

Russian-European Centre for Economic Policy

WORKING PAPER SERIES

**«PARTICIPATION OF THE STATE IN THE
SYSTEM OF GUARANTIES OF INDIVIDUALS'
BANK DEPOSITS. THE EU AND WORLDWIDE
EXPERIENCE»**

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At the retail level, depositors of banks are protected through deposit insurance schemes (DIS) in 68 countries in the world¹. By protecting deposits, regulators reduce the likelihood of bank runs and increase the financial system stability.

Depositor protection, however, is rather recent. In 1980, only 16 countries had explicit deposit insurance schemes ; by 2000, 68 countries had established one, largely to response to 80's and 90's banking problems. Although the first systems in the United States were started in the 1930s, it was not until the 1960s that nine other countries began to adopt a DIS. Nine DIS were initiated in 1970s, nineteen in 1980, and thirty-one in 1990s. Today, half of such schemes are to be found in Europe. In Western Europe, DIS was instituted in most countries not until the 1970s, and was still non-existent in Greece and Portugal when it became compulsory following the EU's 1992 deposit guarantee schemes directive. This directive states that deposits up to at least EUR 20 000 must be insured (European Commission, 1992). In EU, the home country brings the responsibility of controlling the banks and is also in charge of guaranteeing its depositors².

Some studies showed that countries with an explicit deposit insurance scheme are more likely to have a systemic bank crisis than countries without such a scheme. One explanation is that adoption of an explicit DIS undermines market discipline exercised by creditors and depositors on banks. However, the probability of such a crisis is highly correlated with the type of coverage and funding of deposit insurance scheme. One explanation is that DIS's characteristics are important determinants of the market discipline degree exerted by depositors vis-à-vis banks (see for example Demirguc-Kunt, Detragiache 2000, Demirguc-Kunt, Huizinga 2000). The importance of the design of the deposit insurance schemes justify the study of individual schemes institutional details. A good DIS must be "incentive-compatible" vis-à-vis internal governance, depositors and supervisors. It must provide incentives that induce all economic agents concerned by the scheme to keep the financial system sound.

Maintaining a fund or imposing ex post levies ?

DIS fall into two categories in regard to the way they are funded by banks. The most used type is the funded system, in which each member institution makes periodic contribution to an established fund. This fund is intended to serve as the primary source of reimbursing the depositors in bank failures.

The alternative type is the unfund system with no permanently maintained funds in place. In such system, members must contribute to the fund after a bank failure occurs.

Only ten countries (out of 68) have unfunded system, and seven of these are European : Austria, France, Italy, Luxembourg, Netherlands, Switzerland and United-Kingdom. Outside Europe, we found Chile (but in this country, the unfunded system has the only government as contributor), Bahrain and Gibraltar (Table 1). These countries fund their DIS by imposing a levy on members after a bank failure. The aim of ex post funding is to improve inter-bank monitoring because each bank has an incentive to avoid the costs associated with the failure of a member. However, such a system is effective only in banking system characterized by a small number of large banks.

An unfunded system is highly advantageous to the banks as long as there are no bank failures. However, disadvantages are numerous (MacDonald, 1996). Firstly, they concentrate the cost of compensation, instead of spreading over time, at a time when the banking system is under pressure.

¹ See tables 1 and 3.

² European Parliament (1999).

Secondly, the failed bank itself is exempt from the ex post contribution to the fund. This bank would not have to contribute to the compensation required as a result of its own failure.

Table 1 : Explicit deposit insurance schemes in 1999 : funding schemes (% of countries)

	% of DIS (nb of country)	Unfunde d	Exclusively Private funding	Jointly funding		
				Initial capital	CB loan	Gvt assistance
Africa	15% (10)	0%	0%	30%	20%	80%
Asia	13% (9)	0%	22.2%	44.5%	78%	33.5%
Europe	47% (32)	25%	50%	22%	31%	28%
EU	(15)	40%	53.5%	7%	20%	20%
Eastern countri es	(12)	0%	0%	50%	50%	42%
Others	(5)	17%	80%	0%	20%	0%
Middle East	4% (3)	33%	33%	33%	67%	33%
Americ as	21% (14)	7.1%	28.6%	14.3%	43%	43%
Total (nb)	38.2% (68)	14.7% (10)	23.5% (16)	25% (17)	36.8% (25)	42.6% (29)

One advantage of maintaining a permanent fund is that it is visible and tends to promote depositor confidence. Moreover, a well funded DIS helps to pay depositors promptly. Depositors need to have confidence in the system : that requires that the DIS will pay out insured deposit promptly, and that it will be adequately funded in order to resolve failed institutions without delay.

Furthermore, funded systems appear practically to be more rule-based than ex post DIS. First, the average coverage ratio per capita GDP is higher. In all ex post DIS, except Italy, the coverage ratio is less than average (3). Seven of the nine country have coverage ratio less than twice per capita GDP. Secondly, funded systems have more clearly specified responsibilities regarding sharing the costs of compensating depositors and more clearly back-stop funding from the government. For example, only three of the unfunded DIS have access to back-up funding from the government. Three explicitly deny it and, in the other four cases, the situation is unspecified. This reticence to use public funds can be explained by the fact that 78% of ex post DIS are privately run by representatives of the bank members. Thirdly, with ex post privately run systems, it is more difficult to share information with authorities, and these funds are more limited in their role and responsibilities.

Finally, funded system can be built up over time and this spreads the cost for the bank. If banking failures are infrequent, a fund can increase its resources by investing its assets. However, a fund should invest only in low risk, liquid assets. In ex ante funding system, the deposit insurer should ensure that funds are well managed and readily available to cover losses as they arise. This require appropriate investment policies and procedures, sound internal controls and disclosure and reporting systems implementation.

Source of funding

Contributors to the fund

Public intervention can occur via the initial contribution at the creation of the DIS, via loan extended to the fund by the central bank or the State, and via losses borne by the authorities.

Only one country (Chile) has an exclusively publicly funded DIS. 51 countries rely on joint source of funding, whereas 15 have systems exclusively funded by the banks. However, even in DIS funded solely from private sources, the government and the central bank had borne losses (or recapitalized private banks) when a banking crises occurred (France for example) (see Table 2 and infra).

In practice, systems which involve mutual insurance of banks, require a strong commercial banking system with sufficient capital to absorb losses among its members. For this reason, privately funded schemes are mainly to be found in western European countries (France, Germany, Greece, Ireland, Luxembourg, United-Kingdom, Iceland and Switzerland). Countries with less developed banking system tend to establish publicly administered schemes which receive partial funding from the banks (Joint funding).

Target

Two approaches are available to establishing a deposit insurance fund (Financial Stability Forum, 2001). First, Banks may be assessed a steady premium rate over time. This approach means that deposit insurance fund will fluctuate with insurance losses and that the insurer could be dependant on government or other financial support in times when the fund is inadequate to meet obligations to depositors. 57.4% of countries opted for this system.

Second, a premium assessment system can be designed to maintain a target fund ratio. In this case, premiums could be set and adjusted over time in order to maintain a target ratio of the deposit insurance fund to insured deposits.

