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# The “Safe” in the Financial Safety Net—Building Robust Deposit Insurance Systems

Prepared by Atilla Arda, Marc Dobler, Peter Mugisa, Jan Nolte, and David Parker

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DEPARTMENTAL PAPER



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## Executive Summary

This paper summarizes IMF staff views on key policy issues on establishing and strengthening deposit insurance systems (DIS) for commercial banks. The last IMF publication covering IMF staff views on the full spectrum of deposit insurance policy issues was published in 2006. This predated the 2008 global financial crisis and subsequent adoption of the Core Principles for Effective Deposit Insurance Systems (Core Principles, CP) by the International Association of Deposit Insurers (IADI). Although the principles are widely applicable, their implementation calls for careful consideration of country-specific aspects. In addition, the Core Principles are neutral on some key aspects on which IMF staff are often called upon to provide advice. This paper summarizes the most recent staff views on those aspects of deposit insurance, including conjunctural and structural challenges.

To be effective, any DIS must be fully embedded in the financial safety net and subject to robust governance arrangements. Countries with weak banks or banking supervision or without an effective resolution regime should address these challenges before introducing deposit insurance or raising existing deposit insurance coverage. When introducing a DIS, authorities should consider integrating this function within their resolution authority (RA) because the close overlap between bank resolution and depositor protection offers important synergies. Wherever located, the deposit insurance function needs a strong public mandate, be subject to robust governance arrangements, and be fully integrated within the financial safety net, including putting in place strong arrangements for information exchange and coordination within the safety net.

Depending on country-specific circumstances, IMF staff generally recommend that deposit insurance funds (DIFs) be made available to support bank resolution subject to appropriate safeguards (such as a least-cost test). DIFs reimburse insured deposits or can contribute funds to a resolution in which these deposits are protected. In either case, prompt compensation of insured deposits critically helps maintain public confidence in the banking system. Using DIFs in resolution, for example, to transfer deposits to a healthy bank, provides better continuity of depositor services than paying out insured deposits and is typically less costly for the DIF. A DIS that still operates under a narrow paybox mandate should consider updating to a paybox-plus mandate. RAs may, however, be best suited to execute deposit transfers rather than, and in close coordination with, the deposit insurer. In this context, depositor preference has an important impact on resolution funding.

Any DIS needs readily available and adequate funding, including a public backstop, and the target level should be informed by expert analysis and judgment. To ensure prompt compensation and instill depositor confidence, a DIF must be well funded. A sufficiently high and predetermined reserve fund target ratio is important to credibly cover future obligations and mitigate procyclical calls on member banks. Determining the appropriate level of ex ante funding is typically best informed by expert judgment, for example, using a rule of thumb to look at the funding needed to cover insured deposits in a certain number of small- and medium-sized banks if these were to fail concurrently. A DIF should have access to a public backstop from its inception, considering that raising sufficient funds will likely take years and extraordinary funding from the markets or from member banks will likely be constrained at times of financial stress.

The deposit insurance coverage level should be calibrated to the deposit structure in the system, ensuring that most retail (lower value) deposits are covered in full. An overly high coverage level can impact competition in the financial sector, induce moral hazard, and compromise the affordability of deposit insurance. Very high coverage would not be affordable because it would be financially burdensome on banks and would take much longer to reach the target level for a DIF. Moreover, the lack of a credible public backstop (for example, because of insufficient fiscal space of the sovereign) in some countries could draw into question

depositor confidence in the DIS. Small- and medium-sized enterprises should be covered as these are similar to retail customers in terms of their ability to assess bank risk. Foreign-currency-denominated deposits should be insured if they are widely used. Membership should be mandatory for all licensed deposit-taking banks to avoid adverse selection. Whether and how to extend deposit insurance to nonbank deposit takers warrants a thorough assessment of the associated risks and financial stability benefits and should be carefully sequenced.

The paper also briefly focuses on conjunctural and structural challenges facing policy makers globally, including the following:

- The challenge to ensure prompt access to insured deposits in a world of 24/7 payments
- The adequacy of deposit insurance funding, including credible public backstops
- The role of deposit insurance in resolution and coordination with RAs
- The coverage of fintech products and of high-balance accounts
- Public awareness as a critical and challenging aspect of robust deposit insurance

# Acronyms and Abbreviations

Core Principles	Core Principles for Effective Deposit Insurance Systems
CP	Core Principle
DIA	deposit insurance agency
DIF	deposit insurance fund
DIS	deposit insurance system
EMDEs	emerging markets and developing economies
EMI	electronic money issuer
FSB	Financial Stability Board
FX	Foreign exchange
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
P&A	purchase and assumption
RA	resolution authority
SCV	single customer view
SME	small and medium-sized enterprise



# 1. Introduction

Deposit insurance is critical for depositor confidence and financial stability. The principal public policy objectives of a deposit insurance system (DIS) are to protect depositors and contribute to financial stability. A credible DIS that is trusted, in particular by small, retail depositors, reduces the risk of deposit runs and mitigates contagion risk, thereby enhancing the likelihood of successful bank recovery or resolution measures. If depositors lose confidence, as happened in some banks during the global financial crisis (2008–09)—including in Iceland, the United Kingdom, and the United States—runs can lead to contagion and exacerbate financial instability. A well-designed, funded, and integrated DIS is therefore a critical component of any financial safety net.<sup>1</sup>

## A. The Global Financial Crisis Lessons

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Experience during the global financial crisis illustrated the importance of effective deposit insurance and prompted important enhancements globally. These include higher coverage levels, elimination of coinsurance, faster payouts, ex ante funding, and better interagency cooperation (IADI 2012a; IMF 2020a). Prior to the global financial crisis, there was no international standard for deposit insurance. To address key gaps in the financial safety net,<sup>2</sup> the International Association of Deposit Insurers (IADI) issued the first version of the Core Principles for Effective Deposit Insurance Systems (Core Principles, CPs) and the Financial Stability Board (FSB) developed the Key Attributes of Effective Resolution Regimes for Financial Institutions (FSB 2014).

## B. The 2023 Banking Turmoil

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The banking turmoil of March 2023 in the United States and Switzerland initiated a discussion about effective deposit insurance coverage. Although postmortems of the turmoil and its bank failures mainly centered on the effectiveness of supervision and the readiness of resolution regimes, aspects of deposit insurance also came to the fore (IADI 2023). The failed banks in the US had a large share of uninsured deposits, which sparked a debate about the scope and adequacy of deposit insurance coverage (FDIC 2023). The distressed banks also experienced rapid deposit outflows, to which 24/7 banking and other technological advancements, such as social media, may have contributed. In this context, shifting expectations from depositors regarding the speed of compensation delivered by the DIS are being discussed.

## C. Evolution of DIS Standards

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The Core Principles were adopted in 2009, revised in 2014 after the incorporation of further policy lessons from the global financial crisis and were updated again in 2025.<sup>3</sup> The CPs set a benchmark for establishing or strengthening a DIS, against which countries can judge their own system’s effectiveness. In its 2012 peer review report (FSB 2012), the FSB noted that “the role of deposit insurance in promoting financial stability has taken precedence over concerns about contributing to moral hazard [and that] just over half of all respondents expanded [deposit insurance] coverage . . . and made structural improvements to their

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<sup>1</sup> This paper uses the terms deposit and bank broadly, and bank and deposit taker interchangeably, and they potentially cover different legal forms such as mutuals and cooperatives. The financial safety net comprises early intervention (including recovery measures), bank resolution, deposit insurance, and idiosyncratic liquidity assistance.

<sup>2</sup> IMF (2014) summarizes the following key gaps as inadequate: (1) resolution powers and tools, (2) cross-border cooperation frameworks, and (3) mechanisms for loss allocation.

<sup>3</sup> The 2014 Core Principles are complemented by an Assessment Handbook: [https://www.iadi.org/uploads/IADI\\_CP\\_Assessment\\_Handbook\\_FINAL\\_14May2016.pdf](https://www.iadi.org/uploads/IADI_CP_Assessment_Handbook_FINAL_14May2016.pdf).

national schemes.” A 2014 paper (Demirgüç-Kunt, Kane, and Laeven 2014) found that deposit insurance had become more widespread, with a higher level of coverage, since the global financial crisis. Another notable change is that, over time, more deposit insurance funds (DIFs) have been allowed to fund certain resolution strategies that support the continuity of deposit access.

IADI has recently revised the Core Principles (IADI 2025). The revisions include clarifying the interaction of deposit insurance with resolution about information exchange and coordination, crisis management, and the use of a DIF in resolution funding. A new core principle was added to underline the importance of business continuity management. New essential criteria give guidance for systems that use differential coverage systems or payment commitments and regarding the replenishment of a DIF after a significant depletion. IADI is in the process of revising its Assessment Handbook.

