



The future of deposit insurance: Challenges and assessment

Presentation by WR White
8th Annual Conference of IADI
24 September 2009, Basel

Introduction

- Deposit insurance: the pros and cons
- Systemic crises: an old/new problem
- Lessons being learned from the current crisis
- Implications for deposit insurers

Deposit insurance: the pros and cons

- Consumer protection, avoidance of bank runs, and orderly resolution procedures BUT
- Moral hazard, unfair competitive advantages and the need for "exit" strategies
- Could systemic concerns alter the balance of pros and cons?

Systemic crises: an old/new problem

- Are systemic crises becoming more common?
- If so, why?
- Have safety net provisions been extended in response?
- Extensions in the current crisis.

Systemic crises: are they becoming more common?

- Major crises prior to World War Two
- Fewer crises in the decades following the War
- Frequent and more serious crises more recently
- And the problem could worsen in the future

Systemic crises: why are they becoming more common?

- Deregulation and enhanced competition
- Technological advances
- Marketisation/globalisation/consolidation
- Easy money and excessive credit expansion
- Why the problem could worsen in the future

The extension of safety nets in financial crises

- Securitisation/globalisation/consolidation have led to greater use of safety net instruments
- And changed their relative importance
- With the current crisis sharply accelerating this trend
- And yet the crisis continues

Lessons being learned from the current crisis

- Need to lean against credit bubbles, not just try to clean up afterwards
- Recognize that, even after such efforts, crises will recur
- And that ex ante measures should be put in place to make crisis management easier

Designing deposit insurance in a world of systemic risks

- Changes in the balance of pros and cons?
- Do we need higher risk based premia?
- Could time varying risk premia help lean against the credit cycle?
- Are market based risk premia still useful?
- Could the optimal design of ex ante deposit insurance schemes to help clean up be affected; eg, who pays?
- What about interactions with other safety net measures?

Changes in institutional arrangements, nationally (1)

- Crisis has sharpened focus on the need for overseers to have clear objectives, adequate instruments and appropriate accountability
- And for appropriate cooperation among themselves
- Acceptance of the need for a division of labour (Twin Peaks) between macroprudential/systemic and microprudential oversight
- Deposit insurance hardly mentioned in major reports; G 30, Turner, de Larosière

Changes in institutional arrangements, nationally (2)

- Macroprudential oversight to be given to central banks?
- Microprudential oversight still up for grabs?
- The special case of big banks
- Should one microprudential agency do deposit insurance, and resolution, and regulatory oversight, and business conduct?

Changes in institutional arrangements, internationally

- A growing recognition that we are all in this together
- Given a national macro/micro split, should deposit insurers replace central banks on the Basel Committee?
- Should the CGFS make macroprudential recommendations for internationally active financial institutions?
- In Europe, do we need a EDIS to complement the ESCB?

Conclusions

- It is time for serious thinking about how to avoid future systemic crises, and how to manage them better
- Deposit insurance is an important component of the safety net.
- If you do not help others decide on the way forward, they will do it without you.
- **BEST OF LUCK!**



The future of deposit insurance: Challenges and assessment

Presentation by WR White
8th Annual Conference of IADI
24 September 2009, Basel