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Enhanced Guidance for Effective Deposit Insurance Systems: Multiple Deposit Insurance Organizations

International Association of Deposit Insurers

International Association of Deposit Insurers

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Enhanced Guidance for Effective Deposit Insurance Systems:

Multiple Deposit Insurance Organizations

Guidance Paper

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Executive Summary

The mission of the International Association of Deposit Insurers (IADI) is to contribute to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation. Its vision is to share its deposit insurance expertise with the world. As part of its work, IADI undertakes research projects to provide guidance on deposit insurance matters.

In its Thematic Review on Deposit Insurance Systems (2012), the Financial Stability Board (FSB) recommended that IADI "ensure there is effective coordination across systems in jurisdictions with multiple deposit insurance systems and that any differences in depositor coverage across institutions operating within that jurisdiction do not adversely affect the systems' effectiveness." It also suggested there could be benefits in streamlining systems, where possible, or in improving coordination across multiple systems.[1]

It is customary in most jurisdictions for deposit insurance to be provided by a single organization. However, a number of national jurisdictions have in place more than one deposit insurance organization within their borders – that is, multiple deposit insurance organizations.[2] Where this is the case, some organizations have been established to provide different depositor protection arrangements for different types of institutions (e.g. commercial banks, savings banks and credit cooperatives). Often, multiple deposit insurance organizations reflect a multiplicity of supervisors in a jurisdiction, with each deposit insurance organization insuring the institutions linked to a specific supervisory agency. In other cases, multiple deposit insurance organizations have been established at subnational or regional level, within a jurisdiction. In some cases, jurisdictions with multiple deposit insurance systems also allow one type of deposit-taking institution to obtain supplemental coverage from more than one organization within the same jurisdiction.[3] Variations in public policy objectives, mandates and design features (e.g. membership, coverage, funding and interactions with other safety-net participants) are also evident among multiple deposit insurance organizations.

[1] Financial Stability Board, *Thematic Review on Deposit Insurance Systems* (Basel: Bank for International Settlements; February 8, 2012): 31-32.

[2] As of December 2012, there were 15 national jurisdictions with more than one deposit insurance system (DIS) in operation: Austria (5), Brazil (4), Canada (11), Colombia (2), Cyprus (2), Germany (7), Italy (2) Japan (2), Jamaica (2), Korea (6), Kenya (2), Mexico (3), Portugal (2), Switzerland (2) and the USA (2).

[3] In addition to the existence of explicit DISs, other deposit protection arrangements may exist. These could include institutions such as state banks or postal savings banks, which may benefit from implicit or explicit public guarantees. These institutions may or may not be included in an explicit DIS.

The purpose of this paper is not to promote one type of deposit insurance system (unitary or multiple systems) over another but to survey different types of multiple deposit insurance organizations around the world and to provide practical guidance for jurisdictions where multiple deposit insurance organizations currently exist.[4] This guidance will supplement the IADI Core Principles for Effective Deposit Insurance Systems[5] and address specific recommendations arising from the FSB Thematic Review.

Key Observations

Multiple deposit insurance organizations have been established for a variety of reasons. In some jurisdictions, multiple organizations allow for pairing with multiple supervisors, which permits comparable institutions (e.g. in size or business type) to be covered by the same scheme. As deposit insurance is also a local business in terms of applicable regulation or law, language, and relationship with depositors, multiple organizations are also seen as keeping deposit insurance close to particular customers. Other features of multiple deposit insurance organizations include: separate organizations that are specialized in dealing with one type of institution (e.g. one deposit insurance organization insures commercial banks while another focuses specifically on cooperatives and credit unions); a focus on the risks related to a specific type of institution or the geographical risks of a particular region or subnational jurisdiction; market choice for depositors to place their savings at institutions whose deposit insurance is deemed most credible; and the scope for competition among deposit insurance organizations within the same jurisdictions in terms of efficiency, effectiveness, and credibility.

Nonetheless, a single deposit insurance organization offers greater potential for risk diversification and loss mutualization, which are two essential features of any insurance business, and can make it easier to determine an adequate overall funding level. Moreover, differences in objectives, mandates and design features among multiple organizations can result in organizational complexities that can lead to inefficiencies and potential competitive concerns, as well as confusion among depositors and concerns related to public awareness. This is particularly the case where there are differences in coverage across institutions within the same jurisdiction. Economic incentives for arbitrage can also arise when deposit-taking institution powers, regulation and supervision differ among the members of the multiple deposit insurance organizations.

[4] This paper discusses a number of opportunities and challenges in jurisdictions with multiple deposit insurance organizations. Many of these opportunities and challenges also could apply in jurisdictions with a single deposit insurance organization.

[5] International Association of Deposit Insurers, *Core Principles for Effective Deposit Insurance Systems* (Basel; Bank for International Settlements; 2014): pp. 18ff.

Conclusion

While not common, operating multiple deposit insurance organizations within a single jurisdiction is an international practice. In some cases, these organizations may wish to consolidate their operations under one entity, particularly where the rationale for having multiple organizations (e.g. different classes of institutions, or institutions operating in markedly different business environments) no longer applies.

Where it is not possible or desirable to merge a jurisdiction's multiple deposit insurance organizations – or where there is insufficient harmonization of prudential requirements and levels of supervision across member institutions of the different schemes – multiple deposit insurance organizations should work to: harmonize their coverage levels for institutions that are competing for deposits; eliminate opportunities for regulatory arbitrage; be part of formal cooperation frameworks; and actively engage the public, so that depositors know at which organizations their savings are insured. The guidance below sets out some best practices towards achieving these goals.

Enhanced Guidance

Drawing on the experiences of IADI members operating in countries with more than one deposit insurance organization and a comprehensive survey of such organizations (both IADI and non-IADI members), IADI has identified the following enhanced guidance points for countries with multiple deposit insurance organizations. These guidance points can contribute to effective implementation of the Core Principles for Effective Deposit Insurance Systems.

1. Membership in each deposit insurance organization should be compulsory for all deposit-taking institutions belonging to the class of institution (e.g. commercial banks, savings banks, credit unions, cooperatives) that the organization insures.

2. Multiple deposit insurance organizations operating in the same jurisdiction, covering similar types of institutions, should have similar, as well as credible and limited, coverage. Where multiple deposit insurance organizations insure dissimilar types of institutions operating in dissimilar markets (i.e. where members of different deposit insurers serve very different functions in the economy, such as microfinance institutions versus banks, and do not compete with one another for deposits and market share), their coverage levels may be different (as long as each remains limited and credible).

3. Separate deposit insurance organizations should administer their own separate funds. However, if deposit insurers were to consolidate their

operations, they might wish to consider the advantages of consolidating their funds for similar types of member institutions as well.

4. Each deposit insurance organization should have its own backup liquidity funding in order to mitigate concentration risk.

5. Multiple deposit insurance organizations operating in the same jurisdiction should meet regularly in order to harmonize best practices, reduce opportunities for regulatory arbitrage and share information that could be relevant to one another's operations.

6. Multiple deposit insurance organizations should engage in contingency planning, not only with other relevant safety-net agencies, but also with one another where appropriate, and develop crisis management strategies well in advance of failures, taking into account the additional complexity of cooperating with more entities.

7. In its public awareness activities, each deposit insurance organization should ensure that the public understands by which organization(s) their deposits are insured and the exact scope of the specific guarantee it delivers.

8. Merging or consolidating multiple deposit insurance organizations within a single jurisdiction should be considered in cases where the original rationale for having multiple organizations (e.g. separate industry segments, classes of institutions, local specificities) no longer applies.

I. Introduction and Purpose

The mission of the International Association of Deposit Insurers (IADI) is to contribute to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation. Its vision is to share its deposit insurance expertise with the world. As part of its work, IADI undertakes research projects to provide guidance on deposit insurance matters.

A number of countries have in place more than one deposit insurance organization within their borders – i.e. multiple deposit insurance organizations.

