Deposit Insurance in 2022: Global Trends and Key Emerging Issues

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1 Executive Summary

Deposit insurers operate within an ever-evolving global financial system and hence are subject to change themselves. This report explores some of the key dynamics in the deposit insurance industry and identifies the five emerging issues which are expected to significantly affect the activities of deposit insurers in the near future.

In the line of past years' trend, recent data affirms that responsibilities of deposit insurers continue to grow. The prevalence of pay-box mandates is continuing to decline to 20% now. Through the increasing share of the pay-box plus mandate, deposit insurers exhibit an increasing role in bank resolution. This does not necessarily mean that the depositor insurer has resolution powers itself. While on the rise, only 40% of deposit insurers also act as resolution authority. Significant improvements have been observed around efficiency of payout by deposit insurers.

Since 2013, the share of jurisdictions in which the deposit insurer commences payout within seven days has doubled to 60%. Acknowledging significant spread worldwide, this leaves payout efficiency as a priority area of improvement. In funding, almost all deposit insurers exhibit at least partial ex-ante funding. The trend for use of differential premium systems is affirmed. Half of deposit insurers now apply elements of differential premium systems.

Climate change, financial technology ('fintech'), the COVID-19 pandemic, deposit insurers' role in resolution, and cross-border considerations are the key emerging issues for deposit insurers in the coming years. Climate change has become an intensively discussed topic in the international financial community and has accordingly been identified as a key emerging issue for deposit insurers as well. We identify five key challenges, ranging from the need to assess climate-related risks to operational resilience to exploring possible financial risks resulting from climate change to deposit insurers' investment funds as well as potential reputational risks related to investment activities. Although still in its infancy, it is expected that climate change will continue to grow as an area of policy discussion for IADI and preparation for such discussion is of key strategic interest to the Association.

Fintech has the potential for fundamental and lasting changes in financial markets and is thus a key emerging issue of strategic importance for deposit insurers. As it may significantly impact on the use of insured deposits as well as on the financial conditions and risk profile of deposit insurer members, there is a self-interest for the deposit insurance community in following up on evolutions in the field of e-money, crypto-currencies, stablecoins and central bank digital currencies (CBDCs). Moreover, fintech may affect deposit insurers in their core business. "Deptech" may be helpful in a number of areas such as reimbursement, risk assessment for differential premium systems, supervision or resolution. Fintech developments may also cause risks to deposit insurers emanating from unclarity as to the existence of coverage for new products and deposit insurers may face challenges regarding the operationalisation of any such coverage.

The **COVID-19 pandemic** continues to be an enormous driver of uncertainty, also to deposit insurers. Managing the risks associated with COVID-19 is an ongoing priority area of concern for deposit insurers. Although hitherto, the global financial safety net has proven very stable, and depending upon the further course of the pandemic, risks to deposit insurers stresses the importance of contingency plan testing. Recent IADI research finds statistically significant evidence that during the first six quarters of the pandemic, quarterly growth of covered deposits has shifted upwards by 1.5 %-points. Further investigation of the volatility of deposit flows is necessary.

The **role of deposit insurers in bank resolution activities** continues to expand, with access to a wider toolkit (beyond depositor reimbursement only), and a general decrease in prevalence of the relatively limited paybox mandate. In a growing share of now 70% of jurisdictions, the use of deposit insurers' funds in non-payout resolution scenarios is subject to a least-cost rule. At the same time, the prevalence of resolution tools such as purchase and assumption, bridge banks and bail-in has grown. Despite this, only a minority of 40% of deposit insurance function as resolution authority.

The growing inter-connectedness of global financial flows and the increasingly borderless and digital nature of financial services make **cross-border issues** to become increasingly relevant for deposit insurers' activities. In this context, the importance of cross-border arrangements between home and host deposit insurers has risen and is expected to continue to so in the future.

May 2022 will see IADI celebrate its twentieth anniversary as an international organisation. This milestone provides the perfect opportunity to reflect on many achievements made by the IADI community of members, associates, partners, and primary stakeholders. The IADI Core Principles, and the accompanying Handbook as compliance assessment methodology are used by jurisdictions (as well as the International Monetary Fund and World Bank) as a benchmark for assessing the quality of their deposit insurance systems and for identifying gaps in deposit insurance practices and measures to address them.

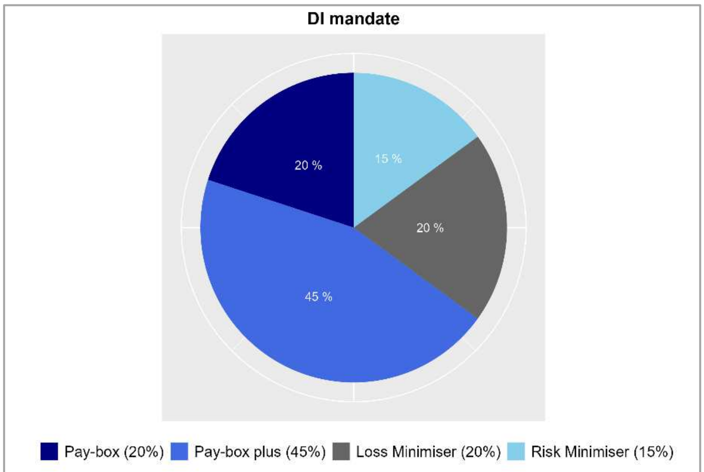
During 2022, an inclusive process of reviewing and updating the IADI Core Principles for Effective Deposit Insurance Systems and the accompanying Handbook will be initiated. This will provide a more formal opportunity to appraise recent deliberations within the international deposit insurance community, and ultimately, the possible codification of new standards which will drive the next decade of deposit insurance development. Final approval of the revised set of Core Principles is expected by the end of 2023.

2 Snapshot of deposit insurance around the world

The following offers an overview of the current state of global deposit insurance by looking at some selected features of deposit insurance systems. Data sources include the 2021 IADI Annual Survey with 110 respondents, covering approximately 85% of deposit insurers worldwide. With its Annual Survey, IADI holds the world's leading dataset on deposit insurance covering more than ten years now, enabling a timely and consistent source from which to conduct priority research and policy analysis.

2.1 Mandate

Deposit insurers are often categorised based on their system mandate – pay-box, pay-box plus, loss minimiser and risk minimiser. This classification, while relatively parsimonious on the surface, encompasses a wealth of deposit insurance roles and responsibilities. These include the extent of access to bank resolution tools, ability to contribute to resolution decision making, and nature of any oversight/supervisory responsibilities.



