



Draft: 10 August, 2009

**Proposed Research Plan for:
IADI Discussion Paper on Public Policy Objectives
for Deposit Insurance Systems**

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 requested to inform Yvonne Fan at c184@cdic.gov.tw, Fiona Yeh at c431@cdic.gov.tw or Catherine Chou at c572@cdic.gov.tw by **September 30, 2009**.

Purpose

To develop a discussion paper that describes and examines the public policy objectives for deposit insurance systems (DIS) in different countries and provides policymakers with related guidance for developing a framework of setting clear, sound and consistent public policy objectives for DIS considering country circumstances, settings and structures.

Introduction

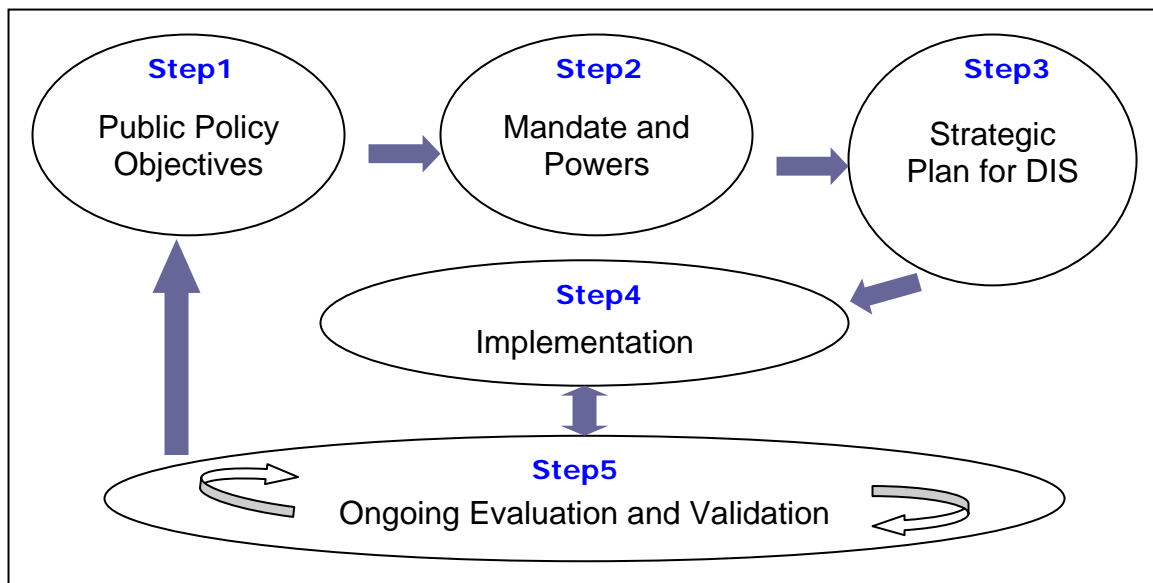
Public Policy Objectives (PPOs), which involve formal and informal expressions of normative intent, provide purpose and focus to the deposit insurance system¹. These objectives can be stated explicitly – for example, through a legislative mandate - or implicitly by the way a particular activity is conducted or structured. Policymakers may grant mandate and powers to the deposit insurers to achieve one or more PPOs. Mandate shall define clearly the roles and responsibilities of the deposit insurers and identify the powers

¹ Financial Stability Forum, Public Policy Objectives for Deposit Insurance Schemes, 2000.

and authorities conferred on the system to carry out its roles and responsibilities in its endeavor to achieve its public policy objectives.

The principal objectives for deposit insurance systems are to contribute to financial stability and protect depositors (see joint IADI/BCBS Core Principle #1 and supporting guidance). The choice of PPOs depends on many factors that are unique to each country and its governmental and financial environment. Setting feasible public policy objectives conforming to its environment can help policymakers sketch out the appropriate mandate and powers for the deposit insurer. Thus, with the three essential elements, i.e. appropriate PPOs and aligned mandate and powers, in place, the deposit insurer can have the ability to achieve an effective deposit insurance system. Countries considering adoption of deposit insurance or the reform of existing system shall deliberately select their objectives and review them over time to make appropriate changes.

Process of developing an effective deposit insurance system



The Financial Stability Forum's Sub-Group on Public Policy Objectives had analyzed and reported on different countries' public policy objectives for deposit insurance systems in 2000 focusing on three issues: 1) identifying the public policy objectives used by different countries; 2) describing the tradeoffs associated with particular public policy objectives; and 3) commenting on the structural issues that arise when particular public policy objectives are chosen. The Sub-Group had conducted a survey to collect the answers from the deposit insurers worldwide. It has been nine years that the data hasn't been updated as the roles and responsibilities of deposit insurers has gradually changed reflecting the evolving environment in banking industry and financial system. Moreover, the recent global financial turmoil and financial incidents around the world have induced a strong need to

reexamine the roles and functions played by each financial safety net participant, and the PPOs each of them should achieve. Thus, it is necessary and timely to update the survey and explore more issues in this area.

The main focus of this paper will include the three issues addressed by FSF in its paper in 2000 and take into considerations of the following: 1) Identifying the changes and future new trends in public policy objectives and the rationale behind; 2) Reviewing whether the existing mandate and powers are clearly apparent or align with the objectives and examining the existing gaps; and 3) Examining the appropriate interval for a review of the public policy objectives and what indicators can be used to determine the extent to which a deposit insurance is meeting its PPOs.

Issues to Be Addressed

Deposit insurers and other interested parties are invited to comment on their experiences as they relate to the issues to be addressed below.

