

Role of Deposit Insurance Schemes in the Financial Safety Net

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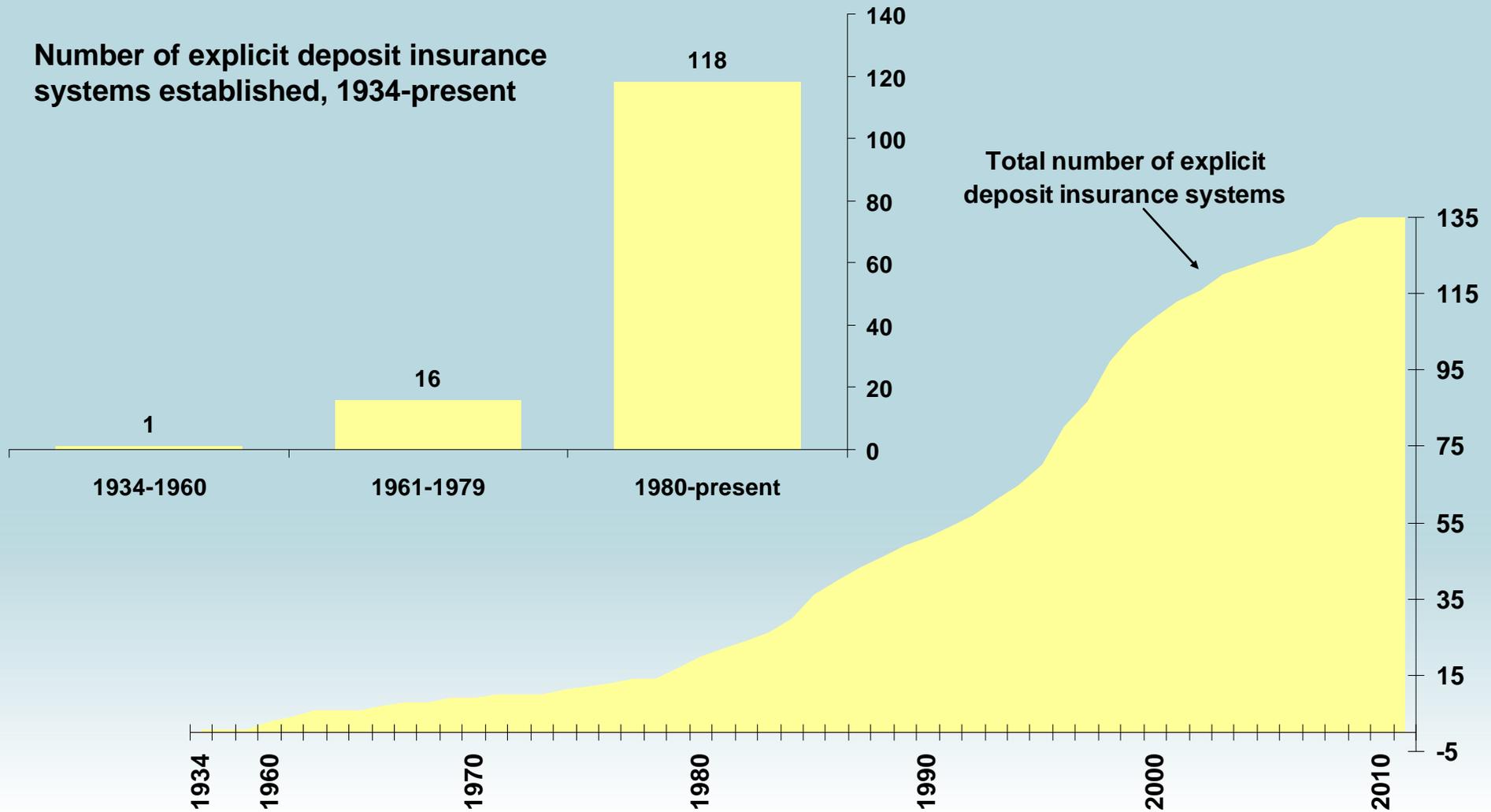
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The number of deposit insurance systems has increased significantly over time.