Table 2 : Fund Target and Premiums

	Fund Target	Risk-adjusted premiums	Ex post losses financing
Africa	20%	60%	0%
Asia	44.5%	22.2%	11%
Europe	50%	28.1%	16%
EU	53.3%	26.7%	20%
Eastern countries	58.3%	33.5%	0%
Others	20%	20%	40%
Middle East	0%	0%	0%
Americas	42.9%	28.6%	21%
Total (nb of countries)	42.6% (29)	30.1% (21)	11.8% (8)

29 countries set a target level for the fund, usually as a percentage of coverage deposits. The aim of this target is to avoid financial deficiencies and to act promptly : a delayed intervention can undermine the whole financial sector. 42.6% of countries with explicit DIS maintain such a target level for the fund, but in practice, only few (a quarter) actually meet their goal. The fund's target generally stand around 0.5 to 5% of insured deposit, but it can reach 10, 15 or 20% as in Romania, Macedonia and Kenya (Table 3). In EU-15, 40% of countries fixed a fund target: 0.5% of insured deposits in Belgium, 1% in Spain, 2% in Finland, 3% of loans in Germany and 1.5% of deposit plus 0.5% of risk-adjusted

assets in Norway. Italy and United Kingdom fixed a target for administrative expenses coverage (0.4-0.8% of insured deposits in Italy, £5-6 in UK). None of these EU-15 countries reached this target (except Germany).

When the DIS is created, the target provides an indication of the premiums that need to be set, and their variation if the fund exceeds its target, or after a crisis. If the funds resources are not sufficient to meet the depositors claims, members may be called upon to pay an additional contribution. In Belgium, if the fund's liquid assets falls below a critical level, the premiums paid by the banks can be raised by a maximum of 0.04%, as in Finland, Greece (where the premium can be tripled in an emergency), Portugal.

Setting an appropriate fund target is however very complicated in practice. Authorities must evaluate the conditions of the financial system, the probabilities of losses, the size of the insured deposits and its evolution, and the ability of the banking sector to pay premiums without prejudicing its profitability and solvency. Moreover, using a target fund ratio method can lead to a de facto ex post system after the deposit insurance fund reaches a certain level.

Whatever the type of deposit protection system, according to Garcia (1999), the actual level of the accumulated funds remains well below its target level in nine of the 17 countries that maintain a target, and seems also insufficient to cover risks that the DIS faces in other countries.

Premiums

It is generally admitted that the DIS need to be privately funded in order to encourage bankers to keep the system sound. In the same time, fund must be sufficient to meet all demands that will arise in normal or moderately adverse circumstances. In this purpose, the government provided initial deposit insurance fund's capital in fourteen countries, the central bank in two and both in five.

The most common premium bases are the deposit (20 countries) and the insured deposits (34 countries). Some other countries use insured liabilities as assessment bases (Belgium), deposits and non-performing loans (6 countries, mostly in Africa), deposit and risk adjusted assets (Norway, Poland, Italy), or deposits and some loans (France since 1999). In EU-15, the majority of countries opted for insured deposit premium base. Total insured deposits are a desirable premium base, since it relates each bank's contribution directly to the insurance it receives. However, the coverage rules must not be complex for such an evaluation.

In 1999, 58 systems charge premium at regular (usually annually) interval. Some countries opted for a regular fix percentage of deposit base, while others chose to link the prime to the risk feature of the bank.

Up to 1995, only United States had a system with risk-adjusted premium, ie premiums that varies with the riskyness of their assessment bases³. Since then, 21 countries adopted such a system, that is 31% of countries (Finland, Italy, Portugal, Sweden and United-States among industrial countries)⁴. Others countries, like Germany, charge premiums on risk-adjusted assets instead of deposits. The risk-adjusted premiums help to fight against adverse selection and to moderate the subsidy provided by strong to weaker institutions by allowing sound institutions to pay lower premiums (Table 2).

However, implementation of such a system can be problematic, as it is difficult to correctly evaluate riskyness of institutions and to implement such a system. Two candidates for inclusion in the calculation of a bank risk are capital adequacy and supervisory rating. For example, capital adequacy

³ See Kyei (1995).

⁴ Canada plans to introduce such a system in the near future.

could be included in the risk calculation, but this ratio can be subject to manipulation through management's system of loan classification and provisioning. Risk measurement is a complicated task : Authorities must find appropriate and acceptable methods of differentiating bank risk, obtain reliable and timely data, be sure that rating criteria are transparent, take account of the potential destabilizing effects of imposing high premium at already weak institutions. Furthermore, the banks' annual account will reveal the supervisor rating by reporting the premium paid.

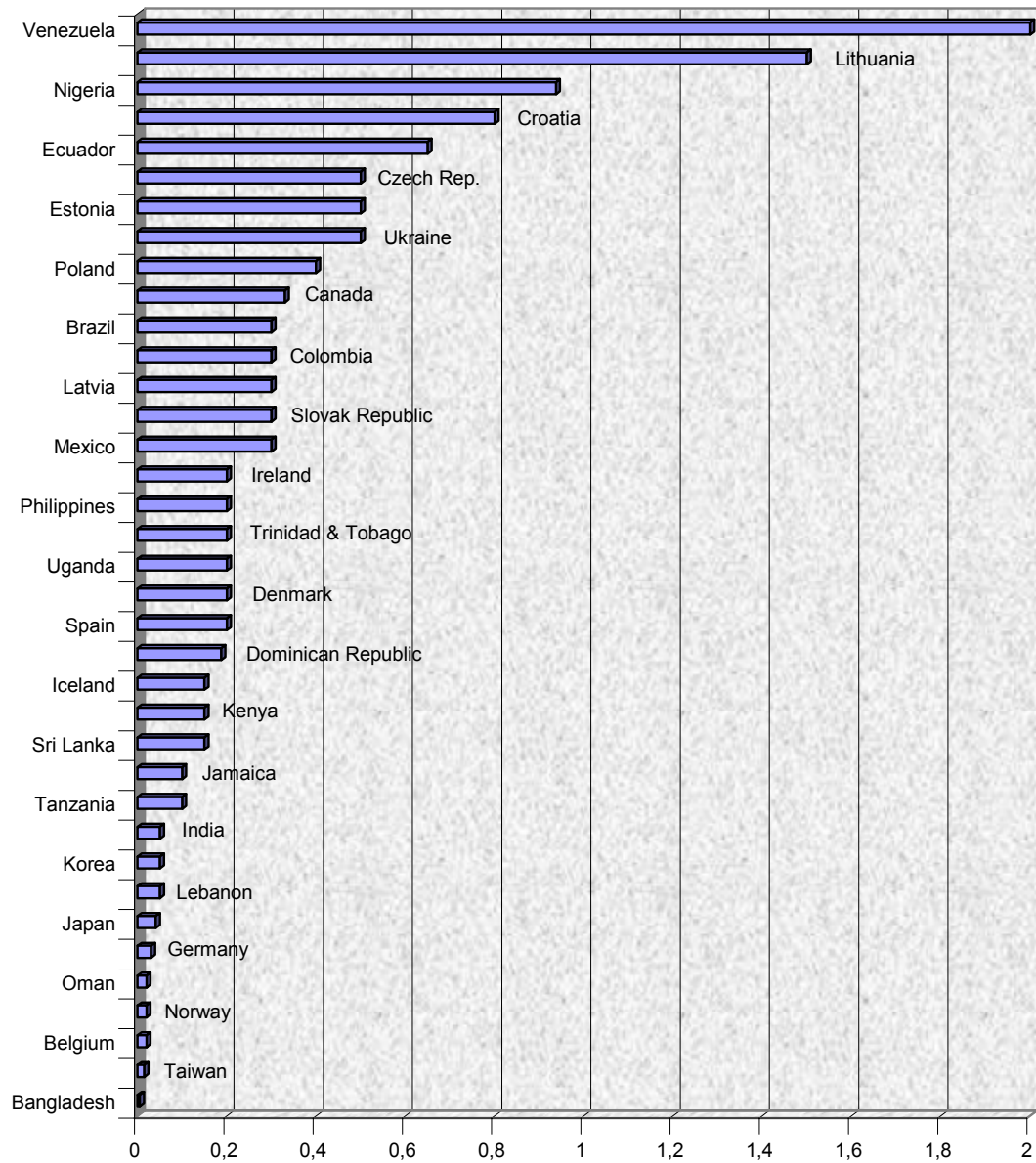
For these reasons, a simple and transparent system of premium is established in infant private banking industry. As the system will develop and the supervise capacity will improve, a more complex system can be adopted, with a slightly progressive graduation with risk. Because flat-rate premiums do not reflect the level of risk that a bank poses to the DIS, banks can increase the risk profile of their portfolios without additional deposit insurance costs. As a result, fix rate premiums may be perceived as encouraging excessive risk taking by banks. When the information required to implement a risk-adjusted differential premium system is available, adopting such a system is preferable.