## D. The Purpose of This Paper

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This paper summarizes IMF staff views on key policy issues pertaining to deposit insurance for deposit-taking banks, where country-specific tailoring is needed, for example, in emerging markets and developing economies (EMDEs). The past IMF publication (Hoelscher, Taylor, and Klueh 2006) dedicated entirely to deposit insurance policy predates the policy developments after the global financial crisis. The CPs reflect, and are designed to be adaptable to, a broad range of jurisdictional circumstances, settings, and structures (IADI 2025). Although the CPs are a widely applied international standard that IMF staff draw extensively upon, their implementation often calls for careful consideration of country-specific characteristics, including the financial sector’s size and development level, financial safety net characteristics, and local capacity.<sup>4</sup> In addition, the CPs are neutral on some key aspects on which IMF staff are often called upon to provide advice, for example, on depositor preference, that impacts the cost of deposit insurance. The paper focuses on those implementation questions in the context of IMF support to country authorities implementing and strengthening their DIS. It does not seek to replicate the wide body of guidance from IADI, to which IMF staff simply refer.

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<sup>4</sup> The principles in this paper may also broadly apply to a DIS for Islamic deposits as covered under the IADI-IFSB Core Principles for Effective Islamic DIS (IADI and IFSB 2021) ([https://www.iadi.org/uploads/IADI-IFSB20CPIDIS\\_IFSB20Approved\\_0520July20202120Clean.pdf](https://www.iadi.org/uploads/IADI-IFSB20CPIDIS_IFSB20Approved_0520July20202120Clean.pdf)), although additional rules apply regarding the treatment of funds and so on to achieve Sharia compliance.

## 2. Transitioning to a Robust DIS

### A. Operating Environment

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Any DIS should be embedded in a financial safety net and broader institutional framework that supports the deposit insurance function. Important ‘preconditions’ are: (1) a well-established framework for financial stability surveillance and policy; (2) an effective financial safety net, including supervision and regulation, resolution, and a lender of last resort function; (3) a robust accounting, auditing, and disclosure regime; (4) a well-developed legal framework and judicial system. Moreover, sound governance arrangements must be in place for the financial safety net agencies (IMF 2025a).

Countries with weak banks or banking supervision, or an ineffective resolution regime, should address these weaknesses before establishing a DIS. In IMF staff’s experience, introducing a DIS requires careful sequencing. The immediate priority should be to address existing shortcomings, for example, by strengthening supervisory practices, including for early intervention, and introducing an effective bank resolution framework. The regulatory and supervisory framework ensures that a distressed bank is rehabilitated in a timely fashion through early supervisory actions that may range from moral suasion to corrective sanctions, including requiring the bank to activate its recovery plan. This reduces the likelihood of bank failures and the need to call upon a DIS. Without a resolution framework that can implement effective resolution powers at a suitably early juncture, the costs of dealing with failing banks will likely be higher. Resolving a distressed bank through the prompt application of resolution powers tends to be more cost-efficient than waiting for bank insolvency and initiating liquidation and deposit payout (IMF 2020a). These reforms can be initiated in tandem with preparations to introduce a DIS. However, a DIS should not be introduced in times of financial instability or high banking system vulnerability. Funding needs and operational challenges would be significantly exacerbated if financially weak banks existed in the system at the time of establishing a DIS, which could undermine depositor confidence in a nascent system. Instead, weak banks should first be successfully restructured and recapitalized or resolved.<sup>5</sup>

### B. Mandates and Institutional Setup

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Granting a DIS a mandate for resolution funding may be the most efficient way of achieving its policy objectives of protecting depositors and maintaining financial stability. IADI recognizes—without preference—four different mandates (Box 1). A DIF with a resolution funding mandate (called paybox plus) has legal authority to provide funds to a resolution authority (RA) in order to facilitate a resolution transaction, such as a deposit and asset transfer to an acquiring existing bank or a bridge bank (also called a purchase and assumption [P&A] transaction). The transfer tool has proved to be an effective and cost-efficient resolution tool to compensate depositors (Parker 2010). Specifically, the transfer tool is less disruptive to depositors than a reimbursement process during liquidation, for example, if it can be conducted over a resolution weekend, without depositors losing access to their funds during business hours. DIF support to finance resolution may be more efficient than establishing a separate ex ante resolution fund (IMF 2018). Transfer powers may entail lower initial financial outlays because the DIF only needs to finance the gap between transferred

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<sup>5</sup> IMF (2020b) notes that depositor preference would help defray taxpayers’ costs in a resolution where the state stepped in to protect retail depositors in the absence of a DIS. In exceptional circumstances, a new DIS could be considered an integral component of a larger financial sector restructuring strategy. This would require seed funding for the DIS to cover imminent failures, readily available backup funding (from the government), and legal authority for ex post recovery from the industry for any early DIS payouts.

assets and deposits, not the full value of insured deposits. Furthermore, the prompt use of transfer powers may maximize recoveries because a matched deposit book has economic value (as collecting new deposits entails costs for banks), and transferred financial assets may retain higher going-concern values compared with their valuation in liquidation. A narrow paybox model that confines the DIS to paying out insured deposits when a bank enters liquidation (or any other trigger) may no longer be the most effective use of deposit insurance resources.

### Box 1. DIS Mandates

There are four main mandates:

- *Paybox*: The deposit insurer is only responsible for the reimbursement of insured deposits through a payout once a bank is closed.
- *Paybox plus*: The deposit insurer is legally separated from the RA but has additional responsibilities such as contributing funds to a resolution measure (for example, through an RA-initiated transfer of insured deposits from a failing bank to an acquiring bank), subject to safeguards such as a least-cost test. In some cases, the DIS may assume the role of a liquidator for banks.
- *Loss minimizer*: The RA is also responsible for the DIF and houses both resolution and deposit insurance functions under a combined mandate.
- *Risk minimizer*: The deposit insurance function is housed within a multimandated agency, including supervision (for example, prudential oversight and early intervention), resolution, and deposit insurance. In some cases, a separate supervisor may exist in addition to the risk minimizer.

Since the global financial crisis, the number of DISs whose mandate has been expanded to include funding of resolution measures (paybox plus) has significantly increased (Table 1). This was partly driven by the EU’s Bank Recovery and Resolution Directive and the revised Directive on Deposit Guarantee Schemes, which changed the mandate of all EU-based DISs to paybox plus. DISs with a risk-minimization mandate are an exception.

Source: IMF staff

Note: DIF = deposit insurance fund; DIS = deposit insurance system; EU = European Union; RA = resolution authority.

**Table 1. DIS Mandates**

	Paybox		Paybox Plus		Loss Minimizer		Risk Minimizer	
	2014	2024	2014	2024	2014	2024	2014	2024
<b>Total</b>	<b>38</b>	<b>21</b>	<b>35</b>	<b>58</b>	<b>12</b>	<b>14</b>	<b>8</b>	<b>7</b>
Africa	3	4	3	10	-	0	2	1
Asia /and Asia Pacific	5	6	4	6	1	1	4	4
Middle East and Central Asia	4	6	5	5	0	1	0	0
Europe	21	3	12	26	8	6	0	0
Americas	5	2	11	11	3	6	2	2

Source: IMF staff estimates based on IADI 2024 and 2014 Annual Surveys.

Note: Not counting regional DISs; some jurisdictions have multiple DISs for different financial institutions. DIS = deposit insurance system.

Practical experience has demonstrated that the DIS mandate should avoid duplicating efforts undertaken by other safety net agencies (for example, the banking supervisor or the RA). Giving a DIS supervisory responsibilities that are already fulfilled by another agency may create unnecessary duplication of functions, particularly in countries with limited capacity.<sup>6</sup> An overlap in mandates could create interinstitutional tensions and result in inefficiencies, including an excessive burden on supervised institutions (for example, because of onsite examinations from two separate bodies). Especially in smaller, less-developed economies, such an overlap could also foster unhealthy competition for scarce expertise. Resolution powers should be vested with the RA and not divided between the RA and the DIS, for example, based on a failing bank’s systemic importance. To be effective, resolution planning and resolution strategies should be assigned to one authority to facilitate the buildup of requisite expertise and capabilities.