Where this is the case, some organizations have been established to provide different depositor protection arrangements for different types of institutions (e.g. commercial banks, savings banks, credit cooperatives, and microfinance institutions), or for institutions with different types of business. Others have been established at subnational or regional level within a national jurisdiction, often reflecting different supervision or as a consequence of different supervision. In some cases, countries with multiple deposit insurance organizations also allow one type of deposit-taking institution to obtain supplemental coverage from more than one organization within the same jurisdiction.[6] Variations in public policy objectives, mandates and design features (e.g. membership, coverage, funding and interactions with other safety-net participants) are also evident among multiple deposit insurance organizations.

Table 1: List of Countries with Multiple Deposit Insurance Organizations

Country	Deposit Insurance Organizations	Insured Institutions
Austria	Sparkassen-Haftungs Aktiengesellschaft Schulze-Delizsch-Haftungsgenossenschaft Oesterreichische Raiffeisen-Einlagensicherung	Savings banks Credit unions Cooperative banks
	Hypo-Haftungs-Gesellschaft m.b.H Einlagensicherung der Banken und	Mortgage banks Private banks

[6] In addition to the existence of explicit DISs, other deposit protection arrangements may exist. These could include institutions such as state banks or postal savings banks that may benefit from implicit or explicit public guarantees. These institutions may or may not be included in an explicit DIS.

	Bankiers GmbH	
Canada	Canada Deposit Insurance Corporation	Banks, federally licensed trust companies and loan companies, provincially chartered trust and loan companies, federal credit unions, and cooperative credit associations
	Autorité des marchés financiers (Quebec)	Financial services cooperatives, provincially chartered trust and loan companies
	Credit Union Deposit Guarantee Corporation (Alberta)	Credit unions
	Credit Union Deposit Insurance Corporation (British Columbia)	Credit unions
	Deposit Guarantee Corporation of Manitoba	Credit unions
	New Brunswick Credit Union Deposit Insurance Corporation	Credit unions
	Credit Union Deposit Guarantee Corporation (Newfoundland and Labrador)	Credit unions
	Nova Scotia Credit Union Deposit Insurance Corporation	Credit unions
	Deposit Insurance Corporation of Ontario	Credit unions
	Credit Union Deposit Insurance Corporation (Prince Edward Island)	Credit unions
	Credit Union Deposit Guarantee Corporation (Saskatchewan)	Credit unions
Colombia	Fondo de Garantías de Instituciones Financieras (FOGAFIN) Fondo de Garantías de Entidades Cooperativas (FOGACOOP)	Commercial banks Credit unions and financial cooperatives
Cyprus	Deposit Protection Scheme Deposit Protection Fund for Co-operative Societies	Commercial banks Financial cooperatives

Germany	Association of German Banks – Deposit Protection Fund (Einlagensicherungsfonds des Bundesverbandes deutscher Banken) Depositor Compensation Scheme for Private Banks (Entschädigungseinrichtung deutscher Banken Gmbh) – EdB	Private commercial banks Private commercial banks
	Depositor Compensation Scheme of the Association of German Public Sector Banks GmbH	Public banks
	Deposit-Protection Fund of the Association of German Public Sector Banks e.V.	Public banks
	German Saving Banks Association (Institutional Protection Scheme)	Savings banks
	National Association of German Cooperative Banks (Institutional Protection Scheme)	Cooperative banks
	Bausparkassen-Einlagensicherungsfonds e.V.	Savings and loan institutions ("Bausparkassen")
Italy	Fondo Interbancario di Tutela dei Depositi Fondo di Garanzia dei Depositanti del Credito Cooperativo	Commercial banks Cooperative financial institutions
Jamaica	Jamaica Deposit Insurance Corporation Jamaica Co-operative Credit Union League Limited	Commercial banks Cooperative financial institutions
Japan	Deposit Insurance Corporation of Japan Agricultural and Fishery Co-operative Savings Insurance Corporation (AFCSIC)	Commercial banks, credit cooperatives, Shinkin banks, labor banks, federations of shinkin banks, credit cooperatives and labor banks Agricultural cooperatives, credit federations of agricultural cooperatives, fishery cooperatives, credit federations of fishery cooperatives, fishery processing industry cooperatives, federations of fishery

		processing industry cooperatives, the Norinchukin Bank
Kenya	Deposit Protection Fund Board Sacco Societies Regulatory Authority	Commercial banks, microfinance institutions, mortgage finance companies Deposit-taking savings and credit cooperative societies (Saccos)
Korea	Korea Deposit Insurance Corporation	Commercial banks, insurance companies, microfinance institutions, rural banks, savings banks, securities companies
	Agricultural Cooperatives Mutual Credit Depositor Protection Fund	Agricultural cooperatives
	Community Credit Cooperatives Safety Fund	Community credit cooperatives
	Credit Union Guarantee Fund	Credit unions
	Fisheries Cooperatives Mutual Credit Depositor Protection Fund	Fisheries cooperatives
	Forestry Cooperatives Mutual Credit Depositor Protection Fund	Forestry cooperatives
Mexico	Instituto para la Protección al Ahorro Bancario (IPAB) Fondo de Supervisión Auxiliar de las Sociedades Cooperativas de Ahorro y Préstamo y de Protección a sus Ahorradores (SCAP Protection Fund) Fondo de Protección de Sociedades Financieras Populares y de Protección a sus Ahorradores (SOFIPOS Protection Fund)	Commercial banks Savings and loan cooperatives Microfinance institutions
Portugal	Fundo de Garantia de Depósitos Fundo de Garantia do Crédito Agrícola Mútuo (FGCAM)	Commercial banks Agricultural cooperatives
USA	Federal Deposit Insurance Corporation National Credit Union Administration	Commercial banks and savings institutions Credit unions

This paper does not aim to promote one type of deposit insurance system (unitary or multiple) over another. It aims rather to survey the deposit insurance landscape as it stands, while considering neutrally the effects of multiple organizations on the way they fulfill their role as deposit insurer.[7]

Multiple deposit insurance organizations have been established for a variety of reasons. In some jurisdictions, multiple organizations allow for pairing with multiple supervisors, which permits comparable institutions (e.g. in size or business type) to be covered by the same scheme. As deposit insurance is also a local business in terms of applicable regulation or law, language, and relationship with depositors, multiple organizations are also seen as keeping deposit insurance close to particular customers. Other features of multiple deposit insurance organizations have included: separate organizations that are specialized in dealing with one type of institution (e.g. one deposit insurance organization insures commercial banks while another focuses specifically on cooperatives and credit unions); a focus on the risks related to a specific type of institution or the geographical risks of a particular region or subnational jurisdiction; market choice for depositors to place their savings at institutions whose deposit insurance is deemed most credible; and the scope for competition among deposit insurance organizations within the same jurisdictions in terms of efficiency, effectiveness, and credibility.

Nonetheless, a single deposit insurance organization offers greater potential for risk diversification and loss mutualization, which are two essential features of any insurance business, and can make it easier to determine an adequate overall funding level. Moreover, differences in objectives, mandates and design features among multiple organizations can result in organizational complexities that can lead to inefficiencies and potential competitive concerns, as well as confusion among depositors and concerns related to public awareness. This is particularly the case where there are differences in coverage across institutions within the same jurisdiction. Economic incentives for arbitrage can also arise when deposit-taking institution powers, regulation and supervision differ among the members of the multiple deposit insurance organizations.

In its Thematic Review on Deposit Insurance Systems (2012), the Financial Stability Board (FSB) recommended that IADI "ensure there is effective coordination across systems in jurisdictions with multiple deposit insurance systems and that any differences in depositor coverage across institutions operating within that

[7] This paper discusses a number of opportunities and challenges in jurisdictions with multiple deposit insurance organizations. Many of these opportunities and challenges also could apply in jurisdictions with a single deposit insurance organization.

jurisdiction do not adversely affect the systems' effectiveness." It also suggested there could be benefits in streamlining systems, where possible, or in improving coordination across multiple systems.[8]

The purpose of this paper is to set out guidance on the design and operation of multiple deposit insurance organizations in order to enhance their effectiveness. This guidance will supplement the IADI Core Principles for Effective Deposit Insurance Systems and address specific recommendations arising from the FSB Thematic Review.

II. Methodology

This paper utilizes operational experience from jurisdictions that operate multiple deposit insurance organizations. It also reviews lessons learned from the international financial crisis and the FSB Thematic Review.