Some countries use capital adequacy ratio for risk-adjusting premium base (Finland and Sweden), others use supervisory rating (France), some combine capital adequacy and CAMELS rating into a composite measure (United-States). A number of other countries use more complex formula to assess risk (Argentina, Canada, Romania, Italy).

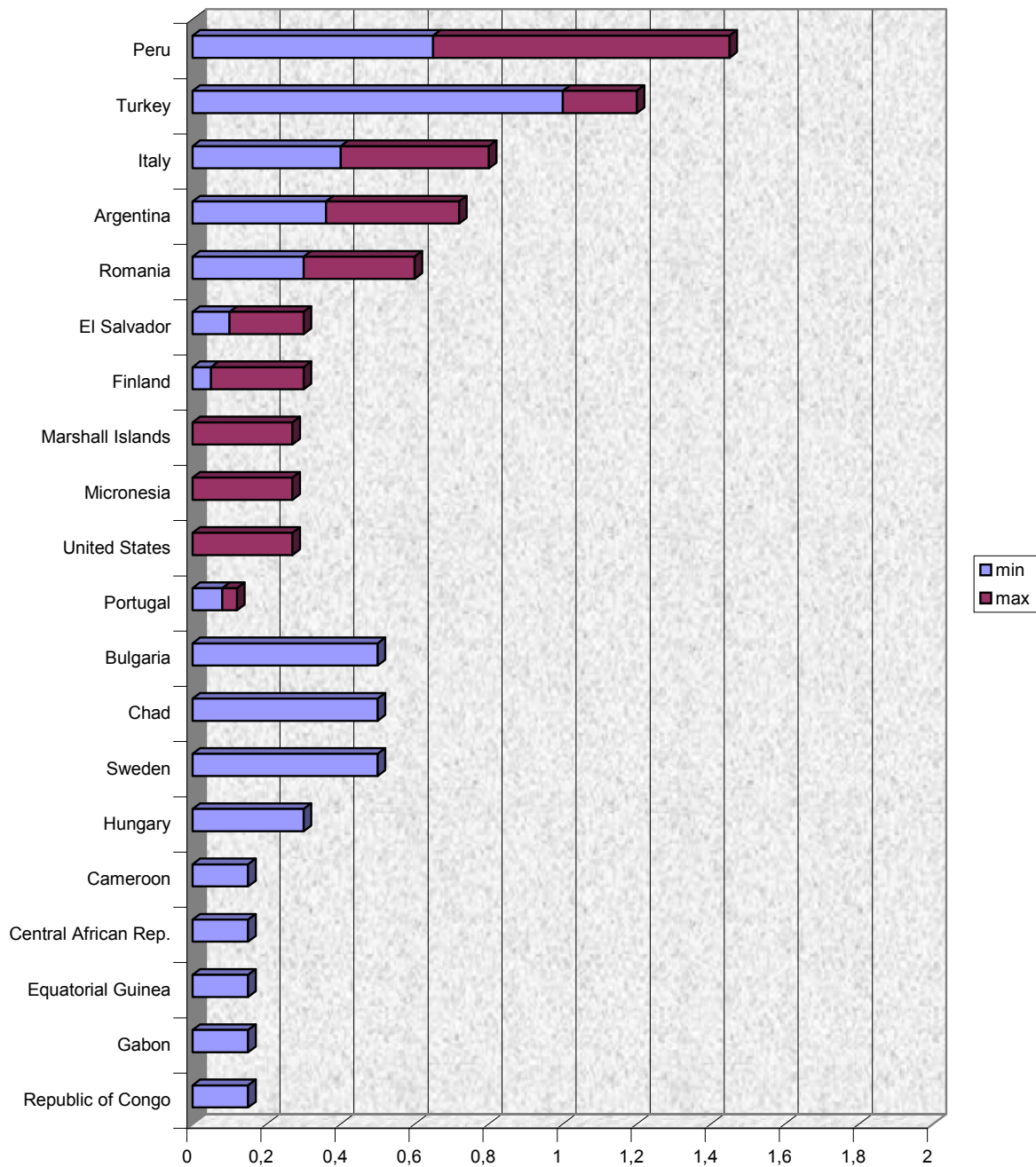
In only five countries (over 37) with fix premiums, the annual premium exceeds 0.5% of the base. In 60% of the cases, the premium is fixed less than 0.2%. It is more difficult to evaluate the amount of the premium in risk-adjusted premiums' countries, but in 71.5% of countries, it is smaller than 0.5% (see graphs 1 and 2).

The power to levy contributions has to be limited, in order not to place an excessive burden on those banks which have operated prudently. Some countries have fixed an upper-limit : 0.3% of deposits in the United Kingdom, 0.5% in Belgium and 1% in Iceland. This ceiling is sometimes incorporated in legislation with agreement of monetary authorities and commercial banks. It is also desirable to allow banks to deduct their contributions to the scheme from taxable profits (MacDonald, 1996).

Graph 1 : Annual premium (% of base)



Graph 2 : Annual risk-based premium (% of base)



Back-up funding

An under-funded system can be an obstacle to closing failed banks and may lead to costly forbearance. In a context of heavy banking crisis, the banking system may not be sufficiently strong to finance all the compensation required, without itself suffering a serious erosion of capital. In this case, the government has to finance part of the compensation. In the light of the strength of the commercial bank system, it may be appropriate for the State to provide back-up finance.

Garcia (1999) emphasized that while 66 of the 68 systems have private funding, 53 have access to public funding. Some of them have received financial assistance from public authorities to get the system started. In 25 countries, credit may be extended by the Central Bank, sometimes with low or free interest rate. The fund can also borrow from the State in eleven countries. In five countries, DIS can borrow with the government guarantee. In seven countries, the government offers budgetary resources to cover any shortfall in funding, in order that a well run DIS carry out its responsibilities. Finally, the central bank and the government have borne losses in seven cases (Table 1 and Table 2).

The legal possibility to borrow to the central bank or elsewhere is very helpful for maintaining the public confidence in banks. This enables the scheme to pay compensation as soon as it is legally triggered, without having to wait until it receives contributions from banks.

To contain moral hazard among bankers, it is important that member banks be required to repay their loans over time, including those from the government. Otherwise, members may be tempted to underfund the DIS in the expectation of free and automatic government assistance.

For Garcia (1999), the danger of banks providing insufficient private resources to maintain the solvency of the fund as they hope public subsidies appears to be a reality in more than half of the DIS. 38.5% of the privately run DIS and 82.6% of the jointly run systems have financial backing from the government. Sometimes, there is no explicit rules about a potential public intervention. Even in the 33.8% of countries where a government financial backing is explicitly ruled out, it is not sure that the government can sustain this commitment in a context of financial crisis. In Europe, government have yet borne losses in half of private run DIS.

Organizational Structure

Administration

The administration forms of the deposit insurance scheme are divided in three groups : 17,6% of countries have exclusively private administration schemes, 32,4% have joint administration and 50% have official administration. This next category includes systems that are administered by central banks.

Table 3 : Independence and administration of the deposit insurance system.

