Impact of the COVID-19 Pandemic on Deposit Insurance and Financial Stability

IADI Survey Results - Summary

IADI APRC Webinar – "Preparing Our Path to the New Normal"

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THE WORLD BANK

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I. Survey purpose and parameters

To collect information from IADI Members on the impact of the COVID-19 crisis on their financial sector and the measures taken by deposit insurers and regulatory authorities.

1) Survey distributed on 26 March 2020 and 42 responses to-date.

2) Additional survey information provided by the IADI Asia-Pacific Regional Committee and the Bank Guarantee Fund of Poland.

3) IADI Briefing Note on: *Ensuring Business Continuity and Effective Crisis Management Activities for Deposit Insurers* was prepared for Members at: https://www.iadi.org/en/news/recent-iadi-covid-19-survey-results-and-briefing-note-on-ensuring-business-continuity-and-effective-crisis-management-activities-for-deposit-insurers/

3) Database available to Members with detailed information on each deposit insurers' responses:
https://www.ebis.org/rooms/IADI/CouncilCommittee/CPRC/Covid19/Pages/default.aspx

Note: A special thank you to Ryan Defina of the IADI Secretariat for his work in designing and implementing the Survey and for constructing the Survey database.

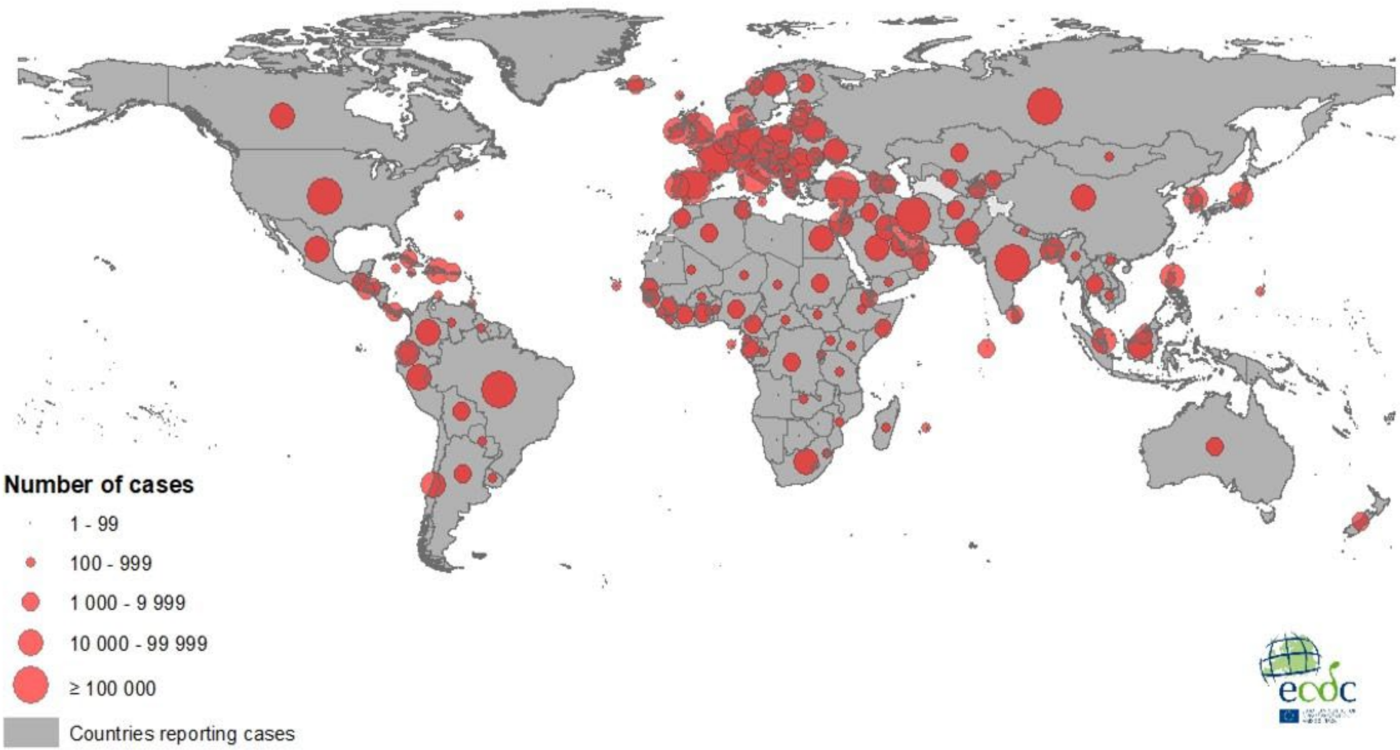
Survey respondents

Albania	Albanian Deposit Insurance Agency
Canada	Canada Deposit Insurance Corporation
Canada (Québec)	Autorité des marchés financiers
Chinese Taipei	Central Deposit Insurance Corporation
Colombia	Guarantee Fund of Cooperative Entities / FOGACOOP
Colombia	Fondo de Garantías de Instituciones Financieras (FOGAFIN)
Czech Republic	Deposit Insurance Fund
Ecuador	Corporación del Seguro de Depósitos (COSEDE)
Finland	Finnish Financial Stability Authority
Ghana	Ghana Deposit Protection Corporation
Greece	Hellenic Deposit and Investment Guarantee Fund (TEKE)
Hong Kong SAR	Hong Kong Deposit Protection Board
Indonesia	Indonesia Deposit Insurance Corporation
Japan	Deposit Insurance Corporation of Japan
Jamaica	Jamaica Deposit Insurance Corporation
Kazakhstan	Kazakhstan Deposit Insurance Fund JSC
Kenya	Kenya Deposit Insurance Corporation
Korea	Korea Deposit Insurance Corporation
Kyrgyz Republic	Deposit Protection Agency of the Kyrgyz Republic
Malaysia	Malaysia Deposit Insurance Corporation
Mexico	Instituto para la Protección al Ahorro Bancario
Mongolia	Deposit Insurance Corporation of Mongolia (DICoM)
Montenegro	Deposit Protection Fund
Palestine	Palestine Deposit Insurance Corporation
Philippines	Philippine Deposit Insurance Corporation
Poland	Bank Guarantee Fund
Romania	Bank Deposit Guarantee Fund
Russian Federation	Deposit Insurance Agency