As there has been little research on multiple deposit insurance organizations in the past, this paper draws heavily on a survey distributed in June 2013 to all IADI members, members of the European Forum of Deposit Insurers, and non-IADI deposit insurers in Canada, Colombia, Japan, Korea, Mexico and the USA.[9] While distributed widely, the survey focused on countries with multiple deposit insurance organizations. The information in this paper is based on the responses of deposit insurance agencies in countries with multiple deposit insurance organizations.[10]

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[8] Financial Stability Board, *Thematic Review on Deposit Insurance Systems* (Basel: Bank for International Settlements; February 8, 2012): 31-32.

[9] Fifty-five deposit insurers from 41 countries replied to the survey. For many countries, the response consisted of the answer to one question: that they did not have multiple deposit insurance organizations. For countries with more than one deposit insurance organization, the survey was much more extensive. The survey, along with compiled country responses, is provided in the appendices.

[10] IADI received responses from the following agencies in countries with multiple deposit insurance organizations: Credit Union Deposit Insurance Corporation (Alberta, Canada); Credit Union Deposit Insurance Corporation (British Columbia, Canada); Credit Union Deposit Guarantee Corporation (Newfoundland and Labrador, Canada); Deposit Insurance Corporation of Ontario (Ontario, Canada); Autorité des marchés financiers (Quebec, Canada); Credit Union Deposit Guarantee Corporation (Saskatchewan, Canada); Credit Union Deposit Insurance Corporation (Prince Edward Island, Canada); Canada Deposit Insurance Corporation (Canada); Fondo de Garantías de Instituciones Financieras (Fogafin) (Colombia; Fondo de Garantías de Entidades Cooperativas (Fogacoop) (Colombia); National Association of Cooperative Banks (Germany); Entschädigungseinrichtung deutscher Banken GmbH (EdB) (Germany); Association of German Banks – Deposit Protection Fund (Germany); Deposit Guarantee Fund of Cooperative Banks (Italy); Agricultural and Fishery Cooperative Savings Insurance Corporation (AFCSIC) (Japan); Deposit Insurance Corporation of Japan (Japan); Deposit Protection Fund Board (Kenya); Korea Deposit Insurance Fund (KDIC) (Korea); Credit Union Guarantee Fund (Korea); Fisheries Cooperatives Mutual Credit Depositor Protection Fund (Korea); Agricultural Cooperatives Mutual Credit Depositor Protection Fund (Korea); Forestry Cooperatives Mutual Credit Depositor Protection Fund (Korea); Instituto para la Protección al Ahorro Bancario (IPAB) (Mexico); Fondo de Supervisión de las Sociedades Cooperativas de Ahorro y Préstamo y de

This paper addresses the following matters:

- Reasons (e.g. historical, legal, economic, constitutional) for the existence of multiple deposit insurance organizations;
- Public policy objectives, mandates and powers of multiple deposit insurance organizations;
- Governance arrangements of multiple deposit insurance organizations;
- Coverage levels and scope across multiple deposit insurance organizations;
- Funding arrangements of multiple deposit insurance organizations;
- Characteristics of the member institutions of multiple deposit insurance organizations;
- Relationships and coordination among multiple deposit insurance organizations and other safety-net agencies;

In doing so, the paper explores opportunities to:

1) Improve coordination among multiple deposit insurance organizations;
2) Harmonize multiple deposit insurance organization features; and
3) Streamline or consolidate organizations in appropriate circumstances.

III. Why Do Some Countries Have Multiple Deposit Insurance Organizations?

Of IADI's 79 member countries, as of November 2014, ten had more than one deposit insurance organization.[11] Of those ten countries, only two, Canada and Colombia had more than one IADI member.[12] Looking beyond the IADI membership, there were 113 countries with deposit insurance organizations worldwide as of January 2014. Of these, 13 had more than one deposit insurance organization.[13]

Protección a sus Ahorradores (SCAP Protection Fund) (Mexico); Fundo de Garantia do Crédito Agrícola Mútuo (Portugal); Federal Deposit Insurance Corporation (USA); National Credit Union Administration (USA).

[11] The ten IADI member countries with more than one deposit insurer are: Canada, Colombia, Germany, Italy, Jamaica, Japan, Korea, Kenya, Mexico and the USA.

[12] The three IADI members from Canada are the Autorité des marchés financiers (Province of Quebec), Canada Deposit Insurance Corporation, and the Credit Union Deposit Insurance Corporation (Province of British Columbia). The two IADI members from Colombia are the Fondo de Garantías de Instituciones Financieras (FOGAFIN) and Fondo de Garantías de Entidades Cooperativas (FOGACOOP).

[13] The non-IADI member countries with multiple deposit insurance systems were: Austria, Cyprus and Portugal.

The jurisdiction with the most deposit insurance organizations was Canada (11), followed by Germany (7), and Korea (6).

Why do some countries have multiple deposit insurance organizations, while others have only one?

There are a number of possible answers. The countries with multiple deposit insurance organizations typically have banking activities ingrained in a diversified structure, work with multiple supervisory agencies, or have a rather decentralized, or federal/subnational division of powers. In the ten IADI countries with multiple deposit insurance organizations, each organization insures deposits in a specific class or type of institution. Typically, one organization insures deposits in banks while one or more other organizations insure deposits in credit unions or cooperatives.

In Korea, for example, the Korea Deposit Insurance Corporation (KDIC) insures deposits in banks, merchant banks, and savings banks.[14] Credit unions, community credit cooperatives, forestry cooperatives, agricultural cooperatives, and fisheries cooperatives each have their own deposit insurance organization. Similarly, in the USA, the Federal Deposit Insurance Corporation (FDIC) insures deposits in banks and thrift institutions, whereas deposits at credit unions are insured by the National Credit Union Administration (NCUA). This is also the case in Portugal – where the Fundo de Garantia de Depósitos insures deposits at commercial banks, and the Fundo de Garantia do Crédito Agrícola Mútuo insures deposits at cooperative banks – and in Italy, where the Fondo Interbancario di Tutela dei Depositi insures deposits in commercial banks; and the Deposit Guarantee Fund of Cooperative Banks insures deposits at cooperatives.

In Mexico, the Instituto para la Protección al Ahorro Bancario (IPAB) is a government agency that guarantees bank deposits and manages the bank deposit insurance fund in that national jurisdiction. However, a provision in law provides for two private trusts that also insure deposits. The Fondo de Supervisión Auxiliar de las Sociedades Cooperativas de Ahorro y Préstamo y de Protección a sus Ahorradores (SCAPS Protection Fund) is a trust created within a federal development bank (Bansefi), whose members are non-profit savings and loan cooperatives. This trust covers deposits placed in savings and loan cooperatives that hold and manage assets of an equivalent in Mexican pesos of 2,500,000 UDIs (units of investment) or more.[15] The Fondo de Protección de Sociedades Financieras

[14] The Korea Deposit Insurance Corporation is an integrated compensation scheme. In addition to banks, savings banks, and merchant banks, it also insures securities dealers and insurance companies.

[15] UDIs are units of account linked to inflation. As at June 30, 2013, 2.5 million UDIs were equivalent to MXN 12,379,385 (or USD 950,000 at an exchange rate of MXN 13.0279 per USD).

Populares y de Protección a sus Ahorradores (Fondo de Protección Sofipo) is a second trust created within Bansefi, whose members are microfinance institutions incorporated as public limited companies, in order to expand access to funding to persons excluded from the traditional loans system.

In Japan, the Deposit Insurance Corporation of Japan (DICJ) insures deposits in institutions that conduct exclusively banking business, whereas the institutions insured by the Agricultural and Fishery Co-operative Savings Insurance Corporation (i.e. agricultural and fisheries cooperatives) are able to engage in other types of business.

Historical reasons account for Germany's multiple deposit insurance organizations. Since the mid-19th century, Germany's banking system has been divided into three pillars: cooperative banks; savings banks and public banks; and private banks. Each pillar of the banking system has at least one deposit insurance organization. These schemes were founded on a voluntary basis before the legal obligation to create mandatory schemes was established in the 1990s.