Source: 2021 IADI Annual Survey

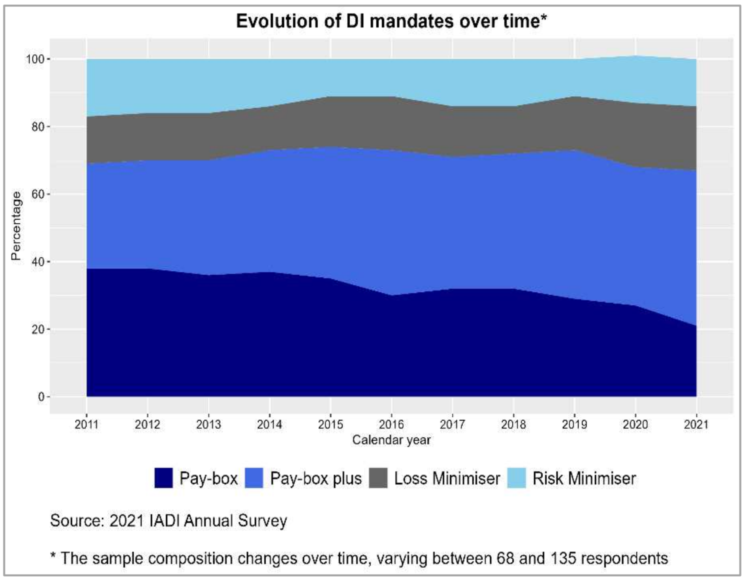
As of 2021, only 20% of deposit insurers operate as a pay-box, suggesting that an overwhelming majority of deposit insurers is vested with a broader role beyond depositor reimbursement only. Approximately two thirds of deposit insurance systems contribute to resolution or have a multitude of tools available to ensure depositors remain protected also in a bank resolution scenario and stability in their jurisdiction's financial system is retained during crisis periods. Risk minimisers, composing 15% of DI, also contribute to resolution but will generally have prudential oversight responsibilities in addition to meeting any payout obligations.

Mandates can range from narrow "pay box" systems to those with extensive responsibilities, such as preventive action and loss or risk minimisation and management, with a variety of combinations in between. These can be broadly classified into four categories:

- *A "pay box" mandate, where the deposit insurer is only responsible for the reimbursement of insured deposits;*
- *A "pay box plus" mandate, where the deposit insurer has additional responsibilities, such as certain resolution functions (e.g. financial support);*
- *A "loss minimiser" mandate, where the insurer actively engages in a selection from a range of least-cost resolution strategies; and*
- *A "risk minimiser" mandate, where the insurer has comprehensive risk minimisation functions that include risk assessment/management, a full suite of early intervention and resolution powers, and in some cases prudential oversight responsibilities.*

IADI Core Principles for Effective Deposit Insurance Systems (Principle 2: Mandate and Powers)

Over the past decade, a clear trend has emerged in deposit insurers' system mandate. The proportion of pure pay-box systems has halved, falling from almost 40% in 2011 to approximately 20% today. This demonstrates an increasing role for deposit insurers in the resolution of banks. The mandate experiencing the most growth is pay-box plus. There may be multiple reasons for this evolution, ranging from newly introduced obligations for deposit insurers to contribute financially to resolution; to increased access by deposit insurers to additional bank resolution tools, which sees their mandate upgraded into the pay-box plus category.

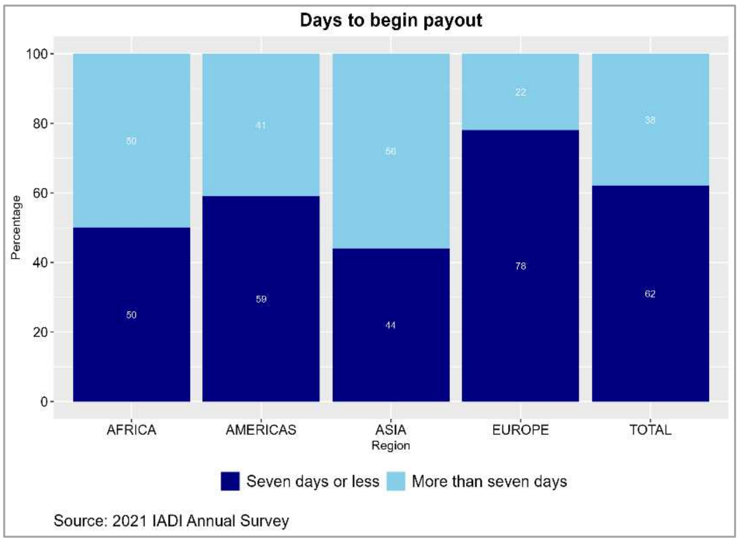


The deposit insurer is able to reimburse most insured depositors within seven working days. If the deposit insurer cannot currently meet this target, the deposit insurer has a credible plan in place to do so.

IADI Core Principles for Effective Deposit Insurance Systems (Principle 15: Reimbursing Depositors, Essential Criteria 1)

2.2 Depositor reimbursement

The speed and accuracy in which insured depositors can be reimbursed in a bank closure is fundamental to the core objectives of a deposit insurer. Standards in this domain are well-defined through *IADI Core Principle 15: Reimbursing Depositors*.



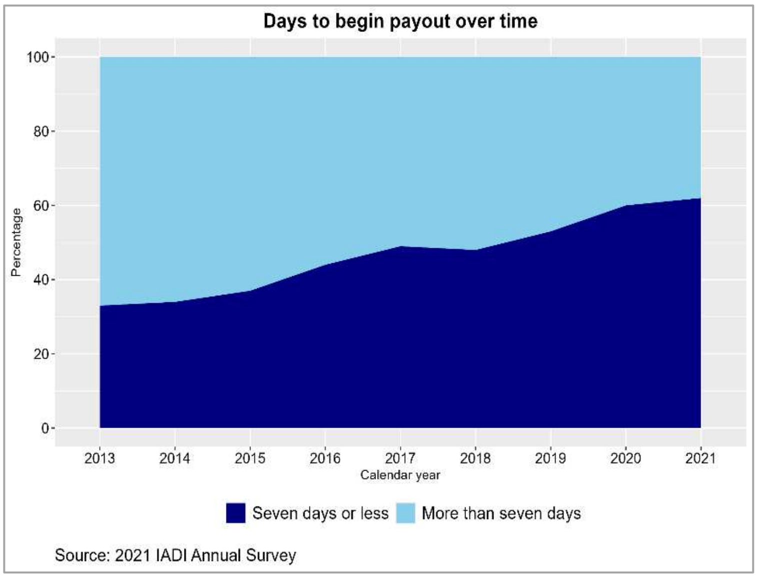
Overall, just over 60% of deposit insurers are able to commence reimbursement within the prescribed seven-day window.[1] This varies substantially by region.