	Separate legal entity	Dependant of :		Formal relationship with :		Administration		
		Central Bank	Government	Private	Joint	Gvt	Private	Joint
Africa	75%	25%	0%	10%	60%	30%	10%	60%
Asia	0%	100%	0%	0%	11.1%	88.9%	0%	11.1%
Europe	57.9%	26.3%	17.8%	28%	34.5%	37.5%	28%	34.5%
EU	28.6%	57.1%	14.3%	46.6%	26.7%	26.7%	46.6%	26.7%

Eastern countries	78%	0%	22%	0%	50%	50%	0%	50%
Others	67%	33%	0%	40%	20%	40%	40%	20%
Middle East	?	?	?	0%	67%	33%	0%	67%
Americas	50%	25%	25%	14.3%	14.3%	71.4%	14.3%	14.3%
Total (nb of countries)	50% (18)	36% (13)	14% (5)	17.6% (12)	32.4% (22)	50% (34)	17.6% (12)	32.4% (22)

In practice, private administration have “surrounded” authority. The authorities keep up some influence over privately run DIS. In some countries, as Italy or Croatia, the decisions of the deposit insurance administration must be approved by the central bank. In France, the nomination of the DIS president must be approved by the ministry of economy. Moreover, except in case of financial bankruptcy, the intervention of the fund needs a request of the supervisory agency. In countries where deposit insurance administration is a separate legal entity (table 3), it remains strongly supervised by public authorities. Most of the time, these authorities, often members of bank supervisory institute, are members of the deposit insurance administration board.

The DIS has to act in the interest of both depositors and bank members. Consequently, it must be independent of political interference. For example, public authorities could wish for delaying the resolution of a failed bank for political or social reasons, thus increasing its cost of resolution for private DIS’s members. In the same time, as government (as funds issuer) or the central bank (as lender at last resort) have generally to intervene, it is quite usual that these institutions will be represented on the board of the deposit insurance administration. However, the DIS, the supervisor and the central bank must be three independent institution, who must share information and coordinate their actions.

Practical experience show that the deposit insurance scheme must be established by the law, it should be given legal personality and the banking supervisory authority must be represented. In order to avoid to appoint a large permanent staff, the central bank can perform most of the operation schemes on an agency bases (to collect contributions from banks and pay compensation to depositors). As best practices suggest that government must provide back-up funding, it appears unlikely to leave financial decisions to a board of bankers. The risk is to have an under-funded deposit insurance scheme. The scheme can be privately administered by the bank members but in compliance with the rules prescribed by the ministry of finance, and under the supervision of the supervisory authorities. However, private administration is not very frequent, and adopted mainly in Western Europe (73%), often when there is no permanent fund (almost half of the cases)⁵. In the world, an increasing number of deposit insurance scheme are under public administration. This is correlated with the increase of the government funding : 75% of DIS in 1999 have received or can expect to receive government assistance.

Membership

Another question is to now if the membership to the system must be or not compulsory. In order to avoid the problem of adverse selection, 81% of countries in 1999 have compulsory DIS, 19% have

⁵ 45.5% of the privately administrated DIS are unfunded systems, whereas only 14.7% in the world.

voluntary system⁶. The six European unfunded deposit schemes are now compulsory because the EU directive requires member countries to offer a compulsory DIS. Are usually eligible, institutions that, first, take deposits from the public and, second, are subject to effective supervision and regulation.

Table 4 : Explicit deposit insurance schemes in 1999 : coverage, premiums and membership.

	Coverage		Ratios of deposit coverage to per capita GDP	Compulsory
	No interbank	No forex		
Africa	20%	90%	40%	6.2
Asia	56%	55%	55%	4
Europe	91%	31.2%	90.6%	1.6
EU	100%	33.5% *	100%	1.5
Eastern countries	16.7%	16.7%	8.3%	1.3
Others	20%	40%	5%	3
Middle East	67%	0%	100%	3.4
Americas	50%	17.6%	94.1%	3.2
Total (nb of countries)	66.1% (45)	39.7% (27)	81% (55)	3 (60)

* Except currencies of the members of the EU.

Coverage

Categories of protected deposits

Many deposit insurance systems exclude deposits held by depositors who are deemed capable of ascertaining the financial condition of a bank and exerting market discipline. The following categories of deposits may be excluded from the benefits of insurance : deposits of others banks and institutions (66% of countries, see Table 2), deposits of central, regional or local government authorities, deposits of corporate (in few cases only), deposits belonging to the directors, managers, shareholders and auditors of a failed bank, deposits belonging to close relatives directors and al., deposits of companies which belong to the same companies group of the failed bank and deposits arising of transaction in connection with fraudulent activities.

In 39.7% of countries, deposits denominated in foreign currency are excluded from the DIS. However, there are usually covered in countries where individuals hold a large part of their deposits in foreign currency (Eastern countries, Latin America, Turkey,...) (Table 4). Actually, the decision whether to cover deposits denominated in foreign currencies depends heavily on the country's usage of foreign currency. When holding is high, it would be a little interest to institute a DIS without covering these deposits. In EU-15, each country extend DIS's coverage only for currencies of others members of EU.

Since 1995 (Kyei's study), we can observe a large increase in the restrictions of DIS to household and nonprofit organizations. Such restrictions have been adopted by 25% of countries, compared to 13% in 1995. The exclusion of inter-bank deposits is also more frequent, as foreign currency deposits. In EU-15, banking deposits are totally excluded of coverage. Government deposits and insider deposits are also excluded in 60% of the EU countries.

⁶ Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon, Marshall Islands, Micronesia, Sri Lanka, Taiwan, Macedonia, Dominican Republic and Switzerland. Before the EU directive, the system were also voluntary in France, Germany and Italy.

Coverage limits

Deposit insurance schemes can create moral hazard : the perception of deposit protection can create a situation where bank depositors no longer feel required to assess the solvency of their banks. The risk is that they will choose their bank solely in accordance with the attractiveness of the interest rates they offer, without reference to their relative financial condition. The desire to avoid such risk explain that almost all DIS do not provide 100% compensation for any depositor.

The coverage limit is the first way to reduce moral hazard. This limit has to be rather low in order to encourage large depositors and creditors to supervise and discipline their bank. Setting such a limit will depend of circumstances prevailing in the country. MacDonald (1996) suggested to relate the maximum amount of compensation to the average size of individual's deposits. Another relevant measure is referring to the per capita national income (see Table 4). Coverage is provided per depositor and no more per deposit (only in two countries).