In some cases, different levels of government grant licenses for different types of deposit-taking institutions. In Canada, for example, Canada Deposit Insurance Corporation (CDIC) insures deposits in banks, federally chartered trust companies and loan companies, federal credit unions, and cooperative credit associations, all of which have federal licenses. The federal Office of the Superintendent of Financial Institutions supervises these institutions. CDIC can also insure deposits in provincially licensed (and supervised) trust companies, though this is uncommon. Most credit unions, on the other hand, are licensed by provincial governments, supervised by provincial supervisors, and insured by deposit insurance organizations in each of Canada's ten provinces.[16]

The multiple deposit insurance organizations in Canada, Colombia, Germany, Italy, Japan, Kenya, Korea, Portugal and the USA all have separate funds. This is good practice, given that multiple deposit insurance organizations typically insure products at different types of institutions that carry different risk profiles. Though some exceptions exist, the deposit insurers in these countries may not typically lend money to or borrow from one another.[17]

[16] The legal framework in Quebec (Civil Code) also differs from the one in the rest of Canada (common law). This difference would result in different levels of expertise and scope in terms of prudential supervision and intervention.

[17] One exception is that, under Korea's Depositor Protection Act, the KDIC may borrow from the National Credit Union Federation of Korea, which is the deposit insurer for credit unions. There are no provisions, however, for borrowing from any other deposit insurance organizations. Another exception is that the Autorité des marchés

Overall, it would appear that in countries with multiple deposit insurance organizations, the different deposit insurers insure different types of deposit-taking institutions. The reasons for this can be historical, related to division of powers across governments, or simply economic in nature.

IV. Public Policy Objectives, Mandates and Powers of Multiple Deposit Insurance Organizations

The public policy objectives of the deposit insurers surveyed vary from organization to organization; however, common among them is the objective of protecting depositors or, in the case of cooperatives, the investments of members. Most organizations also have the public policy objective of contributing to financial stability or to the health of the part of the financial sector they insure. This aligns broadly with IADI Core Principle 1 – Public Policy Objectives, which states: "The principle objectives for deposit insurance systems are to protect depositors and contribute to financial stability."[18]

In some cases, particularly with respect to organizations responsible for cooperatives, the deposit insurer also has a public policy objective of promoting the health and growth of the industry. For example, the objective of the Deposit Insurance Corporation of Ontario (DICO), which insures cooperatives in the Canadian province of Ontario, is to "contribute to the soundness, stability and success of the Ontario Credit Union/Caisse populaire sector by being an effective solvency regulator and deposit insurer." The Korean deposit insurers responsible for credit unions, fisheries cooperatives, agricultural cooperatives, and forestry cooperatives each also have a public policy objective of "promot[ing] the healthy growth of member cooperatives". Respondent organizations from Germany, which has separate schemes based on the type of deposit-taking institution, also have similar public policy objectives.[19]

Most of the deposit insurers in countries with more than one deposit insurance organization identify themselves as "loss-minimizers" or "risk-minimizers" and have some involvement in resolving failing institutions. Resolution powers include: open-institution assistance, transfer of insured liabilities, assisted sales, purchase-and-

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financiers, Quebec's deposit insurer, has a memorandum of understanding with CDIC, under which it may make short-term borrowings to meet liquidity requirements with respect to its deposit insurance obligations.

[18] International Association of Deposit Insurers, *Core Principles for Effective Deposit Insurance Systems* (Basel: Bank for International Settlements; 2014).

[19] The deposit insurer of Germany's National Association of Cooperative Banks has the public policy objective of "preventing any negative impact on confidence in the cooperative institutes", and the Deposit Protection Fund, run by Germany's Association of German Banks, is called upon to carry out its public policy objectives ". . . in order to prevent the impairment of public confidence in private banks".

assumption agreements and bridge-bank powers.[20] Although bridge-institution powers are not typical for credit union-oriented deposit insurers, these organizations sometimes have similar resolution powers. For example, the Deposit Insurance Corporation of Ontario may place an institution under its special administration while seeking another type of resolution. A number of respondents also have primary or backup supervisory powers.[21]

Here a special mention should also be made of Germany. In addition to having one or more deposit insurance schemes for each of its three banking pillars, cooperative banks and savings banks each have their own institutional protection schemes. The institutional protection scheme of the German Bundesverband Raiffeisenbanken (BVR), for example, is charged with safeguarding the credit standing and solvency of its member cooperative banks and the stability of the cooperative banking group as a whole. It has a number of restructuring powers related to dealing with banks on a going-concern basis, before they fail.[22] Indeed, it would appear to be aimed at preventing bank failure. As a result, it is not involved in bank resolutions or depositor payout upon insolvency. Among respondents, Germany is unique in having institutional protection schemes.

V. Governance Arrangements of Multiple Deposit Insurance Organizations

The respondents from jurisdictions with multiple deposit insurance organizations are typically governed by a board of directors, a two-tier executive and administrative board, or some other type of governing body. The composition of these governing bodies varies from deposit insurer to deposit insurer.

In cases where the deposit insurer’s members are cooperatives, the governing body often has representatives from the cooperative system. This is the case with Newfoundland’s Credit Union Deposit Guarantee Corporation, Prince Edward Island’s Credit Union Deposit Insurance Corporation, Korea’s Agricultural

[20] Respondents with bridge-bank powers include CDIC, DICJ, FDIC and KDIC.

[21] The AMF (Quebec, Canada), Credit Union Deposit Guarantee Corporation (Newfoundland, Canada), Credit Union Deposit Guarantee Corporation (Alberta, Canada), Credit Union Deposit Guarantee Corporation (Prince Edward Island, Canada), Credit Union Deposit Guarantee Corporation (Saskatchewan, Canada), and Deposit Insurance Corporation of Ontario (Ontario, Canada), and FDIC are also the primary supervisor/regulator of some or all of their member institutions.

[22] For example, the Institutional Protection Scheme of the National Association of Cooperative Banks has the power, among other things, to: initiate a change of the business policy of a bank; demand the elaboration of a rescue concept; and demand measures concerning personnel (e.g. change of management). It may exclude banks from its membership.

Cooperatives Mutual Depositor Protection Fund, and possibly others.[23] In Germany, the Entschädigungseinrichtung deutscher Banken GmbH (EdB), the Deposit Protection Fund for Private Banks, and the BVR's institutional protection scheme for cooperative banks are all governed by a two-tier executive and supervisory board. The supervisory boards include representatives from the industry, whereas the executive boards do not.[24]

In terms of reporting, in some countries, such as Japan and Germany, the multiple deposit insurers report to the same entity (though the AFCSIC in Japan reports to the Ministry of Agriculture, Forestry and Fisheries, in addition to the Ministry of Finance and Financial Services Authority).[25] However, this is not the case in Canada, where CDIC reports through the federal Minister of Finance to Parliament, and each of the provincial credit union deposit insurers reports to or through the relevant minister of its provincial legislature. In Korea, KDIC and the National Credit Union Foundation report to the Financial Services Commission; the National Agricultural Cooperatives federation to the Minister of Agriculture, Food and Rural Affairs; the National Federation of Fisheries Cooperatives to the Minister of Oceans and Fisheries; the National Forestry Cooperatives Federation to the head of the Korea Forest Service; and the Korea Federation of Community Credit Cooperatives to the Minister of Security and Public Administration, in addition to the Financial Services Commission.

In many cases, cooperative credit institutions serve the aim of financial inclusion, in addition to direct intermediation. For example, an agricultural credit union might aim to provide credit for farmers in cases where such credit might be unavailable from more traditional commercial banks. They may serve a particular industry or

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[23] Not all respondents provided details on the composition of their governing bodies. In cases where they did and where the respondents insured cooperatives, representatives from the cooperative system were common.

[24] In some European Union and Asian countries, there are two separate boards – an executive board for day-to-day business (operational decisions) and a supervisory board (elected by the shareholders) for supervising the executive board (strategic decisions). In general, simultaneous membership of the executive board and the supervisory board is not permitted. The main tasks of the supervisory board are to appoint and dismiss the members of the executive board and to monitor them. The supervisory board could also represent the corporation in all affairs concerning the executive board, especially by initiating court actions against board members. In addition, the supervisory board must approve the budget and the annual accounts, and can intervene in cases where the company's interests are seriously affected. For certain far-reaching and fundamental decisions, the by-laws could impose that authorization by the supervisory board is required. The supervisory board is generally not allowed to interfere with the day-to-day management of the DIS. It also appoints a supervisory board chairman from among its members. Notwithstanding these tasks, supervision remains the core function of the supervisory board, whereas all management issues are in principle reserved for the executive board, which acts autonomously and is not bound by orders of the shareholders or the supervisory board.