European jurisdictions are typically more likely to meet the seven-day requirement as specified in the Core Principles due to their need to adhere to the EU Deposit Guarantee System Directive. Payout efficiency is seen as a priority area of potential improvement for deposit insurers

[1] As demonstrated by the IADI Core Principle extract, the standard suggests that reimbursement should be *completed* for most depositors within the seven-(working) day window. This analysis lowers the standard somewhat and only speaks to *commencement*. It is therefore highlighting implicitly the degree to which this fundamental standard is not currently being met, however, substantial progress is being realised in this space. Also, the data underpinning this determination is based on that disclosed by the relevant jurisdiction in question, without any (formal) independent assessment being conducted.

worldwide.[2] Asia offers the most room for improvement, currently achieving commencement of the payout process without seven days in less than half of applicable jurisdictions.

Significant improvements have however been observed around payout efficiency.[3] In short of ten years, the share of jurisdictions commencing payout within seven days has doubled, improving consistently from just over 30% in 2013. This offers a source of optimism among those seeking improved compliance with the IADI Core Principles. However, for this trend to continue, further efforts are necessary to engage with, and ultimately to resolve as far as possible, bottlenecks imposing some limitations on the capacity of a deposit insurer to reimburse at a velocity that meets the expectations set by the Core Principles.



2.3 Funding

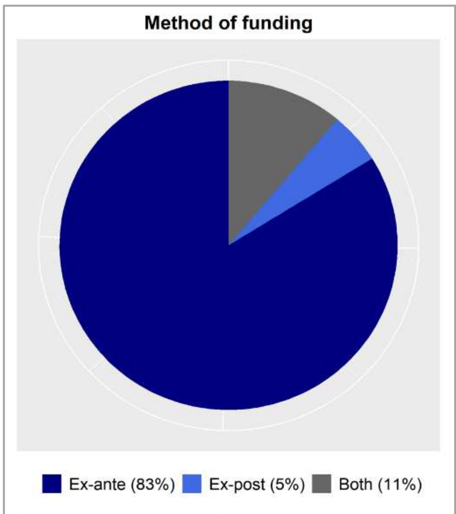
In at least of 84% of cases, deposit insurers are ex-ante funded, whereby premiums are levied on member banks in advance of any failure(s). Some deposit insurance systems will levy additional or extraordinary premiums on the banking sector (after a failure has occurred) in instances where the deposit insurer's fund has been depleted in a significant manner due to reimbursement and/or resolution activities (13%).

> *Funding for the deposit insurance system is provided on an ex-ante basis. Funding arrangements are clearly defined and established in law or regulation.*
>
> *IADI Core Principles for Effective Deposit Insurance Systems (Principle 14: Failure Resolution, Essential Criteria 5)*

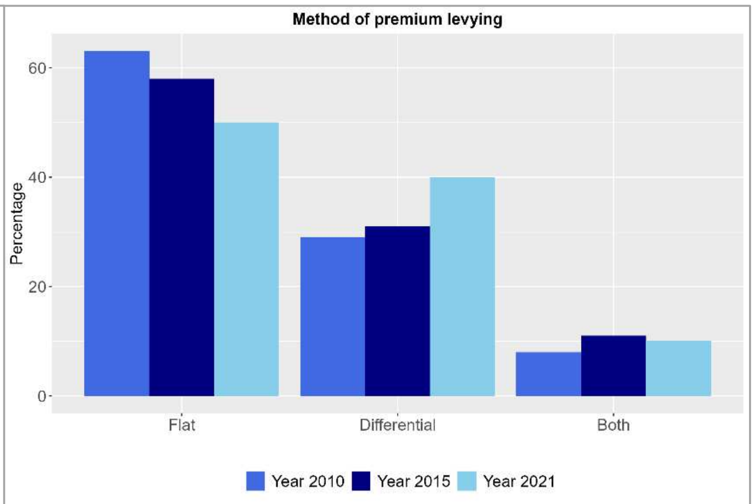
[2] The distribution of depositor payout over time is almost always asymmetric (right skewed). A large proportion of payouts occur early, as soon as relevant information is available to the deposit insurer. Nevertheless, a small proportion of insured depositors can take much longer due to information gaps, legal disputes and other factors beyond the deposit insurer's control.

[3] Defina (2021a)

Almost all deposit insurers thus exhibit at least partial ex-ante funding. This signals high compliance with the IADI Core Principles. Very few systems only are reliant on replenishing their fund solely via an ex-post methodology (3%).



Source: 2020 IADI Annual Survey

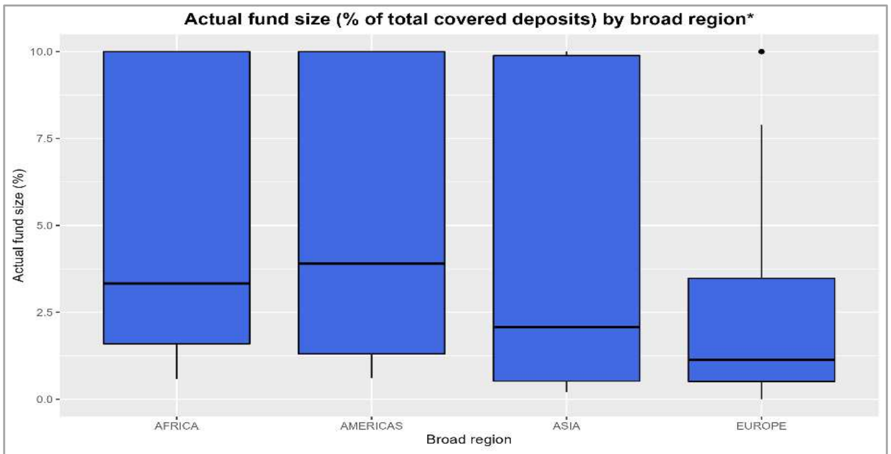


Source: 2021 IADI Annual Survey

Over the past ten years, the share of deposit insurers applying flat premium systems has decreased. Half of deposit insurers now apply elements of differential premium systems.

2.4 Fund size

The size of funds available differs significantly across deposit insurers. The lowest median fund sizes (in % of covered deposits) are to be found in Europa and the highest levels in the America. Individual fund sizes differ greatly. These differences may also mirror the considerable disparity between mandate or coverage levels of deposit insurers, which may impact directly on the size of funds deemed adequate.