A separate deposit insurance agency (DIA) is not required by the CPs and may not be the best option for countries with limited capacity. The operational independence that the CPs require for a DIS does not necessarily imply a stand-alone legal entity independent from other financial safety net components. Housing the deposit insurance function within an existing agency may most efficiently use existing capacity and expertise.<sup>7</sup> Careful consideration of the feasibility of a separate DIA should include a cost-benefit analysis covering issues such as the need for additional resources and the potential loss of synergies in information exchange, coordination, and staff exchange with supervision or resolution functions. One option is to place the DIS function with the central bank or banking supervisor.<sup>8</sup> Benefits for the DIS would include having access to central bank technical support (for example, Information Technology, human resources, and use of its Communications and Legal Departments) and fund investment capabilities (otherwise used for managing central bank reserves) (Table 2). This setup may be especially appropriate for countries with relatively small banking systems, which have low capacity and experience few bank failures (IMF 2019). The establishment of a separate agency takes time and entails high startup and ongoing operational costs, which may be difficult to justify in such cases. Raising DIFs should be the priority, with collected funds mostly used to support fund growth and not spent on duplicating administrative capacity. However, the institutional arrangements may change over time, for example, when the necessary DIS resources have been built up and expertise has grown. If the banking sector is sufficiently large, and the resolution and deposit insurance functions are well established and staff capacity and function-specific knowledge have been developed, a stand-alone agency (with sufficient autonomy and legal protections) to fulfill resolution and deposit insurance functions may be warranted (IMF 2025a). In such a setup, the supervisor would deal with going-concern institutions, and the RA—managing the DIF—would be responsible for the resolution of failed institutions, including insured deposit payouts.

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<sup>6</sup> A DIS should develop strong internal analytical capacity, for example, to evaluate its members’ risks, but avoid duplicating other safety net functions. Timely analysis of conditions in the banking sector and in individual banks, and of the risk of bank failures, is critical for managing risks to a deposit insurance fund (DIF), identifying liquidity and funding needs, and ensuring operational readiness.

<sup>7</sup> See Table 2 for advantages of separate deposit insurance agencies and deposit insurance functions incorporated within other agencies.

<sup>8</sup> In some countries, the DIS is created as a separate legal entity (for example, a subsidiary) controlled by the central bank or as a special fund under the central bank’s management. This has the benefit of giving the DIS or the DIF its own legal personality and its own budget and bookkeeping. It can still benefit from the central bank’s staff and services while compensating its parent for using these resources.

**Table 2. Considerations for the Institutional Setup of a DIS**

<b>A decision on whether to create a stand-alone authority should be based on careful consideration of its feasibility, including a cost-benefit analysis covering issues such as the need for additional resources and the potential loss of synergies in information exchange, coordination, and staff exchange with supervision.</b>	
<i>Arguments for a DIS within the RA, banking supervisor, or central bank:</i>	<i>Arguments for a stand-alone DIA:</i>
<ul style="list-style-type: none"> <li>■ Potentially better information sharing inside the same institution.<sup>1</sup></li> <li>■ Economies of scale (for example, staff, information technology, recruitment, communications) because DIS can rely on “host” operations.</li> <li>■ Easier to recruit and retain limited skills and talent and to redeploy staff as needed.</li> <li>■ Internalization of potential interagency policy conflicts.</li> <li>■ Reputation, autonomy, and legal protection umbrella of the hosting authority (for example, an autonomous central bank).</li> </ul>	<ul style="list-style-type: none"> <li>■ Senior management focused solely on the mandate and tasks of the DIS, giving more weight to deposit insurance issues.</li> <li>■ Clearer separation and segregation from the RA, banking supervisor, or central bank balance sheet, governance, and accountability.</li> </ul>

Source: IMF staff.

Note: DIA = deposit insurance agency; DIS = deposit insurance system; RA = resolution authority.

<sup>1</sup>This includes direct access to sensitive information on emerging banking sector risks, including from the supervisory authority and the RA’s resolution planning, the RA’s determination of the banks that should enter liquidation or resolution, and the use of DIS funds.

Particularly in jurisdictions that are newly establishing a DIS, authorities should consider integrating the deposit insurance function within their RA (IMF 2025a). An integrated mandate for resolution and deposit insurance may most efficiently use scarce expertise, particularly in countries with low capacity, with one authority responsible for dealing with failing banks in the interest of financial stability and depositor protection. This authority would be a strong partner for other members of the safety net, thereby strengthening the overall financial stability framework. Whatever institutional approach is taken, establishing sound governance arrangements to manage complementary or even overlapping mandates and potential inter-functional policy conflicts, as well as maintaining the operational autonomy of those functions, is critical.

Primary legislation should define key DIS elements, including public policy objectives, mandate, powers, governance, coverage, scope, funding arrangements, as well as its use of funds in reimbursement and resolution (IADI CPs 1, 2, 3, 8, 9, 15, and 16). A DIS is a critical component of an effective financial safety net and should have a strong legal basis to fulfill its public role and policy objectives. Key aspects of a DIS should be prescribed at the level of primary legislation adopted by parliament for reasons of stability and legal certainty—not at the level of secondary legislation (for example, a regulation). In addition to the key aspects raised earlier, this should include the levying of premiums from its member institutions, the ability to access information, and the legal protection of staff. Where these legal provisions should be anchored in primary law (that is, a dedicated DIS law or, for example, in the banking law) is best determined by country-specific context and jurisprudence. Other aspects, including those that would require periodic amendment, such as the levy structure or the specific target level for the DIF, are best handled in secondary legislation.

Where the DIS is located within the central bank, the primary legislation should clarify the legal status of the DIS and the nature of its relationship with the central bank. This is essential not only from a purely clear institutional design perspective but also to ensure that the central bank balance sheet remains insulated from DIS liabilities. Especially if the DIS is a fund under central bank administration, an explicit “no-recourse” clause should limit DIS-related claims on the central bank itself. To the extent that an existing authority is envisaged to use its powers at the DIS’s request (for instance, for information gathering or inspection), this should also be provided in the primary law.

## C. Public versus Private DIS

Most DISs are set up as public authorities, reflecting their public policy function (Table 3). The legal nature of a DIS is a critical decision when establishing or strengthening a DIS. The Core Principles are agnostic to the legal form, and country authorities can choose from three types (Box 2): a public DIS, a private DIS, or a hybrid DIS.<sup>9</sup> In the IMF’s experience (IMF 2025a), the involvement of the banking industry, more likely to be found in a private or hybrid DIS, may present challenges. This participation may prevent access to confidential and market-sensitive supervisory information on individual banks’ soundness, which is critical for the ability of the DIS to prepare a deposit payout or to finance resolution. Bank supervisors and RAs may be understandably reluctant to share sensitive confidential information (especially on supervisory ratings and problem banks) with a private or hybrid DIS, especially when the governance bodies include banking representatives. These challenges may become more acute when the responsibilities of the DIS go beyond a paybox mandate. Therefore, it is hard to envisage that a DIS with a paybox-plus or broader resolution mandate could be a private DIS. A private DIS may not be fully integrated into the financial safety net and would be unable to participate in crisis management and preparedness activities at the national or cross-border level. A predominance of bank representatives (that is, levy payers) in a private DIS creates incentives to keep ex ante contributions low, potentially leaving private DIFs underfunded and increasing contingent fiscal risks. Lastly, explicit public backstops are usually available only for public entities, and legal protection is usually granted only to public servants and may be unavailable to the management and staff of a private DIS. Because of these considerations, which may also apply to a hybrid DIS,<sup>10</sup> IMF staff recommend that DIS be established as a public authority.

### Box 2. Institutional Forms of DIS

A DIS could operate in three different legal forms:

- A **public DIS** is mandated by law and led by a public sector DIA, either as an autonomous public authority or as a part of an existing public authority (for example, a central bank or RA).
- A **private DIS** is established by the banking industry and is typically administered by its member institutions or a bankers’ association. It is governed by its own regulations or by corporate bylaws, with little oversight from public authorities. Historically, the existence of private DISs can be attributed to the lack of government action to set up a DIS or a preference for self-regulation over public management.
- A **hybrid DIS** is government regulated but privately administered. In a hybrid DIS, the government entrusts a private-law body (for example, a limited company) to perform the public service of running the DIA within the parameters of public law. Generally, this limits the ability of the DIA and its board to change the features of the DIS (for example, coverage, funding) because these are codified in law.

Sources: IMF staff.

Note: DIA = deposit insurance agency; DIS = deposit insurance system; RA = resolution authority.

<sup>9</sup> Public and private DIS options are not mutually exclusive; several jurisdictions maintain, for the same institutions, a publicly mandated DIS alongside a private DIS.

<sup>10</sup> For a hybrid DIS, this depends on the degree to which the law predefines the main DIS characteristics (leaving little room for the DIS to exercise discretion over key characteristics, such as the level of funding, the coverage level, and its membership), and the strength of the firewalls protecting confidential and market-sensitive information against disclosure to market participants.

**Table 3. DIS Legal Forms**

Legal Form	Number of DISs
Public	73
Hybrid	30
Private	3

Source: IMF staff calculations based on the 2024 IADI Annual Survey.

Note: Not counting regional DISs; some jurisdictions have multiple DISs for different financial institutions. DIS = deposit insurance system.