Saudi Arabia	Saudi Arabian Monetary Authority
Spain	Fondo de Garantia de Depositos de Entidades de Credito
Switzerland	esisuisse
Thailand	Deposit Protection Agency
Turkey	Savings Deposit Insurance Fund (SDIF)
Ukraine	Deposit Guarantee Fund
United Kingdom	Financial Services Compensation Scheme
United States	Federal Deposit Insurance Corporation
Vietnam	Deposit Insurance of Vietnam
West African MU	West African Monetary Union Deposit Insurance Fund

II. Observations on macro impacts

COVID-19 has created a series of unprecedented world-wide shocks:

a) a major health crisis;
b) a severe shock to the real economy; and
c) serious repercussions for the financial sector and deposit-taking institutions.



- **Industries such as travel, tourism and hospitality have been severely affected**; trade and supply chains have been disrupted; investments have been put on hold; and business and consumer spending have fallen sharply.

- Most **Central Banks have lowered policy interest rates** (in some cases moving further into negative territory) and are providing a range of measures to support the functioning of their financial markets and institutions.

- **Governments** are now providing support to furloughed workers, households and distressed firms.

- The **banking industry** in many jurisdictions has been affected by heightened volatility in capital markets, trading environments and a deterioration in asset values and the credit worthiness of many borrowers.

Financial sector policy responses include:

1) **Heightened monitoring of solvency and liquidity.** Many regulatory requirements in areas such as capital and liquidity standards and loan provisioning are being adjusted and implementation of new regulatory requirements delayed.

2) **Group of Central Bank Governors and Heads of Supervision** endorsed on 27 March measures to provide additional operational capacity for banks and supervisors to respond to the crisis:

   a) Basel III implementation deferred by 1 year to Jan 2023. Accompanying transitional arrangements for the output floor extended to 1 Jan 2028.

   b) Implementation date of the revised market risk framework deferred by one year to 1 Jan 2023.

   c) Implementation date of revised Pillar 3 disclosure requirements deferred one year to 1 Jan 2023.

Other regulatory and policy responses include:

1) Temporarily reducing countercyclical capital buffers, the lowering of liquidity coverage ratios, and changes to provisioning standards. Key objectives are:

    - Use buffers to temporarily facilitate lending and economic support.
    - But, ensure use of buffers does not endanger long-term health of banks.
    - Transparency on bank actions helps to assure authorities, markets and public that the temporary reduction of buffers is applied appropriately.