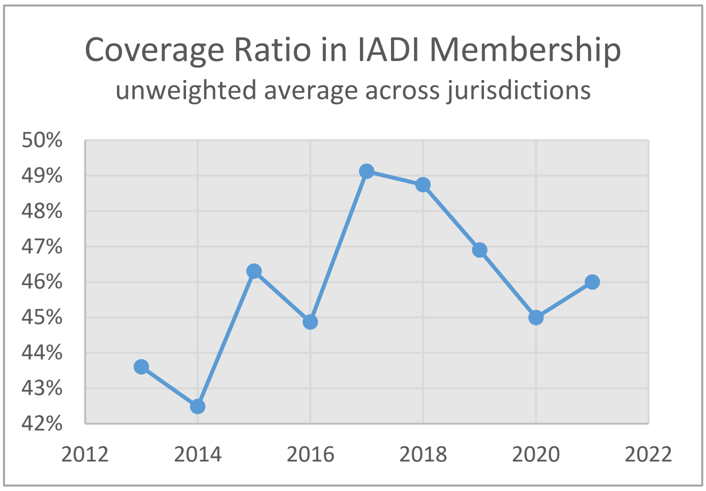


Source: 2021 IADI Annual Survey

* Outliers capped at 10%
Bold lines represent the median fund ratio for each respective broad region

2.5 Coverage ratio

The highest levels of deposit insurer coverage occur in European jurisdictions, with median coverage around 60% of total deposits. This finding is contrasted against African jurisdictions where the median level of coverage is only 25% of total deposits. Differences in coverage may reflect regional particularities. In any case, coverage should be limited, credible and cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline.[4]

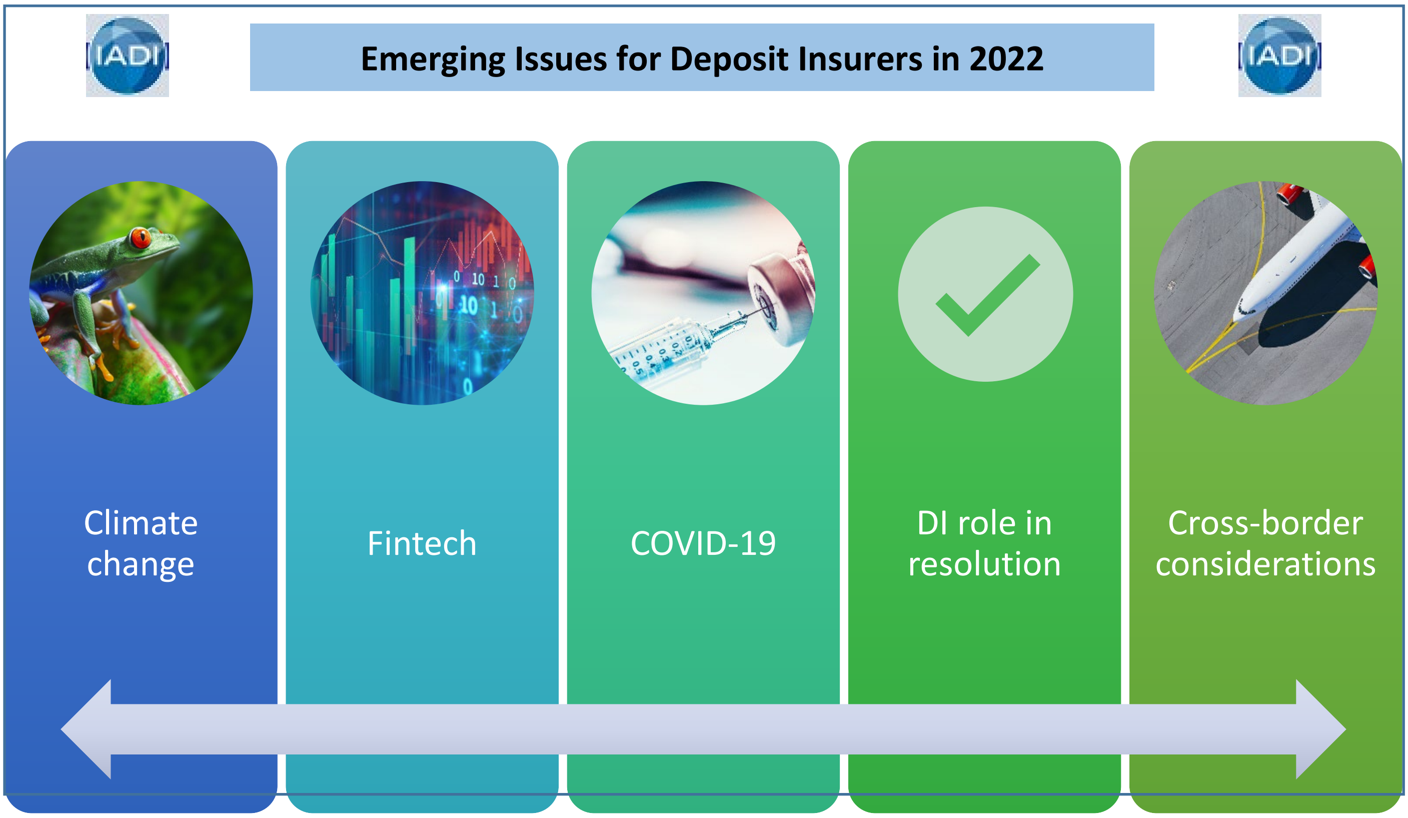


COVERAGE RATIOS ACROSS REGIONS		
REGION	*2013*	*2021*
AFRICA	12%	26%
AMERICAS	36%	39%
ASIA	34%	42%
EUROPE	64%	61%

[4] IADI Core Principles for Effective Deposit Insurance Systems (Principle 8: Coverage)

3 Emerging issues for deposit insurers

Throughout 2021, the IADI Secretariat Research Unit has identified five emerging issues for the deposit insurance community to pay close attention to in the short to medium term. These issues were selected for inclusion based on their relevance to the operations of most deposit insurers, connection to the IADI Core Principles for Effective Deposit Insurance Systems, and relative weight assigned in recent dialogue within the international community.



An overview of these issues is offered throughout the following sections. These are discussed in further detail in IADI Policy Brief 4 – *Emerging Issues in Deposit Insurance*.[5]

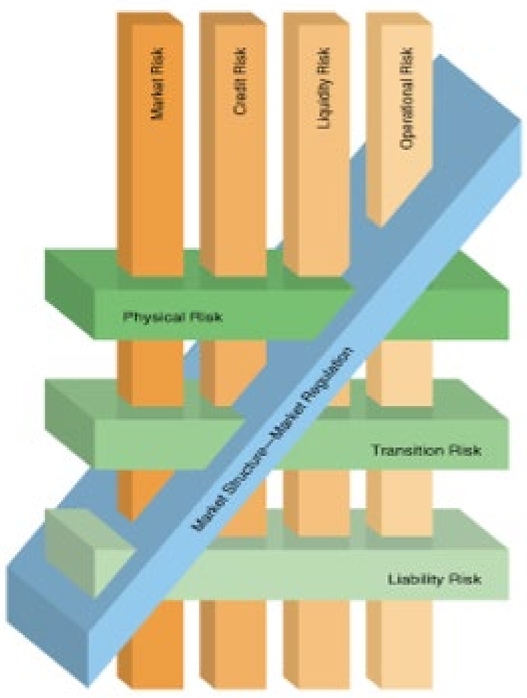
[5] Van Roosebeke & Defina (2021a).