Voluntary, private DISs that offer higher coverage than the mandatory system are not recommended. A voluntary DIS is not mandatory for all deposit takers and offers supplementary coverage or may assume a broader mandate, such as for open bank assistance (that is, solvency or liquidity support outside resolution). Voluntary membership provides incomplete coverage of deposit-taking banks because not all institutions may decide (or be allowed) to participate. Moreover, the typically small funding size of a voluntary DIS usually risks that the broad explicit or implicit guarantees that it offers may not be credible without triggering contagion to other members or entail significant contingent fiscal risks. The establishment of additional, voluntary deposit insurance may create level playing field issues, undermine depositor confidence in and public understanding of the mandatory DIS, and complicate its funding. Accordingly, IMF staff typically caution against voluntary DIS and recommend folding existing systems into a unitary, public DIS.

## D. DIS Governance

The governance structure for a deposit insurance function should reflect the need for autonomy, functional separation, agility, and technical expertise.<sup>11</sup> Efforts to protect depositors—whether in resolution or liquidation—are typically more intrusive than regular supervision, with shareholders and creditors at risk of having their property rights overridden and therefore more vocal and litigious. Accordingly, the deposit insurance function and authority must be supported by robust governance structures and safeguards and by strong legal protection for the board, management, staff, and contractors of a DIS. The creation of a DIF, with access to a public backstop, also warrants transparent governance, management, and accountability for the fund’s use.

Robust institutional and governance arrangements are also needed to manage potential policy conflicts with other financial safety net members, politicians, and the banking industry (IMF 2025a). Irrespective of whether financial safety net functions are assigned to one or more agencies, objectives may potentially conflict. For example, the RA selling (parts of) the failed bank during resolution, the bank supervisor being concerned about the health of the purchasing bank, the central bank being a large creditor after emergency liquidity assistance, and the government aiming to mitigate fiscal risks. Although the extent of potential policy conflicts partly depends on the mandate of a DIS (and has a lower intensity for a narrow paybox), severe conflicts may arise, for example, if banking industry representatives are included in the governance structure of a DIS. Accordingly, IMF staff recommend that active participants in the banking industry be excluded from decision-making governance bodies of a DIS.<sup>12</sup>

Operational autonomy must be ensured, among other things, through dedicated staff and sufficient resourcing of the DIS. The deposit insurer must have the capacity and capability—including human resources, operating budget, and salary scales sufficient to attract and retain qualified staff—to support its operational

<sup>11</sup> See IMF (2025a) for a comprehensive discussion of governance arrangements for deposit insurance functions (and resolution authorities).

<sup>12</sup> Active bankers may contribute specialized banking expertise to the DIS through participation in a separate, nondecision-making advisory committee, subject to confidentiality and conflict-of-interest safeguards.

autonomy and fulfill its mandate (IADI CP 3). Deposit insurance levies are typically used to cover the administrative and operating expenses of a DIS. As a custodian of funds paid by the industry for the public good, a DIS should prudently control its expenses and avoid unnecessary expenditure. Responsibly growing the funds under management in a DIF should be the priority.

Effective depositor protection requires prompt action in time-sensitive, high-stress, and information-limited cases of bank failures. Irrespective of where the deposit insurance function is housed, it will need specialized expertise and sufficient capacity in times of bank failures. Operational modalities should enable the flexible expansion of the deposit insurance function’s resources as a bank approaches failure. Secondments from other safety net agencies or functions would be useful to facilitate knowledge and capacity transfer to a DIS and foster cooperation and coordination within the financial safety net.

## E. Cooperation in the Financial Safety Net

Irrespective of its mandate, a DIS must be well integrated in a country’s financial safety net and the related crisis preparedness and management activities (IADI CP 17). Effective cooperation and coordination<sup>13</sup> within the safety net are critical, including with respect to joint contingency planning and preparatory activities (for example, crisis simulations and development of crisis communication tools). IMF financial sector assessments and technical assistance often find that this is not the case. Although the role of a DIS in systemic crises is typically limited because it would lack the requisite funding, powers, and mandate to deal with system-wide stress, the DIS, by virtue of providing deposit insurance coverage, has a critical role in promoting confidence in the banking sector. Hence, it should be continuously involved in crisis management undertakings, included in any crisis management bodies, and incorporated in the overarching crisis communication strategy. Importantly, a DIS plays a critical role in helping prevent crises from propagating by addressing idiosyncratic bank failures with prompt protection of insured depositors, thus mitigating potential contagion and maintaining confidence in the financial system.

To be effective, a DIS must receive timely individual bank depositor data and supervisory information (IADI CPs 15, 17). IMF financial sector assessments and technical assistance reveal that, in practice, DISs often do not have access to pertinent data and may be “blindsided” by unexpected failures of their members. A DIS should have the power to request and share information within the safety net and, in particular, have access to bank supervisory data and examination reports.<sup>14</sup> Information-sharing requirements should be laid down in legislation and elaborated in regulations or memoranda of understanding among the pertinent institutions, ensuring that the DIS is promptly informed about bank problems,<sup>15</sup> including when the supervisor assigns problem bank status and uses its corrective action powers. The banking law and other legislation (for example, bank secrecy laws) should not prevent information sharing with a DIS, subject to preserving confidentiality. In financial sectors with a material presence of foreign banks, a DIS or other financial safety net authorities should establish arrangements for cross-border information exchange and cooperation.

<sup>13</sup> “Coordination” and “cooperation” are separate concepts: coordination is deemed the deliberate unity of action by authorities in the pursuit of a common purpose, whereas cooperation is a more voluntary, less formal effort (IMF 2020a).

<sup>14</sup> A DIS should be able to request that the supervisor undertake a special examination of a member institution that breaches deposit-taking record requirements. DIS staff should be allowed to participate in onsite inspections to verify that depositor records are maintained in a way that would support rapid compensation of depositors.

<sup>15</sup> Should the DIS function be housed in the same institution as the supervisor, prompt information exchange between the two functions should not be taken as a given. The institution should still prescribe, in internal administrative directives or guidelines, the type of information and timing of information exchange across departments or divisions.

### 3. Effective Compensation of Depositors

A DIS should avoid using its funds in a way that exposes it to significant uncertainty and risks impairing its financial health, which would erode public confidence. An example that runs counter to this principle would be providing solvency or liquidity support to a distressed bank that has not been placed in resolution. Such “open bank assistance” risks incurring losses for the DIF, may require more funding (beyond that available under a least-cost test), and creates moral hazard. Deposit insurers are typically not well placed to judge the risk of such operations, especially, for example, if the bank remains in the hands of the shareholders and managers who are responsible for the bank’s failure. A DIS would typically also lack the powers to manage its risk exposures by imposing controls and sanctions on the bank that is receiving financial assistance (for example, by dismissing the bank’s management or prohibiting dividend payouts) because these powers reside with the supervisor. Liquidity support for banks (in or outside resolution) should be provided as emergency liquidity assistance from the central bank and not from a (financially constrained) DIF, subject to appropriate safeguards, including adequate collateralization and more intrusive supervision. The DIS legal framework should not allow the use of DIF resources to fund the reimbursement of deposits held at, or the resolution of, financial entities that are not members of the DIS and therefore do not contribute to the DIF.

#### A. DIS Role in Resolution Funding

IMF staff typically recommend that a DIS be allowed to fund certain resolution measures that protect insured depositors and the continuity of access to insured deposits, subject to appropriate safeguards. This should include being able to contribute to the transfer of assets and deposit liabilities (also known as a P&A transaction) from the failed bank to an acquiring bank (either a private bank or a bridge bank). As noted earlier, using DIFs in resolution typically provides better continuity of depositor services and may prove less costly for the DIF than placing the bank in liquidation and paying out insured deposits. This is because a matched deposit book may have economic value (as collecting new deposits entails costs for banks) and transferred financial assets may retain higher going-concern values compared with their valuation in liquidation. A DIS should also be able to provide financial contributions and could temporarily own bridge banks (subject to further safeguards such as management at arm’s length through an independent party), whereas the recapitalization of resolved banks is mainly a fiscal responsibility that should be carried out (under exceptional circumstances and with effective safeguards) by the Ministry of Finance or Treasury. Some resolution powers are quite far removed from the intent of deposit insurance, for example, funding an asset management company to purchase the bad assets of a failed bank.<sup>16</sup>

Safeguards to protect a DIF’s position should be established, including a least-cost test. This test should ensure that a DIF’s contribution to the resolution of a member bank is no more costly for the DIF than the counterfactual of liquidation and depositor payout (Box 3). Other safeguards could be considered depending on country-specific circumstances (IMF 2018). Particularly when a DIA is separate from the RA, decision-making arrangements and a binding dispute mechanism should be clearly established ex ante. It would go against the principles of good governance and institutional autonomy to give one authority (the RA) total discretion over the resources of a separate legal entity (the DIA) without proper checks and balances. Giving a DIS a role in the resolution decision-making process, for example, having a DIA authorize the use of its funds based on the RA’s positive assessment that the least-cost test and any other safeguards were met, may be a useful approach. However, there should be mechanisms to resolve disputes in a way that ensures unambiguous and prompt provision of funding for resolution and does not result in a deadlock or cause undue delay, for example, by giving final authority (subject to ex post review) to the RA.