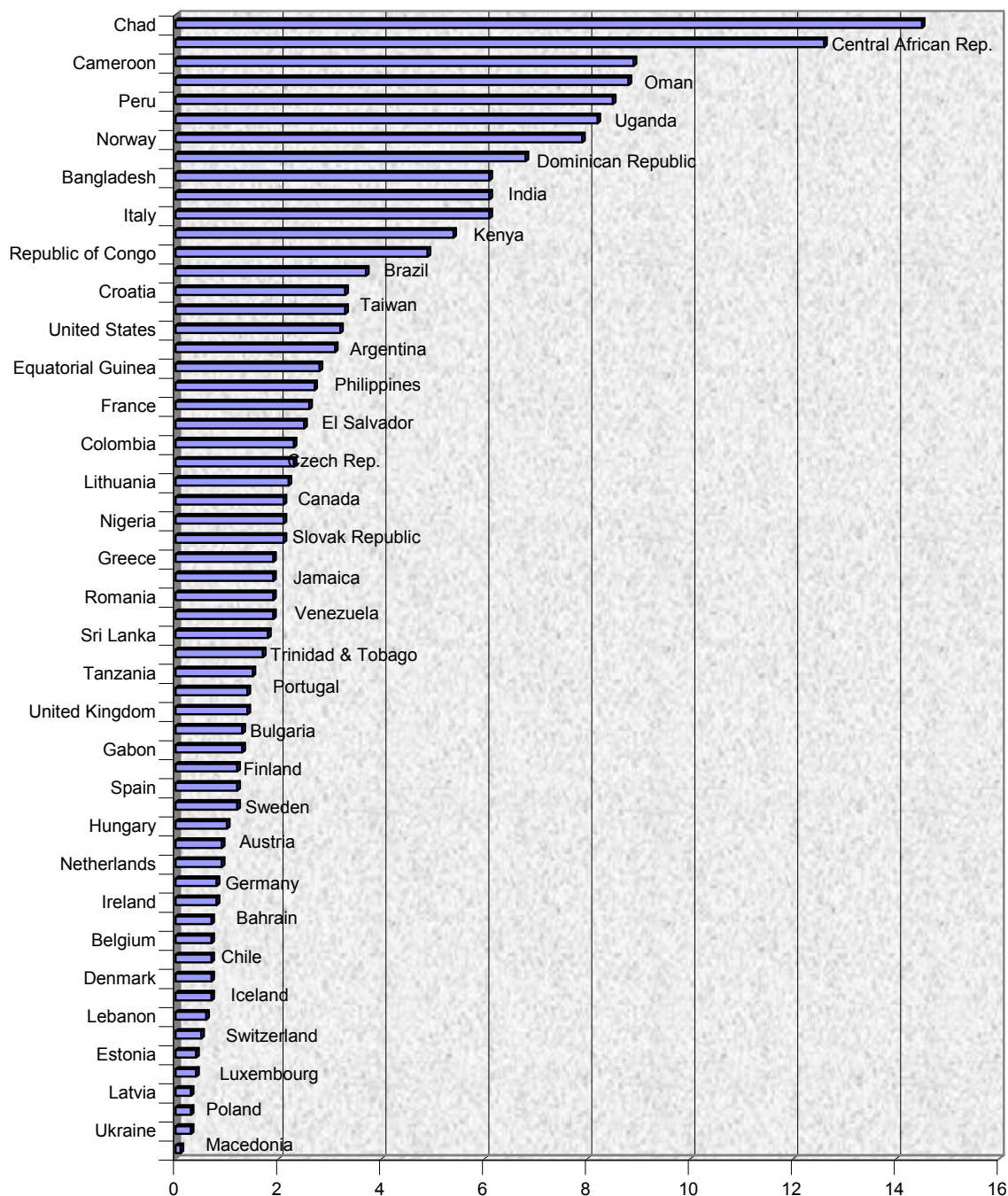
It is also common to limit coverage to the sum of any individual depositor's accounts, regardless of the number of accounts held in different banks (97% of DIS).

One another way to discourage moral hazard and to avoid systemic risk is to adopt a system of coinsurance. Coinsurance means that depositors always bear a share of the loss, even when the amount of the deposit is less than the assurance ceiling. Thus, in 23.5% of countries, the depositor loses a percentage of the covered deposit. By imposing risk-sharing between depositors and insurance scheme, coinsurance gives even small depositors an incentive to assess the creditworthiness of banks. However, a negative consequence of coinsurance is that depositors may opt out of the banking system. One way to avoid this risk is to apply coinsurance above a certain amount so that individuals holding small account balances are protected fully against the risk of loss, while maintaining the incentive for more wealthy depositors to monitor banks. For example, Austria limits coinsurance for businesses, Portugal above the basic coverage, but in UK, Luxembourg, Italy and Ireland, coinsurance apply to all insured account. Others EU-15 countries do not use such a system.

Excluding the deposits of senior executives, directors and majors shareholders (and of their close associates) from the insurance protection is another way to discourage imprudent behavior.

The IMF recommend a one or two times per capita GDP for coverage. However, the average coverage ratio in the world is three times per capita GDP (see Table 4), with the highest average in Africa (6.2) and the lowest in Europe (1.6) (1.5 for EU-15) (graph 3).

Graph 3 : Ratio of deposit coverage to per capita GDP, 1999



Whatever the degree of coverage, small depositors at failed banks must receive their insured deposit rapidly. Delaying payment reduces the value of coverage and may create panics and runs. A payment within one (or two in low inflation countries) month seems appropriate. It is important that the law specifies the precise circumstances in which the scheme must begin paying compensation to depositors (for example, the cessation of payments by banks or the making of judicial rulings) and the delay of repayment.

Conclusion

While deposit insurance is a fairly straightforward concept, deposit insurance schemes in practice are relatively complex. Because national banking systems differ considerably, it is difficult to recommend one particular system. However, some features can be put forward⁷ :

First, the DIS must be explicitly defined in law in regulation. It must be properly designed, well implemented and understood by the public to be credible and avoid moral hazard.

Second, a good DIS must provide incentives that induce economic agents to keep the banking system sound. The structure of the DIS is more likely to be incentive compatible if :

- membership is compulsory,
- coverage is low,
- insurance premiums are (lightly) risk-adjusted.

Explicit and limited insurance is preferable to implicit coverage if it clarifies obligations to depositors and creditors and limits the scope for arbitrary actions.

Finally, DIS must be viewed as a complement to other measures intended to protect bank depositors, as system of bank licensing and supervision. To be effective, the deposit insurance function needs to be part of a well-designed financial safety net, supported by strong prudential regulation and supervision, effective laws and sound accounting and disclosure regimes.

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Annex 1.1

Deposit Protection Schemes in the member countries of the Basle Committee

The last two decades have seen a rise in explicit deposit insurance schemes around the world. By 2000 68 countries had established explicit DIS.

There is a considerable cross-country variation in the presence and design features of depositor protection schemes.

Although several of European schemes were under review to bring them into line with the EU directive on deposit insurance of May 1994, there are still significant differences with respect to national design of deposit insurance system.

The directive made it compulsory to establish a deposit insurance system. The main changes occasioned by this Directive are some standardisation in terms of the minimum amount of protection (20 000 euros) and a requirement for deposits which must be excluded from the insurance scheme.

Recently, the IMF has endorsed a form of deposit insurance in its code of best practices.

Deposit Insurance System (DIS) Features

	Date Enacted / Revised	Type	Membership	Types of deposits covered	Funding	Base	annual premium % of base	Coverage
Best practice (IMF)	Begin an DIS when the banking system is sound	Explicit	Compulsory	Pay deposits quickly	Ensure adequate sources of funding to avoid insolvency		risk-adjust premiums	Provide low coverage
Belgium	1974 / 1995	Explicit	Compulsory	Deposits, bank notes, bonds and other claims on banks of households, and small and medium-sized non-financial enterprises. Only deposits in euros are included.	Belgium maintains a fund. Sources: banks and government. The state can provide a limited guarantee.	Insured liabilities	from 0.02 to 0.04 depending on the fund's liquidity	per depositor

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Canada	1967	Explicit	Compulsory	Savings and demand deposits, term deposits, money orders and drafts and checks; and traveler's checks issued by member institutions. FX deposits are excluded.	Canada maintains a fund. Private funding dominates. The fund can borrow from the markets and the government, but is charged private market rates.	Insured deposits	0.33 max. risk-based system.	per depositor
France	1980 / 1995	Explicit	Compulsory	Only deposits in euros are included. Deposits of the central government, insiders, affiliated companies, and money-lounderer's deposits, together with debt securities issued by the insured institution.	Ex post funding solely from private sources.		On demand, but limited	per depositor
Germany	1966 / 1976 / 1998	Explicit	Voluntary (private) / Compulsory (official)	All deposits except interbank and insider deposits.	Both schemes maintain funds. Sources of funding are private.	Insured deposits. In some schemes - risk-assets.	Official is 0.03 but can be doubled	per depositor; coinsurance system
Italy	1987 / 1996	Explicit	Compulsory	All deposits except bearer deposits, criminal, government, interbank and insider deposits.	Ex post funding solely from private sources.	Protected funds adjusted for size and risk	risk-adjusted 0.4 to 0.8	per depositor
Japan	1971	Explicit	Compulsory	Demand and time deposits in domestic currency, except interbank deposits.	Japan maintains a fund. Sources of funding: banks and government. Government and Central Bank provided initial capital, Central bank makes loans.	Insured deposits	0,048	per depositor