3.1 Emerging Issue 1: Climate change

Climate change is a highly discussed topic in the international financial community. Recent efforts by the Bank for International Settlements, International Monetary Fund, World Bank, Financial Stability Board, and the Network for Greening the Financial System have underscored this is a priority issue for global financial standard setters. IADI, in its capacity as a global standard setter for deposit insurers, has distilled the issue of climate change down to five key challenges from the point of view of deposit insurers.

Challenge 1	Climate change risks may impact on a deposit insurer's operational capacities.
Challenge 2	Climate risks may amount to financial stability risks.
Challenge 3	Climate risks may impact on bank default risks and on net resolution costs.
Challenge 4	How to consider climate risks in financial risk assessment and oversight.
Challenge 5	Climate risks and deposit insurer funding and investment fund management.

The links between these five challenges and fundamental activities of deposit insurers are increasingly becoming apparent to policy makers. Such recognition has seen IADI publish a Policy Brief titled *Climate Change Fever: Can Deposit Insurers Stay Cool?*[6] which explores the issues in additional detail and highlights opportunities for the international community to engage strategically. A selection of these have also been highlighted, along with a direct reference to IADI research, in a recent World Bank blog.[7]



Alvarez & Patel (2020)

Challenge 1 concerns the capacity of deposit insurers to deliver on their core public policy objectives. Even though impact may vary across regions, climate-related operational risks to the deposit insurer's infrastructure, to banks' infrastructure and to the infrastructure of the financial system as a whole may impact on deposit insurers' ability to deal with bank failures (i.e. ensure timely payouts). Where relevant, deposit insurers' contingency planning should take appropriate account of climate risk as a potential source of operational risk.

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[6] Van Roosebeke & Defina (2021b)
[7] Calice & Palermo (2021)

Contingency planning and crisis management have recently been placed in the spotlight due to the COVID-19 pandemic. Building and maintaining operational resilience within a deposit insurance system during times of unanticipated stress is a challenging exercise. A prerequisite for a contingency planning framework is that the deposit insurer has in place the necessary tools and procedures to perform their normal operations in accordance with its mandate.

The deposit insurer should have in place effective contingency planning and crisis management policies and procedures, to ensure that it is able to effectively respond to the risk of, and actual, bank failures and other events.

IADI Core Principles for Effective Deposit Insurance Systems (Principle 6: Deposit Insurer's Role in Contingency Planning and Crisis Management)

Challenge 5 also has a strong link to the well-established IADI Core Principles. Deposit insurers need to have sufficient funds on hand (ex-ante) to deal with bank failures and soundly invest and manage these funds (IADI Core Principle 9). Climate change risks need to be taken into account when assessing fund target levels. In addition, since the deposit insurer's investment policy must aim at ensuring the preservation of fund capital and maintenance of liquidity to safeguard prompt reimbursement, deposit insurers should take appropriate account of any climate-related risks to assets held for fund management. Depending on a deposit insurer's discretion in investing in different asset classes, the growing relevance of climate policy may well lead to their investments being subject to increasing physical and transition risks.

The deposit insurer has responsibility for the sound investment and management of its funds. The deposit insurer has a defined investment policy for its funds that aims at ensuring:
(a) the preservation of fund capital and maintenance of liquidity; and
(b) that adequate risk management policies and procedures, internal controls, and disclosure and reporting systems are in place.

IADI Core Principles for Effective Deposit Insurance Systems (Principle 9: Sources and Uses of Funds, Essential Criteria 6)

In addition to managing financial risks resulting from climate change, deposit insurers may also consider the reputational risks related to their investment activities. In a recent survey on "sustainable and responsible investment" (SRI) by central banks, respondents repeatedly cited reputational risk as the key motivator for engaging in SRI practices.[8] Depending on local particularities and preferences, it may be advisable for deposit insurers to anticipate future demands, e.g. for disclosure of climate-related exposure.

In summary, while climate change has now been identified as a key emerging issue for deposit insurers, exploration remains in its infancy. As research deepens, tangible case studies emerge, and the international consensus continues to build, it is expected that climate will strengthen its positioning as an area of policy discussion for IADI.

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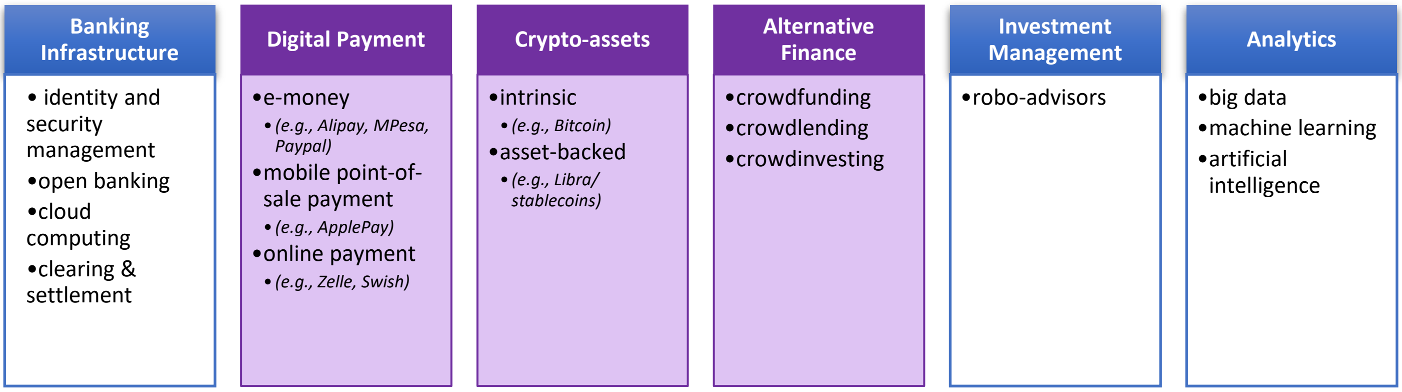
[8] NGFS (2020).

3.2 Emerging Issue 2: Fintech

Technological developments have the potential for fundamental and lasting changes in many markets, including in financial markets. The modern fintech landscape is broad and each segment has implications for consumers and financial institutions alike.[9]



One important characteristic of Fintech is that its drivers are not limited to changes within the financial sector. Rather, digitisation as a megatrend is re-shaping existing value chains across existing sectors. The role of data is of great importance as a facilitator of this reshaping. Through their original business activities, bigtechs or other non-financial companies may have preferential access to data, which may enable them to start offering financial services which are more appealing to some parts of the public than offers by traditional financial service suppliers. Also, bigtech players may have significant market power on non-financial markets and may attempt to transfer this power to financial markets as well by bundling traditional products with new, financial ones. These competition issues as well as their potential impact on financial stability and intermediation have drawn significant interest of policy makers across the world.

Fintech is an emerging issue of strategic importance for deposit insurers for two reasons.

