Journal of Financial Stability 20 (2015) 155–183

Contents lists available at ScienceDirect

Journal of Financial Stability

journal homepage: www.elsevier.com/locate/jfstabil

Deposit insurance around the world: A comprehensive analysis and database

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ARTICLE INFO

Article history:
Received 13 May 2015
Received in revised form 17 July 2015
Accepted 13 August 2015
Available online 14 September 2015

JEL classification:
G20

Keywords:
Deposit insurance
Financial institutions
Financial crises

ABSTRACT

This paper provides a comprehensive, global database of deposit insurance arrangements as of 2013. We extend our earlier dataset by including recent adopters of deposit insurance and information on the use of government guarantees on banks' assets and liabilities, including during the recent global financial crisis. We also create a Safety Net Index capturing the generosity of the deposit insurance scheme and government guarantees on banks' balance sheets. The data show that deposit insurance has become more widespread and more extensive in coverage since the global financial crisis, which also triggered a temporary increase in the government protection of non-deposit liabilities and bank assets. In most cases, these guarantees have since been formally removed but coverage of deposit insurance remains above pre-crisis levels, raising concerns about implicit coverage and moral hazard going forward.

1. Introduction

The recent global crisis tested and tried deposit insurance schemes (DIS), and their ability to protect household savings in banks. Country authorities and financial regulators reacted to the extraordinary circumstances of the crisis by expanding the coverage offered in existing deposit insurance arrangements or adopting deposit insurance where it was not already in place. This pattern of policy response exposed the adverse distributional effects of generous schemes and underscored the strengths and weaknesses of different DIS features.

This paper presents a comprehensive database of deposit insurance arrangements through the end of 2013, covering the IMF membership of 188 countries plus Liechtenstein. For countries with an explicit deposit insurance scheme, information is provided on the characteristics of the DIS (such as type, management, coverage, funding, and payouts). For recent years, we add information on deposit coverage increases, government guarantees on deposits and non-deposit liabilities, as well as whether a country experienced a significant nationalization of banks. To assess a country's ability to honor its deposit insurance (and other safety net) obligations, we supplement these data with information on the size of potential deposit liabilities, the amount of DIS funds, and government indebtedness.

While it is too early to draw definitive conclusions about the adequacy of DIS during the recent global financial crisis, our preliminary assessment is that, by and large, DIS fulfilled its foremost purpose of preventing open runs on bank deposits. In the face of large shocks to the global financial system, as well as concerted and protracted concerns about the solvency of practically every large financial institution in the world, we did not observe widespread bank runs. There were some notable exceptions (such as Northern Rock in the UK) and there were protracted withdrawals by uninsured depositors, but the world did not experience systemic bank runs by *insured* depositors. From this perspective, DIS delivered on its narrow objective (as stipulated in the BCBS and IADI (2009) core principles of deposit insurance). However, as we look to what we hope are many post-crisis years, the expansion of the financial safety net (both through an extended coverage of deposit insurance and increased reliance on government guarantees and demonstrated rescue propensities to support the financial sector) is something to worry about. The expansion of national safety nets raises questions about (i) whether government finances are adequate to support the promises of existing DIS in future periods of stress (the more so given that governments will likely face renewed pressures to further increase DIS promises in future crises) and (ii) how to balance the objective of preventing bank runs with

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http://dx.doi.org/10.1016/j.jfs.2015.08.005
1572-3089/

the potentially negative effects of DIS in the form of moral hazard and the threat to financial stability from incentives for aggressive risk-taking.

The rest of the paper is organized as follows. Section 2 describes the main database, with a description of each variable included. Section 3 surveys the current state of DIS worldwide. Section 4 reviews policies undertaken during the financial crisis period to protect depositors against the loss of value of their deposit savings. Section 5 concludes.

2. The database

The database builds upon earlier work by Demirgüç-Kunt et al. (2005). The original dataset covered deposit insurance schemes through 2003. It was constructed through a combination of country sources, as well as earlier studies by Garcia (2000), Kyei (1995), and Talley and Mas (1990), among others.

This version updates the earlier database and extends it to 2013. Whenever possible, we relied on official sources. Our starting point was a comprehensive survey on financial sector regulations conducted by the World Bank in 2010. This survey asked national officials for information on capital requirements, ownership and governance, activity restrictions, bank supervision, as well as on the specifics of their deposit insurance arrangements. These data were combined with the deposit insurance surveys conducted by the International Association of Deposit Insurers in 2008, 2010, and 2011, and in the case of European countries with detailed information on deposit insurance arrangements obtained from the European Commission (2004, 2010, 2011), Laeven (2013), and the European Federation of Deposit Insurance (2006). Discrepancies and data gaps were checked against national sources, including deposit insurance laws and regulations, and IMF staff reports. Information on government actions undertaken during the financial crisis was collected from Laeven and Valencia (2012), Financial Stability Board (FSB) (2010, 2012), Schich (2008, 2009), Schich and Kim (2011), and IMF staff reports.