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Luxembourg	1989	Explicit	Compulsory	Most deposits according to the EU directive	Ex post funding solely from private sources.	Insured deposits		per depositor; coinsurance system
Netherlands	1979 / 1995	Explicit	Compulsory	In addition to household deposits only those of small enterprises and small foundations are covered.	Ex post funding. The central bank provides interest-free bridge financing.	Case by case. Cost are apportioned after consultation with the bankers' committee.		per depositor
Sweden	1996	Explicit	Compulsory	Most deposits according to the EU directive	Sweden maintains a fund. Government has borne losses.	Insured deposits.	risk-based, 0.5 now, 0.1 later	per depositor
Switzerland	1984 / 1993	Explicit	Voluntary	Only household savings deposits in swiss francs are covered.	Ex post funding solely from private sources.	Balance sheet items.	on demand	per depositor
United Kingdom	1982 / 1995	Explicit	Compulsory	Most deposits according to the EU directive. Only deposits in sterling and euro are covered. UK does not cover deposits of financial institutions.	UK maintains a small fund. Mainly ex post assessment. The central bank made loans in the past but there is now no public funding.	Insured deposits.	on demand	per depositor; coinsurance system
United States	1934 / 1991	Explicit	Compulsory	All domestic deposits	US maintains a fund. Sources of funding: banks and government. Government provided initial capital, bore S&L losses, can make loans.	Domestic deposits	risk-based; 0.00 to 0.27	per depositor

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Russia (draft law)	2002	Explicit	Compulsory	Only deposits of individuals	Sources of funding: banks and government. Government provides initial capital, the CBR make a loan.	#Н/Д	to 0.15	
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Annex 1.2

	Formal relationship	Information sharing	Fund target and actual fund	Administration
Best practice (IMF)	Create an independent, but accountable DIS agency; ensure close relations with the Lender of last resort and the supervisor	Organize good information; make appropriate disclosure.	Give the supervisor a system of prompt remedial actions	Have bankers on a advisory not the main board.
Belgium	DIS is a responsibility of the separate banking supervision body that may be transferred to Central Bank	Authorized	0.5 % of insured deposits / 0.25 oa insured deposits	Joint
Canada	Deposit insurance agency is independent. Central Bank, Banking Supervision and Ministry of Finance ex-officio sit on the Board.	Yes	no target / C\$500 mn (approx. 0.16)	Public
France	DIS is a responsibility of the banking supervision body, part of the Central Bank	Yes, but difficult	not applicable	Private
Germany				Private in the private DIS; Joint in the official DIS
Italy	Bank of Italy is in charge of banking supervision and DIS	Yes, formal notification		Private, but all decisions must be approved by the CB
Japan	DI agency is funded by Central Bank and supervised by Ministry of Finance		no target	Joint

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Luxembourg				Private
Netherlands				Public
Sweden	DIA is under Ministry of Finance, consults with banking supervisors	No	2.5 % of total deposits	Public
Switzerland				Private
United Kingdom	DIA is a separate legal entity, staffed by Banking supervision.	Yes	5-6 mn of sterlings for admin. expenses	Private
United States	DIA is a separate legal entity, cooperates with the CB and performs some banking supervision functions.	Yes	1.25 % of insured deposits / 1.4% of insured deposits	Public
Russia (draft law)			no target	Public

Source: IMF, Worldbank, BIS, EU Directive 94/19/EC of May 30, 1994.

Annex 2.1

Countries	Country Codes	Type	Date Enacted / Revised	Foreign Currencies	Inter-Bank Deposits	Coverage Limits-1	Coverage Limits-2	Coverage Limits-3	Coverage Ratios
								as of Sep 1998	
		explicit=1		yes=1	yes=1	US\$ or ECU	US\$		
		implicit=0		no=0	no=0				
Afghanistan	AFG	0							
Albania	ALB	0							
Algeria	DZA	0							
Angola	AGO	0							
Argentina	ARG	1	1979/1995	1	0	30000	30000	20,000 US \$	3
Armenia	ARM	0							
Australia	AUS	0							
Austria	AUT	1	1979/1996	1	0	\$24,075 but coinsurance for businesses	24075	260000 ATS	1
Azerbaijan	AZE	0							
Bahamas	BHS	0							
Bahrain	BHR	1	1993	1	0	5640	5640		1
Bangladesh	BGD	1	1984	0	0	2123	2123	Tk 60,000	6
Barbados	BRB	0							
Belarus	BLR	0							

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Belgium	BEL	1	1974/1995	1	0	15,000 ECU until year 2000	16439	15,000 ECU	1
Belize	BLZ	0							
Benin	BEN	0							
Bhutan	BTN	0							
Bolivia	BOL	0							
Bosnia-Herz	BIH	0							
Botswana	BWA	0							
Brazil	BRA	1	1995	1	0	17000	17000	Reais 20,000	4
Brunei	BRN	0							
Bulgaria	BRG	1	1995	1	0	1784	1784	Max. 80% of 5,000,000 lev.	1
Burkina Faso	BFA	0							
Burundi	BDI	0							
C. Verde Is.	CPV	0							
Cambodia	KHM	0							
Cameroon	CMR	1	1999	0	1	5336	5336		9
Canada	CAN	1	1967	0	1	40770	40770	60,000 Can. \$	2
Central African Rep.	CAF	1	1999	0	1	3557	3557		13
Chad	TCD	1	1999	0	1	3557	3557		15
Chile	CHL	1	1986	1	0	demand deposits in full and 90% coinsurance to UF 120 of	3600	90% of demand deposits up to 120 Ch\$	1

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						\$3,600 for savings deposits			
China	CHN	0							
Colombia	COL	1	1985	0	1	in full until 2001, then coinsurance to \$5,500	5500	75% per deposit or Col\$ 10 Mil.	2
Comoro Is.	COM	0							
Costa Rica	CRI	0							
Cote d'Ivoire	CIV	0							
Croatia	HRV	1	1997	1	0	15300	15300		3
Cuba	CUB	0							
Cyprus	CYP	0							
Czech Rep.	CZE	1	1994	0	0	coinsurance to \$11,756	11756	90% of 400,000 CZK	2
Denmark	DNK	1	1988/1998	1	0	20000 ECU	21918	300,000 Dkr	1
Djibouti	DJI	0							
Dominican Republic	DOM	1	1962	1	0	coinsurance to \$13,000	13000	RD \$ 8,000	7
Ecuador	ECU	1	1999	1	1	in full to year 2001			
Egypt	EGY	0							
El Salvador	SLV	1	1999	1	0	4720	4720	C 30,000	2
Equatorial Guinea	GNQ	1	1999	0	1	3557	3557		3

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Eritrea	ERI	0							
Estonia	EST	1	1998	1	0	coinsurance 90% of \$1383, but 20,000 ECU in year 2010	1383	90% of 20,000 EKK	0
Ethiopia	ETH	0							
Fiji	FJI	0							
Finland	FIN	1	1969/1992/1998	1	0	29435	29435	150,000 FIM	1
France	FRA	1	1980/1995	1	0	65387	65387	400,000 Fr	3
Gabon	GAB	1	1999	0	1	5336	5336		1
Gambia	GMB	0							
Georgia	GEO	0							
Germany	DEU	1	1966/1969/1998	1	0	private: 30% of capital; official coinsurance 90% to 20000 ECU	21918	30% of bank's equity capital	1
Ghana	GHA	0							
Gibraltar	GIB	1	1998	1	n.a.	lesser of 90% coinsurance or 20,000 ECU			
Greece	GRC	1	1993/1995	1	0	20,000 ECU	21918	20,000 ECU	2
Grenada	GRD	0							
Guatemala	GTM	0							
Guinea	GIN	0							
Guinea-Bissau	GNB	0							

