



NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY

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# Scope and Limits of Coverage: Situational & Structural Considerations

– HUNGARIAN EXPERIENCE –

The 1st IADI Inter-Regional Conference (EU, Eurasia, MENA)  
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# Presentation Outline

## ◆ Policy Issues

- Setting Coverage & Limits
- What is an optimal level?
- What to consider more?

## ◆ Hungarian Experiences

- History
- What is and what is not covered?
- Statistics
- Lessons learned

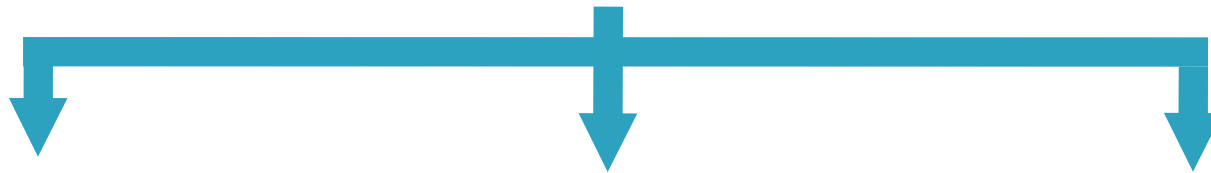


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## Policy Issues

- Setting Coverage & Limits -

### Principal Public-Policy Objectives of a DIS



**Protect financially  
less sophisticated  
depositors**

**Contribute to  
stability of  
financial system**

**Minimize  
contagion effect**

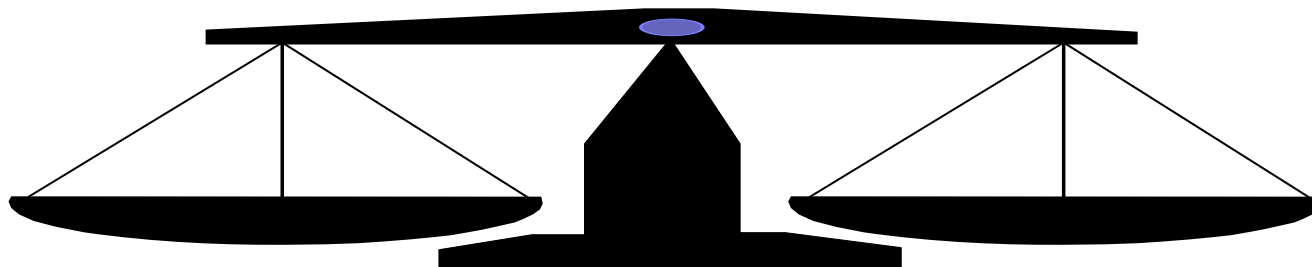


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# Policy Issues

## - Setting Coverage & Limits (2) -

### State of the Banking Sector



- ◆ Unsettled environment (systemic crisis)
- ◆ Healthy environment (occasional crisis)
- ◆ Transition from Blanket Guarantee System
- ◆ Relative financial stability
- ◆ Depositors' discipline & trust is an issue
- ◆ Depositors' discipline is not an issue
- ◆ Multi-currency coverage
- ◆ Sole currency coverage



**Credible & sustainable coverage regime**  
**Coverage not too low / high**



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# Policy Issues

- What is an Optimal Level? -

## Pitfalls

If too low	If too high
◆ Lack of confidence (PPO)	◆ Moral hazard (depositors , banks)
◆ High propensity to bank run	◆ Balanced control mechanism
◆ Unsustainable (loss in value due to inflation)	◆ Large depositors effect solvency issues for weak banks
◆ Weak DIS (functions, resources)	◆ Supervisory discipline
◆ More responsibility on Supervisors (imbalance in control mechanism)	◆ Improved checks & balances
◆ High costs on national level !	◆ High costs on financiers !