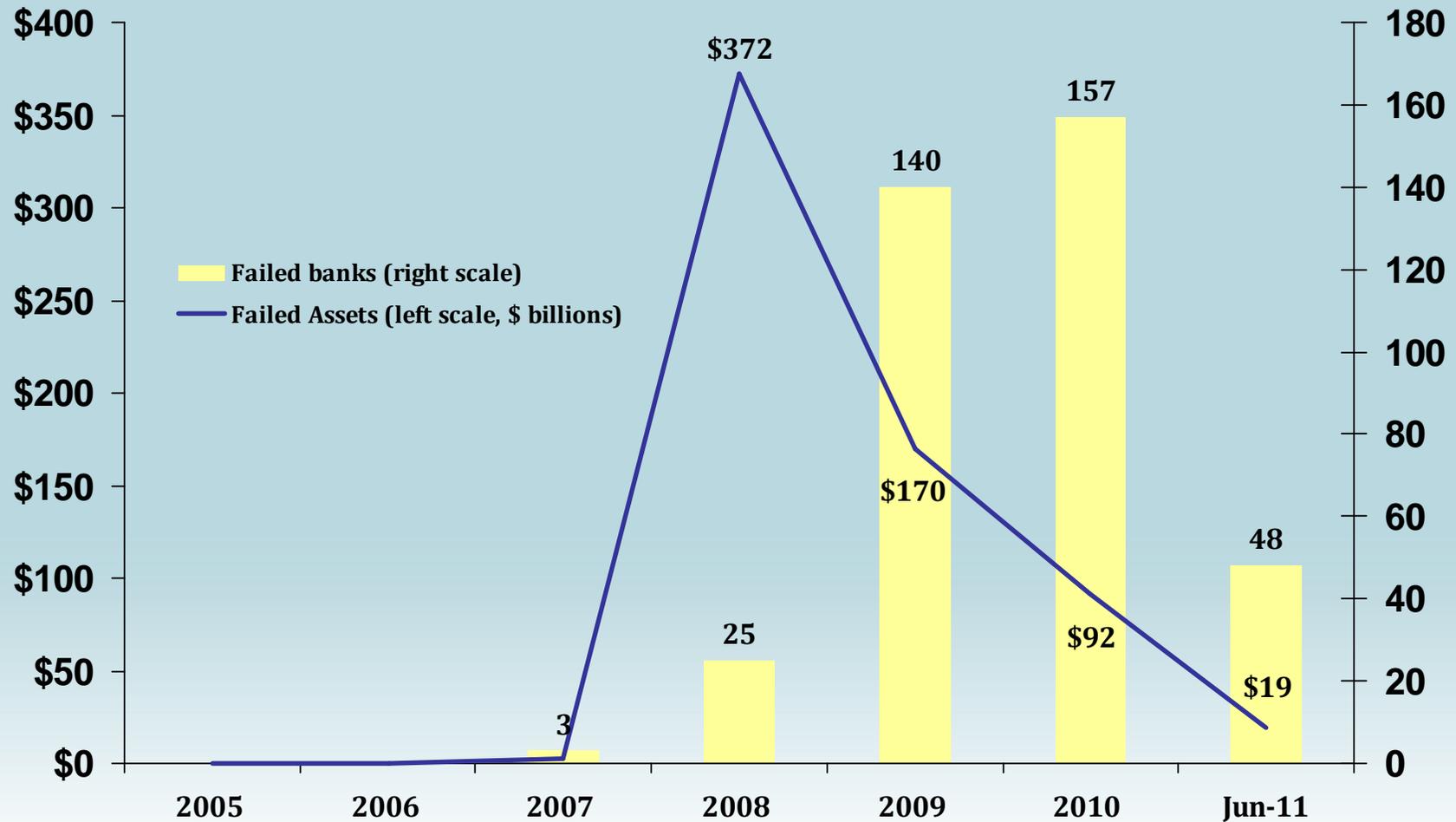
Number of explicit deposit insurance systems established, 1934-present



Deposit insurance systems have become essential in the global financial stability framework.

- **Confidence in the financial system**
- **Integration**
- **Expanded roles**
- **IADI-Basel Committee Core principles**
- **Financial Stability Board**
 - **12 key standards**
 - **Thematic review of deposit insurance systems**
- **IMF/WORLD BANK – FSAP**

Despite bank failures in the recent crisis, there have been no bank runs in the U.S.



Dodd-Frank reform has expanded the role of deposit insurance in the U.S.