<sup>16</sup> Asset management companies may be useful in specific circumstances, such as systemic crises, but typically, they entail significant fiscal costs, are prone to governance challenges, and, in IMF staff’s view, should not be funded by a DIS (IMF 2024a).

### Box 3. Least-Cost Test

The application and interpretation of a “least-cost test” varies by jurisdiction.

A *net least-cost test* (sometimes also called the “payout counterfactual”) ensures that costs for the DIF of contributing to a resolution event are no higher than the costs the DIF would otherwise have incurred in a payout of insured depositors, net of estimated recoveries (for example, after the assets of the failed bank are liquidated). In a simple example, if in the liquidation of a failed bank the DIF would have paid out \$30 million of insured deposits and it is estimated that it would make recoveries equal to \$10 million from the liquidation of the failed bank’s assets, it can contribute up to \$20 million to a deposit and asset transfer in the resolution of a failed bank (assuming it makes no recoveries in the resolution).

IMF staff recommend that authorities, when introducing a net least-cost test, develop the capability to estimate recoveries in the counterfactual as necessary to apply the test. A key determinant of recoveries is the ranking according to insured deposits and the DIF in the creditor hierarchy. The authorities should also be clear in advance which costs should be taken into account, for example, operational expenses, the time value of money, or other indirect costs. In countries where insured deposits are preferred to other senior unsecured creditors, the net cost to the DIF in a liquidation might be zero, depending on losses. This should not prevent a DIF from supporting other types of resolution than a payout (for example, a P&A), however, if it would also incur zero net cost to the DIS and deliver better policy outcomes, such as continuity of depositor services.

A simpler *gross least-cost test* allows the contribution of the DIF in resolution up to the total of insured deposits in the failed bank that it would have paid out in liquidation (IMF 2018). This may provide less protection for the DIF and more flexibility for the RA to use deposit insurance funding in resolution. In the simple example, the DIF could contribute up to \$30 million in resolution, irrespective of asset recoveries (in either liquidation or resolution).

IMF staff would typically recommend allowing an initial contribution up to the gross value of insured deposits if the net cost after recoveries (from which the DIF would benefit) estimated in resolution were expected to be no higher than the estimated net cost of liquidation (see CP 16; IADI 2025).

Some jurisdictions allow their least-cost test to be waived for financial stability reasons—a *systemic risk exception*—under which resolution options that are not least cost but better support financial stability can be pursued. Any systemic risk exception should be subject to strict governance safeguards to ensure that it is only deployed in extremis in a way that would not undermine confidence in the DIS or propagate contagion. Usually, such an override may involve a formal decision by the government because it may incur (contingent) fiscal risks.

Some jurisdictions apply wider public policy objectives when determining optimal resolution options and DIF funding thereof, taking into account, for example, financial inclusion or competition policy. This tends to be more prevalent in regimes where the DIS is also the RA and has a wider loss- or risk-minimizing mandate and can complicate DIS decision making and accountability.

A different test used in some jurisdictions involves choosing the resolution option for a failing bank that has the lowest cost for the public and its funds (per the RA’s selection from different options). This test (which is not a least-cost test) directs the RA to choose the most cost-effective resolution method.

Source: IMF staff.

Note: DIF = deposit insurance fund; DIS = deposit insurance system; RA = resolution authority.

## B. Reimbursement and Transfer of Deposits

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Prompt compensation of insured deposits in case of a bank failure is critical for maintaining public confidence in the banking system. Compensation can be effected through a transfer (P&A) of the insured deposits to an acquiring bank—either a private bank or a bridge bank—or a direct reimbursement to the insured depositor. Long payout timeframes after depositors have lost access to their deposits can risk a loss of depositor confidence in deposit insurance protection and may exacerbate depositor runs. The Core Principles advocate that DIS effectiveness requires depositor reimbursements within seven business days. New technology like 24/7 banking, mobile banking, and social media has, however, accelerated deposit runs. After the speed of the bank runs experienced in the US and Switzerland in 2023 (IMF 2024b), IMF staff emphasize the importance of DIAs and RAs developing the capability to ensure access to most insured deposits within a shorter time frame (for example, 48 hours) to match developing depositor expectations regarding the timeliness of compensation. Most insured deposits should be easily identified and ready for compensation within that period. Some accounts may require clarification from the account holder, which may delay payouts for these accounts up to the seven days provided in the Core Principles. This may be the case for trust or custodial accounts, with several beneficiaries, for example, where the DIS cannot easily determine the ownership of deposits.<sup>17</sup> As part of the payout procedures, the deposit insurer’s responsibility to ensure compliance with pertinent rules on anti-money laundering and countering the financing of terrorism also needs to be clarified.

To ensure timely compensation under any reimbursement method, clarity on insured depositor data is paramount and a key task of DIS preparedness (IADI 2012a). A DIS must have the power to require banks to maintain depositor records in a manner supporting prompt depositor compensation (IADI CP 15). To ease the burden on banks and to avoid duplication, these requirements should ideally be aligned with those of the supervisor. Banks’ information technology systems should be able to aggregate all accounts of a single depositor within the same bank and create a single depositor compensation file, the so-called single customer view (SCV). Clear definitions of what constitutes an insured deposit and simple eligibility criteria for insured depositors (that is, scope of coverage) further support a swift identification and computation of insured depositor claims. Member institutions should be required to flag uninsured deposits—particularly from insiders and those suspected of money laundering or terrorist financing violations—to facilitate prompt coverage calculations. These calculations need to be reverified on an ongoing basis because they inform the level of the insurance premiums, the coverage level, and the overall funding needs (target fund ratio). Banks should be tested on their ability to deliver the requested SCV within a short period, for example, 24 hours. Authorities should eliminate impediments to prompt compensation, including by eliminating the application of set-off and disaggregation of multiple ownership accounts, removing the need for claims to be filed by depositors prior to reimbursement, and they should review and, where possible, remove any inefficient or counterproductive regulations applicable to the deposit insurance reimbursement process (IADI 2012a). A DIS should be prepared to use different compensation methods and regularly test its procedures and data availability through simulations and contingency planning. The DIS should also involve other relevant financial safety net participants and third-party providers in those simulations.

Although a deposit transfer (P&A) may often be the best and fastest compensation method for insured deposits, the tool need not necessarily reside with a DIA. In a system where the resolution and deposit insurance functions are assigned to two separate institutions, the RA should be in charge of preparing and executing the deposit transfers and coordinating with the DIA on identifying insured depositors and providing funding per the DIA’s mandate. The RA is better suited to execute such transfers than the DIA because—through its resolution planning exercises—it is better prepared for resolution transactions than

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<sup>17</sup> The seven-day payout window may be an ambitious immediate goal for a newly established DIS or one with weak capabilities and capacity. Realistically, a DIS should persistently work on its capabilities to fulfill a seven-day payout and develop a plan to reach this goal within a credible timeframe (ideally within less than two years).

a DIA focused on deposit insurance payouts. The capacity to provide valuations in real time, which may use third-party expertise, resides with the RA and is critical to determining the DIFs’ contribution to a bank resolution.

## C. Depositor Preference

IMF staff typically recommend that the legal framework include depositor preference that grants depositors’ claims a higher priority than those of other unsecured, non-deposit creditors (IMF 2020b). Depositor preference can help lessen the risk of depositor runs, maintain public confidence, and reduce bank failure-related costs for the DIS (which is subrogated to the insured depositors’ claims after paying compensation to them). It can also facilitate protection of depositors in resolution without breaching other safeguards, such as “no creditor worse off than in liquidation” (IMF 2020b). In liquidation, a DIS—after being subrogated to the preferred status—would have higher recoveries, which would replenish the DIF faster.<sup>18</sup> Although the specific details of depositor preference vary across countries, it is useful to consider three common types:<sup>19</sup>

- *Insured depositor preference* provides preferential treatment for insured deposits—both in terms of eligibility and covered amount—over other ordinary, senior (non-subordinated) unsecured creditors (for example, bondholders, interbank deposits). The uninsured amount of an “eligible” deposit and ineligible deposits are treated as an unsecured, senior creditor claim.
- *Tiered depositor preference* establishes a preference for insured deposits over uninsured eligible deposits, with a further preference of both categories over other senior unsecured, general creditors.
- *General depositor preference* gives preference to all deposit liabilities of a deposit-taking bank over other senior unsecured creditors, irrespective of the deposits’ eligibility and coverage under the DIS.