Our focus is on deposit insurance for commercial banks. For countries with multiple DIS, the data provided relate only to the national statutory scheme. This means that stated coverage levels may understate actual coverage. For example, the complex voluntary DIS for commercial banks in Germany provides insurance of up to 30 percent of bank capital per depositor, essentially offering unlimited coverage for most depositors.

The full database, including information on arrangements other than the national statutory scheme, is available in spreadsheet format as an online Appendix to this paper. The source of the data is indicated in the Appendix. The following section describes the variables used in the remainder of the paper.

2.1. Design features

2.1.1. Explicit versus implicit deposit insurance

We follow Demirgüç-Kunt et al. (2008a,b) in arguing that a country may be assumed to offer implicit deposit insurance, given the strength of governmental pressures to provide relief in the event of a widespread banking insolvency, unless the country has passed formal legislation or regulation outlining explicit deposit coverage. Indeed, implicit coverage always exists, regardless of the level of explicit coverage. Countries may have an explicit deposit insurance scheme without specifying an institution or fund to carry out powers laid down in statutes or regulation, but the issuance of temporary blanket guarantees by the government is not sufficient to qualify as having explicit deposit insurance. Hence, we assume that any country that lacks an explicit deposit insurance scheme has implicit deposit insurance. Table 1 lists all countries with explicit deposit insurance.

2.1.2. Coverage

Explicit deposit insurance schemes typically insure deposits up to a statutory coverage limit. Particularly during banking crises, countries often issue guarantees on top of pre-announced, statutory limits. We provide information on both the statutory limits, and the limits taking into account additional government guarantees. *Coverage* is the coverage limit in local currency. It takes on a numerical value or "unlimited" if a full guarantee is in place. *Coverage/GDP per Capita* is the ratio of the coverage limit to per capita GDP, expressed as a percentage, and based on the statutory coverage limit excluding government guarantees over and above the statutory limit. In those few cases where the statutory limits provides for unlimited coverage, the Coverage/GDP per capita ratio is also set to "Unlimited".

Table 2 reports these coverage limits both in reported (typically local) currency and translated in US dollars (using end-of-year exchange rates). Data on GDP per capita is taken from the April 2014 IMF WEO database, unless otherwise noted. Footnotes accompanying Table 2 specify the coverage limits for individual countries. For countries with coinsurance, coinsurance rules are also described.

Coverage limits are reported for three points in time: 2003, 2010, and 2013. In each case the limits refer to year-end values. With a few exceptions, the general trend is an increase in coverage between 2003 and 2010, often triggered by the global financial crisis. Since then statutory coverage levels have generally remained at these higher levels in nominal terms through 2013, although coverage declined in most of those countries that also introduced deposit guarantees as these guarantees were mostly phased out by the end of 2013. Coverage relative to GDP has also slightly declined on average over the period 2010 to 2013, as countries recovered from the global financial crisis.

2.1.3. Organization, administration, and type of deposit insurance scheme

We collect a host of information on the design features of deposit insurance schemes, and construct indicator variables based on this information. We first construct a variable *Explicit* takes a value of one if the country has explicit deposit insurance, and zero if implicit. Table 3 provides a detailed overview of the design features of DIS, including the organizational and administrative structure. In this table, design features when present are marked by "x".

The organizational and administrative structures of DIS vary markedly, and this can have an important bearing on its independence and efficacy. DIS can be organized as a separate legal entity, or may be placed within a country's supervisory structure or under the jurisdiction of the national central bank, or other government ministry such as the Ministry of Finance or Department of Treasury. These categories are mutually exclusive—any DIS must be legally separate or located within the central bank, banking supervisor, or government ministry. Some DIS are organized as separate legal entities but are hosted within and supported by the central bank. We code such DIS as legally separate. The variable *Organization* is coded one if the DIS is legally separate, and two if it is contained within the central bank, banking supervisor, or government ministry.

Countries may choose an explicit DIS that is administered privately, publicly, or jointly through some combination of the two. For example, Germany's two statutory guarantee schemes have a mixed private/public component where they are privately administered but established in law and with public elements such as delegated public policy functions and oversight by the supervisory agency. This choice is often based on country-specific experience with historical banking failures and on whether private actors exist to potentially administer an explicit DIS (such as, for example, bankers' associations in Switzerland). *Administration* is coded one if the DIS is administered privately, two if it is administered publicly,