

# Role of Deposit Insurance Schemes in the Financial Safety Net

Fred Carns | Director, Office of International Affairs

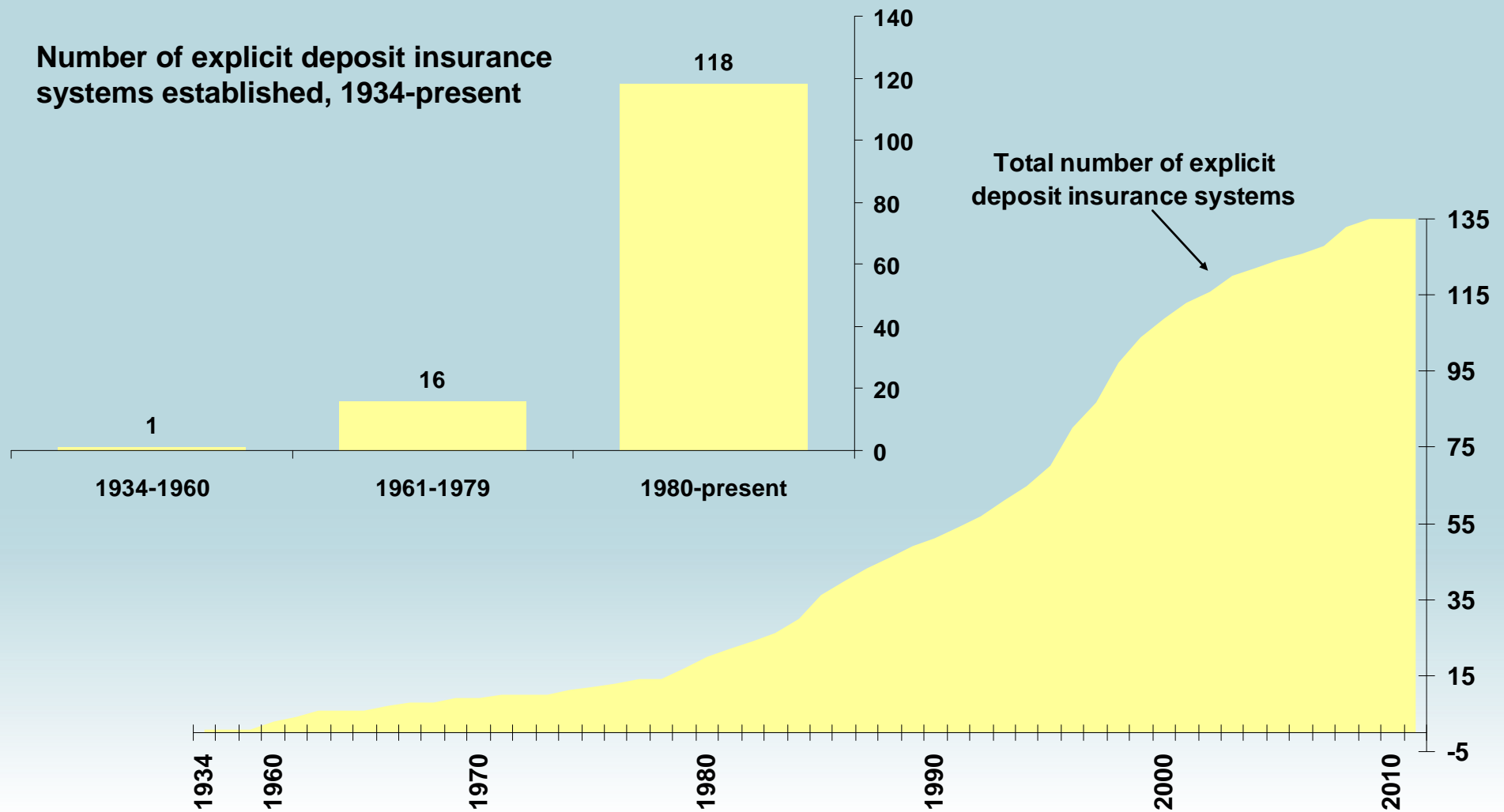
Warsaw, Poland | October 20, 2011



10th IADI AGM  
& Annual Conference  
17-21 October 2011  
Warsaw, Poland