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Guyana	GUY	0							
Haiti	HTI	0							
Honduras	HND	0							
Hong Kong	HGK	0							
Hungary	HUN	1	1993	1	0	4,165 ECU or \$4,564	4564	1,000,000 Ft	1
Iceland	ISL	1	1985/1996	1	0	20,000 ECU	21918	80 % for deposits with commercial banks and 67 % for savings bank deposits	1
India	IND	1	1961	1	0	2355	2355	Rs 100,000	6
Indonesia	IDN	0							
Iran	IRN	0							
Iraq	IRQ	0							
Ireland	IRL	1	1989/1995	1	0	coinsurance 90% to 15,000 ECU	16439	90% of 20,000 ECU	1
Israel	ISR	0							
Italy	ITA	1	1987/1996	1	0	125000	125000	100% of first 200 Mil. ITL and 80% of next 800Mil.	6
Jamaica	JAM	1	1998	1	0	5512	5512		2
Japan	JPN	1	1971	0	0	\$71,000, but in full until March 2001		unlimited	
Jordan	JOR	0							

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Kazakstan	KAZ	0							
Kenya	KEN	1	1985	1	1	1750	1757	K Sh 100,000	5
Kiribati	KIR	0							
Korea	KOR	1	1996	0	0	\$14,600, but in full until the year 2000		unlimited	
Kuwait	KWT	0							
Kyrgyz Republic	KGZ	0							
Laos	LAO	0							
Latvia	LVA	1	1998	1	0	\$830 until year 2000	830	500 Lat	0
Lebanon	LBN	1	1967	0	1	3300	3300	30,000 LL	1
Lesotho	LSO	0							
Liberia	LBR	0							
Libya	LBY	0							
Lithuania	LTU	1	1996	1	0	\$6,250 then coinsurance	6250	4,000 LTL	2
Luxembourg	LUX	1	1989	1	0	coinsurance 90% to ECU 15000 thru 1999, then to ECU 20000	16439	15,000 ECU	0
Macedonia	MKD	1	1996	1	0	coinsurance 75% to \$183	183		0
Madagascar	MDG	0							
Malawi	MWI	0							
Malaysia	MYS	0							

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Maldives	MDV	0							
Mali	MLI	0							
Malta	MLT	0							
Marshall Islands	MHL	1	1975	1	1	100000	100000	US \$ 100,000	
Mauritania	MRT	0							
Mauritius	MUS	0							
Mexico	MEX	1	1986/1990	1	1	in full except subordinated debt until 2005		unlimited	
Micronesia	FSM	1	1963	1	1	100000	100000	US \$ 100,000	
Moldova	MDA	0							
Mongolia	MNG	0							
Morocco	MAR	0							
Mozambique	MOZ	0							
Myanmar	MMR	0							
Namibia	NAM	0							
Nepal	NPL	0							
Netherlands	NDL	1	1979/1995	1	0	20,000 ECU	21918	20,000 ECU	1
New Zealand	NZL	0							
Nicaragua	NIC	0							
Niger	NER	0							
Nigeria	NGA	1	1988/1989	0	1	\$588(at market exchange rate), \$2435 (at official exchange rate)	588	50,000 N	2

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Norway	NOR	1	1961/1997	1	0	260800	260800	2,000,000 NOK	8
Oman	OMN	1	1995	1	0	coinsurance 75% to \$52,630	52630		9
Pakistan	PAK	0							
Panama	PAN	0							
Papua New Guinea	PNG	0							
Paraguay	PRY	0							
Peru	PER	1	1992	1	0	21160	21160	4,600 SI.	9
Philippines	PHL	1	1963	1	1	2375	2375	P 100,000	3
Poland	POL	1	1995	1	0	1,000 ECU, then 90% coinsurance for the next 4,000 ECU	1096	Max. 90% of 3000 ECU	0
Portugal	PRT	1	1992/1995	1	0	15,000 ECU, coinsurance to 45,000 ECU	16439	33,750 ECU	1
Qatar	QAT	0							
Republic of Congo	COG	1	1999	0	1	3557	3557		5
Romania	ROM	1	1996	1	0	3600	3600	10,000,000 Lei	2
Russia	RUS	0							
Rwanda	RWA	0							
Saudi Arabia	SAU	0							
Senegal	SEN	0							

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Seychelles	SYC	0							
Sierra Leone	SLE	0							
Singapore	SGP	0							
Slovak Republic	SVK	1	1996	1	0	7900	7900		2
Slovenia	SVN	0							
Solomon Is.	SLB	0							
Somalia	SOM	0							
South Africa	ZAF	0							
Spain	ESP	1	1977/1996	1	0	15,000 ECU through 1999, then 20,000 ECU	16439	15,000 ECU	1
Sri Lanka	LKA	1	1987	0	0	1470	1470		2
St. Lucia	LCA	0							
Sudan	SDN	0							
Suriname	SUR	0							
Swaziland	SWZ	0							
Sweden	SWE	1	1996	1	0	28,663 ECU, \$31,412	31412	250,000 SEK	1
Switzerland	CHE	1	1984/1993	0	0	19700	19700	30,000 Sw F	1
Syria	SYR	0							
Taiwan	TWN	1	1985	0	0	38500	38500	1,000,000 NT (since Aug. 15, 1987)	3
Tajikistan	TJK	0							
Tanzania	TZA	1	1994	0	0	376	376	T Sh 250000	2

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Thailand	THA	0							
Togo	TGO	0							
Trinidad & Tobago	TTO	1	1986	1	1	7957	7957	TT \$ 50,000	2
Tunisia	TUN	0							
Turkey	TUR	1	1983	1	0	in full		unlimited	
Turkmenistan	TKM	0							
Uganda	UGA	1	1994	0	0	2310	2310	U Sh 3,000,000	8
Ukraine	UKR	1	1998	1	0	250	250		0
United Arab Emirates	ARE	0							
United Kingdom	GBR	1	1982/1995	1	0	larger of 90% coinsurance to \$33,333 or 22,222 ECU	33333	75 % of 20,000 GBP	1
United States	USA	1	1934/1991	1	1	100000	100000	100,000 US \$	3
Uruguay	URY	0							
Uzbekistan	UZB	0							
Vanuatu	VUT	0							
Venezuela	VEN	1	1985	0	0	7309	7309	4,000,000 Bs	2
Vietnam	VNM	0							
W. Samoa	WSM	0							
Yemen	YEM	0							
Zaire	ZAR	0							
Zambia	ZMB	0							

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Zimbabwe	ZWE	0						
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Annex 2.2

Countries	Co-insurance	Permanent Fund	Premium or Assesment Base	Annual Premiums	Risk-Adjusted Premiums	Source of Funding	Administration	Membership
				% of base		0 = Private Funding	official=1	
	Yes=1	funded=1			yes=1	1= Joint Funding	joint=2	compulsory=1
	No=0	unfunded=0			no=0	2= Public Funding	private=3	voluntary=0
Afghanistan								
Albania								
Algeria								
Angola								
Argentina	0	1	insured deposits	risk-based, 0.36 to 0.72	1	0	3	1
Armenia								
Australia								
Austria	1	0	insured deposits	pro rata, expost	0	1	3	1
Azerbaijan								
Bahamas								
Bahrain	0	0	deposits	ex post	0	0	2	1
Bangladesh	0	1	deposits	0,005	0	1	1	1