**Limit the scope**  
**Depositor priority**



**Co-insurance**  
**Risk assessment**



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## Policy Issues

- What to Consider More? -

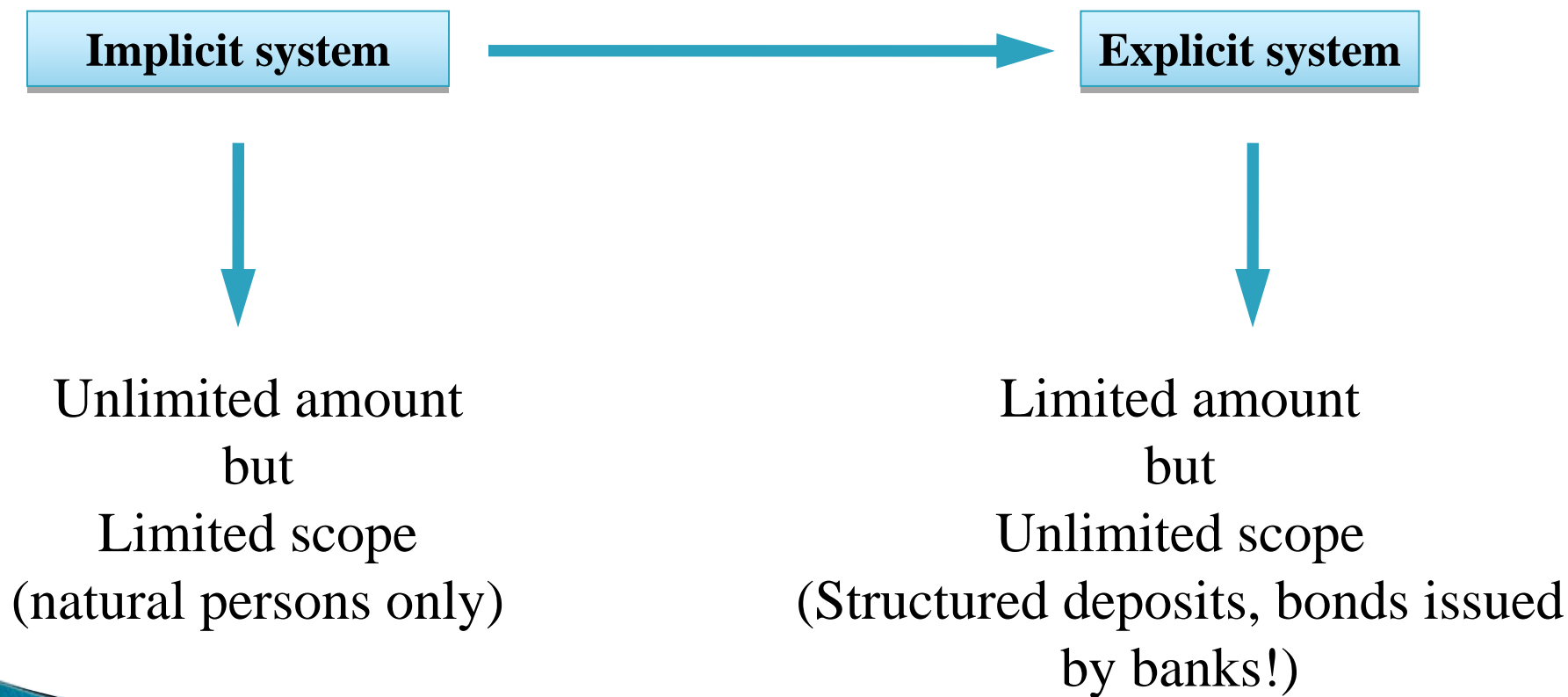
- ◆ Regional implications of inter-related economies (EU)
- ◆ Proportion of deposits / depositors covered
- ◆ Per capita GDP
- ◆ Review process set by law (transparency)
- ◆ Differentiation in deposit products / group of depositors
- ◆ Currency implications (domestic vs. foreign)
- ◆ Avoid mixing up "information" and "advertisement" by banks



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# Hungarian Experience - History -

