



**Draft:** 7 August, 2009

**Proposed Research Plan for:  
IADI Discussion Paper on Transitioning**

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**Request for Comments and Submissions**

Deposit insurers and other interested parties are asked to comment on their experiences as they relate to the issues to be addressed below. Individuals and organizations that would like to submit a paper on the issues raised in this Research Plan are asked to contact Guillermo López Zamora at [glopez@ipab.org.mx](mailto:glopez@ipab.org.mx) by **September 30, 2009**.

**Purpose**

To develop a discussion paper that describes and examines preconditions and key elements for making a transition process from a blanket guarantee to an explicit, limited coverage deposit insurance system; and provide some guidance for the deposit insurance practitioners to be considered in a successful transition.

**Introduction**

The current global financial crisis has provided deposit insurers with some lessons concerning their ability to respond effectively and to maintain the confidence of depositors during systemic crisis, as well as to test their guarantee scheme. During a crisis, many countries provided blanket guarantees for bank deposits in order to boost the confidence of depositors, as a temporary measure. However, it was not enough to prevent instability and lessen depositors concerns. In addition complement measures should also be implemented simultaneously to diminish the possible negative impact, such as higher moral hazard caused by a blanket guarantee.

When a country decides to change the method of coverage in any way this becomes a delicate issue. The financial authorities should consider many factors and pre-conditions that should be met in order to minimize the risk of instability during the transition period and to maximize the effectiveness of the resulting measure.

Moreover, as stated in Core Principle 10<sup>1</sup>, when transitioning from blanket guarantee to a limited coverage deposit insurance system, protection for depositors and other possible creditors is being reduced. Therefore policy makers should pay particular

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<sup>1</sup> “When a country decides to transition from a blanket guarantee to a limited coverage deposit insurance system, or to change a given blanket guarantee, the transition should be as rapid as a country’s circumstances permit. Blanket guarantees can have a number of adverse effects if retained too long, notably an increase in moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period.” (Core Principle 10: Transitioning from a blanket guarantee to a limited coverage deposit insurance system).

attention to public attitudes and expectations. Countries with a high level of capital mobility, and/or a regional integration policy, should consider the effects of different countries' protection levels and other related policies.

The transition to limited coverage usually involves the imposition of new or revised premiums or levies on banks. If funds are insufficient to pay for the cost of the blanket guarantee, especially if it stems from a systemic crisis, the cost is usually shared between banks and the government. It is important to have a clear mechanism in place to ensure that the deposit insurance system has access to adequate funding during and after the transition.

Likewise, the speed with which coverage levels are adjusted during the transition period poses trade-offs that must be carefully evaluated. In general, the transition should be as rapid as a country's circumstances permit, this is in view of its prudential regulation and supervision, effective legal frameworks, and sound accounting and disclosure regimes in place.

### **Issues to be addressed**

1. Pre-conditions and infrastructure for considering a transition: economic and financial environment, legal framework, public policy objectives, the strength of prudential regulation and supervision, regulatory and safety-net infrastructure and the state and structure of the banking system. It is important to identify gaps between existing conditions and more-desirable situations.
2. Issues regarding transitioning from blanket guarantees to limited coverage deposit insurance systems.
  - Co-ordination and co-operation among domestic and international financial safety-net participants and member institutions.
  - Communication to the public (public awareness campaign, co-ordination with the media, member institutions and other financial safety-net players).
  - Funding sources (mechanism in place to ensure adequate funding during and after the transition).
  - Cross border issues
  - Timing of the transition: how fast or gradual the transition should proceed.
3. Although the case of transition from an explicit, limited coverage deposit insurance system to a blanket guarantee is typically out of the sphere of the deposit insurer, the paper would address in general, some issues related to analyze the impact of the adoption of blanket guarantee.

### **Research Methodology**

The research methodology will include a review of relevant literature, case studies, a survey, and then prepare a draft discussion paper. The Interim Report by IADI entitled *Transitioning from a Blanket Guarantee to an Explicit, Limited Coverage Deposit Insurance System* (February 2009) and the document on *Transitioning from a Blanket Guarantee to a Limited Coverage System* (September 2005) prepared by the IADI's Asian Regional Committee will be considered as a starting point.

#### *1. Literature Reviews*

Review of publications on transitioning from a blanket guarantee to an explicit, limited-coverage deposit insurance system.

Relevant literature will be reviewed by the members of the Sub-committee established by the IADI Research and Guidance Committee (RGC).

## 2. Case Studies

To obtain a detailed description of practical approaches to transition from a blanket guarantee to an explicit, limited-coverage deposit insurance system, from different countries.

## 3. Comparative analysis

To produce a comparative analysis in order to obtain key elements to be considered on the transition from a blanket guarantee to an explicit, limited-coverage deposit insurance system.

A matrix with key elements will be proposed.

A questionnaire would be developed.

## 4. Preparation of the Subcommittee's Discussion Paper

An initial draft Discussion Paper will be prepared by the Transitioning Subcommittee and then presented to the RGC. Once RGC has reviewed and commented on the draft paper, a revised draft version will be provided to IADI members and other interested parties for further review and comments.

### **Members of the Subcommittee**

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## Timetable and Deliverables

Timelines	Deliverables	
June 2009	<ul style="list-style-type: none"> <li>• Completion of detailed research outline and research / work plan</li> <li>• Submission to the Subcommittee members for comments and suggestions</li> <li>• Interest for further participation from IADI Members</li> </ul>	
August 2009	<ul style="list-style-type: none"> <li>• Presentation of the final business plan</li> <li>• Approval of RGC for research plan</li> <li>• Posting of research plan on IADI website for public consultation</li> <li>• Comments due through public consultation</li> </ul>	<ul style="list-style-type: none"> <li>• Literature Reviews (Subcommittee members)</li> <li>• Identify countries and framework for case studies, as well as the key elements to elaborate the matrix (Subcommittee members)</li> </ul>
August 2009	<ul style="list-style-type: none"> <li>• Comments due through public consultation</li> </ul>	
September 2009	<ul style="list-style-type: none"> <li>• Collection of information for Case studies</li> <li>• Survey</li> <li>• Comparative analysis</li> </ul>	
November 2009	<ul style="list-style-type: none"> <li>• First draft sent to Subcommittee members for comments</li> </ul>	
December 2009	<ul style="list-style-type: none"> <li>• First draft of discussion paper completed and sent to RGC for comments</li> </ul>	
February 2010	<ul style="list-style-type: none"> <li>• Second draft sent to the RGC for reviews and comments</li> </ul>	
March 2010	<ul style="list-style-type: none"> <li>• Third draft approved by the RGC and sent to Guidance Group and Advisory Panel for reviews and comments</li> </ul>	
May 2010	<ul style="list-style-type: none"> <li>• Final draft presented to EXCO for approval and posted on IADI website for public consultation</li> </ul>	
June 2010	<ul style="list-style-type: none"> <li>• Comments due through public consultation</li> <li>• Presentation of the final draft at the EXCO meeting and approval</li> </ul>	
July 2010	<ul style="list-style-type: none"> <li>• Issuance of guidance paper</li> </ul>	