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Global Trends in Deposit Insurance Coverage Ratios

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GLOBAL TRENDS IN DEPOSIT INSURANCE COVERAGE RATIOS

Executive Summary

Given renewed attention on the level of deposit insurance coverage and the risks associated with high shares of uninsured deposits, this paper provides context by analysing global trends in deposit insurance coverage ratios, and explores how they have evolved over time. The analysis is conducted both at the aggregate level and per income classification of jurisdictions covering approximately 80 deposit insurance systems.

The current status of deposit insurance coverage globally:

- As for the share of accounts or depositors fully insured by deposit insurance, we find no substantial difference in ratios across jurisdictions' income classification. This confirms that deposit insurers across the world fully cover a very high share of accounts/depositors.
- In almost half of jurisdictions, deposit insurance coverage levels are set at around twice the GDP/capita value (± 1 point). Coverage levels are markedly higher (lower) in upper middle income (low income) jurisdictions.
- Globally, slightly more than half the value of eligible deposits are not insured by deposit insurance. The same goes for slightly over 60% of total deposits. Coverage levels tend to increase with the affluence of economies. In high income jurisdictions, more than half of deposit value is insured on average. In lower middle-income jurisdictions, coverage ratios are distinctly lower for total deposits (26%).

Since 2015 we have identified the following trends in global coverage:

- Overall coverage of eligible deposits has decreased by 13%, almost double the decline in the coverage ratio of total deposits (7%). This trend is driven by declining coverage in high income and upper middle-income jurisdictions. Coverage in high income jurisdictions has fallen steadily since 2015.
- Most of this decrease can be attributed to the year 2021. During this year, coverage ratios globally fell by 9.8%. The decline was particularly high in upper middle-income jurisdictions (-13.7%).
- The upturn in inflation, limited numbers of deposit insurers that have increased nominal coverage levels in the past years, and fast-growing retail deposits during the COVID-19 pandemic may contribute to explaining this decline in coverage ratios.
- The ranking of coverage ratios by jurisdiction income has been stable over the past eight years.

With new global data on coverage ratios available by the end of 2023, it remains to be seen how declining coverage ratios have evolved more recently. In the recent past, the pandemic's impact on deposit growth has likely been subdued, but elevated inflation may in part have counteracted this.

Ongoing policy deliberations concerning coverage increases should incorporate the significant decline in coverage ratios observed in recent years. Attaining previous levels of coverage may require a significant increase in coverage and subsequent increases in funds available to deposit insurers. This particularly applies to high income and upper middle-income jurisdictions, which have witnessed the bulk of global decreases in coverage over a more (high income) or less (upper middle-income) stretched period of time. Coverage ratios in lower middle-income jurisdictions are generally low. There should be some caution exhibited when attempting to mechanically link the coverage ratio decreases demonstrated in this paper to future coverage level changes, given that the data is aggregated – linking both requires data on the distribution of deposit amounts for individual deposit taking institutions.

1 Introduction and purpose

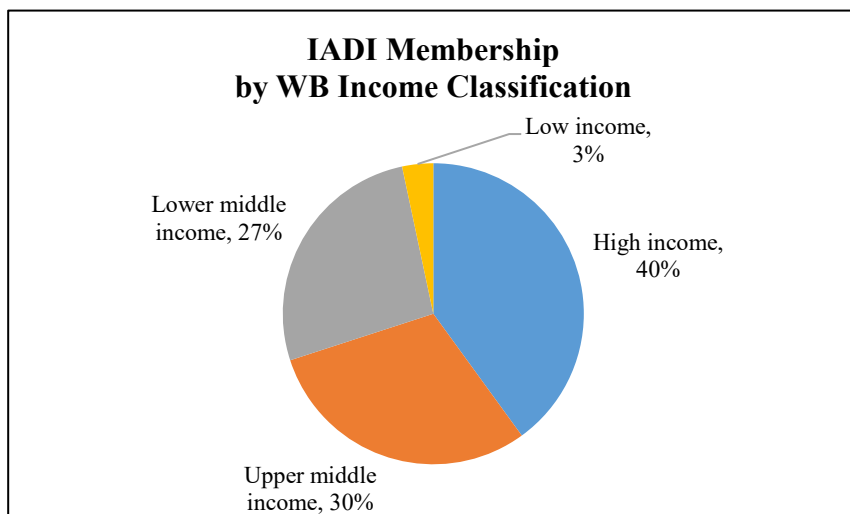
The 2023 bank failures in the United States and Switzerland have fuelled discussions on the appropriate coverage of deposits by deposit insurance schemes. Especially in the US-based failed banks, shares of uncovered deposits were very high and those uncovered deposits were concentrated among a small number of depositors. For instance, over 94% of deposits at Silicon Valley Bank were not insured at year end 2022¹, due to exceeding the Federal Deposit Insurance Corporation limit of USD 250,000.² Upon news of their bank's rapid deterioration, uninsured depositors withdrew their funds at unprecedented speed and at significantly higher rates than insured depositors, which ultimately was a major contributor to the failure of these banks.³ High levels of uninsured deposits within a given member institution of a deposit insurer may increase the likelihood of failure and of systemic implications in the event of such failure.⁴