Firstly, over the medium term, it may have significant impact on deposits as the product we insure as well as on the financial position and risk profile of deposit-taking institutions (DTIs) as traditional suppliers of this product and hence on financial stability. Without cooperation with fintechs and in the absence of (regulated) access to data, traditional business models of deposit-taking institutions (DTIs), around which deposit insurers have been designed and implemented, are at risk of disruption. Deposit insurers thus have a self-interest in following up on evolutions in the field of e-money, crypto-currencies, stablecoins and central bank digital currencies (CBDCs). Depending on the design and the regulation (or the lack thereof) of these products and their suppliers, consequences for bank deposits and their insurance may arise.

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[9] Youssef et al (2021) explores these issues, with a particular focus on the items highlighted in the graphic.

Secondly, fintech developments may affect deposit insurers in their core business. Referred to as "deptech", technology may be helpful in ensuring timely reimbursement within the 7-working-day limit as set by the IADI Core Principles; in further refinement of data-based risk assessments and corresponding differential premium-setting; or in supervision and resolution activities by deposit insurers. At the same time, fintech developments may also cause significant risks to deposit insurers. New business models blur the lines between financial products and services offered within and outside the traditional financial system. This has the potential to introduce confusion as to whether a product or service is guaranteed by the deposit insurer. For example, in some jurisdictions, fintech firms directly compete with DTIs to provide lending and payment services, but are not covered by the deposit insurance system. In other jurisdictions, fintechs may offer their products and services in partnership with DTIs and as such may be covered by the deposit insurance scheme. In still other jurisdictions, fintech products and services may by directly covered by deposit insurance. Consumer confusion could lead to a reputational risk for the deposit insurer if fintech products are believed to be insured when they are not. This may impact on all deposit insurers irrespective of their mandates.

Following any policy decisions regarding coverage by deposit insurance of fintech products and services and communication thereof, deposit insurers may face challenges regarding the operationalisation of any such coverage in a way that meets the IADI Core Principles. These challenges may relate to timely access by the deposit insurer to data on deposits and depositors, the reporting of which may require extending regulatory requirements to non-financial actors.

The IADI Financial Technology Technical Committee (Fintech TC) has, throughout 2021, explored various aspects of the fintech topic via thematic and methodological research, along with a series of case studies.[10] Such studies include: Introductory Brief Challenges for deposit insurers; Data Standardisation; Machine Learning Methods: Potential for Deposit Insurance; E-Money in the United Kingdom: A Case Study; E-Money and Deposit Insurance in Kenya; and Central Bank Digital Currencies: The Motivation. All IADI research products are available at https://www.iadi.org/en/research

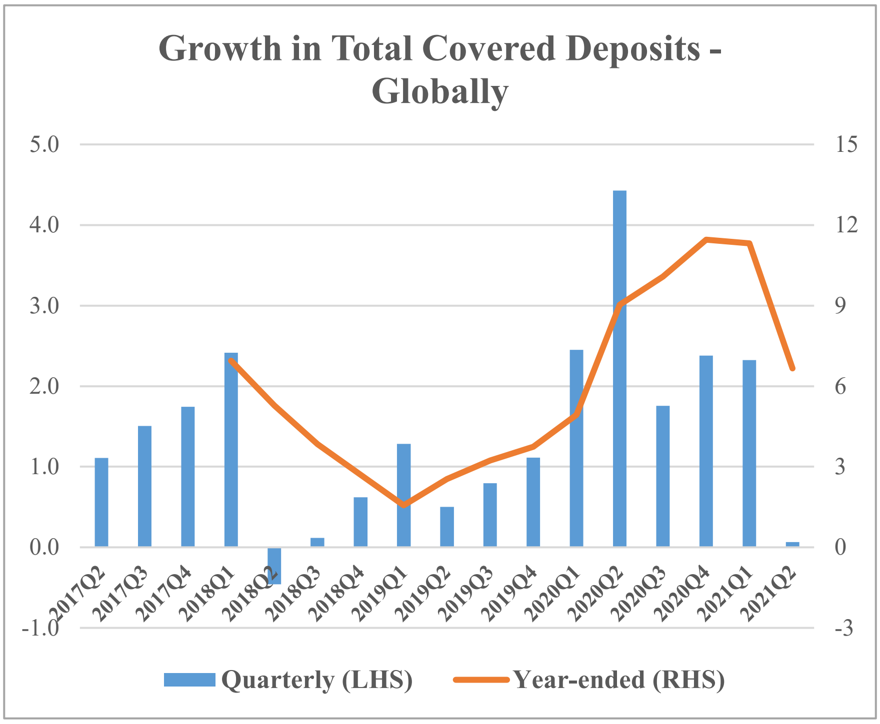
[10] Research topics include: challenges for deposit insurers; data standardisation; machine learning methods; a number of e-money case studies and central bank digital currencies. All publications are available at https://www.iadi.org/en/research/ and are listed in the reference section of this report.

3.3 Emerging Issue 3: COVID-19

In addition to being a health crisis, the COVID-19 pandemic has challenged practically all dynamics underpinning economic activity for nearly two years now. It has placed the global financial system under considerable strain[11], exposing numerous vulnerabilities in global supply chain management. The global economic and financial system has also been challenged within the context of near-unprecedented disruption to the activities of corporates, imposition of constraints on labour movement, and utilisation of wide-ranging fiscal stimulus to support businesses and households. Although widespread support measures, regulatory forbearance and the like have limited the impact of the pandemic on financial stability, managing the risks associated with COVID-19 is an ongoing priority area of concern for deposit insurers.

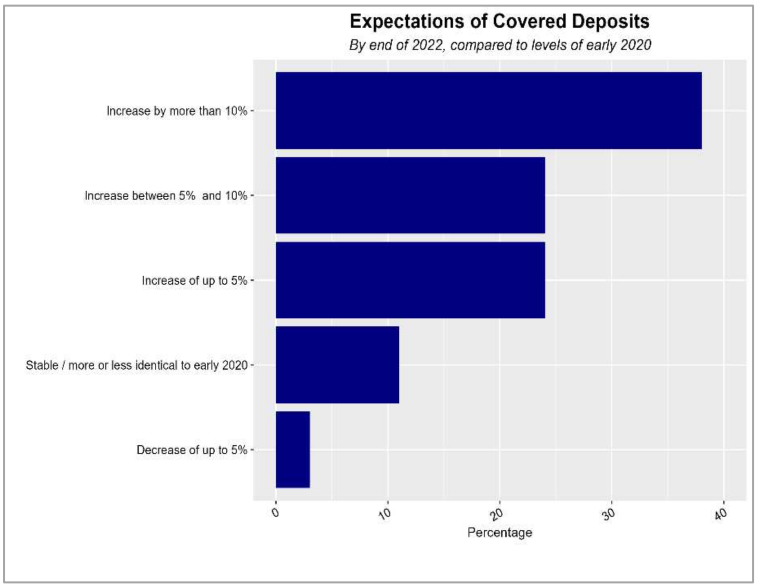
Depending on the future development of the pandemic, there is still a risk that the unwinding of accommodating policy responses, combined with high levels of indebtedness, a tightening of financial conditions and an end to temporary regulatory forbearance may cause significant hikes in corporate bankruptcies, which in turn may translate into higher bank default risks. To deposit insurers, this risk stresses the importance of contingency plan testing and the need to further investigate the reasons behind the volatility of deposit flows.