The adoption of depositor preference should be informed by an assessment of the potential impact. Issues to consider include the potential impact on different unsecured funding sources and their costs, the differing role of uninsured deposits (that is, their importance in the payment system as working capital versus financial investments), and the ability of institutions to absorb potential changes in funding structures. In the long term, altering creditor hierarchies might not significantly change average bank funding costs (for example, higher costs for less preferred, unsecured funding might be offset by lower costs for deposits). However, in the short term, the higher cost or reduced availability of wholesale funding may exacerbate vulnerabilities if introduced at times of stress, particularly for weak institutions susceptible to a “flight to quality.”

IMF staff normally recommend either tiered or general depositor preference (IMF 2020b) while considering country-specific circumstances. Insured and tiered depositor preferences offer the most protection to the DIS because recoveries in insolvency are higher because of the higher ranking. Insured depositor preference may, however, provide insufficient depositor protection when the level of deposit insurance coverage is low or where small- and medium-sized enterprise (SME) deposits are not eligible for protection. General depositor preference would offer advantages in circumstances where all deposits, including those that are ineligible for deposit insurance coverage, may need to be protected, thereby safeguarding payment systems and economic activity. General depositor preference would also facilitate a greater contribution from the DIS to resolution—the “flipside” of the DIF being better protected under insured and tiered depositor preference.

<sup>18</sup> However, attention should be paid that the DIS’s higher recoveries in combination with a too stringent least-cost test (Box 3) do not overly limit the DIF’s contributions to resolution strategies.

<sup>19</sup> Countries with depositor preference take different approaches to the relative ranking of such claims compared with other preferred claims, such as tax and employee remuneration claims.

## 4. Sufficient DIS Funding

### A. Ex Ante Fund and Target Level

A DIF should be ex ante funded through regular contributions from the DIS members (IADI CP 9). It is critically important that a DIS has ready access to sufficient funds to ensure prompt and full reimbursement of insured deposits. Actual or perceived underfunding risks undermine the credibility of a DIS. A well-capitalized ex ante DIF helps build confidence in the financial capacity of a DIS and mitigates the risk of bank runs. Ex post funded DISs collect assessments only after a member institution (which will not have contributed to the DIF) has failed, are procyclical, and may exacerbate moral hazard and contingent fiscal risks. Accordingly, IMF staff recommend that DISs build up a sufficient ex ante fund, invested in highly liquid, low-risk assets.

Reliance on payment commitments from member institutions is not recommended. Some DISs allow members to pledge commitments. These commitments may be collateralized through unencumbered assets at the disposal of the DIS.<sup>20</sup> Such payment commitments are procyclical because they draw liquidity from the banking system at a time of bank failures, likely exacerbating contagion risk. They also require strong oversight to make sure that the required liquidity is available and effectively ring-fenced, for example, that collateral is of high quality and has not been rehypothecated. They may prove unenforceable in low-capacity jurisdictions and where good quality liquid assets are scarce. Complex funding arrangements are unlikely to be as confidence-inducing for retail depositors as paid-in funds.

A DIF should have a sufficiently high and predetermined reserve fund target ratio to cover expected future obligations and the DIS operational costs. The target level should be set as a percentage of the assessment base, that is, the total or insured deposits. An internationally agreed target level is unfeasible because of country-specific aspects. Similarly, care needs to be taken with cross-country comparison to take into account country-specific structural issues, including banking sector structure, insured deposit limits, deposit growth, distribution of deposits, the DIF's role in resolution, the credibility of the public backstop, and the impact that any form of depositor preference may have on the expected losses in a payout. DIFs generally will not have (and are not expected to have) sufficient ex ante funding to pay out in the failure of the largest banks in the system or to cover all the financial resources needed in a system-wide crisis.<sup>21</sup>

Methodologies to determine a prudent target level for the DIF can be based on historical data, statistical models, or expert judgment.<sup>22</sup> However, in countries where banks rarely fail, such data will not be available. Statistical models can be used to estimate the DIF's loss distribution but are not recommended for developing countries (IADI 2018). Statistical approaches are highly sensitive to the underlying assumptions and the data used, which in developing countries are proxy data, for example, from credit rating agencies or simulations. Although these methodologies give the impression of precision in determining potential DIF losses, they present significant practical challenges and, in IMF staff experience, tend to underestimate potential calls in countries with high losses in default, concentrated banking systems, and correlated banking failures (that is, “fat tail” distributions).

<sup>20</sup> For example, the National Credit Union Share Insurance Fund in the US accepts 1 percent of its funding as deposits from member banks to be drawn upon as needed, and in the European Union, payment commitments are allowed in order to reach the target level of national DIFs.

<sup>21</sup> In a systemic crisis, the fiscal authority is the most likely and credible source of resolution funding.

<sup>22</sup> The Federal Deposit Insurance Corporation in the United States, for example, assessed the level of funding that would have proven sufficient to have avoided a negative fund balance during two historical episodes: the global financial crisis, when significant additional crisis funding was extended by the US authorities, and when savings and loan institutions failed in the US in the early 1990s. This analysis determined that a fund balance equivalent to 2 percent of insured deposits in the system would have proven sufficient (Ellis 2013).

In practice, IMF staff usually rely on expert judgment using a rule of thumb based on paying out insured deposits at a predefined number of small- and medium-sized banks that fail concurrently. The number of banks chosen (for example, 4 to 6, or 2 to 4 medium-sized banks in a system of 20 banks) also depends on expert judgment, based on the structure of the banking system and distribution of insured deposits in the jurisdiction concerned. Typically, this rule of thumb results in a target level of between 2 and 5 percent of insured deposits. If the existing or targeted DIF level is found to be insufficient, the DIS could decide to increase premiums and the target level, or the authorities could decide to subject more banks to resolution planning using resolution options such as bail-in that would not rely upon deposit insurance funding, for example, by requiring banks to issue more loss-absorbing capacity.<sup>23</sup> The target level, once determined, should be reachable within a reasonable timeframe (for example, no more than five to seven years, depending on the funding needs). DIS legislation should prescribe setting a DIF target level subject to regular evaluations, and the leadership of a DIS should decide on the exact target level after undertaking the evaluations based on a thorough methodology.<sup>24</sup>

## B. Funding a DIF

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To give a DIS credibility from the start, member banks should pay an initial contribution, or the government could provide seed funding. This would also help cover administrative costs while operationalizing a DIS and reduce the likelihood of using a DIF’s public backstop during an early failure. If banks are requested to make an initial contribution, these funds should be nonrefundable and could also be levied on banks that join at a later stage as new entrants to the banking system (but should not be set at a level that discourages market entry). To be credible, seed funding should be significant, both as an amount and relative to the target level. Any seed funding from the government should be fully repaid before the DIS considers reducing or halting the collection of premiums from member institutions (IADI CP 9).

IMF staff recommend a flat rate rather than a risk-based premium when establishing a DIS. After any initial government seed funding, the funding of a DIS should be the sole responsibility of its member institutions, met through regular nonrefundable contributions. A system in which each member pays the same contribution as a percentage of the assessment base (for example, insured or all deposits) is best suited for an incipient DIS because it requires limited data and simple calculations and is readily understood by members. Applying a flat rate may also generate more revenues for the DIF than a risk-based premium arrangement, which may be difficult to calibrate to ensure income neutrality, especially in concentrated banking systems.<sup>25</sup> Once the DIF is fully established and has moved closer to the target level, and the DIS has better expertise in analyzing banks’ risk ratings and the potential impact of changes to its premium system, the introduction of risk-based premiums could be considered. In this setup, a bank would pay premiums determined by the measurable risk that it poses to the DIS. The use of such risk-based premiums lessens healthier banks’ subsidization of weaker banks and mitigates the moral hazard implicit in cross-subsidization. Determining risk-based premiums requires greater resources and information sharing across financial safety net members (particularly the DIS and the supervisory authority). Primary legislation should not set specific DIS premium levels (other than perhaps a maximum level) because they will need to be revised over time.

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<sup>23</sup> If a country identifies that some banks will be resolved using DIF funding in liquidation and payout, the target level should be calibrated to the two to four largest banks in this category.

<sup>24</sup> Setting a target level (whether a percentage or nominal amount) in primary legislation would require regular parliamentary changes and is not recommended.

<sup>25</sup> Income neutrality is a condition whereby the banks’ premiums in total do not decline when switching from flat to risk-based premia. Such income neutrality can be maintained in a system that uses a minimum flat-rate contribution, which provides a floor while adding an additional contribution for those banks deemed riskier (per supervisory rating).