Discussions on potential follow-ups to these events include suggestions to increase deposit insurance coverage levels and differentiation of coverage across depositor classes (e.g. retail or certain types of business accounts). This may contribute to lowering the ratio of uninsured deposits and to slowing down or preventing liquidity runs as (some of) the previously unprotected depositors would now benefit from deposit insurance. Assessing the likelihood of a run in this context is largely dependent on the insured depositors' willingness to leave their funds within the under-stress institution, knowing that they will not incur any losses with an active deposit insurance system in play.

In addition to coverage by the deposit insurer, other factors will also determine depositors' run behaviour. This includes supervisory action regarding the tolerable concentration of deposits at individual banks, the amount of capital held by banks that can function as a loss absorbing capacity, the design of liquidity regulation, the credibility of a resolution regime that would allow for access to both insured and uninsured deposits within a very short time frame and the credibility of a very quick reimbursement (of insured depositors only).

This paper provides historical context to coverage ratios offered by deposit insurers. By using data from IADI's annual survey, it covers approximately 80 deposit insurers globally on a yearly basis and offers differentiation as to the income category of economies.

The IADI membership (as of July 2023) can be partitioned into income categories based on an index developed by the World Bank (WB). Jurisdictions are assigned to one of four groups based on their gross national income (GNI) – low, lower-middle, upper-middle, and high income. The World Bank updates this classification each year in July based on the previous year's GNI per capita.⁵ This classification is useful for our analysis as it allows broad macroeconomic principles to be incorporated. These principles are conceptually independent of deposit insurance design elements.⁶



¹ FDIC (2023), <https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf>, at page 6.

² Many FDIC-insured institutions in the United States still retain high levels of uninsured deposits on their balance sheet. Also due to varying business models, each of the following held more than 70% of uninsured deposits as of March 2023: Bank of New York Mellon, State Street, Northern Tryst, Citigroup and HSBC Holdings (Source: Krantz (2023)).

³ FDIC (2023)

⁴ The latter can be the case if, upon a failure, uninsured depositors are exposed to losses or to a lack of access to deposits, that may have substantial knock-on effects on the real economy.

