



## Profile – Deposit Insurance Fund – Czech Republic

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Josef Tauber, President of the Board of Administration signing the IADI statutes

The Fund was established in December 1994 in response to the absence of obligatory insurance of deposits covering all banks. At that time, the state guaranteed deposits of natural persons only in the case of several selected major banks. Given the extensive restructuring of the banking system, coupled with the establishment of many new banks in the early 1990s, this situation entailed the introduction of obligatory insurance of deposits covering all banks, including branch offices of foreign banks on the territory of the Czech Republic. The main objective of the deposits insurance system introduction was to increase the protection of banks' clients and to strengthen the confidence, security and stability of the banking system as a whole.

The main activity of the Fund is to compensate authorized persons for their receivables from deposits. Further activities include administration and recovery of receivables from banks as part of bankruptcy, liquidation and composition proceedings pending, securing and managing of financial resources and deepening of co-operation and integration within the framework of existing or arising structures of the European Union and the World.

All banks and branch offices of foreign banks are obliged to participate in the system and contribute to the Fund. The annual premiums are flat but they differ by type of institution (bank or building savings bank). Insurance applies to all receivables from deposits in the Czech or foreign currencies when requirements for the identification of depositors are met. Insurance does not apply to receivables from banks, financial institutions, health insurance companies and state deposits. Receivables from subordinated debt, bills of exchange and other securities are not insured either. Compensation for an insured receivable from a deposit are granted both to natural and legal persons up to an amount of 90% of all insured deposits made by one depositor with one bank, a maximum amount being, however, an equivalent of € 25 000. Compensation for foreign exchange deposits is disbursed in the Czech currency.

The Fund may generate its revenues by investing its financial reserves. Investment limits set by the Board make it possible to invest reserves into government bonds, bonds of other credible issuers (at least rated at the level of S&P A-) and to a limited extent also into bonds issued in foreign currencies (€ and USD). However, government bonds must make up at least 50 per cent of the total value of the portfolio. Today, 80 per cent of the Fund's portfolio is managed by professional investment managers. Other possible financial sources are proceeds from liquidation of the failed banks. The Fund does not have receivership powers but, usually, being the biggest creditor of a failed bank it plays an important role in a receivership process as a member of creditor's committee.

In case the Fund's reserves are not sufficient to disburse compensation, the Fund has to acquire any and all funds on the market. There is no government guarantee for its borrowing.

The Fund is an independent institution managed by a five-member Board of Administration. The president, vice president and the other members of the Board are appointed and removed by the Finance Minister. At least one member of the Board is appointed from among employees of the Czech National Bank and at least two members are appointed from among members of the boards of directors of banks. The Board is the statutory body of the Fund and manages its activities. The Board appoints Managing Director, who is at the head of the Fund's executive staff. The Fund has a permanent staff of 5 people, outsourcing is used for legal service, accounting, IT and asset management.