[25] In Germany, all deposit insurers report to the financial supervisory and resolution agency, BaFin. In Japan, both the DICJ and AFCSIC report to the Ministry of Finance and the Financial Services Agency, though the AFCSIC also reports to the Ministry of Agriculture, Forestry, and Fisheries.

geographic region underserved by other financial institutions. As a result, a variety of government ministries – agriculture, fisheries, forestry, social and economic development – could be interested in the proper functioning of the deposit insurance schemes for these types of institutions. The deposit insurance schemes for cooperatives often report to or through the relevant ministry or minister.

At the same time, promoting or contributing to financial stability is a primary aim of any deposit insurance organization. A ministry of agriculture or fisheries, for example, might not be best placed to assess a deposit insurer's achievement of this goal. Likewise, a ministry of finance, whose remit would include maintenance of financial stability, may not be able to assess the contribution that a deposit insurance organization is making (or not making) towards this aim, if the organization does not have a reporting relationship with that ministry.

VI. Coverage Levels and Scope of Multiple Deposit Insurance Organizations

In its 2012 Thematic Review, the FSB made special note of coverage discrepancies across schemes in some countries with more than one deposit insurance organization. It called upon IADI to provide guidance to ensure that any differences in depositor coverage across multiple deposit insurance organizations do not impair the effectiveness of those organizations.

Of the respondents to the survey, multiple deposit insurance organizations in Italy, Korea, Japan, Portugal and the USA all had the same coverage limits and scope of coverage.[26]

Table 2: Coverage Levels of Multiple Deposit Insurance Organizations (based on Survey Responses)

Country	**Organization**	**Coverage Level**
Canada	Alberta Credit Union Deposit Guarantee Corporation	**Unlimited**
	British Columbia Credit Union Deposit Insurance Corporation	**Unlimited**
	Canada Deposit Insurance Corporation	**CAD 100,000**
	Manitoba Deposit Guarantee Corporation	**Unlimited**
	New Brunswick Deposit Insurance Corporation	**CAD 250,000**

[26] Deposit coverage limits are EUR 100,000 in Italy; KRW 50 million in Korea; JPY 10 million in Japan; EUR 100,000 in Portugal; and USD 250,000 in the USA.

	Newfoundland and Labrador Credit Union Deposit Guarantee Corporation	**CAD 250,000**
	Nova Scotia Credit Union Deposit Insurance Corporation	**CAD 250,000**
	Deposit Insurance Corporation of Ontario	**CAD 100,000**
	Prince Edward Island Credit Union Deposit Insurance Corporation	**CAD 125,000**
	Autorité des marchés financiers – Quebec	**CAD 100,000**
	Saskatchewan Credit Union Deposit Guarantee Corporation	**Unlimited**
Colombia	Fondo de Garantías de Instituciones Financieras	**COP 20,000,000**
	Fondo de Garantías de Entidades Cooperativas	**COP 8,000,000 (with 25% co-insurance)**
Germany	Bundesverband deutscher Banken Entschädigungseinrichtung deutscher Banken GmbH (EdB) (mandatory scheme for private banks)	**EUR 100,000**
	Bundesverband deutscher Banken Deposit Insurance Fund (voluntary scheme for private banks)	**30% of bank's liable capital**
	Bundesverband Öffentlicher Banken Deutschlands (mandatory scheme for public banks)	**EUR 100,000**
	Bundesverband Öffentlicher Banken Deutschlands (voluntary scheme for public banks)	**Unlimited**
	Bundesverband Raiffeisenbanken Cooperative banks institutional protection scheme	**Implicit 100% guarantee**
	Deutscher Sparkassen- und Giroverband	**Implicit 100% guarantee**
	Bausparkassen-Einlagensicherungsfonds e.V. (voluntary scheme for private savings and loan societies)	**EUR 250,000**
Italy	Fondo Interbancario di Tutela dei Depositi	**EUR 100,000**
	Deposit Guarantee Fund of Cooperative Banks	**EUR 100,000**
Japan	Deposit Insurance Corporation of Japan	**JPY 10,000,000**
	Agricultural and Fishery Co-operative Savings Insurance Corporation	**JPY 10,000,000**

Korea	Agricultural Cooperatives Mutual Credit Depositor Protection Fund	**KRW 50,000,000**
	Community Credit Cooperatives Safety Fund	**KRW 50,000,000**
	Credit Union Guarantee Fund	**KRW 50,000,000**
	Fisheries Cooperatives Mutual Credit Depositor Protection Fund	**KRW 50,000,000**
	Forestry Cooperatives Mutual Credit Depositor Protection Fund	**KRW 50,000,000**
	Korea Deposit Insurance Corporation	**KRW 50,000,000**
Mexico	Instituto para la Protección al Ahorro Bancario (IPAB)	**400,000 Units of Investment (UDIs) [At June 30, 2013 this figure is equal to MXN 1,980,702 (USD 152,035)]**
	Fondo de Supervisión Auxiliar de las Sociedades Cooperativas de Ahorro y Préstamo y de Protección a sus Ahorradores (SCAP Protection Fund)	**25,000 UDIs [At June 30, 2013, 25 thousand UDIs amount to MXN 123,794 (USD 9,502)]**
	Fondo de Protección de Sociedades Financieras Populares y de Protección a sus Ahorradores (SOFIPO Protection Fund)	**25,000 UDIs [At June 30, 2013, 25 thousand UDIs amount to MXN 123,794 (USD 9,502)]**
Portugal	Fundo de Garantia do Crédito Agrícola Mútuo	EUR 100,000
	Fundo de Garantia de Depósitos	EUR 100,000
USA	Federal Deposit Insurance Corporation	**USD 250,000**
	National Credit Union Administration	**USD 250,000**

This is not the case, however, in Canada, Germany or Mexico. In Canada, deposit insurance coverage limits vary across deposit insurance organizations: from CAD 100,000 per depositor, per institution for banks, federally and provincially chartered trust companies and cooperative credit associations insured by CDIC and for credit unions and caisses populaires insured by DICO in the province of Ontario or by the Autorité des marchés financiers (AMF) in the province of Quebec; to unlimited coverage for credit unions and caisses populaires in the provinces of Manitoba, Saskatchewan, Alberta and British Columbia.[27] The scope of coverage is generally similar across schemes.[28]

[27] The Saskatchewan Credit Union Deposit Guarantee Corporation, the British Colombia Credit Union Deposit Insurance Corporation, Deposit Insurance Corporation of Ontario, the Credit Union Deposit Guarantee Corporation of Newfoundland and Labrador, the Autorité des marchés financiers of Quebec, the Alberta Credit Union Deposit Guarantee Corporation, the Credit Union Deposit Insurance Corporation of Prince Edward Island, and Canada Deposit Insurance Corporation were respondents to the survey. Coverage limits for the Deposit Guarantee

In Germany, commercial private and public banks are each insured by statutory deposit insurers up to EUR 100,000. This coverage is applied to accounts held by natural persons and small and medium-sized enterprises. Many such banks also belong to voluntary schemes that top up their coverage. The Bundesverband deutscher Banken (Association of Private Banks) runs a supplemental scheme that provides coverage of 30% of the relevant liable capital of each bank as at the date of the last published annual financial statements. In effect, this provides coverage considerably in excess of the statutory EUR 100,000 per depositor, per institution. The scope of coverage is also extended to include all but interbank depositors. The Bundesverband Öffentlicher Banken Deutschlands (Association of Public Banks) runs a similar top-up scheme with unlimited coverage.

At the same time, the trade associations for Germany's cooperative and savings banks run institutional protection schemes, which aim at preventing bank failure. This results in de facto 100% coverage for all classes of depositors at these institutions (i.e. a blanket guarantee).