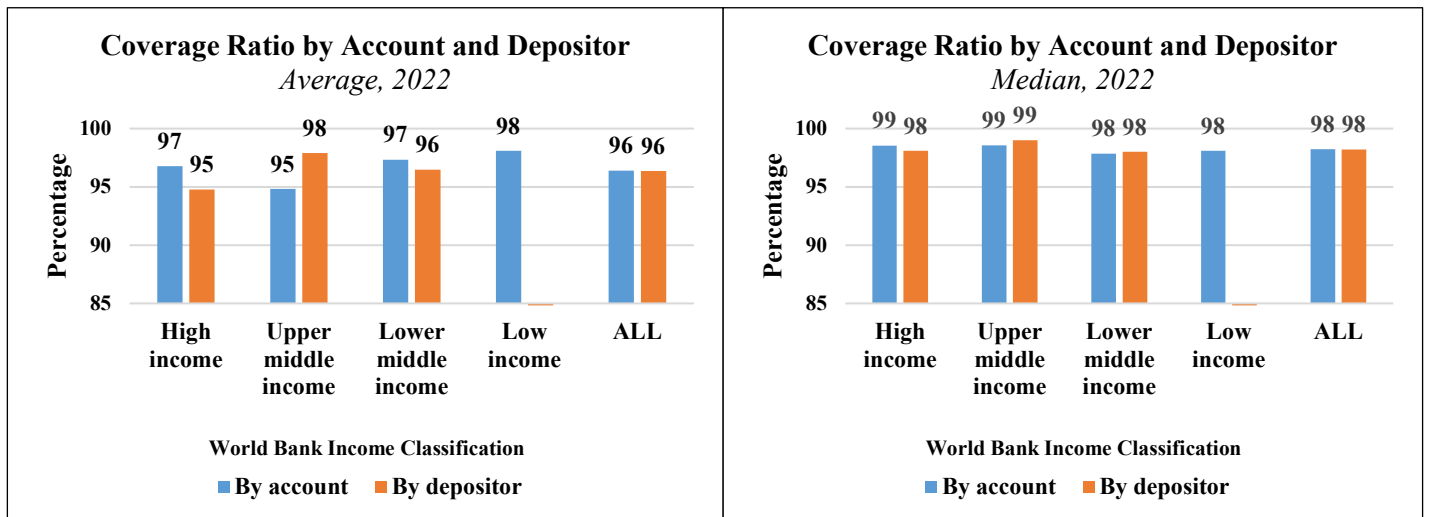
⁵ GNI measures are expressed in United States dollars (USD), and are determined using conversion factors derived according to the Atlas method (Source: Hamadeh et al (2022)).

⁶ It is also important to note that deposit insurance frameworks operating in high income jurisdictions are not necessarily better funded. Some are structured with a very narrow mandate and hence require fewer resources to successfully meet their objectives.

2 Coverage ratios per account/depositor and in GDP/capita

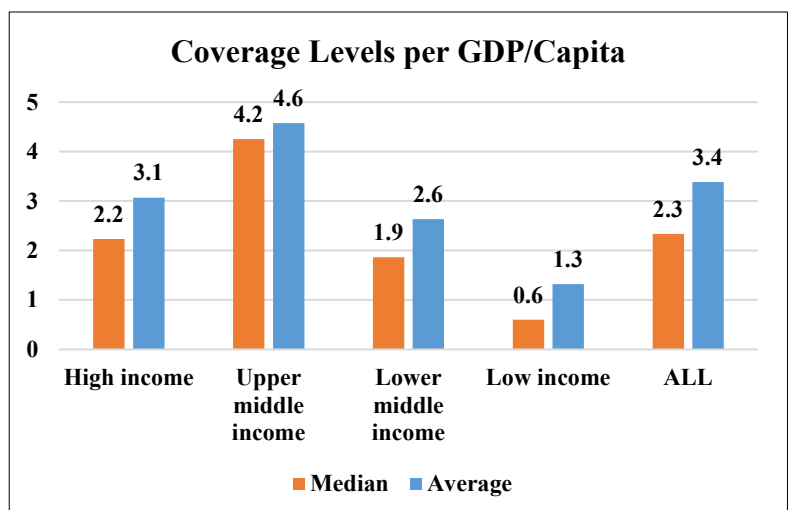
A previous IADI Brief⁷ demonstrated that very high per depositor/account coverage rates are in place across most jurisdictions. It was found that globally, deposit insurers fully cover deposits of a very high share of depositors. Both in G7 and G20 jurisdictions, median coverage ratios were above 98%.

The graphs below⁸ disaggregate per account and per depositor coverage levels using the World Bank income classification⁹, partitioning jurisdictions into high income, upper middle income, lower middle income and low-income categories. **We find no substantial difference in coverage ratios across jurisdictions' income classification. This confirms previous findings that deposit insurers fully cover a very high share of accounts/depositors across the world, irrespective of a jurisdiction's income classification.** Average and median coverage ratios are fairly similar, indicating minimal skew in the distribution of coverage ratios. In all income classes, coverage ratios are close to identical and consistently above 95%.



Deposit insurers reach these high coverage ratios by setting coverage levels accordingly. Although similar in coverage ratio outcome, coverage levels as a share of GDP per capita are rather diverse both within and across income classifications. This is likely driven by significant disparities in the distribution of income and hence deposits across jurisdictions.¹⁰ Given these disparities, we focus on analysing median values to safeguard robustness of conclusions.