During the COVID-19 pandemic, covered deposits globally have grown significantly (see figure[12]). Fiscal policy responses have influenced consumption and investment patterns by boosting the availability of funds for savings and investments in many jurisdictions. Recent IADI research finds statistically significant evidence that during the first six quarters of the pandemic, quarterly growth of covered deposits has shifted upwards by 1.5 %-points. On a per-quarter basis, we find proof for significant increases in the second half of 2020 only.



[11] FSB (2021)

[12] Source: Defina and Van Roosebeke (2022), IADI Follow-up Survey on COVID-19 Response by Deposit Insurers, conducted in 2021Q2, including forty respondents from among the IADI membership.



Nearly 40% of deposit insurers expected increases of more than 10% by the end of 2022 (compared to levels of early 2020). Conversely, less than 15% of respondents felt no change (or negative growth) would manifest over the same period. There are of course a multitude of reasons that may underpin such an assessment including perceived business cycle considerations, the expected future (domestic) fiscal response, and degree to which accommodating conditions may drive banking sector profitability (e.g. monetary policy, trade policy).

The stock of covered deposits in a jurisdiction is of fundamental importance to deposit insurers as it forms their primary exposure, and as such, predominant source of risk to their balance sheet.

Based on pre-pandemic data collected by IADI (2017Q1-2021Q2), the quarterly growth rate in total covered deposits was 1.0% before 2020 (until 2019Q4), and 2.2% since 2020 (from 2020Q1). Such a finding suggests that the advent of COVID-19 corresponded with an approximate doubling of quarterly growth. The sharpest increase in quarterly growth occurred in 2020Q2, or nearly 4.5%. This period coincided with both the broad-based imposition of lockdowns (or other constraints on movement) which particularly disrupted retail consumption and engagement in vocational activities, along with provision of (in many cases, unprecedented levels of) fiscal stimulus. Figures indicate that growth is slowing to pre-pandemic rates, however, this isn't necessarily a reliable indicator of future outcomes as considerable COVID-related uncertainty remains. It is also unclear whether lingering supply chain bottlenecks and emerging inflationary pressures will have any effect on covered deposit growth.

3.4 Emerging Issue 4: Deposit insurers' role in resolution

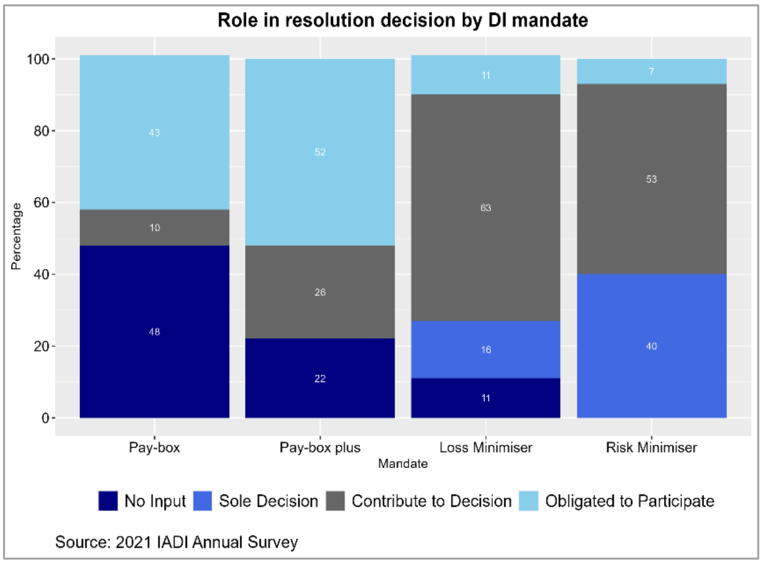
Non-payout resolution tools are relevant to a significant share of the deposit insurance community. Indeed, in 2019, 60% of respondents to an IADI survey indicated that deposit insurance funds were available for financing alternative measures, such as purchase and assumption transactions (P&A), the creation of a bridge bank, and provision of capital and liquidity support. The incorporation of these non-payout tools for deposit insurers has been rising over time in recent years.[13]

One or more of the available resolution methods allows the flexibility for resolution at a lesser cost than otherwise expected in a liquidation net of expected recoveries.

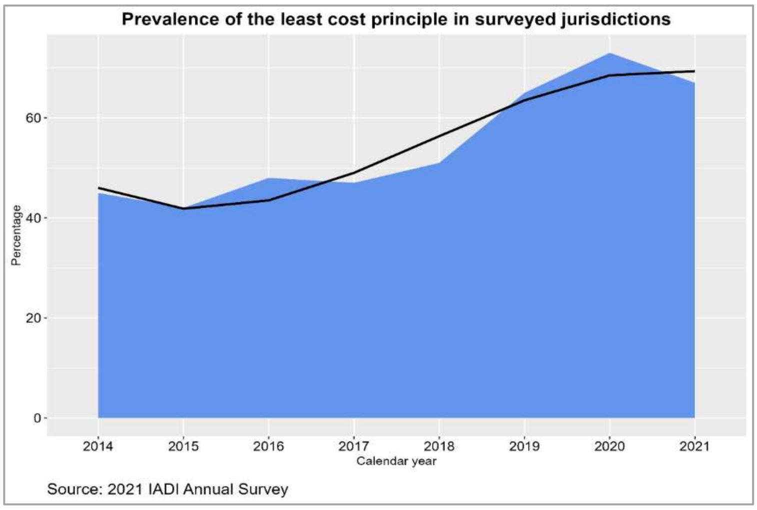
IADI Core Principles for Effective Deposit Insurance Systems (Principle 14: Failure

[13] Defina (2021b)

Deposit insurers' role in resolution varies significantly across jurisdictions, depending on deposit insurers' mandate and on legislative and resolution frameworks in place. Deposit insurers may be actively involved in the decision to put failing/likely to fail banks into resolution, in designing or reviewing the resolution strategy for all or some banks in their jurisdictions and/or in the financing of that resolution. Also, in some jurisdictions, deposit insurers' funds may be used by other entities as a tool to avoid closing the bank through sale, mergers, or other forms of resolution in order to minimise resolution costs or for public interest reasons. Even though it does not take into account all regional specificities, the well-known categorisation of deposit insurers' mandates may serve as a good proxy for the involvement of deposit insurers in resolution.