Variances in coverage limits and scope within the same jurisdiction can lead to opportunities for arbitrage and competitive distortions, as depositors aim to maximize their protection.[29] Differing coverage limits and scope can also confuse depositors.

There are, however, instances where differing coverage limits for multiple deposit insurance organizations might indeed be appropriate. For example, in a jurisdiction

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Corporation of Manitoba (unlimited; depositguarantee.mb.ca), New Brunswick Credit Union Deposit Insurance Corporation (CAD 250,000; www.assurance-nb.ca/index-e.asp), and the Nova Scotia Credit Union Deposit Insurance Corporation (CAD 250,000; www.nscudic.org) can be found on their respective websites.

[28] The scope of coverage is not exactly the same across Canadian deposit insurers. However, respondents typically insured savings accounts, checking accounts, certificates of deposit, guaranteed investments, money orders, and certified drafts of checks.

[29] The IMF has noted in its Article 4 Consultations since 2010 that the fragmented deposit insurance regime in Germany needs reform. In its FSAP of 2011, the IMF noted competitive distortions due to high protection ceilings. See the following:

International Monetary Fund, *Germany: 2013 Article IV Consultation,* [IMF Country Report [13/255], (Washington, DC, August 2013): 16;

International Monetary Fund, *Germany 2012 Article IV Consultation*, [IMF Country Report 12/161], (Washington, DC, July 2012): 15 and 16;

International Monetary Fund, *Germany: Financial Sector Assessment Program -- Detailed Assessment on Observance of Basel Core Principles for Effective Banking Supervision,* [IMF Country Report 11/273], (Washington, DC, September 2011): 15;

International Monetary Fund, *Germany: Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Germany*, [IMF Country Report 11/168], (Washington, DC, July 2011): 36;

International Monetary Fund, *Germany: Financial System Stability Assessment*, (Washington, DC, June 20, 2011): 6, 32, 3.

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where one deposit insurance organization insures commercial banks and another insures small, microfinance institutions, it might be appropriate for the deposit insurer responsible for small microfinance institutions to have a lower coverage limit than the one insuring commercial banks, provided the commercial banks and small microfinance institutions themselves operate in completely separate markets, have different client bases, and do not compete with one another for business (e.g. deposits and market share).

In Mexico, for example, IPAB insures deposits placed with commercial Banks to the amount of 400,000 UDIs (approx. USD 152,000) per depositor, per institution; the Fondo de Protección SCAP insures deposits placed with savings and loan cooperatives to the amount of 25,000 UDIs (approx. USD 9,500) per depositor, per institution; and the Fondo de Protección Sofipo insures deposits placed in microfinance institutions to 25,00 UDIs (approx. USD 9,500) per depositor, per institution. The institutions insured by these three organizations have different business purposes and operate in very different markets. Commercial banks have a profit-making objective and offer a wider variety of products, and are more stringently regulated and supervised, than savings and loan cooperatives and microfinance institutions. Savings and loan cooperatives are structured on a non-profit basis. Microfinance institutions, on the other hand, are structured as for-profit companies, but are required to foster savings and provide access to funding to people excluded from the traditional credit and loan systems, in addition to promoting solidarity, economic and social progress and the well-being of their members and the communities in which they operate.

Lower coverage limits for microfinance institutions could also lower the potential exposure of the financial safety-net, while still covering the vast majority of depositors at those institutions. Similarly, lower coverage limits could be appropriate for microfinance institutions in cases, such as Mexico's, where they could be subject to less stringent prudential supervision than commercial banks.

In cases where different coverage levels for multiple deposit insurance organizations might indeed be appropriate, it is nonetheless important that coverage for all deposit-taking institutions in a given jurisdiction be limited and credible, as unlimited coverage can lead to moral hazard.

Where deposit insurers in jurisdictions with multiple deposit insurance organizations insure similar types of institutions or insure deposit-taking institutions that compete with one another, these deposit insurance organizations should aim to harmonize their coverage limits and scope. Doing this, however, carries to a number of challenges.

First, coverage limits and scope are often set by an authority other than the deposit insurance organization (e.g. Parliament or Congress). Raising coverage to an unlimited or blanket guarantee is often a more politically tenable proposition than reducing it from unlimited to something less. However, blanket guarantees fly in the face of Core Principle 8, which calls for coverage to be limited.[30]

Second, transitioning from a blanket guarantee to limited coverage creates an opportunity for capital flight if not every deposit insurer in a jurisdiction chooses to do so at the same time. Deposit insurers covering similar types of institutions and products must therefore coordinate their transitioning efforts, so that they all transition to limited coverage at the same time. This can be difficult to do, particularly if these insurers must respond to different political or other authorities, which may or may not have incentives to work together.

Third, absent harmonized coverage across deposit insurance organizations within one jurisdiction, depositors should at least be made clearly aware of what their coverage limits and scope of coverage are. Otherwise, there is potential for depositor confusion in the event of a failure. The downside, however, of a heightened awareness of varying deposit insurance limits is an increased risk for arbitrage among unsophisticated depositors.[31] While this bolsters the original case for harmonized limits and scope, clearly informing depositors of their coverage limits and scope (where those differ) could be a helpful interim measure while organizations embark on committed transition plans.

VII. Funding Arrangements of Multiple Deposit Insurance Organizations

The survey respondents from countries with more than one deposit insurance organization are funded overwhelmingly on either an ex ante or hybrid basis. These respondents have varied sources of backup funding. In the USA, the FDIC and the NCUA may rely on government support for backup funding.[32] This is also the case in Canada for CDIC, which may borrow from the Consolidated Revenue Fund of the

[30] Principle 8 – Coverage: Policymakers should define clearly the level and scope of deposit insurance. Coverage should be limited, credible and cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline. Deposit insurance coverage should be consistent with the deposit insurance system's public policy objectives and related design features.

[31] This really implies increased opportunities for arbitrage with respect to *unsophisticated, small depositors*. It can be assumed that sophisticated, institutional and other depositors with high values at risk are aware of the insurance schemes with the highest coverage rates, irrespective of the public awareness activities which schemes may or may not undertake to inform the public of coverage limits.

[32] The FDIC and NCUA each have access to a line of credit with the US Treasury for insurance purposes; borrowings are to be repaid by assessments on their respective member institutions.

government of Canada, and for most of the Canadian credit union deposit insurers responding, which may borrow from their respective provincial governments.[33]

In Japan, both the DICJ and AFCSIC may borrow from the central bank.[34] The two deposit insurance organizations in Germany run by the Bundesverband deutscher Banken may borrow from their members or from the market,[35] and the institutional protection scheme run by the Bundesverband Raiffeisenbanken may borrow from its members. In Portugal, the FGCAM may borrow from its member institutions, the government, the central bank or other European deposit insurers. In Mexico, IPAB may borrow from its member institutions, the government, the central bank, and from development banks and multinational organizations. The Fondo de Protección FSCAP does not have backup funding, but is contemplating doing so in the future. In Korea, KDIC may borrow from member institutions, the central bank or the government. The borrowing authorities for the Korean deposit insurers responsible for credit unions and cooperatives vary from institution to institution.[36]

Core Principle 9 calls on deposit insurers to have all funding mechanisms available to ensure prompt payment of depositors, including backup funding for liquidity purposes, and states that the primary cost of deposit insurance should be borne by member institutions, as they benefit directly from an effective deposit insurance system.[37] The respondents indicated that their deposit insurance organizations adhere to this Principle.