Globally, almost half of jurisdictions set coverage levels around twice their GDP/capita value. In median terms, this holds particularly true for high income and lower middle-income countries, which combine two thirds of all deposit insurers. In GDP per capita terms, coverage levels are markedly higher (lower) in upper middle income (low-income) jurisdictions. Globally, for the jurisdictions where sufficient data is available in 2022, 26% maintain coverage levels of between 1.5- and 2.5-times GDP per capita, whilst 44% maintain coverage levels between 1- and 3-times GDP per capita.



⁷ Van Roosebeke, Defina & Wahyuni (2023)

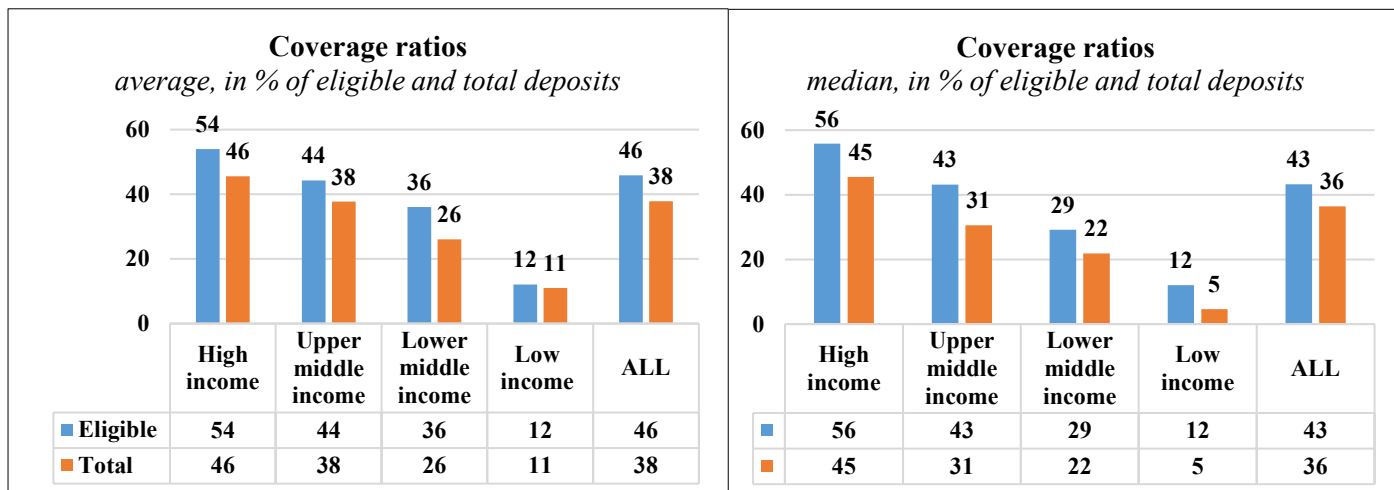
⁸ Data for both graphs is sourced from the 2022 IADI Annual Survey. Insufficient data is available to determine coverage ratios by depositor for low-income jurisdictions.

⁹ Hamadeh et al (2022)

¹⁰ In the lower middle-income group, Indonesia has been left out of the sample. The country's high coverage level – 32 times GDP/capita – heavily impacts on the average coverage in this group, increasing it from 2.5 to 4.1 times GDP/capita. The median changes from 2% to 1.9% only

3 Coverage ratios in value of deposits and over time

As a global average, coverage ratios are measured at 46% and 38% of eligible and total deposit value respectively. Thus, on an aggregate level, slightly more than half of the value of eligible deposits are not insured by deposit insurance. The same goes for slightly over 60% of total deposits. Median numbers by and large confirm this finding, which indicates a symmetric distribution of observations within income groups. As recent bank failures have demonstrated, on an individual bank-level, these levels can differ significantly. The difference between eligible and total coverage ratios is likely to be explained by the fact that in some jurisdictions, interbank deposits are not eligible for deposit insurance.¹¹ Differences between coverage ratios of eligible and total deposits are more relevant in lower middle-income countries.¹²



¹¹ Only a very limited number of deposit insurers excludes deposits by legal persons (companies) generally from coverage.