- **Strengthened back-up authority**
 - Special examinations
 - Orderly Resolutions
 - Examinations
 - Back-up enforcement actions
- **Resolution plans (“living wills”)**
 - Living wills submitted to the FRB, FSOC and FDIC
 - Failure to submit plan may result in further restrictions
- **Expanded receivership authorities**
 - Orderly liquidation of SIFIs
 - Authority to remove SIFIs from bankruptcy process (shared)
- **Deposit insurance fund**
 - Minimum reserve ratio
 - Eliminates maximum limit on reserve ratio
 - Permanent increase in deposit insurance coverage
 - Assessment base
 - Insurance of transaction accounts

Financial Stability Oversight Council

- **Five standing functional committees**
- **Systemic Risk Committee**
 - Financial Institutions
 - Financial Markets
- **Ending “too big to fail”**
- **Designation of SIFIs**



The FDIC has taken several actions in line with its expanded powers.

Final Rules

- **Orderly Liquidation Authority provisions.**
- **Minimum risk-based capital requirements.**
- **Reserve ratio**

Proposed Rules

- **Orderly Liquidation – maximum obligation limitations.**
- **Resolutions plans**

Other Initiatives

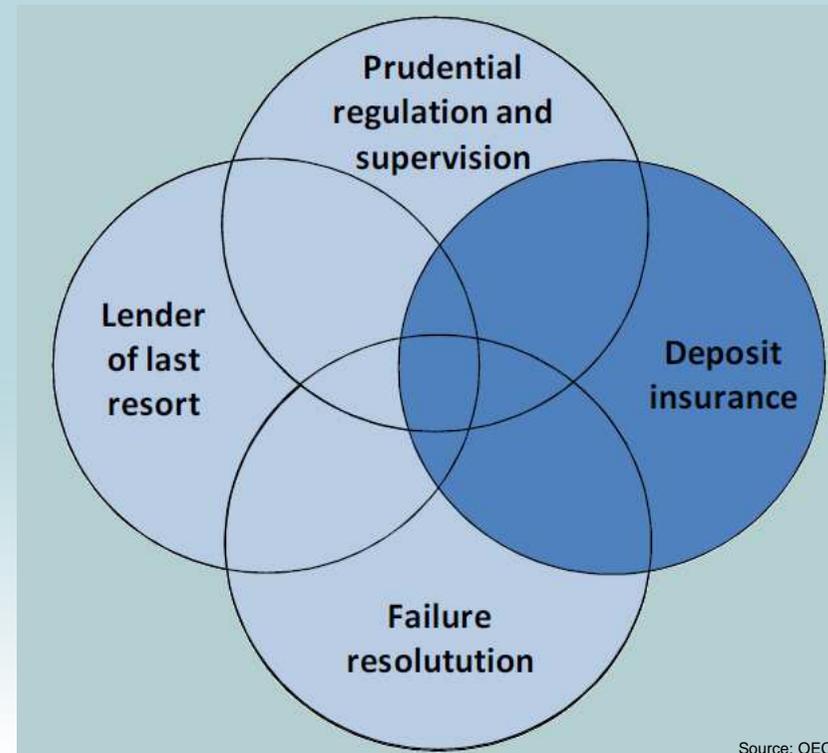
- **Establishment of the FDIC Systemic Resolution Advisory Committee**

The global evolution of deposit insurance, in some ways, parallels that of the FDIC.

- **Focus on financial stability**
 - Increased depositor protection
 - Amplified supervision
- **Integration of safety net functions**
 - Supervision
 - Deposit insurance
 - Resolution
- **Convergence of stable and crisis policies**
- **Expanding resolution authority**
 - Too big to fail
 - Cross-border resolution

Deposit insurance is more embedded in the financial stability framework.

