

Submission in Response to the IADI Public Consultation on the Revised Core Principles for Effective Deposit Insurance Systems

Submitted by

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Acknowledgement

I wish to thank the International Association of Deposit Insurers (IADI) for the opportunity to participate in this important public consultation on the proposed revisions to the Core Principles for Effective Deposit Insurance Systems. The initiative to reflect on critical developments in the financial landscape—particularly the impact of digital transformation, the evolving role of deposit insurers in resolution frameworks, and the integration lessons learned from the March 2023 banking turmoil—is both timely and necessary.

Summary of Submission

The proposed enhancements below aim to support IADI's objectives by addressing critical developments across three domains:

- The **real-time demands of a digital banking environment**,
- The **evolving mandates** of deposit insurers globally, and
- The **imperative of seamless coordination** within the financial safety net, especially in light of systemic stress events such as those witnessed in 2023.

Specific enhancements have been proposed for:

- **Principle 14** – Strengthening resolution coordination and simulation protocols;

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- **Principle 15** – Promoting zero-day payouts through digital infrastructure and real-time data;
- **A New Core Principle (CP17)** – Introducing AI, digital monitoring, institutional self-resolvability, and ethical governance.

Suggested Revisions to IADI Core Principles for Effective Deposit Insurance Systems

Principle 14 – Failure Resolution

An effective failure resolution regime should enable the deposit insurer to provide for protection of depositors and contribute to financial stability. The legal framework should include a special resolution regime.

Revised Essential Criteria 3

Where multiple safety-net participants are responsible for resolution, the legal and institutional framework must clearly define and allocate the respective objectives, mandates, and powers of each authority. This allocation should ensure there are no material gaps, overlaps, or inconsistencies. Furthermore, robust and formalized coordination arrangements—particularly for cross-border banks, including global systemically important banks (G-SIBs)—must be in place. These arrangements should incorporate well-defined protocols, information-sharing mechanisms, and the regular conduct of joint crisis management exercises and failure simulations to enhance preparedness and effective execution of resolution strategies.

Key Enhancements in the Revision

- Clarifies the legal and institutional framework, incorporating regulatory, operational, and organizational elements.
- Strengthens the emphasis on coordination, particularly for G-SIBs, through robust and formalized arrangements.
- Specifies tools such as joint crisis exercises and failure simulations, aligning with the Financial Stability Board’s Key Attributes.

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- Improves clarity and assessment usability across jurisdictions.

Principle 15 – Reimbursing Depositors

The deposit insurance system should reimburse depositors' insured funds promptly in order to contribute to financial stability. There should be a clear and unequivocal trigger for insured depositor reimbursement.

Revised Essential Criteria 1

The deposit insurer can grant access to all insured depositors using pre-positioned depositor data, real-time monitoring systems, and automated or digital payout mechanisms, with the aspirational goal of achieving instant or near-instant reimbursement in the future. To support immediate depositor confidence, jurisdictions are encouraged to adopt mechanisms that enable insured depositors to access a defined portion of their covered deposits on a preliminary basis, drawing on validated depositor records, even while the full resolution methodology is being implemented. These arrangements should be secure, legally sound, and supported by predefined operational protocols that are routinely tested through simulations and fully integrated into broader financial safety-net coordination exercises.

Key Improvements

- Emphasizes a credible, time-bound plan for jurisdictions building capacity.
- Introduces forward-looking elements such as zero-day payouts to encourage innovation.
- Encourages use of real-time tools and digital mechanisms for rapid depositor access.
- Embeds crisis-testing to verify operational readiness.

Revised Essential Criteria 10

The legal and operational framework for resolution clearly defines the role of the deposit insurance system. Where applicable, the deposit insurer is granted powers and responsibilities consistent with its mandate to participate in resolution planning, provide timely funding support (for example, to facilitate a transfer transaction or

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bridge bank), and contribute to decision-making processes. Arrangements for coordination and information-sharing between the resolution authority and the deposit insurer are formalized and regularly tested through simulations or crisis exercises.