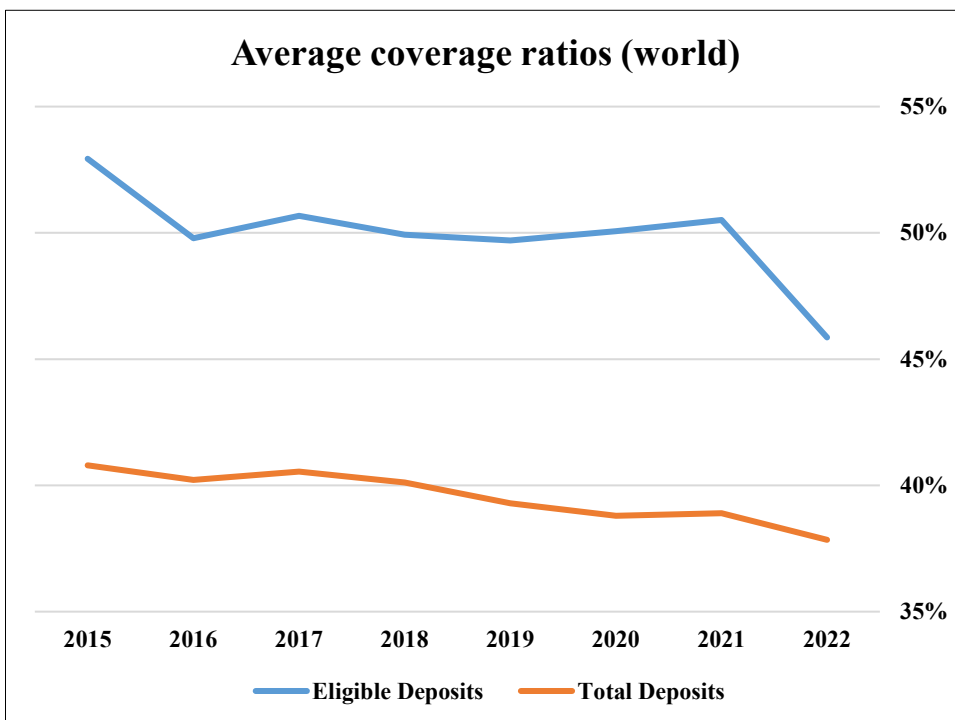
¹² Globally, the coverage ratio of total deposits is 83% of the coverage ratio based on eligible deposits. In low middle income economies this figure is only 72%. In high and upper middle-income countries this ratio is similar to the global one.

Coverage levels tend to increase with the income level of economies. Only in high income economies, on average, more than half of the value of eligible deposits is fully insured by deposit insurance. Coverage ratios are markedly low on average for total deposits in lower middle-income countries (26%).¹³ This holds true even though the coverage ratio per accounts and per GDP/capital is similar to levels in high income countries. This points to a large share of uninsured deposits being concentrated in a small number of accounts in lower middle-income jurisdictions. This may contribute to financial stability risks. An analysis of bank-individual ratios of uninsured deposits in these jurisdictions would contribute to more a more precise assessment of the risk but is beyond the scope of this paper.