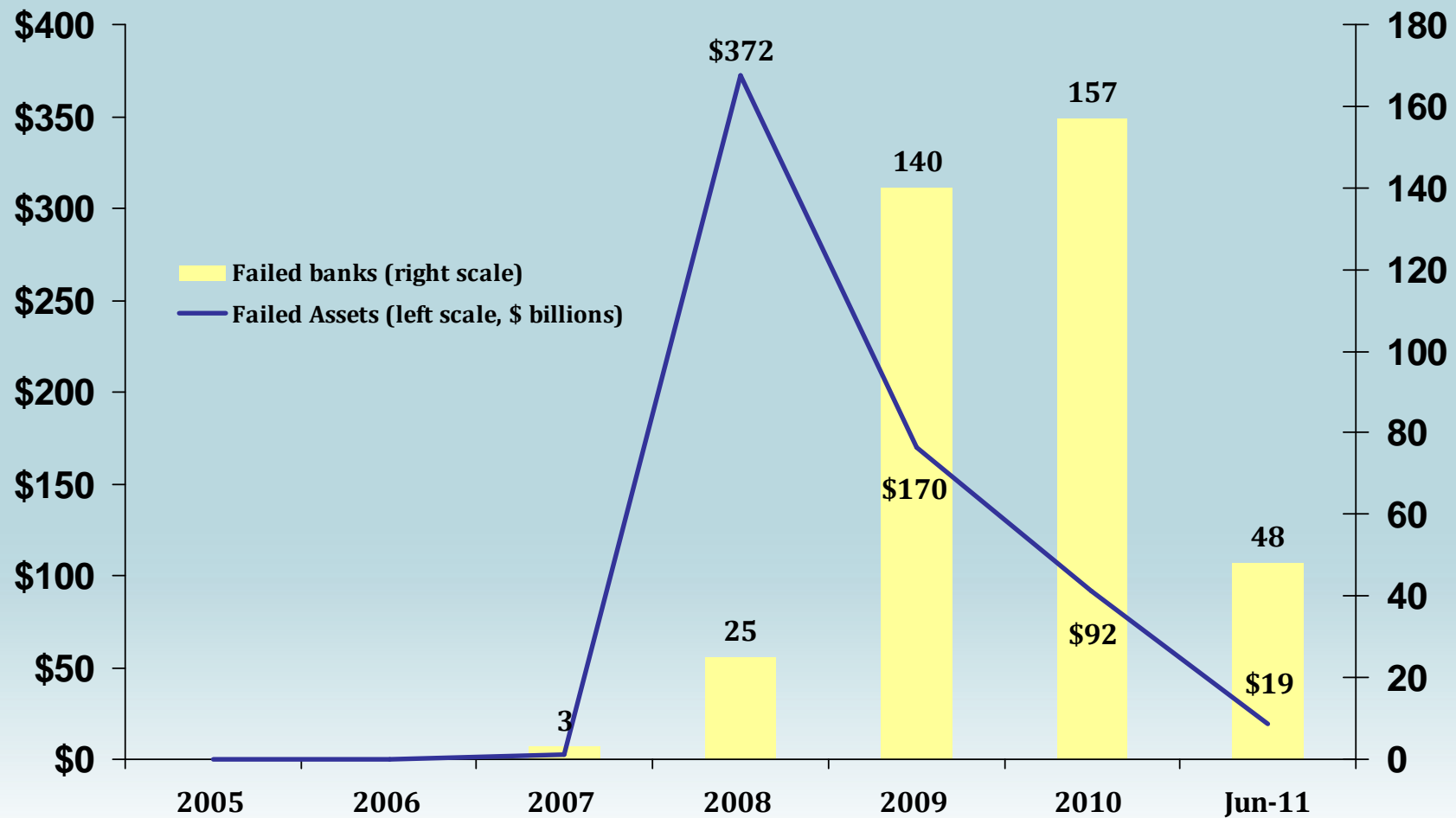
# The number of deposit insurance systems has increased significantly over time.



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**

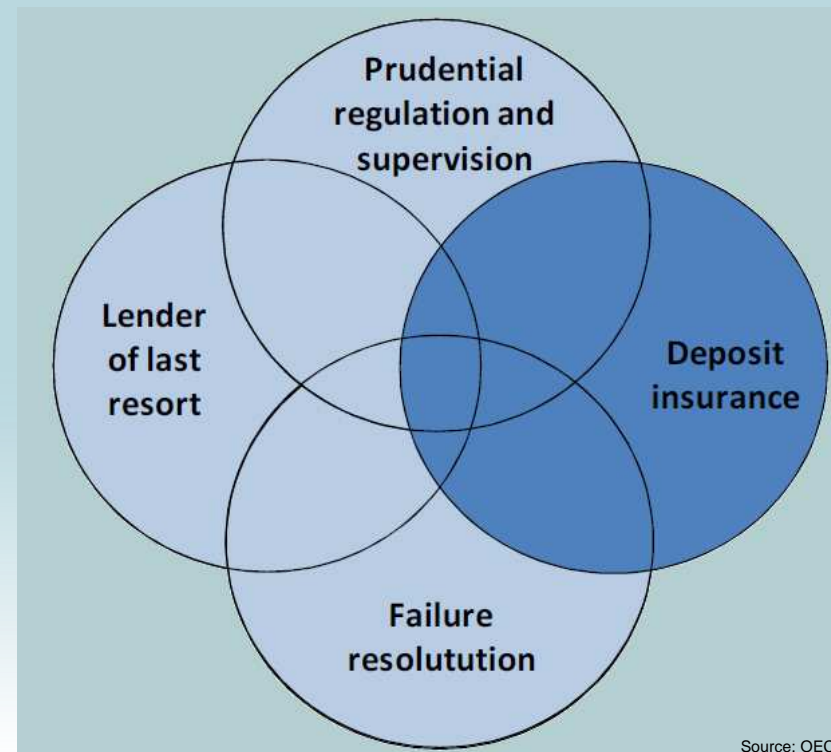
# The global evolution of deposit insurance, in some ways, parallels that of the FDIC.