## C. Emergency Funding

A readily available public backstop (Box 4) is critical for the credibility and effectiveness of a DIS. A backstop is needed when a DIS is financially unable to promptly reimburse insured deposits, either through payouts or funding resolution, and extraordinary contributions from member banks would be insufficient to quickly provide the extra funding. A DIS should have access to a public backstop from its inception, considering that building a sufficient DIF will likely take years. Deposit insurance is a commitment to insure depositors as a matter of public policy, and country authorities must acknowledge that public resources may be needed to make good on their promise if a DIF is depleted.

### Box 4. Principles for a DIS Public Backstop

When designing a backstop in country work, IMF staff recommend the following:

- The backstop should be provided by the Ministry of Finance or Treasury. Funds provided to the DIS should be repaid to the government over time by the DIF with regular and, as appropriate, extraordinary contributions from member banks. This should include the lending or refinancing costs of the government.
- The central bank should not provide backup funding because this is ultimately a fiscal responsibility. A central bank should only provide such funding under narrow circumstances (as a matter of last resort, the need to protect financial stability and minimize loss of confidence, and with full discretion) and on an interim basis if government funds cannot be disbursed on short notice (for example, because of cumbersome budgetary processes). DIF borrowing from the central bank should be guaranteed by the government and replaced with government funding sources as soon as possible.
- The backstop mechanism should permit rapid disbursement of funds—at most within a few days, considering the expectation of a DIS reimbursing insured depositors within seven business days. To ensure prompt disbursement, approval procedures for backstop funding—such as parliamentary deliberations—should be kept to a minimum.
- A backstop can be capped because the government is not expected to provide a blank check. The permitted maximum amount should be calibrated to potential funding needs, factoring in the financial health of the industry, the likelihood of bank failures, and the available financial resources of a country’s DIF.
- To enhance its credibility, legislation should underpin a backstop. Its operationalization would require preestablished lending arrangements, discussion of operational modalities, and testing of the disbursement process.
- The interest rate on a backstop should ideally be set at the market rate (or, at least, cover the government’s refinancing costs on a historical basis) to avoid a hidden subsidy to the industry.
- As with other government funding (for example, seed funding), backstop funding should be repaid in full before any reduction in deposit insurance premiums. There should be transparent accountability and reporting requirements once the backstop is provided (for example, reporting the amount of outstanding repayments).
- The use of the backstop should be subject to strong governance and accountability arrangements and be readily auditable. The funds drawn should not be commingled with the contributions from member banks to the DIF to allow for transparent auditing and reporting. The DIF should place these funds in a special account that is separate from the reserve account.

Source: IMF staff.

Note: DIF = deposit insurance fund; DIS = deposit insurance system.

Other extraordinary funding options are unlikely to provide the necessary support in terms of amounts and ready availability. A DIS should have the power to assess temporary extraordinary premiums on banks, but these are likely to be insufficient to promptly cover larger funding needs. Market borrowing alone is not a sufficient source of backstop funding, considering the loss of market access in periods of high financial sector distress. A DIS should also be precluded from borrowing from member banks that it insures, to avert the inherent conflict of interest. DIS bond issuance—whenever realistic, for example, depending on capital market depth—is likely to be limited during market distress and has not been used widely. In many cases, the only reliable buyers of DIS bonds may be the government (that is, nonmarket borrowing). To avoid a fire sale of government paper (in which a DIF mainly invests because of its relative safety and liquidity) in a larger bank failure, the IMF staff advocate that a DIS should be eligible to conclude a repurchase agreement (repo) with, and be allowed to deposit funds in, the central bank. There is also a strong argument for a DIS not holding deposits with its member banks because a large withdrawal of funds could create liquidity issues for banks (apart from the inherent credit risk).

## 5. DIS Coverage and Membership

A credible DIS should cover the large majority of depositors by number and a reasonable share of the deposits in the system by value (IADI CP 8). A DIS aims to meet its public policy objectives by protecting smaller, financially unsophisticated depositors who cannot be expected to assess and monitor the riskiness of banks in which they place their deposits. Large, institutional depositors should be subject to loss to help impose market discipline. Coverage should be per depositor, per bank, with all deposits belonging to the same owner added together to calculate coverage.<sup>26</sup> There should be no coinsurance or deductible on deposit balances within the coverage level, and accrued interest should be included.

### A. Coverage Level

The coverage level must be calibrated to the deposit structure. Since the global financial crisis, the perceived financial stability benefits of covering most retail depositors in full have been given higher prominence over moral hazard concerns. Yet, adopting very high coverage would draw into question the financial capacity of, and depositor confidence in, a DIS. To determine the coverage level, IMF staff look at the deposit distribution in the system<sup>27</sup> and seek to ensure that retail depositors are covered in full (for example, 80–90 percent of total depositors in the system), but depending on the distribution in the system, significantly less (for example, only 20–50 percent) are covered by value. This rule of thumb,<sup>28</sup> which depends on expert judgment, would need to be applied in a way that would also carefully consider the likely financial strength and premium-raising capacity of a DIS. When determining the coverage level, a DIS should also consider the levels in neighboring countries if the region’s banking markets are interconnected and deposits can readily move across borders.

Credible deposit insurance coverage requires sufficient financial backing. Higher coverage levels were discussed again after the March 2023 turmoil, which saw US banks with a large number of uninsured deposits failing because of deposit outflows. High (or unlimited) coverage may enhance the attractiveness of bank deposits, improve deposit availability and costs, and support bank funding. However, it could also cause significant distortions by inducing excessive risk-taking and eroding institutional depositors’ incentives to monitor risks. Incentivizing deposits with very high coverage levels could come at the expense of alternative investments (for example, money market funds or bond holdings) and risk regulatory arbitrage (for example, other financial products becoming repackaged as deposits). In developing countries, high coverage would likely not be affordable because it would be burdensome on banks to pay higher premiums associated with the higher coverage (and DIF target level). The lack of a credible public backstop (for example, because of insufficient fiscal space) would also bring into question the feasibility of very high coverage. Some jurisdictions deviate from the rule for uniform coverage of all types of insured deposits, recognizing the need for higher coverage of only certain deposits (Box 5). Such exemptions should be priced and included, for example, in the target level estimation. A DIS operating with differential coverage is more complex to explain to depositors, may create the risk of misuse (especially in near-crisis situations in order to obtain higher protection levels), and may suffer from an underestimation of funding and public backstopping needs.

<sup>26</sup> Jurisdictions take various approaches to different types of accounts, for example, joint, family, and trust accounts. IMF staff typically caution against complexity and recommend that deposit insurance coverage be aggregated across different types of accounts.

<sup>27</sup> For this exercise, deposits are segmented by the number of depositors holding specific deposit amounts and estimating the number of depositors and the value of deposits that would be covered at different coverage levels.

<sup>28</sup> IMF staff consider this more useful than high-level approximations, for example, two times GDP favored in the past, which do not take into account skewed deposit and income distributions typically seen in developing countries.

### Box 5. Higher Coverage Levels for Certain High-Balance Deposits

Corporations use their bank accounts, among other things, for payroll purposes. Japan introduced full protection of depositors’ payments and settlement accounts in 2003, after having introduced a blanket guarantee during its 1990s banking crisis (the blanket guarantee was lifted in 2005). These deposits by regulation (1) cannot bear any interest, (2) must be redeemable on demand, and (3) must be used for payment and settlement services.

Individuals use their bank accounts for payments covering their daily needs and to store their savings that are not invested (for example, in stocks or real estate). Depositors should be aware of the coverage level and understand that they should remain under this limit to be fully insured. However, banks may also be used for storing larger sums temporarily. When so-called lifetime events occur, bank balances may temporarily increase. In these cases, a depositor often cannot influence when this money is credited to their account.

Some jurisdictions (for example, the European Union) have decided that deposits resulting from certain transactions or serving certain social purposes may, for a defined period of time, benefit from a higher coverage level than the basic level. Within the European framework, a DIS is allowed to give depositors between 3 and 12 months to transfer their deposits, in excess of the basic coverage, to other banks. Such high balances are limited to: (1) real estate transactions relating to private residential properties; (2) life events, such as marriage, divorce, retirement, invalidity, or death; or (3) payment of insurance benefits or compensation for criminal injuries or wrongful conviction. Banks need to flag these in their IT systems in order for the DIS to verify their eligibility for insurance.

DIS legislation should empower a DIS to review and, if prudent, periodically increase the DIS coverage level. This would give a DIS much-needed flexibility because legislative changes entail parliamentary approval processes, which weaken the ability of a DIS to continuously ensure sufficient depositor protection or make reasonable adjustments in a near-crisis situation. Coverage levels should be aligned with the deposit base, which tends to grow as income and savings rise, as well as with the impact of inflation. Over time, the original coverage level would thus likely no longer cover the majority of depositors and would be too low relative to deposits. Any increase in the coverage level should be based on a thorough evaluation and undertaken after consultation with other financial safety net members, because the coverage level impacts the funding and backstopping needs of a DIS and affects the level of premiums that DIS members should pay. This process should be transparent and well publicized to support public confidence, particularly among depositors.