Having more than one deposit insurance scheme in the same jurisdiction, however, presents some opportunities and challenges for deposit insurer funding. For example, when each deposit insurance organization maintains a separate fund, a failure in one deposit-taking sector is paid for only by institutions in that specific sector or geographic region (and not by institutions in a different sector or different geographic region without failures). This might contribute to fairness. Multiple schemes might also borrow from one another, where the law permits this. Cross-

[33] The British Columbia Credit Union Deposit Insurance Corporation may receive backup funding from a stabilization central and from Central 1. The Saskatchewan Credit Union Deposit Guarantee Corporation has a borrowing facility in place with Concentra Financial, a subsidiary of the Credit Union Central of Saskatchewan.
[34] The DICJ and AFCSIC may also borrow from financial institutions, and the DICJ may issue bonds backed by government guarantee.
[35] There was one case in the past where one of these schemes received government backup funding on a creditory basis, but there is no formal agreement in place.
[36] The Korean deposit insurer for credit unions may borrow from their credit union central. The insurer for forestry cooperatives may borrow from the government and the National Federation of Forestry Cooperatives, and may issue bonds. The deposit insurer for agricultural cooperatives may borrow from the government. The deposit insurer for fisheries cooperatives may borrow from the central bank, the government, the National Federation of Fisheries Cooperatives, and banks.
[37] BCBS/IADI (2009): p. 4.

scheme borrowing could decrease the size of the ex ante fund which a given insurer must maintain in order to pay depositors in the event of a failure.

However, cross-scheme borrowing should not be the sole source of backup funding. In the face of a broad-based wave of failures, cross-scheme funding may be neither sufficient nor even available. A disadvantage of multiple schemes is the risk of funding being spread too thinly (i.e. concentration risk). That is, a series of smaller deposit insurers might be less able to pay for – and handle the logistics of – a large failure than if all of a jurisdiction's deposit insurance funding and logistical resources were gathered under one roof. Deposit insurer borrowing can, where feasible, mitigate this risk.

VIII. Characteristics of the Member Institutions of Multiple Deposit Insurance Organizations

As noted above, among respondents from countries with multiple deposit insurance organizations, it is common for the different organizations to separately insure different types of deposit-taking institutions (typically chartered banks and cooperative deposit-taking institutions). This would indicate an element of specialization, which could allow each organization to focus exclusively on understanding, insuring and mitigating the risks posed by the specific class of deposit-taking institution it insures.

At the same time, narrow specialization can limit resources and the opportunity for operational efficiencies. It can also exacerbate concentration risk, which can occur where a jurisdiction's available funds to resolve a deposit-taking institution failure are spread across several deposit insurance schemes but overall exposure concentrates itself in the membership of one particular scheme.

All respondents to the survey that are primary deposit insurers[38] exercise a policy of compulsory membership. That is, all deposit-taking institutions of a certain class insured by a given deposit insurer must be members of that organization. There is no policy of opt-in or opt-out. This helps prevent adverse selection, which is noted in Core Principle 7 – Membership.

Typically, respondents stated that they were the sole deposit insurer for their member institutions.[39] This helps prevent depositor confusion in the event of a

[38] Membership is compulsory for the BDB's primary scheme, the EdB. Commercial banks may, however, obtain top-up coverage by simultaneously becoming members of voluntary top-up Deposit Insurance Fund.

[39] The exceptions are the EdB and Bundesverband deutscher Banken's Deposit Protection Fund and, in a few specific cases, CDIC and the AMF. In the case of the German funds for private banks, both are administered by the

failure and payout. More than half of the respondents from countries with multiple deposit insurance organizations noted that they were also the resolution authority for failed institutions.[40] However, there was a distinct geographical bias towards North America, where eight out of nine respondents were resolution authorities. Outside North America, six out of 15 respondents replied that they were resolution authorities. The Canadian respondents typically insured the most highly concentrated memberships, in terms of both assets belonging to and deposits booked with a given scheme's largest institutions.[41] The schemes with the least concentrated memberships were those of the credit union sectors in Korea and Italy, and the institutional protection scheme for cooperative banks in Germany.[42]

IX. Relationships and Coordination among Multiple Deposit Insurance Organizations and Other Safety-Net Agencies

It is important for multiple deposit insurance organizations to work with one another and with other financial safety-net agencies, in both good and bad times. But it is crucial in times of crisis.

Deposit insurers should work with each other and with other safety-net agencies to build relationships and engage in contingency planning and public awareness. These relationships should be strong, and contingency and public awareness plans should be in place before deposit-taking institutions start to fail. Deposit insurers and other safety-net agencies should know what to do (and what they can expect each other

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same entity (Association of German Banks), and payouts would be made in the name of the Deposit Protection Fund if a failed bank is a member of both schemes. CDIC and the AMF share responsibility for a small number of trust companies that are chartered in Quebec but take deposits both in and outside that province. The AMF insures the deposits booked in Quebec, and CDIC insures the deposits booked outside Quebec. In the event of a failure, payment would be made by the organization insuring the specific deposit.

[40] Of 24 such respondents, 14 are also the resolution authority for failed institutions.

[41] For example, CDIC's five largest members accounted for 85% of the membership's assets and 78% of insured deposits. In Alberta, the numbers across the four largest institutions were 80% of assets and 79% of insured deposits; in Prince Edward Island, 70% of assets and 70% of insured deposits; in Newfoundland, 75% of assets and 70 % of insured deposits; and in British Columbia, 66% of assets and 65% of insured deposits. The concentration was rather lower in Saskatchewan (57% of assets and 56% of insured deposits); Ontario (40% of assets and 38% of insured deposits); and Quebec (35% of assets and 5% of insured deposits). On closer inspection, however, the numbers for Quebec may not adequately speak to the systemic importance and the concentration risk that Desjardins poses to the Quebec economy. In aggregate, the Desjardins Caisses and subsidiaries that are members of the AMF deposit insurance system represent 93% of total assets and 99% of insured deposits.

[42] Concentration among the top four institutions was 3.28% of assets and 3.29% of insured deposits for the National Credit Union Federation of Korea; 9.4% of assets and 8.19% of insured deposits for the Deposit Guarantee Fund of Cooperative Banks (FGD) in Italy; and 8% of assets and 10% of insured deposits for Germany's institutional protection scheme for Raiffeisenbanken.

to do) in a crisis before it arises. There are a number of ways they can work together and with other safety-net agencies to facilitate these types of discussions.

The first is through regular meetings and sharing of ideas. In Japan, for example, the AFCSIC and DICJ meet at least twice yearly, and more often if necessary. The AFCSIC and DICJ also maintain close relationships with other safety-net agencies and each engages in seconding arrangements and personnel exchanges with those agencies. In Germany, the persons working for the different deposit insurance organizations and institutional protection schemes know each other and are in regular contact. The different organizations formulate position papers regarding national, European, and international laws and standards. In addition, all German banking associations (which run the respective schemes) collaborate through an umbrella organization called "Die deutsche Kreditwirtschaft", which discusses topics of interest in order to form common opinions for dissemination to policymakers, authorities, and other banking and financial institutions. In Canada, the AMF, Deposit Insurance Corporation of Ontario, Credit Union Deposit Insurance Corporation of British Columbia, and CDIC participate in the Canadian Financial Services Insolvency Protection Forum, which also includes Canada's compensation schemes for life and health insurance, property and casualty insurance, and market investors.

A second way for deposit insurers to work with one another and with other safety-net agencies is through formalized or statutory committees. The FDIC and NCUA, for example, are voting members of the US Financial Stability Oversight Council (FSOC). FSOC is chaired by the Secretary of the Treasury and is mandated to provide comprehensive monitoring of the US financial system. Other voting members include: the Chairman of the Board of Governors of the Federal Reserve; the Comptroller of the Currency; the Director of the Consumer Financial Protection Bureau; the Chairman of the Securities and Exchange Commission; the Chairman of the Commodity Futures Trading Commission; the Director of the Federal Housing Finance Agency; and an independent member with insurance experience. In Mexico, IPAB is a member of a similarly mandated Council of Financial System Stability, which was created to achieve closer coordination among financial authorities in order to maintain the stability of the financial system and avoid systemic problems. It produces evaluations and analyses and fosters coordination in order to identify situations that could endanger the proper functioning of the national financial system and economic development of Mexico, and proposes public policy solutions to deal with those situations.

The FDIC and NCUA also sit on the Federal Financial Institutions Examination Council (FFIEC). The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions, and make recommendations to provide uniformity in the supervision of financial institutions. In addition to the Chairmen of the FDIC and NCUA, a member of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Director of the Consumer Financial Protection Bureau, and a Director of a state banking department also sit on the FFIEC.