- **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.

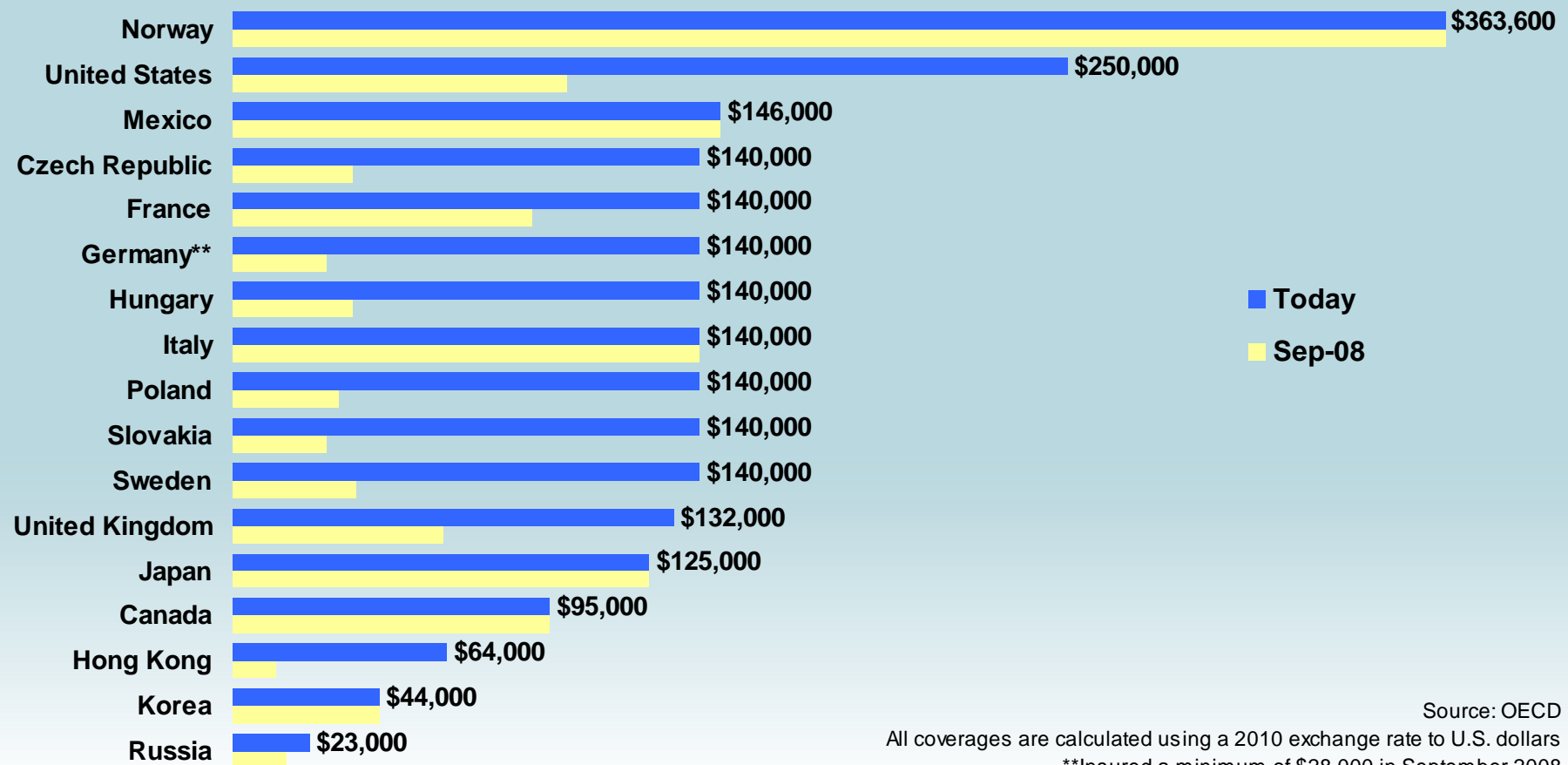
- **Coverage**
  - Permanent coverage levels increased
  - Supervision and resolution limits risk taking
- **Funding**
  - Adequate funding to maintain confidence
  - Increase in ex-ante funding and backup funding



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



Source: OECD

All coverages are calculated using a 2010 exchange rate to U.S. dollars

\*\*Insured a minimum of \$28,000 in September 2008

# 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

Fred Carns | +1 (202) 898-3930 | [frcarns@fdic.gov](mailto:frcarns@fdic.gov)