## 1993: End of State Guarantee for Deposits

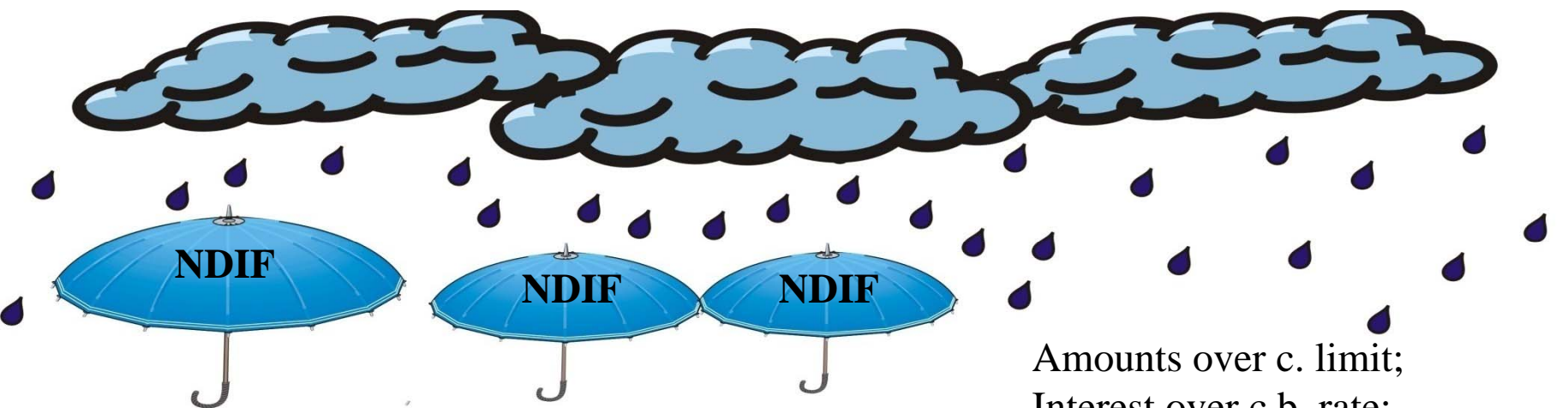




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# Hungarian Experience

- What is and What is Not Covered? -



Personal & business accounts up to HUF 6 million (EUR 24,000) per depositor per bank, incl. deposits (bonds) in HUF & OECD currencies

Joint & "community" deposits, c. limit multiplied by number of owners

Amounts over c. limit;  
Interest over c.b. rate;  
Deposits of

- excessive yield (if it contributed to the failure);
- senior officers (family memb.);
- banks & other type of professional investors;
- budgetary organisations;
- money laundering & criminal acts.

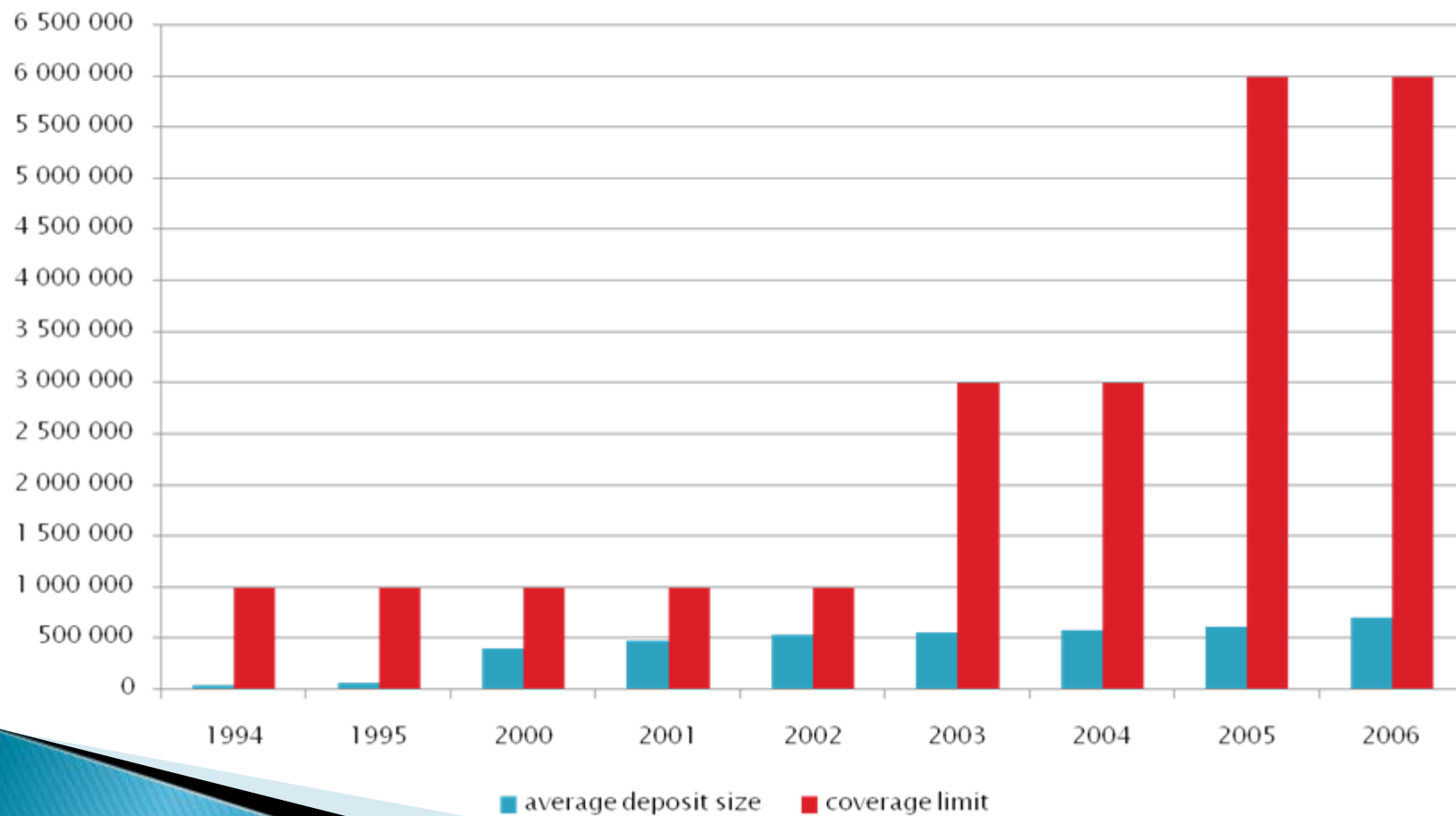
**10 p.c. co-insurance applied!**



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# Hungarian Experience - Statistics -