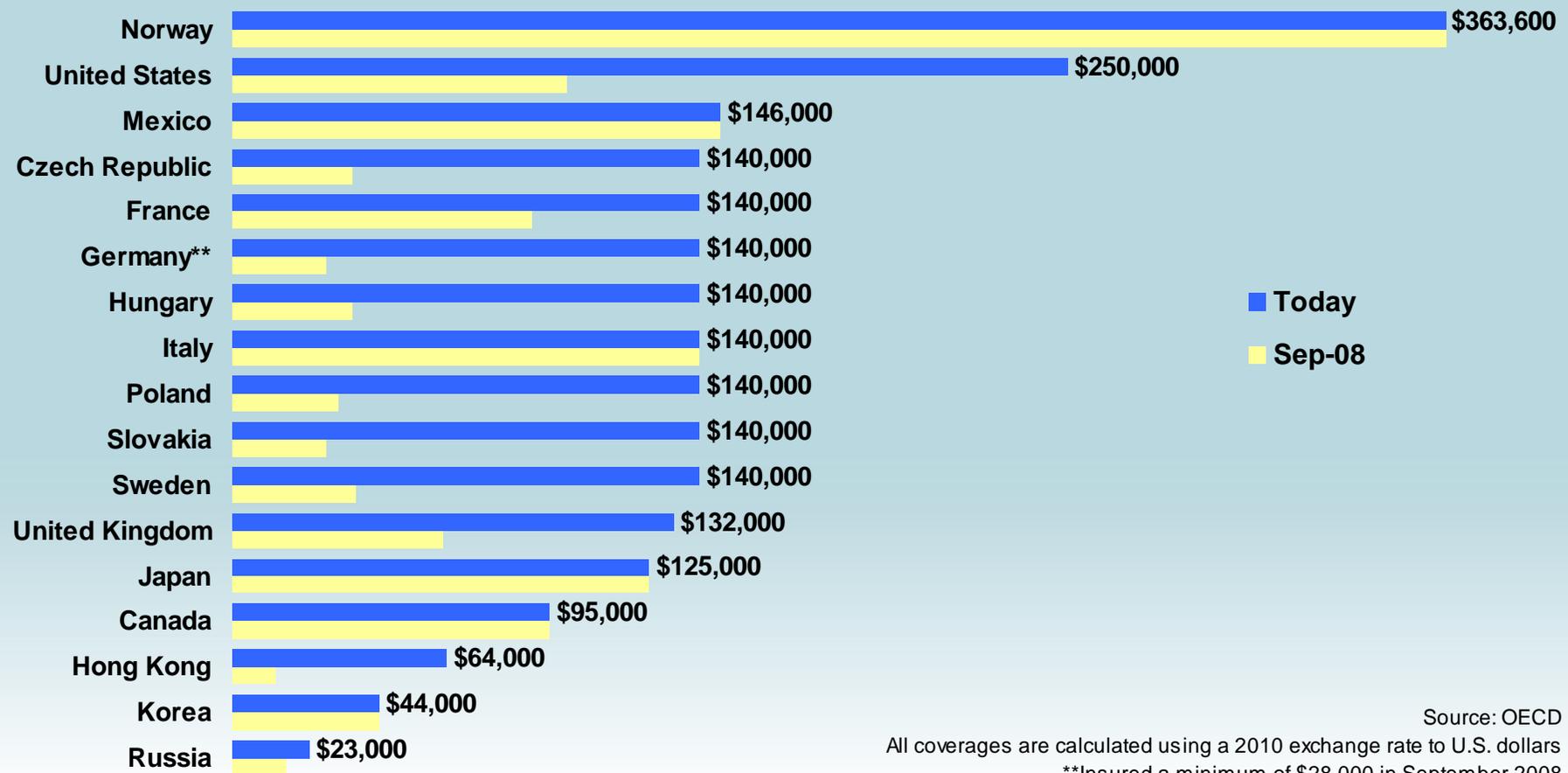
- **Coverage**
 - Permanent coverage levels increased
 - Supervision and resolution limits risk taking
- **Funding**
 - Adequate funding to maintain confidence
 - Increase in ex-ante funding and backup funding



Source: OECD

Deposit insurance coverage has generally increased as a result of the crisis.

Change in deposit insurance coverage of select countries, from 2008 to today



Deposit insurance continues to spread globally.

- **Reforms to deposit insurance design**
 - Rapid payout plans
 - Increased depositor confidence
 - Faster data collection capacity
 - Closer coordination between deposit insurer and insolvency agency
- **Cross-border initiatives**
 - Greater “harmonization” across borders

The role and features of deposit insurance systems are evolving.

- **Role of deposit insurance in the safety net**
 - Protection levels are likely to remain elevated from the crisis
 - Coordinated with safety net participants
 - Expanded mandate
 - Integration into financial stability framework
- **Emphasis on financial stability**
 - Higher coverage
 - More secure funding arrangements
 - Faster payouts
 - Explicit treatments of “too-big-to-fail” institutions

THANK YOU

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