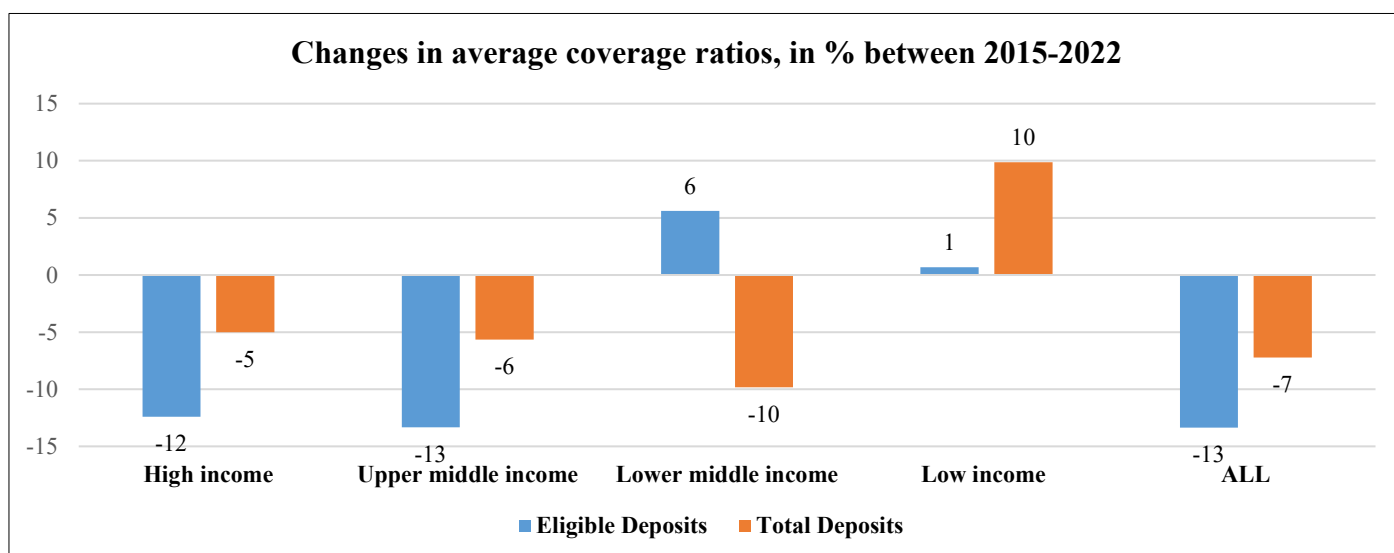
Over the past eight years, average coverage ratios of eligible deposits have decreased globally by 13%, almost double the decline in the coverage ratio of total deposits (7%).

Coverage of eligible deposits has experienced only one (1) increase in the past eight years. **Most of the overall decrease in coverage can be attributed to 2022 data** (capture data as of end of calendar year 2021). During this year, **coverage ratios for eligible deposits fell by 9.8% globally.**

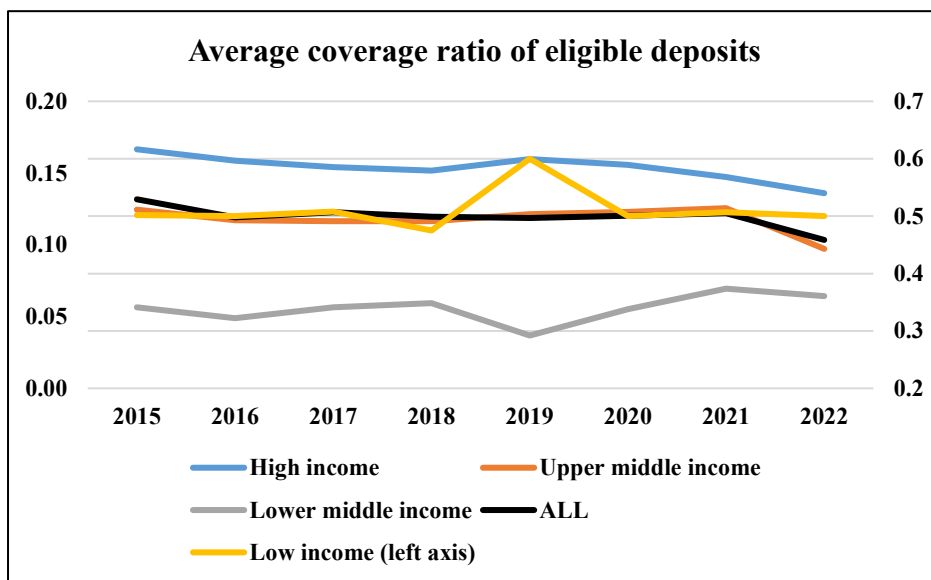
Coverage ratios decrease during this year have been particularly pronounced in upper middle-income jurisdictions (-13.7% on average) and high-income jurisdictions (-5.26%).



Over the total period 2015-2022, the cumulative decline in the coverage ratio of eligible deposits in high income and upper middle-income jurisdictions is of a similar magnitude and representative of the global trend (-13%). Together, these groups account for 70% of all deposit insurers globally.



¹³ Values for low-income countries are also very low. However, the sample of low-income countries is very small (four deposit insurers only), which calls for a degree of caution when interpreting results.