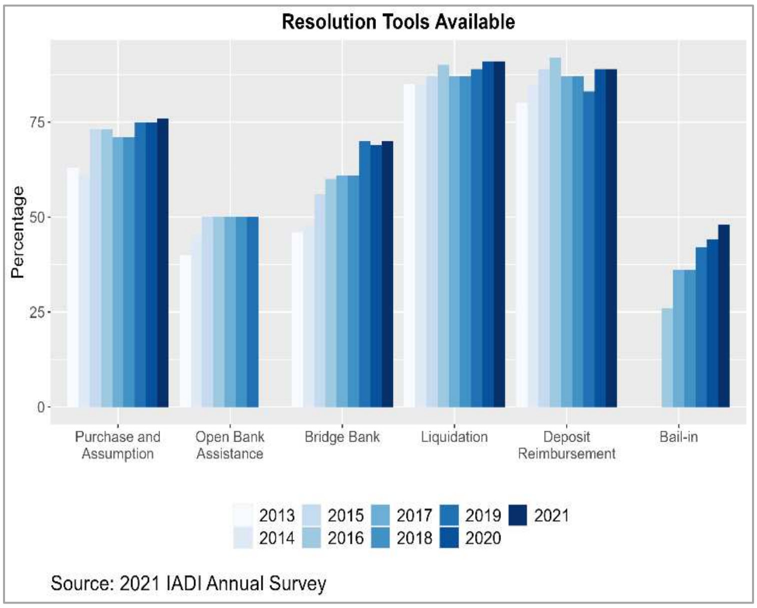


The decline over time of the share of pure pay-boxes points at a trend of higher involvement by deposit insurers in resolution. This growing involvement also extends into the decision-making process surrounding resolution. A majority of deposit insurers, across all mandate types, have the opportunity to at least participate in relevant discussions and associated decisions.



The use of deposit insurer funds in non-payout resolution scenarios is increasingly subject to safeguards in the form of financial constraints. These may serve as to protect the deposit insurers' fund against excessive depletion and to maintain trust in the deposit insurer's capacity for timely depositor reimbursement if necessary. These financial constraints often include a "least cost" principle for the deposit insurer/resolution authority, comparing the costs of different resolution options, including the costs of reimbursing depositors. A growing share (now 70%) of deposit insurers have indicated this to be relevant in their jurisdiction.

Non-payout use of deposit insurer funds in resolution may include the use of a set of resolution methods. In recent years, especially the availability of purchase and assumption, bridge banks and bail-in facilities as resolution tools have risen to different extents.



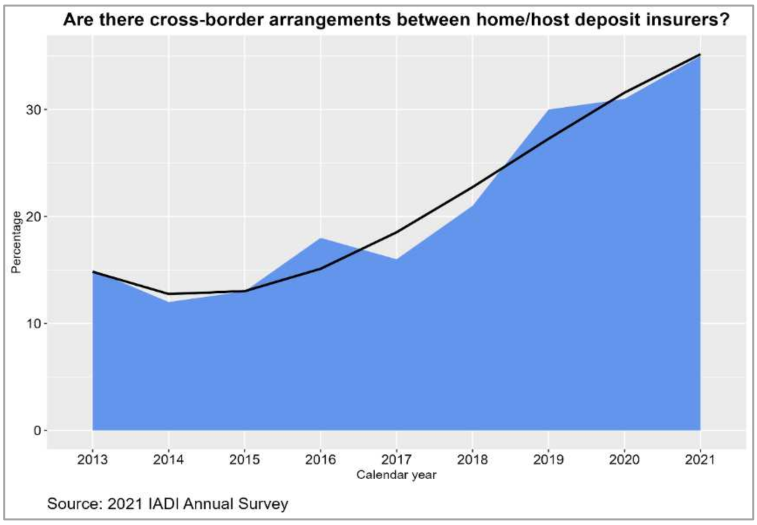
In 2021, P&A transactions were identified as an available resolution tool in 75% of deposit insurers surveyed, relative to 60% eight years prior. The ability to conduct a resolution using a bridge bank has sharply risen from 45% to 70% in the jurisdictions surveyed. Finally, bail-in facilities have increased in prevalence from 25% to just over 40%, in line with their promotion under the FSB Key Attributes, albeit observed with the caveat of a rather short time series. Overall, the figures indicate that the resolution toolkit has changed markedly. While liquidation and payout are still utilised, additional mechanisms have clearly been added, offered mostly as policy options for deposit insurers and resolution authorities to consider when resolving a failed institution.

The increasing involvement of deposit insurers in resolution does not necessarily imply in all cases that the depositor insurer has resolution powers itself. While on the rise, currently, approximately 40% of deposit insurers also act as resolution authority, this is up over ten percentage points compared to 2014.

3.5 Emerging Issue 5: Cross-border considerations

Given the growing inter-connectedness of global financial flows and the increasingly borderless and digital nature of financial services, cross-border issues have become increasingly relevant for deposit insurers' activities.

The 2021 IADI Annual Survey illustrates that 35% of responding deposit insurers affirmed they have cross-border arrangements between home/host deposit insurers in place. Since 2013, this share has risen over time and effectively doubled since 2017. It remains to be seen whether the upward trend in the establishment of cross-border arrangements will continue in the future.



Given intense cross-border financial activities, the rate of prevalence of cross-border arrangements between deposit insurers seems still relatively low. This may be caused by the fact that most deposit insurance systems outside the EU do not insure depositors in foreign jurisdictions. In case of insurance of deposits held by foreign deposit-taking institutions, this is typically done so through the insurance of foreign bank branches where strict asset maintenance requirements and other safeguards apply. However, further research is necessary before conclusions can be drawn.

4 Review of the IADI Core Principles

In June 2009, the Basel Committee on Banking Supervision (BCBS) and IADI jointly issued the Core Principles for Effective Deposit Insurance Systems. The Core Principles were subsequently revised and submitted to the Financial Stability Board (FSB), in November 2014, for inclusion within the FSB's Compendium of Key International Standards of Financial Stability.

The Core Principles, and the accompanying Handbook as a compliance assessment methodology are used by jurisdictions as a benchmark for assessing the quality of their deposit insurance systems and for identifying gaps in their deposit insurance practices and measures to address them. The Core Principles are also used by the International Monetary Fund (IMF) and the World Bank (WB), in the context of the Financial Sector Assessment Program (FSAP), to assess the effectiveness of jurisdictions' deposit insurance systems and practices.

2022 as IADI's 20th Anniversary year will see the launch of an inclusive process aiming at the review and update of the IADI Core Principles for Effective Deposit Insurance Systems and the accompanying Handbook. This will provide a more formal opportunity to appraise recent developments in deposit insurance systems, and ultimately, the possible codification of new standards which will drive the next decade of deposit insurance development. Final approval of the revised set of Core Principles is expected by the end of 2023.

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