At the federal level in Canada, the Governor of the Bank of Canada, the Commissioner of the Financial Consumer Agency, the Deputy Minister of Finance, CDIC's Chairperson, and the Superintendent of Financial Institutions belong to a Financial Institutions Supervisory Committee, which is chaired by the Superintendent and set out under the Office of the Superintendent of Financial Institutions Act.[43] In Korea, high-ranking officials from KDIC and the Financial Services Commission serve on each other's governing bodies.

In terms of committees to harmonize deposit insurance across a jurisdiction, most respondents did not indicate that they were part of any such committee. Exceptional in this regard were the provincial deposit insurers in Canada, which are part of a Credit Union Prudential Supervisors Association (CUPSA). CUPSA's objectives include: strengthening prudence in the governance of Canadian credit unions and caisses populaires; encouraging effective risk management and capital planning; promoting adoption of national and international best practices while recognizing the unique cooperative structure of Canadian credit unions and differences in jurisdictional regulatory regimes; minimizing differences in regulatory regimes that create opportunities for, or the perception of, regulatory arbitrage and competitive disadvantages; and providing a framework for coordination and communication among regulatory authorities. The provincial credit unions also share aggregate data on their respective deposit-taking sectors and fund reserves on a quarterly basis. A number of these organizations also meet with their federal cousin, CDIC, bilaterally and through the Canadian Financial Services Insolvency Protection Forum.

In considering the existence of multiple deposit insurance organizations in its 2012 Thematic Review, the FSB noted that "[t]here could be benefits from streamlining such arrangements, where possible by consolidating the various systems … or, at least, by improving the coordination between them" (p. 31).

In October 2011, the Council of Ministers in Spain agreed to merge Spain's three deposit insurance funds – for banks, savings banks, and credit cooperatives – into one organization, with one fund (the Credit Institutions Deposit Guarantee Fund).

[43] These five persons, in addition to a Deputy Superintendent of Financial Institutions and five private-sector directors, also make up CDIC's board of directors. Moreover, the five persons set out above comprise a Senior Advisory Council, which provides advice on macroprudential and policy matters and is chaired by the Deputy Minister of Finance.

Savings banks in Spain had been massively consolidating in the two years leading up to October 2011, with their numbers decreasing from 45 to 15 institutions.[44] At the same time, an ongoing restructuring of the banking sector had blurred the distinction between commercial banks and "cajas", which had tended to be more regionally focused. Amalgamating the three organizations also provided a EUR 6.6 billion industry-funded pot with which to pay for bank failures. Prior to the merging of the three deposit insurance schemes, a state restructuring fund had injected EUR 7.6 billion into failing savings banks.[45]

A similar case existed in the USA in the 1980s in the wake of the savings and loan crisis. Savings and loan associations (or thrifts) were insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Savings and loan failures, largely caused by historically high interest rates and deregulation, rendered the FSLIC insolvent by the end of the decade.[46] As a result, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) abolished the FSLIC and handed responsibility for resolution of failed savings and loan associations to the FDIC. Initially, the FDIC administered separate funds for banks and savings and loan associations: the Bank Insurance Fund and the Savings Association Insurance Fund (SAIF).[47] In 2006, the two funds were merged into one (the Deposit Insurance Fund), as set out in the Deposit Insurance Reform Act of 2005. The FDIC had long been in favor of consolidating the two funds, as the SAIF insured fewer institutions and ones that were more regionally concentrated, which in turn had created some structural risks for that fund.[48]

In light of these examples, it may be possible in some jurisdictions to consolidate multiple deposit insurance organizations into one entity. This would be particularly the case where, due to a crisis, amalgamation or other event, a particular type of deposit-taking institution ceases to exist. There are a number of advantages to consolidating organizations. Consolidating several organizations' corporate, administrative and back-office functions into one can reduce overlaps and duplication and bring about administrative efficiencies. One large deposit insurance

[44] "Spain Makes Changes to Bank Deposit Guarantee Funds," *Reuters* (October 6, 2011; online). Available at: www.tumbit.com/news/articles/3878-spain-makes-changes-to-bank-deposit-guarantee-funds.html . Date accessed: August 28, 2013.
[45] Miles Johnson, "Spain Forces Banks to Meet Rescue Losses," *Financial Times* (October 6, 2011: online). Available at http://www.ft.com/cms/s/0/d5c71f40-f03a-11e0-96d2-00144feab49a.html#axzz2dCnwBWg9 , date accessed: August 28, 2013.
[46] Federal Deposit Insurance Corporation, *History of the Eighties, Lessons for the Future, Volume 1, An Examination of the Banking Crises of the 1980s and Early 1990s* (Washington, DC, 1997): pp. 167-88.
[47] Federal Deposit Insurance Corporation, *A Brief History of Deposit Insurance in the United States* (Washington, DC, 1998): 51 passim.
[48] Ibid: 62.

fund could also reduce the likelihood that a large failure or a series of smaller failures will leave one or more smaller funds exhausted.

However, if national authorities decide to consolidate their multiple deposit insurance organizations, or if those organizations decide to merge on their own, due consideration should be given to the prudential requirements and quality of supervision to which member institutions of the merging deposit insurers were subject prior to consolidation. Supervision and prudential requirements should be equally sound for the merged institutions. Otherwise, upon consolidation, the institutions that were subject to higher supervisory standards could be forced to pay for the failure of institutions that were inadequately supervised. At the very least, if a deposit insurance organization is forced to accept members from another deposit insurer at which supervisory standards were not as high, deficiencies in the supervisory regime should be rectified promptly, with extra premium contributions considered for the riskier institutions.

Where historical, legal or constitutional reasons – or discrepancies in supervision – would make consolidation challenging or undesirable, close coordination becomes imperative.

In its 2012 Thematic Review, the FSB called on IADI to provide guidance to ensure that, in jurisdictions operating multiple deposit insurance organizations, "any differences in depositor coverage across institutions operating within that jurisdiction do not adversely affect the systems' effectiveness" (p. 34).

As noted above, the most effective – albeit very challenging – way to ensure that differences in deposit insurer coverage do not adversely affect deposit insurers' effectiveness is to harmonize coverage levels and scope within a jurisdiction at a limited, appropriate amount. Failing that, deposit insurers should in all cases – but particularly those where varying coverage levels could affect a depositor's claim – engage in public awareness activities aimed at helping the public understand which of their deposits are insured by which organization.

Respondents replied with a number of good practices for public awareness. In Korea, for example, KDIC runs advertisements in newspapers and magazines and on the radio to introduce the public to its deposit insurance system and promote KDIC's image. Going forward, KDIC plans to run video adverts on major and local TV channels and before movies at multiplex cinemas. They also plan to display adverts in locations such as trains and screen doors on the rail network, buses, and bus stations. KDIC signs and notices are printed in bankbooks. Financial institutions are also required to put up posters and keep brochures in each branch. Similarly, the FDIC requires its member institutions to display its logo in branches and on official documents. So too does CDIC. In Canada, a number of financial services protection schemes have jointly set up a website, called financeprotection.ca.

Consumers can click on a map of Canada to select the province in which they live and can search by the type of product they hold or the institution from which they purchased that product in order to find out which scheme insures it. In Japan, the DICJ and AFCSIC make depositors aware of each other's schemes in publications and on their websites. In Germany, the different models of deposit insurance and institutional protection schemes make it very difficult to engage in public awareness activities. However, German schemes still distribute neutral information on their websites and through leaflets and brochures. Banks are also allowed to inform on a neutral basis about their membership in a deposit guarantee scheme or an institutional protection scheme. They are even obliged to do so when they enter into a business relationship with a customer (Article 23a Banking Act).

X. Conclusion

While not common, operating multiple deposit insurance organizations within a single jurisdiction is an international practice. In some cases, these organizations may wish to consolidate their operations into one entity, particularly where the rationale for having multiple organizations (e.g. different classes of institutions, or institutions operating in markedly different business environments) no longer applies.

Where it is not possible or desirable to merge a jurisdiction's multiple deposit insurance organizations – or where there is insufficient harmonization of prudential requirements and levels of supervision across member institutions of the different schemes – multiple deposit insurance organizations should work to: harmonize their coverage levels for institutions which are competing for deposits; eliminate opportunities for regulatory arbitrage; be part of formal cooperation frameworks; and actively engage the public, so that depositors know at which organization their savings are insured.

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