Rationale for Inclusion

1. Evolution of DIS Mandates

Many deposit insurers today operate beyond paybox systems and function as loss or risk minimizers. These broader mandates often include participation in resolution planning and execution. Recognition of this role is essential.

2. Alignment with FSB Key Attributes

The FSB Key Attributes highlight the need for deposit insurers to participate in resolution, especially for domestic and global systemically important banks. This addition ensures alignment with global standards.

3. Clarifying Institutional Coordination

Resolution activities often involve the central bank, supervisory authorities, the ministry of finance, and the deposit insurer. Clear legal provisions defining the DIS role prevent ambiguity and fragmentation in execution.

4. Improved Crisis Preparedness

Participation of the DIS in simulations, early warning systems, and resolution playbooks increases resilience and contributes significantly to successful outcomes.

Proposed Core Principle 17 – Promoting Self-Resolvability and Digital Innovation in Deposit Insurance

Principle Statement

A continuously evolving, effective, and agile deposit insurance system promotes institutional self-resolvability and systemic stability by leveraging artificial intelligence, machine learning, and digital technologies. These tools should be used ethically and responsibly not only to support traditional payout and resolution roles but also to enable early intervention, predictive surveillance, and dynamic resolution

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preparedness. In coordination with other safety-net participants, the deposit insurance system actively contributes to minimizing the likelihood and systemic impact of bank failures through intelligent, ethical, and real-time monitoring frameworks.

Essential Criteria

1. AI-Driven Early Warning Systems

The DIS has the authority and capability to deploy AI and ML-based early warning systems that monitor capital adequacy, liquidity, asset quality, interdependencies, and market behaviours. These systems generate alerts for pre-resolution action in coordination with supervisory authorities.

2. Institutional Self-Resolvability Frameworks

The DIS supports institution-specific self-resolvability through predictive resolution playbooks, resolution simulations, and dynamic living wills that incorporate real-time data.

3. Digital Infrastructure for Risk Surveillance

The DIS operates or is integrated into a secure, real-time platform for data exchange with insured institutions, resolution authorities, and safety-net participants. Protocols ensure confidentiality, data integrity, and international operability.

4. Risk-Proportional Contribution Models

AI models dynamically adjust contribution rates based on risk profiles, resolvability, and systemic relevance. These models are regularly reviewed to ensure fairness and precision.

5. Scenario-Based Testing and Crisis Simulations

The DIS conducts simulations using AI-generated stress conditions, evaluating both institutional and inter-agency readiness.

6. Governance, Ethics, and Transparency in AI Use

All AI systems must operate within a governance framework that ensures fairness, transparency, accountability, and legal compliance. The DIS discloses its use of AI and ensures adherence to ethical data practices.

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Why This Core Principle Is Needed

- Responds to the transformation brought by AI and digital tools in financial oversight.
- Supports cost-effective, predictive, and risk-sensitive frameworks.
- Aligns IADI standards with global regulatory trends, especially for G-SIBs.
- Elevates the DIS role as a proactive partner in stability and resolution planning.

Strategic Value of Core Principle 17

This new principle does not replace Core Principles 13 to 16, but rather modernizes them by:

- Embedding AI and digital infrastructure into operational readiness.
- Supporting proactive rather than reactive DIS functions.
- Enabling earlier and more cost-effective interventions.
- Reinforcing global shifts toward real-time systemic oversight and enhanced resolvability.

Conclusion

These enhancements seek to ensure that the IADI Core Principles reflect the realities of modern banking and deposit insurance functions. In particular, they prepare the global deposit insurance community for a digital, data-driven future while addressing risks from bank failures more effectively.

I would be pleased to support further elaboration of these proposals in a formal policy paper or serve in a collaborative capacity within IADI-led initiatives.

Respectfully submitted

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