## Average deposit vs. coverage

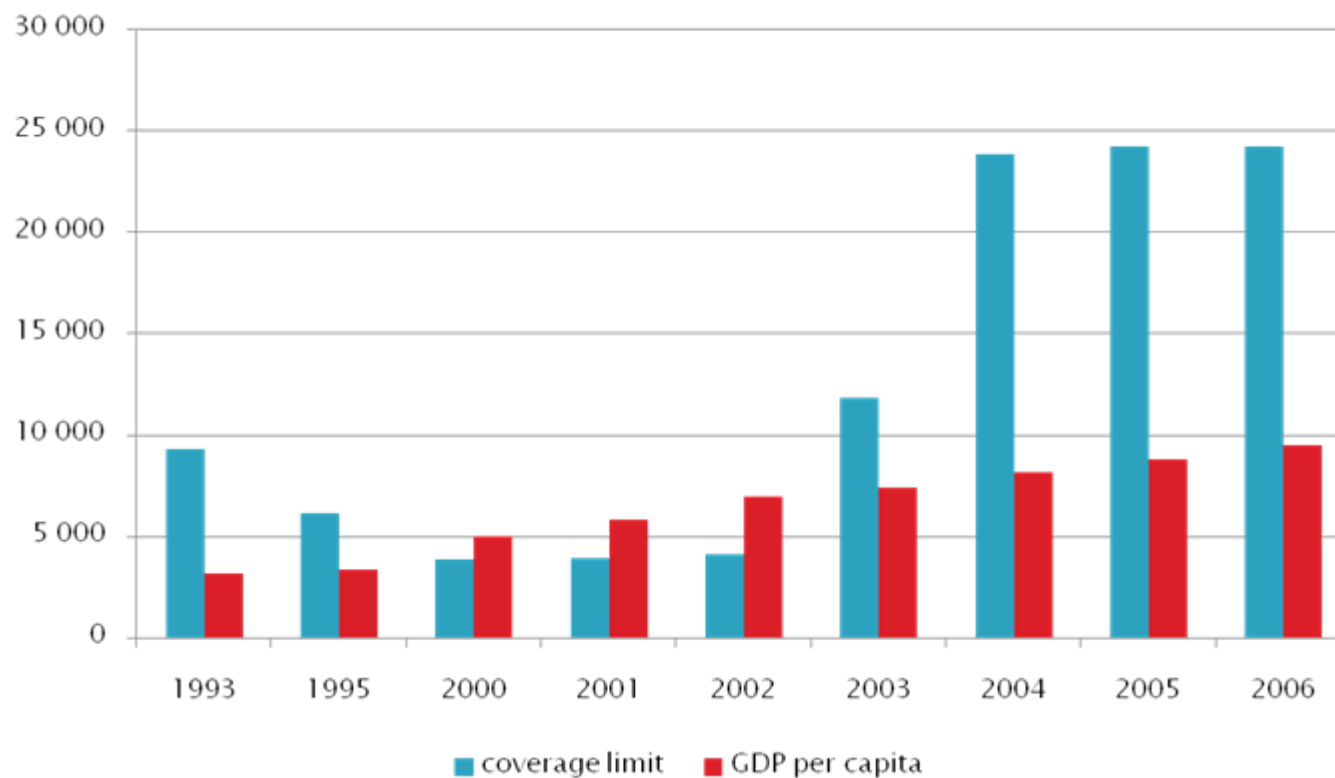




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# Hungarian Experience - Statistics -

## GDP per capita vs. Coverage Limit (in Euro)





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# Hungarian Experience - Lessons Learned -

## Lessons Learned by Hungarian Deposit Insurers

1. Be efficient in strengthening confidence in the banking system at reasonable costs;
2. Limit moral hazard by adequately tailored coverage;
3. Coverage can be effective, if banking and regulatory systems are sound;
4. Coverage needs to be easily understood by depositors;
5. Sustainable & credible system needs money (funding /coverage ratio);
6. Maintain strong public awareness of coverage at all times;
7. Try not to re-invent the wheel, benefit from others' experience (IADI; EFDI!)





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# Thank You!

...and hope to see you in Budapest!



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