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## **Consultation Response to the IADI Core Principles (May 2025 Draft)**

Submitted by: Linh Nguyen, University of St Andrews, UK

### **General Comments**

I commend the International Association of Deposit Insurers (IADI) for the comprehensive and forward-looking revision of the Core Principles for Effective Deposit Insurance Systems. The May 2025 draft reflects a significant evolution in deposit insurance design, particularly in light of systemic crises, digital transformation, and growing environmental and social risks.

The principles are well-articulated and structured. However, based on experience working with financial systems in developing and emerging markets, I offer the following comments to improve clarity, adaptability, and implementation, particularly for jurisdictions with limited institutional capacity or greater structural vulnerability.

### **Specific Feedback by Core Principle**

#### **1. Core Principle 3 – Governance**

##### **Suggestions:**

- 1) Include specific guidance for jurisdictions where deposit insurers operate within supervisory authorities or central banks. In such cases, overlapping mandates can blur lines of accountability and impair operational independence. This is particularly critical where the central bank also functions as a lender of last resort, as conflicting roles may inhibit timely intervention or resolution decisions. Providing examples of effective governance models under such arrangements, such as clear internal firewalls, separate decision-making processes, or dual-accountability structures would improve the practical application of this Core Principle.
- 2) Essential Criteria, Item 2: *“The governing body of the deposit insurer is held accountable to a higher authority.”* The term “higher authority” should be clarified. IADI should define what constitutes a valid “higher authority” by outlining expected characteristics (e.g., independence, oversight capacity, legal authority) and providing illustrative examples such as Parliament, the Ministry of Finance, or an independent board. This would support consistent interpretation and effective implementation across jurisdictions, and improve the objectivity of compliance assessments.

#### **2. Core Principle 5 – Legal Protection**

##### **Suggestions:**

- 1) To promote a balanced and resilient legal framework, consider including explicit guidance on whistleblower protections and procedures that shield deposit insurer staff from politically motivated legal action. These safeguards are especially important in

jurisdictions where legal and institutional protections are limited or inconsistently applied. Clear protections can reinforce ethical conduct, enhance operational independence, and build staff confidence in fulfilling their mandates without fear of retaliation.

### **3. Core Principle 8 – Coverage**

#### **Suggestions:**

- 1) Recommend tools or benchmarks to help jurisdictions calibrate coverage levels in high-inflation or volatile exchange rate environments, to preserve the real value of deposit protection and ensure credibility.
- 2) Provide more detailed guidance for jurisdictions transitioning from blanket guarantees to limited coverage, particularly in post-crisis contexts. This could include examples of phased implementation approaches and effective public communication strategies to manage expectations and avoid destabilizing depositor behaviour.

### **4. Core Principle 9 – Funding**

#### **Suggestions:**

- 1) Acknowledge the need for flexibility in jurisdictions where building and maintaining fully funded ex-ante deposit insurance schemes is operationally or fiscally challenging. Recommend that such jurisdictions consider adopting hybrid funding models, which combine modest ex-ante funds with pre-arranged ex-post levies and public backstop arrangements, to ensure timely availability of resources.
- 2) Encourage contingency planning for small, low-income, or highly interconnected jurisdictions, particularly those within currency unions where access to emergency liquidity may be more complex. This could include drafting legal provisions for extraordinary assessments, establishing agreements with fiscal authorities, and simulating multi-bank failure scenarios to ensure crisis readiness.

### **5. Core Principles 4 (Business continuity), 11 (Crisis preparedness and management), and 15 (Reimbursement)**

#### **Suggestions:**

To strengthen the Core Principles' relevance in a rapidly evolving digital environment, consider incorporating explicit guidance on how deposit insurers should address risks arising from digital innovation, cyber threats, and emerging technologies. These risks increasingly affect the operations of both deposit insurers and insured institutions, particularly in jurisdictions with high fintech penetration or digital-only banks.

#### **Specifically:**

- 1) *Core Principle 4* could be expanded to require deposit insurers to include cyber risks, IT system failures, and third-party technology service disruptions in their business continuity planning, testing, and recovery strategies.

- 2) *Core Principle 11* could include reference to digitally triggered crisis scenarios such as cyberattacks or social media-amplified depositor runs as part of coordinated simulation exercises and early-warning mechanisms.
- 3) *Core Principle 15* could provide guidance on how to operationalize timely and secure reimbursement for digital-only banks, and the use of non-traditional payout channels such as mobile wallets, online platforms, or agent networks.

These additions would support the resilience of deposit insurance systems in the digital era and promote effective depositor protection across varied technology models.

## **6. Cross-Cutting Recommendation – Proportionality and Phased Implementation**

### **Suggestion:**

- 1) Consider developing an annex or guidance note outlining how jurisdictions can phase in the Core Principles based on institutional maturity and resource availability. Prioritization pathways could help deposit insurers and policymakers in fragile or low-capacity states take a staged approach to compliance.

### **Conclusion**

The revised Core Principles are a critical framework for strengthening depositor protection and maintaining financial system stability. These suggestions aim to support their practical implementation across diverse institutional contexts. I appreciate the opportunity to contribute to this public consultation and am available to discuss any of the above points in further detail.

**Yours sincerely,**



Linh Nguyen, PhD  
Associate Professor of Banking and Finance  
Department of Finance, University of St Andrews Business School  
Email: [lh2@st-andrews.ac.uk](mailto:lh2@st-andrews.ac.uk)  
Profile: <https://www.st-andrews.ac.uk/business-school/people/finance/lh2/>