A. The elements and process of public policy objectives

- What forms of the deposit insurance (e.g. explicit or implicit) exist in your country? What are the public policy objectives for your country's deposit insurance system? Are the objectives stated explicitly (for example, through a legislative mandate) or implicitly (by the way a particular activity is conducted or structured)?
- What processes are used to determine public policy objectives in your country? What parties are involved in determining these objectives? What are the pros and cons of the current process?
- What conditions shall be taken into consideration when selecting public policy objectives (e.g. the state of the economy, the legal and supervisory framework, the structure of the banking system, and the quality of accounting etc.)? What are the three most important factors?
- In your practical experiences, what are some of the tradeoffs and potential conflicts associated with your country's public policy objectives (i.e. how do policy choices affect other objectives)?
- In your experiences, are there public policy objectives that are more easily accomplished than others?

B. The degree of coherence between the objectives and the way the deposit insurance system is structured

- What is the administration/governance arrangement for your country's deposit insurance system (e.g. a government department under central bank or other departments, an independent public entity, a private entity, or joint administration)?
- How have your public policy objectives affected the design features of your deposit insurance system (e.g. mandate, powers, funding and organization)?
- Does the design and operation of the current deposit insurance system meet your objectives? What existing structural issues create gaps between public policy objectives and mandate and powers?
- What are the public policy objectives of other financial safety-net players? Is there any conflict among the public policy objectives of different financial safety-net players? If yes, what are the conflicts and the impacts?

C. The past changes and future trends of public policy objectives

- Have your public policy objectives ever been changed? What were those changes? Indicate the reasons behind the changes.
- What do you think the future public policy objectives can be (e.g. consumer protection, managing public expectation and confidence, risk minimizing, and etc.)?
- Have the recent financial crises around the world caused any impact on the public policy objectives of your deposit insurance system? Do you consider revising the objectives after such crises?
- Do the recent highly concerned cross-border issues affect the context of your public policy objectives? Will they bring any changes and in what way?
- Do the public policy objectives of your deposit insurance system in normal time differ from those in a financial crisis?
- Is there any existing public policy objective that is inappropriate for your country and should be removed? Indicate the reasons behind.
- How long shall a deposit insurer review its public policy objectives? In what conditions shall a deposit insurer modify the objectives to account for the new circumstances?

Research Methodology

The work will be conducted by a Public Policy Objective Subcommittee of the IADI's Research and Guidance Committee (RGC) that is composed of IADI members.

A. Literature Reviews

- A review of relevant literature and case studies that reported the analysis of public policy objectives for deposit insurance system.
- A study of the experiences of IADI members in selecting, implementing and reviewing their objectives.

B. Survey

- Considering that the International Deposit Insurance Survey (IDIS)² has incorporated some fundamental questions of PPOs, the Subcommittee will take advantage of its survey results and make the first analysis. If the preliminary information is not sufficient enough and it may require an additional survey, a questionnaire will be circulated to the IADI members and other non-IADI deposit insurers.³ The RGC members are asked to coordinate and follow up the survey in order to reach high response rates.
- After the collection and analysis of the survey findings, for some sensitive or critical issues and questions worth being studied further in details, a focus group consisting of Public Policy Objective Subcommittee members and some interested parties may be set up to discuss the findings in depth.

C. Preparation for the Discussion Paper

- A draft Discussion Paper will be prepared by the Public Policy Objective Subcommittee. The Subcommittee will also follow the procedure stated in the "Strategic Plan for the Development and Promotion of IADI Research, Guidance and Core Principles" to complete this research project.

² International Deposit Insurance Survey (IDIS) was conducted by the Canada Deposit Insurance Corporation in 2008.

³ The Public Policy Objective Subcommittee will coordinate with the IADI's Data and Information Subcommittee while conducting an independent survey for this research project.

Members of the Sub-Committee

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Research Schedule

Timelines	Deliverables
March 2009	<ul style="list-style-type: none"> Completion of detailed research outline and work plan/research plan

Timelines	Deliverables
June 2009	<ul style="list-style-type: none"> • First analysis on the IDIS findings of PPO related questions
July 2009	<ul style="list-style-type: none"> • Circulation to PPO subcommittee members and Guidance Group for final comments on research plan • Approval of RGC for research plan
August 2009	<ul style="list-style-type: none"> • Posting of research plan on IADI website for public consultation
September 2009	<ul style="list-style-type: none"> • Comments due by public consultation
October 2009	<ul style="list-style-type: none"> • Release of a further survey to deposit insurers
December 2009	<ul style="list-style-type: none"> • Collection of survey responses (First round: PPO Subcommittee and RGC members)
February 2010	<ul style="list-style-type: none"> • Collection of survey responses (Second round: Other IADI and non-IADI members)
March 2010	<ul style="list-style-type: none"> • Collection of survey responses (Third round)
May 2010	<ul style="list-style-type: none"> • A focus group discussion held along with the IADI meetings
August 2010	<ul style="list-style-type: none"> • First draft sent to Subcommittee members for reviews and comments
October 2010	<ul style="list-style-type: none"> • First draft revised based on the comments from Subcommittee and sent to RGC for reviews and comments
December 2010	<ul style="list-style-type: none"> • Second draft approved by RGC and sent to Guidance Group and Advisory Panel for reviews and comments
February 2011	<ul style="list-style-type: none"> • Final draft sent to EXCO for approval after the review of GG
May 2011	<ul style="list-style-type: none"> • Final draft posted on IADI website for public consultation