2) Instituting temporary deferral agreements on certain types of loans so that deposit-taking institutions can continue to treat the loans as performing under regulatory capital requirements.

3) Postponement of non-critical reporting (and consultations on future regulations). Some postponement of planned system-wide stress testing/simulations.

4) FSB to coordinate standard-setting bodies (SSBs) to monitor and share information and address financial stability risks from COVID-19.

III. Specific implications for Deposit Insurers

Survey highlights include:

1) **Introducing extensive health controls have had a major impact on virtually all deposit insurance system operations.**

2) **Most deposit insurers have been quick to implement their Business Continuity Plans (BCPs) and crisis management frameworks** to ensure key functions and operations are maintained (e.g. premium collection and reimbursement systems) and to support full system readiness.

    - Examples include Switzerland's esisuisse and Spain's FGD which have included a range of scenarios and planned responses in their BCPs.

3) **Enhanced information sharing with other safety-net participants is taking place in majority of systems.**

4) **Greater efforts made to keep the public aware and informed about deposit insurance and the safety of their insured deposits.**

   - Social media (e.g. Facebook and Twitter) has become particularly prevalent in jurisdictions such as Colombia, Indonesia, Hong Kong, Kenya and Mexico for promoting awareness of deposit insurance and calming concerned depositors.

5) **Numerous deposit insurers have acted to temporarily suspend or reduce some requirements, delay previously planned stress testing, and reduce data collection to critical items.**

6) **Some deposit insurers are providing time extensions for member institutions to make premium payments** (although majority have opted not to do so).

   - E.g. AMF (Quebec) and the CDIC-Canada decided to delay or extend premium collection periods.
   - Russia DIA reported a slight reduction in premium rates in certain categories.

7) **Monitoring of member institutions have been heightened including updating and revising periodic risk assessments of their members.**

   - Examples include the Malaysia Deposit Insurance Corporation and US FDIC. Particular attention is being paid to monitoring liquidity conditions.

8) **Unlike the global financial crisis of 2008, the vast majority of deposit insurers have not opted to increase either the level or scope of deposit insurance coverage.**

   - Thailand DPA temporarily postponed a planned coverage reduction which was part of its longer-term blanket guarantee transitioning programme.

9) **Depositor reimbursement and resolution readiness has been prioritised.** Many deposit insurers are reviewing their own policies and procedures (e.g. use of single customer views, stress testing) and other systems to ensure rapid payouts.

   - Examples of payouts conducted during the pandemic (but not caused by the pandemic) include Philippines and Austria deposit insurers.

COVID-19 AND THE IADI CORE PRINCIPLES

16 Core Principles	Main COVID-19 Impacts

1. Public policy objectives
2. Mandate and powers
3. Governance
4. **Relationships**
5. Cross-border issues
6. **Crisis management**
7. Membership
8. Coverage
9. **Sources and uses of funds**
10. **Public awareness**
11. Legal protection
12. Dealing with parties at fault
13. Early detection and intervention
14. Failure resolution
15. **Reimbursing depositors**
16. Recoveries

IV. Some reflections

1) **Initial impacts** on financial systems severe but mitigated to some degree by intervention from central banks, governments, supervisors and deposit insurers.

2) **Post-2008 reforms** have made banking systems generally stronger and more resilient.

3) **IADI Core Principles** stressing contingency planning and crisis management, information sharing and coordination, public awareness, funding and payout resolution readiness particularly relevant.

4) **Impacts on deposit-taking institutions showing up in areas such as:**
    - Earnings, NPLs and loan losses.
    - Deposit growth (up in some jurisdictions, down in others).

5) Going forward:

- According to consensus forecasts, economic and financial sector recovery in most jurisdictions likely to be slow to moderate.

- Post COVID impact on deposit-taking institutions needs to be closely monitored:
  - To ensure use of buffers and other regulatory relaxations are temporary and do not jeopardise long-term health of banks.
  - Institutions that were weaker before the pandemic likely to become more vulnerable afterwards.

- Deposit insurance systems generally focusing on business continuity, monitoring member financial conditions, public awareness and ensuring readiness for payouts and other resolutions.

- Some evidence use of digital finance has accelerated in COVID environment (e.g. contactless payments, digital stored value products/deposits) and likely to continue.

THANK YOU

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