

Scope and Limits of Coverage - Situational and Structural Considerations: The Mexican Case

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I. Setting: the ongoing dilemma between depositor protection and moral hazard

II. The Mexican case

a. From blanket to limited and explicit coverage (1999-2005)

b. Scope and level of coverage

III. Concluding remarks



I. Deposit insurance and moral hazard

An ongoing policy trade-off

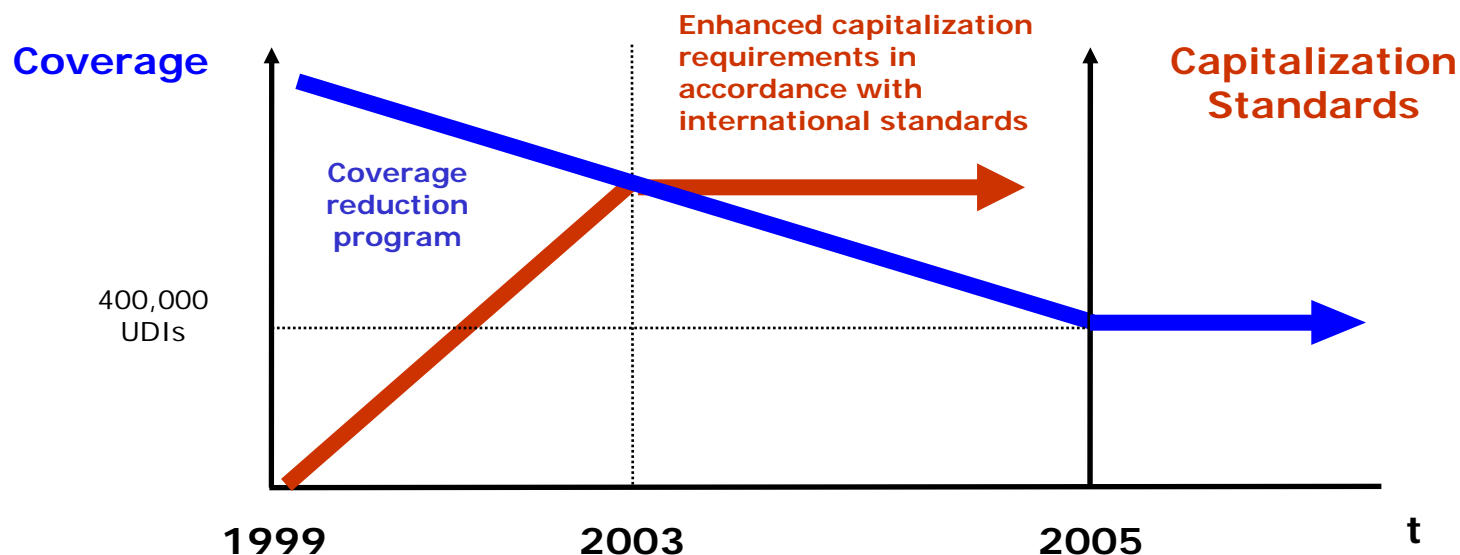
- The policy tension between the financial stability conferred by the presence of deposit insurance and the associated loss of market discipline originated by moral hazard remains a valid concern.
- For most of the 20th century Mexico had a tradition of universal coverage of banking obligations.
- When the current deposit insurance scheme became law in January 1999, a planned transition called for target coverage to be reached on January 1, 2005.
- The target coverage was selected to be approximately equal to coverage in the United States.



II. The Mexican Case

From blanket to limited and explicit coverage

- The transition from unlimited to the current coverage criteria took place in line with increasing capital requirements for banks in line with international standards.





II. The Mexican Case

Key characteristics

Type of insured intermediaries:

- commercial banks (universal type).

Level:

- 400 thousand **price adjusted** units (UDIs) currently equivalent to approximately USD 139 thousand per person (legal or natural) per bank^{1/}.

Scope:

- Mostly demand, savings and term deposits. Coverage includes guaranteed bank obligations denominated in foreign currencies. Coverage is payable in Mexican pesos.

^{1/} Estimate as of mid-June 2007. Movements in the Mexican peso USD exchange rate and in domestic prices have significantly increased coverage in USD terms.



II. The Mexican Case

Key characteristics

Exclusions:

- Bank obligations to any type of financial entity or business belonging to the holding of which the bank is part of;
- bearer or negotiable obligations;
- illicit, bad faith and other obligations outside sound banking practices or applicable legal and administrative uses;
- shareholders of the bank;
- members of the board of directors, senior bank officers, general managers and legal proxies.



II. The Mexican Case

Key characteristics

Reach:

- There are an estimated 59.6 million banking accounts with insurable liabilities in Mexico.
- 99% of accounts hold balances below or equal to the maximum coverage limit.
- These balances represent 56% of insurable banking liabilities^{2/}.

^{2/} Source of data is the Mexican central bank. Figures to March 2007.



III. Concluding remarks

- IPAB must periodically assess the consistency of deposit insurance characteristics in relation to public policy objectives.
- Mexico has left blanket coverage of banking obligations in the past, but current coverage should also be evaluated in response to emerging public policy challenges in deposit insurance.

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