financial crisis has been mixed. Some countries, such as the United Arab Emirates and Kuwait, have responded by guaranteeing all deposits, while others have only slightly raised coverage levels or left them unchanged. A few countries in the Middle East that do not have deposit insurance funds have begun discussions regarding implementing deposit guarantee schemes in light of the crisis.

United Arab Emirates

On October 12, 2008, the United Arab Emirates (UAE) became the first country in the Middle East to alter its deposit insurance coverage when it guaranteed all deposits in UAE banks as well as interbank loans.²⁴³ This initial move covered all deposits and savings in local banks only; on the same day, the UAE cabinet decided that it would do everything possible to ensure that no UAE bank would be threatened by the crisis. On October 13, 2008, the country announced that it would also protect all deposits in foreign-owned banks operating in the UAE, as well as inject cash into the banking system if necessary. The guarantee was initially to last for three years.²⁴⁴ On May 19, 2009, the Federal National Council (FNC) passed a federal bill to extend the guarantee until 2012.²⁴⁵

Saudi Arabia

On October 17, 2008, the Supreme Economic Council (SEC), headed by the King of Saudi Arabia, reaffirmed the government’s commitment to guarantee all deposits in Saudi Arabia.²⁴⁶ The SEC action was aimed at restoring confidence among both

²⁴¹ Ibid.

²⁴² “Emergency Credit Guarantee Program for SMEs and Small Business Owners,” Financial Services Commission, February 12, 2009, <http://www.korea.net/image/news/today/20090213003L.pdf>.

²⁴³ Andrew Critchlow and Reem Shamseddine, “Gulf Countries Unveil Measures to Back Banks,” *Wall Street Journal*, October 13, 2008,

http://online.wsj.com/article/SB122381464840826479.html?bcsi_scan_9216688CDB981F62=v9NvwjEHdQyGf9UkQWWwYdoXhk4BAAAASM9IAA=&bcsi_scan_filename=SB122381464840826479.html.

²⁴⁴ Adam Schreck, “UAE Extends Deposit Guarantee to Foreign Banks,” *USA Today*, October 13, 2008, http://www.usatoday.com/news/world/2008-10-13-1776822358_x.htm.

²⁴⁵ “FNC passes bank deposit guarantee,” UAE Interact, National Media Council, May 30, 2009, http://www.uaeinteract.com/docs/FNC_passes_bank_deposit_guarantee_/35870.htm.

²⁴⁶ “FACTBOX-Gulf Arab policy steps to address financial crisis,” *Forbes*, October 17, 2008, <http://www.forbes.com/feeds/afx/2009/11/25/afx7157867.html>.

domestic and foreign depositors in Saudi Arabia. Only a week after the SEC guaranteed all deposits, the governor of the Saudi Arabian Monetary Agency (SAMA), Hamad Al-Sayari, announced that he had already seen positive results from the decision because he noted that the volume of deposits from foreign depositors had increased.²⁴⁷

Jordan

On October 23, 2008, the Jordanian government announced that it would guarantee all deposits in the country's banks until at least the end of 2009.²⁴⁸ The previous deposit coverage was JOD 10,000. Although not a single deposit in a Jordanian bank has ever been lost, Prime Minister Nader Dahabi said that the move was necessary to restore depositor confidence in the banking system.²⁴⁹ The full guarantee has been extended until the end of 2010.²⁵⁰

Kuwait

On October 26, 2008, Kuwait's government announced its plans to guarantee deposits at local banks.²⁵¹ On October 29, 2008, Kuwait's parliament approved the new legislation that guarantees all deposits in both locally and foreign-owned banks. The country's government announced the move both as a reaction to other Middle Eastern countries' guarantees but also as a measure to protect public confidence after the central bank had to provide support to Gulf Bank, the country's second-largest bank, which had suffered significant losses from derivative transactions.²⁵²

²⁴⁷ Adnan Jaber, "No bank has liquidity problem: Kingdom's foreign assets are safe says Al-Sayari," *Arab News*, October 28, 2008,

<http://www.arabnews.com/?page=6§ion=0&article=115841&d=28&m=10&y=2008>.

²⁴⁸ "Prime Minister: Government would guarantee safety of deposits in banks," Jordan Deposit Insurance Corporation, October 23, 2008,

http://www.dic.gov.jo/index.php?option=com_content&task=view&id=62&Itemid=9.

²⁴⁹ "Gov't to guarantee bank deposits till 2009 end," *Jordan Times*, October 24, 2008,

<http://www.jordantimes.com/?news=11576>.

²⁵⁰ "Update on Unwinding Temporary Deposit Insurance Arrangements," Report to the Financial Stability Board, Note by staffs of IADI and IMF, June 2010.

²⁵¹ "Kuwait to Guarantee Deposits after Gulf Bank Losses," *Reuters*, October 26, 2008,

<http://www.reuters.com/article/rbssFinancialServicesAndRealEstateNews/idUSLQ67999820081026>.

²⁵² "FACTBOX-Gulf Arab policy actions to face financial crisis," *Reuters*, March 1, 2009,

https://commerce.in.reuters.com/mobile/m/FullArticle/p.dskssl/eIN/CBUSIN/nbusinessNews_uINL152959620090301. Also,

<http://www.reuters.com/article/idUSTRE49P0ZM20081026>.