Deposit Insurance Coverage

During the recent global crisis, many countries adopted special policies in an attempt to soften the repercussions of the crisis. Among the most popular measures was the strengthening of deposit insurance schemes. In general, these systems aim to increase customer protection and the stabilisation of financial markets. Over the last three years, some governments announced guarantees for savings while others raised levels of deposit insurance coverage.

The OECD has assessed that the effect of government guarantees on financial stability is potentially ambiguous (2011). On the one hand, they lower concerns about the security of deposits among retail investors and thereby largely avoid possible bank runs. These can pose a significant threat to the stability of the financial system because they bear a contagious element: the panic caused by the failure of one bank among its customers can easily spill over to customers of other banks. On the other hand, government guarantees also encourage both financial institutions and retail investors to take further excessive risks.

The Table summarises depositor protection levels throughout the crisis as reported by the FSB (2009, 2010) and the OECD (2011). It highlights levels of coverage for 38 countries as of September 2008, December 2008 and January 2011.

As such, it shows that the majority of the 38 countries noted in the Table significantly raised coverage levels following the breakout of the financial crisis, which peaked with the collapse of Lehman Brothers in September 2008. Australia and New Zealand took the most drastic measures, raising coverage levels from zero to AUD 1 million and NZD 1 million between September 2008 and December 2008. 10 of the 38 countries had adopted full depositor guarantees by December 2008, among them Austria, Denmark and Germany.

Table

Deposit Insurance Coverage and Government Guarantees

		September 2008	December 2008	January 2011
Australia	A$	0	1 million	1 million
Austria	€	20,000	unlimited	100,000
Belgium	€	20,000	100,000	100,000
Brazil	R$	60,000	20 million[a)]	20 million[b)]
Canada	CAD	100,000	100,000	100,000
Cyprus	€	20,000	100,000	100,000
Czech Republic	€	25,000	50,000	100,000
Denmark	DKR	300,000	unlimited	750,000
Estonia	€	20,000	50,000	100,000
Finland	€	25,000	50,000	100,000
France	€			100.000
Germany	€	20.000	Unlimited[c)]	100,000
Greece	€	20,000	100,000[d)]	100,000
Hong Kong	HKD$		unlimited	500,000
Hungary		Ft 6,000,000	unlimited	€ 100,000
Iceland	€	20,887	unlimited	unlimited
Ireland	€	20,000	unlimited[e)]	unlimited
Italy	€			100,000
Japan	$	123,000	123,000	123,000
Korea	$	44,000	44,000	44,000
Latvia	€	20,000	50,000	100,000
Lithuania	€	22,000	100,000	100,000
Luxembourg	€		100,000	100,000
Malta	€	20,000	100,000	100,000
Mexico	$	88,000	$88,000	88,000
Netherlands	€	20,000	100,000	100,000
New Zealand	NZD	0	1,000,000	500,000
Norway	$	344,000	344,000	344,000
Poland	€	22,500	50,000	100,000
Portugal	€	25,000	100,000[f)]	100,000
Romania	€		50,000	100,000
Singapore	SGD	20,000	unlimited	
Slovakia	€	20,000	unlimited	100,000
Slovenia	€	22,000	unlimited[g)]	100,000
Spain	€	20,000	100,000	100,000
Sweden	€	25,000	50,000	100,000
Switzerland	CHF	30,000	100,000	100,000
Turkey	TL	50,000	50,000	50,000
United Kingdom[h)]	£	35,000	50,000	85,000
United States	$	100,000	250,000[i)]	250,000[j)]

[a)] Only for individuals. – [b)] Only applicable for deposits between six months and five years. – [c)] Political guarantee for all private savings deposits in Germany with banks which are member of a German deposit protection system. – [d)] But political commitments by the government. – e) Guarantee coverage for seven covered institutions representing 80 per cent of the banking system. –[f)] But political commitments by the government. – [g)] Only for deposits not excluded from deposit insurance scheme (natural persons and SMEs). – [h)] In practice, guarantee coverage has been provided to all depositors in virtually all bank failures. – [i)] Also established the Transaction Account Guarantee Programme, a voluntary fee-based programme effective October 14, 2008, whereby the FDIC provides a temporary unlimited guarantee for deposits in qualifying noninterest-bearing transaction accounts at participating institutions, expiring June 30, 2010. –[j)] Limit reverts to $ 100,000 effective 1/1/14.

Sources: Financial Stability Board (2009, 2010); OECD (2011).

With the crisis waning in 2010, governments started to unwind temporary depositor protection measures. Most but not all governments had announced specific termination dates for special measures, although not all kept their commitments in this regard. The FSB (2010) has pointed out that "in some cases, as the announced termination dates have approached, […] authorities determined that a slower transition to more permanent levels should take place and have extended their unwinding plans."

Most countries that had issued guarantees, however, replaced the latter with certain coverage levels schemes by January 2011. Several countries replaced temporary measures with permanently increased coverage levels. It can be observed that the January 2011 levels of insurance coverage are significantly higher than pre-crisis levels. From September 2008 to January 2011 coverage levels were raised by a factor of at least four in the majority of countries.

A few countries developed coordinating strategies with respect to their deposit insurance systems, including the member states of the European Union, some Asian countries and also some countries in the Middle East. The EU member states set new coverage levels at EUR 100,000 in order to comply with EU Directive 2009/14/EC. The European Parliament and the Council adopted this Directive in March 2009 with the aim of improving depositor protection in all EU member states.

As the summaries by the OECD and the FSB show, policy measures concerning depositor insurance coverage schemes were a very important part of governments' set of tools to stabilise bank systems during the crisis.

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References

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