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Barbados								
Belarus								
Belgium	0	1	insured liabilities	0.02 + 0.04	0	1	2	1
Belize								
Benin								
Bhutan								
Bolivia								
Bosnia-Herz								
Botswana								
Brazil	0	1	insured deposits	0,3	0	0	3	1
Brunei								
Bulgaria	0	1	insured deposits	risk based to 0.5	1	1	2	1
Burkina Faso								
Burundi								
C. Verde Is.								
Cambodia								
Cameroon	0	1	deposits and nonperforming loans	risk based: 0.15% of deposits + 0.5% of net non-performing loans	1	1	2	0
Canada	0	1	insured deposits	0.33 max	0	1	1	1
Central African Rep.	0	1	deposits and nonperforming loans	risk based: 0.15% of deposits + 0.5% of net non-performing loans	1	1	2	0
Chad	0	1	deposits and nonperforming loans	risk based: 0.15% of deposits + 0.5% of	1	1	2	0

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				net non-performing loans				
Chile	1	0	not applicabile	none	0	2	1	1
China								
Colombia	1	1	insured deposits	0,3	0	0	1	1
Comoro Is.								
Costa Rica								
Cote d'Ivoire								
Croatia	0	1	insured deposits	0,8	0	1	2	1
Cuba								
Cyprus								
Czech Rep.	1	1	insured deposits	commercial banks 0.5, savings banks 0.1	0	1	1	1
Denmark	0	1	insured deposits	0.2 (maximum)	0	1	2	1
Djibouti								
Dominican Republic	1	1	deposits	0,1875	0	1	2	0
Ecuador	0	1	deposits	0,65	0	n.a.	1	1
Egypt								
El Salvador	0	1	insured deposits	risk-based, 0.1 to 0.3	1	1	1	1
Equatorial Guinea	0	1	deposits and nonperforming loans	risk based: 0.15% of deposits + 0.5% of net non-performing loans	1	1	2	0
Eritrea								
Estonia	1	1	deposits until 2002	0.5 (maximum)	0	1	2	1

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Ethiopia								
Fiji								
Finland	0	1	insured deposits	risk based: 0.05 to 0.3	1	1	3	1
France	0	0	n.a.	on demand but limited	0	0	3	1
Gabon	0	1	deposits and nonperforming loans	risk based: 0.15% deposits + 0.5% net npls	1	1	2	0
Gambia								
Georgia								
Germany	1	1	insured deposits in commercial banks DIS, risk-assets in other DIS	official is 0.03 but can be doubled	0	0	3	1
Ghana								
Gibraltar	1	0	insured deposits	administrative expenses and expost contributions	0	0	2	1
Greece	0	1	deposits	decreasing by size: 1.250 to 0.025	0	0	2	1
Grenada								
Guatemala								
Guinea								
Guinea-Bissau								
Guyana								
Haiti								
Honduras								

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Hong Kong								
Hungary	0	1	insured deposits	risk based to 0.3	1	1	2	1
Iceland	1	1	insured deposits	0,15	0	0	1	1
India	0	1	deposits	0,05	0	1	1	1
Indonesia								
Iran								
Iraq								
Ireland	1	1	EU and EEA, i.e insured deposits	0,2	0	0	1	1
Israel								
Italy	0	0	protected funds adjusted for size and risk	risk adjusted expos 0.4 to 0.8	1	1	2	1
Jamaica	0	1	insured deposits	0,1	0	1	1	1
Japan	0	1	insured deposits	0.0048 + 0.036	0	1	2	1
Jordan								
Kazakstan								
Kenya	0	1	deposits	0,15	0	1	1	1
Kiribati								
Korea	0	1	deposits	0,05	0	1	1	1
Kuwait								
Kyrgyz Republic								
Laos								
Latvia	0	1	insured deposits	0,3	0	1	1	1
Lebanon	0	1	credit accounts	0,05	0	1	2	1

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Lesotho								
Liberia								
Libya								
Lithuania	1	1	insured deposits	1,5	0	1	1	1
Luxembourg	1	0	insured deposits	ex post	0	0	3	1
Macedonia	1	1	insured deposits	1.5%, risk-based 1% to 5%	1	1	2	0
Madagascar								
Malawi								
Malaysia								
Maldives								
Mali								
Malta								
Marshall Islands	0	1	deposits	risk-based, 0.00 to 0.27	1	0	1	0
Mauritania								
Mauritius								
Mexico	0	1	all obligations	0.3 (max 0.5) plus 0.7 as needed	0	1	1	1
Micronesia	0	1	deposits	risk-based, 0.00 to 0.27	1	0	1	0
Moldova								
Mongolia								
Morocco								
Mozambique								
Myanmar								

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Namibia								
Nepal								
Netherlands	0	0	case by case	expost	0	1	1	1
New Zealand								
Nicaragua								
Niger								
Nigeria	0	1	deposits	0,9375	0	1	1	1
Norway	0	1	risk-weighted assets and total deposits	0.005 of assets and 0.01 of total deposits	0	1	3	1
Oman	1	1	deposits	0,02	0	1	1	1
Pakistan								
Panama								
Papua New Guinea								
Paraguay								
Peru	0	1	insured deposits	risk-based from 0.65 to 1.45	1	1	2	1
Philippines	0	1	deposits	0,2	0	1	1	1
Poland	1	1	deposits, also risk-adjusted assets	not more than 0.4	0	1	1	1
Portugal	1	1	insured deposits	risk-based, 0.08 to 0.12 + more in emergencies	1	1	1	1
Qatar								
Republic of Congo	0	1	deposits and nonperforming loans	risk based: 0.15% of deposits + 0.5% of net non-performing loans	1	1	2	0

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Romania	0	1	insured deposits	risk-based: 0.3 to 0.6	1	1	2	1
Russia								
Rwanda								
Saudi Arabia								
Senegal								
Seychelles								
Sierra Leone								
Singapore								
Slovak Republic	0	1	insured deposits	0.1 to 0.3 for banks	0	1	2	1
Slovenia								
Solomon Is.								
Somalia								
South Africa								
Spain	0	1	insured deposits	maximum of 0.2	0	1	2	1
Sri Lanka	0	1	deposits	0,15	0	1	1	0
St. Lucia								
Sudan								
Suriname								
Swaziland								
Sweden	0	1	insured deposits	risk-based, 0.5 now, 0.1 later (future date is not available)	1	1	1	1
Switzerland	0	0	balance sheet items	on demand	0	0	3	0
Syria								

Sophie Brana • PARTICIPATION OF THE STATE IN THE SYSTEM OF GUARANTIES OF INDIVIDUALS' BANK DEPOSITS. THE EU AND WORLDWIDE EXPERIENCE

Taiwan	0	1	insured deposits	0,015	0	1	1	0
Tajikistan								
Tanzania	0	1	deposits	0,1	0	1	3	1
Thailand								
Togo								
Trinidad & Tobago	0	1	deposits	0,2	0	1	1	1
Tunisia								
Turkey	0	1	insured deposits savings	risk-based 1.0 to 1.2	1	1	1	1
Turkmenistan								
Uganda	0	1	deposits	0,2	0	1	1	1
Ukraine	0	1	total deposits	0.5 plus special charges	0	1	1	1
United Arab Emirates								
United Kingdom	1	0	EEA deposits i.e. insured deposits	on demand	0	0	3	1
United States	0	1	domestic deposits	risk-based, 0.00 to 0.27	1	1	1	1
Uruguay								
Uzbekistan								
Vanuatu								
Venezuela	0	1	insured deposits	2	0	1	1	1
Vietnam								
W. Samoa								

Yemen								
Zaire								
Zambia								
Zimbabwe								

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