IADI Core Principles (CPs)

- The **Core Principles for Effective Deposit Insurance Systems** are issued by the International Association of Deposit Insurers (currently 80 members).

- The CPs were designed to be:
  - A **voluntary** framework;
  - **Adaptable** to a broad range of country circumstances, settings and structures

- CPs contain of:
  - 16 Core Principles;
  - 96 assessment criteria
The **CPs** were approved by IADI and the BCBS in 2009.

The **Compliance Assessment Methodology** for the core Principles was completed in December 2010.

International regulatory developments and experience in using the **CPs** had revealed areas where the CPs and the Methodology could be updated and enhanced.

2013 - 2014 IADI reviewed and updated the Core Principles and Methodology.

Updated CPs accepted by **FSB; IMF/WB Board approvals** still pending upon Assessors Handbook.
Key inputs in the review process

- Deposit insurers input in using CPs (e.g. self-assessments, IADI regional workshops)
- Results of assessments conducted through IMF/WB FSAPs
- FSB Thematic Review on DIS and IADIs enhanced guidance papers on coverage, moral hazard, payouts, public awareness, multiple DISs and funding
- FSB Key Attributes of Effective Resolution Framework
- Other IADI research/guidance (Islamic Finance, financial inclusion)
16 IADI Core Principles

Preconditions
- Prudential regulation, supervision and resolution
- Legal and judicial framework
- Accounting and disclosure framework

Framework and organization
- CP 1: Public policy objectives
- CP 2: Mandate and powers
- CP 3: Governance
- CP 11: Legal protection
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Framework and organization (ctd.)
- CP 7: Membership
- CP 8: Coverage
- CP 9: Sources and uses of funds
- CP 10: Public awareness

Pay-out related
- CP 15: Reimbursing depositors
- CP 5: Cross-border issues
- CP 16: Recoveries
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Related to the broader safety-net

- CP 4: Relationship with other safety-net participants
- CP 6: Deposit insurer’s role in contingency planning and crisis management

- CP 13: Early detection and timely intervention
- CP 14: Failure resolution

- CP 12: Dealing with parties at fault in a bank failure
IADI CPs: Key Changes

- Reducing *overlap and duplication*

- **Strengthening** the CPs in certain areas
  - Reimbursement in 7 days
  - Ex-ante funding
  - Use of deposit insurance fund for bank resolution
  - Contingency planning

- **Updating** the CPs relating to crisis preparedness, intervention and failure resolution
IADI CPs in IMF/WB FSAPs

- Malaysia
- Uruguay
- Poland
- Albania
- Moldova
- Bosnia and Herzegovina
- (Bulgaria)
- Montenegro

Relatively few ROSCs, but CPs also used as a benchmark in a large number of TNs on Crisis Preparedness and Management
IADI CPs: Common Assessment Findings

Compliant/Largely Compliant
- Public Policy Objectives
- Membership
- Dealing with Parties at Fault

Materially Non-Compliant/Non-compliant
- Powers (e.g. access to depositor records)
- Relationships with other Safety-net Participants/Contingency Planning
- Funding (e.g. back-up funding)
- Reimbursing Depositors (e.g. not within 7 days)
What is next?

- Implementation of shorter payout timeframe
- Need to clarify the role of deposit insurer in funding bank resolution
- More need of cooperation and coordination on a national and international level
- More emphasis on contingency planning
CP 1: Public Policy Objectives

The principal public policy objectives for deposit insurance systems are to protect depositors and contribute to financial stability. These objectives should be formally specified and publicly disclosed. The design of the deposit insurance system should reflect the system’s public policy objectives.
CP 2: Mandate and Powers

The mandate and powers of the deposit insurer should support its public policy objectives and be clearly defined and formally specified in legislation.
CP 3: Governance

The deposit insurer should be **operationally independent**, well-governed, transparent, accountable, and insulated from external interference.
CP 4: Relationships with Other Safety-Net Participants

In order to protect depositors and contribute to financial stability, there should be a **formal and comprehensive framework** in place for the close coordination of activities and information sharing, **on an ongoing basis**, among the deposit insurer and other financial safety-net participants.
CP 5: Cross-Border Issues

Where there is a **material presence** of foreign banks in a jurisdiction, **formal information sharing and coordination arrangements** should be in place among deposit insurers in relevant jurisdictions.
Development of a crisis strategy and implementing crisis management policies is not the responsibility of a single agency but is the joint responsibility of all safety-net participants. A framework should be in place that includes the deposit insurer as a member of a jurisdiction’s crisis management framework.
CP 7: Membership

Membership in a deposit insurance system should be **compulsory for all banks**.
CP 8: Coverage

Policymakers should define clearly the level and scope of coverage. **Coverage should be limited, credible and cover the large majority of depositors while leaving 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.
CP 9: Sources and Uses of Funds

The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors’ claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit insurance should be borne by banks.
CP 10: Public Awareness

In order to protect depositors and contribute to financial stability, it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.
CP 11: Legal Protection

The deposit insurer and individuals working for the deposit insurer in the discharge of its mandate must be protected against actions, claims, lawsuits or other proceedings for their decisions, actions or omissions taken in good faith in the normal course of their duties. Legal protection should be defined in legislation.
CP 12: Dealing with Parties at Fault in a Bank Failure

The deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.
The deposit insurer should be part of a framework within the financial safety-net that provides for the *early detection of, and timely intervention in, troubled banks*. The framework should provide for intervention before the bank becomes non-viable. Such actions should protect depositors and contribute to financial stability.
CP 14: Failure Resolution

An effective failure-resolution regime should enable the deposit insurer to provide for protection of depositors and contribute to financial stability. The legal framework should include a special resolution regime.
CP 15: Reimbursing Depositors

The deposit insurance system should give depositors **prompt access to their insured funds** in order to contribute to financial stability. There should be a clear and unequivocal trigger for insured depositor reimbursement.
CP 16: Recoveries

The deposit insurer should have, by law, the right to recover its claims in accordance with the creditor hierarchy in law.