Sudden upturns in inflation¹⁴, the limited share of deposit insurers that have changed nominal coverage levels in the past years and increases in retail deposits during the COVID pandemic may significantly contribute to explaining this decline in coverage ratios. In the group of high and upper middle-income economies, {45%, 15%} of deposit insurers have changed the coverage level since {2014, 2020}.¹⁵ The more moderate decline of the coverage ratios related to total deposits is due to higher relative increases in eligible deposits than in non-eligible deposits and may be linked to strong retail deposit

growth during the COVID-19 pandemic.¹⁶ The fact that the bulk of decline in eligible deposit coverage ratios goes back to 2022 data (covering calendar year 2021), during which total deposit coverage ratios have not decreased to the same degree, seems to offer support for this hypothesis.¹⁷

The relative order of coverage ratios between income regions has been stable over the past eight years. Coverage ratios in high income jurisdictions (40% of sample) have remained highest and coverage ratios in upper middle-income jurisdictions (30% of sample) are very representative of global average coverage ratios.

4 Outlook and policy relevance

The most recent available global data on coverage ratio developments goes back to 2021. More recent global data covering 2022 will be available by end 2023 and will shed light on whether substantial declines in coverage since 2015 demonstrated in this paper are more than a temporary phenomenon.

The outlook remains uncertain as numerous broad-based considerations remain relevant. Whilst the COVID-19 pandemic formally ended, the prolonged impact on international trade flows and capital financing remains to a certain degree. This has fundamentally reshaped deposit growth over the last two years. Elevated levels of inflation, which do not appear to be dissipating in the short term, will continue to erode the real value of deposit insurance coverage. Subsequent impacts on deposit growth, coverage levels and hence coverage ratios are equally challenging to predict.

As observed in this paper, the decline of coverage ratios in high income countries seems to be a longer trend that has continued since 2015. However, the impact of the pandemic on deposit growth may have subdued in or even turned negative in 2022. On the other hand, elevated inflation may have counteracted this in part. Figures published by the Federal Deposit Insurance Corporation¹⁸ suggest that the significant coverage ratio decline in 2020 and 2021 was fully recovered during 2022 and 2023. This was driven by drops in uninsured deposits in each quarter since Q3 2022 (of up to 15% on year on year basis) while growth in insured deposits slowed down. However, other jurisdictions did not observe such a recovery. For instance, the Spanish deposit insurer, Fondo de Garantía de Depósitos de Entidades de Crédito, observed a continued and slow reduction in coverage ratio against eligible deposits, aligning with a decade long trend.¹⁹

¹⁴ See Van Roosebeke & Defina (2022a) for an analysis of the impact of inflation on real coverage levels.

¹⁵ Again, given the small sample size of low-income economies (four jurisdictions only), changes in this group may not be representative nor do they impact substantially on the global trend.

¹⁶ See Van Roosebeke & Defina (2022), which does however not distinguish between growth in total and eligible deposits.

¹⁷ Again, the number of observations in the low-income jurisdiction group is too small to draw conclusion on the observed 10% increase in average coverage ratios.

¹⁸ FDIC (2023a) at page 33 and FDIC (2023b) at page 171.

¹⁹ FGD (2023)

Coverage declines in upper middle-income jurisdictions were become a trend in 2021, likely linked to the pandemic. It remains to be seen whether data on 2022 deposit growth will confirm or refute the decline in coverage. Overall, there have been limited indications for wide-spread increases in nominal coverage levels in the recent past.

Ongoing deliberations on increasing coverage should incorporate the significant decline in global coverage ratios observed in recent years. Attaining previous levels of coverage requires a significant increase in coverage and subsequent increases in funds available to deposit insurers. This especially applies to high income and upper middle-income jurisdictions, which have witnessed the bulk of global decreases in coverage. There should be some caution exhibited when attempting to link any coverage ratio decrease to coverage level changes, given that the data is aggregated – linking both requires data on the distribution of deposit amounts for individual deposit taking institutions. As underscored previously, a comprehensive jurisdiction-specific analysis requires granular data that captures the distribution of deposits at the deposit taking institution level. Such data tends to not be widely available in the public domain at this time.

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