Source: IMF staff.

Note: DIS = deposit insurance system.

## B. Scope of Coverage

The scope of deposit insurance coverage, including the types of insured depositors and banking products covered, must be clearly defined. The definition of “deposit” varies by jurisdiction, but it can be broadly defined as any balance that an external entity entrusts to a bank for safekeeping, with a duty on the bank to repay this balance upon demand and at par. Legislation should clearly list the depositors—usually sophisticated, institutional depositors such as other financial institutions or government entities, as well as bank owners and senior management—and banking products that are excluded from deposit insurance, usually

bearer instruments and speculative investments that cannot be redeemed at par. The list of exclusions should not be too complex to avoid slowing down the compensation process because of lengthy eligibility verifications. Any changes to the list should be communicated transparently.

IMF staff recommend that SMEs be covered because they are similar to retail customers in terms of their capacity to assess bank performance. Historically, most DIS provided coverage only for individuals (natural persons) and excluded business deposits. However, providing coverage for sole proprietorships or SMEs should be given priority when considering expansion of coverage to legal entities. Loss of access to operating deposit accounts (that is, working capital) can threaten the viability of proprietorships or SMEs and deepen economic distress in a crisis. Nevertheless, identifying SME accounts can be challenging and time-consuming, and country authorities could consider covering all corporate deposits (regardless of corporate size) up to the coverage limit, based on a cost-benefit analysis.<sup>29</sup>

Foreign-exchange (FX)-denominated deposits should be insured if they are widely used (IADI CP 8). Not covering FX deposits could lead to bank runs when depositors realize that their FX savings are at risk. Reimbursements of FX deposits should (where possible) be made in FX or in local currency at the prevailing FX rate at the time of a bank’s closure. Highly dollarized economies pose a special challenge for the DIS because it may need to be prepared to reimburse most deposits in FX to ensure confidence of the depositors (who may rather withdraw funds than be reimbursed in local currency) and to mitigate exchange rate pressures (because reimbursed depositors may want to immediately convert domestic currency into FX).<sup>30</sup> In these economies, the DIS should hold reserves in FX denominations to hedge against currency risk. This could be done, for example, by collecting premiums from banks in the same currency as the insured deposits and investing the proceeds in instruments with the same currency denomination.<sup>31</sup> Yet, especially in highly dollarized economies, the setup of a credible public backstop that provides FX funding may be problematic. Some jurisdictions make use of “escape clauses” to mitigate the negative financial impact on the DIS from a sudden domestic currency devaluation, under which they would not pay in FX or would pay in local currency at a nonmarket rate. However, these typically prove counterproductive in a near crisis because they can exacerbate the risk of runs.

In some jurisdictions, deposit insurance has been extended to cover e-money issued by nonbanks, but the operationalization of this coverage remains challenging (Box 6). E-money has grown rapidly in some countries, making nonbank electronic money issuers (EMIs) potentially systemic in some cases (IMF 2021).<sup>32</sup> Advanced economies typically do not protect e-money users through deposit insurance, given ample opportunities for individuals to use the formal financial sector, resulting in relatively small e-money balances per user. In some EMDEs, where e-money plays a significant role as a means to store funds, the authorities have sought to extend deposit insurance. The effectiveness of this protection has been untested thus far. Authorities should carefully assess the need to cover e-money for financial stability reasons and the DIS’s capacity to efficiently cover e-money payouts. EMIs should not be deemed to be covered by deposit insurance without effective operational arrangements to ensure that reimbursements can be effected promptly. Any inability of the DIS to promptly reimburse e-money users risks undermining confidence in the payment system and may lead to a potential loss of confidence in the DIS more widely.<sup>33</sup>

<sup>29</sup> For example, banks in a country may not have the information or information technology systems to identify a company as an SME or to track the change of a firm’s status over time.

<sup>30</sup> To de-dollarize their economy, some jurisdictions fully exclude FX-denominated deposits or offer much lower coverage on these compared with local currency deposits. This approach penalizes depositors and can lead to bank runs. De-dollarization should be addressed through other policy tools, not through deposit insurance.

<sup>31</sup> This may be preferable to bilateral hedging agreements with swap providers, which entail counterparty risks.

<sup>32</sup> E-money is a stored monetary value or prepaid product where a record of the funds or value available to the consumer is stored on a prepaid card or electronic device (for example, a computer or mobile phone), and which is accepted as a payment instrument by parties other than the issuer (multipurpose use). The stored value represents an enforceable claim against the e-money provider to repay the balance on demand and in full. Existing crypto-assets and most stablecoins do not meet the definition of e-money.

<sup>33</sup> Instead of extending deposit insurance coverage, a requirement to keep customer funds with the central bank, rather than with commercial banks, can limit the risk of loss of funds through insolvency (IMF 2021).

### Box 6. DIS Coverage of E-Money

The loss of user funds in an e-money system can be triggered by the failure of an EMI and/or the commercial bank(s) in which user funds are deposited. Certain regulatory requirements, including legal segregation of customer funds from the EMI’s assets, protect users against certain risks but not against a temporary loss of funds, which are only returned upon liquidation, including if it arises from a failure of the bank where their funds are deposited. Such funds are treated as part of the failed bank’s insolvency estate and could incur losses for e-money users. In EMDEs, where e-money plays a significant role, the authorities have sought to extend deposit insurance in different ways:

*Indirect approach:* This approach—sometimes called “pass-through” protection—seeks to protect users from the failure of the bank that holds their funds, which are deposited there by the EMI.<sup>1</sup> Users are not protected from losses as a result of the EMI’s failure or investments in other assets. Under this approach, an EMI’s user funds are held in pooled trust or custodial accounts at banks that are insured by the DIS. The individual beneficiaries of the trust or custodial accounts (the e-money users) receive deposit insurance protection for the funds held on their behalf by the EMI at a bank if the accounts fulfill special eligibility conditions for coverage. Banks are levied on the deposits in the account according to DIS rules.

*Direct approach:* Some authorities have included e-money in the definition of insured deposits and licensed EMIs (in the form of so-called payment banks or niche banks) as members of the DIS.<sup>2</sup> Under this approach, e-money users are directly protected from an EMI failure. A trigger event could, for example, be the loss of user funds because of fraud or the failure of a bank where the e-float has been deposited. As DIS members, these institutions are subject to DIS membership regulations and pay deposit insurance contributions, which may impact their business model and their financial inclusion benefits.

The direct approach offers better protection for e-money users than the indirect approach, albeit at a cost. Direct coverage protects e-money users from losses as a result of an EMI failure (including a failure because of a loss of its bank deposits) and may help to prevent runs on the EMI. Indirect coverage only protects against the failure of the bank holding the user funds but not against a misuse of those funds. Users may not understand this crucial difference in coverage, which raises consumer protection issues. To be eligible for direct deposit insurance, EMIs should be established as a separate legal entity dedicated to the payment function and subject to regulation and supervision.

Recordkeeping requirements are of critical importance under either approach. EMIs must be able to deliver the relevant customer data for the identification of users and their individual balances within a short timeframe (for example, 24 hours) to enable rapid verification prior to a reimbursement by the DIS. The EMI’s identification processes need to be verified and tested regularly by the regulator and the DIS. The recordkeeping arrangements and the necessary oversight of these arrangements by the deposit insurer and/or supervisor could entail high costs when done properly. However, under the indirect approach, EMIs may not be subject to the recordkeeping requirements of the DIS (such as SCV).

Source: IMF staff.

Note: DIS = deposit insurance system; EMDEs = emerging markets and developing economies; EMI = electronic money issuer; SCV = single customer view.

<sup>1</sup> Countries that apply the indirect approach include Jamaica, Kenya, Malaysia, Nigeria, Rwanda, and WAEMU (comprising eight countries).

<sup>2</sup> Countries that apply the direct approach include Bangladesh and Colombia.

The implications for deposit insurance of the growing crypto ecosystem—notably banks as issuers of tokenized deposits and stablecoins—warrant continued attention. A prudent regulatory framework and legal certainty should be a prerequisite for any consideration regarding potential deposit insurance coverage in this area. Tokenized deposits are digital representations of traditional bank deposits recorded and transferred using distributed ledger technology.<sup>34</sup> They are claims on the issuing bank backed by its general balance sheet (not by segregated reserves) and maintain the legal characteristics of conventional deposits, including being redeemable at par, while being non-bearer instruments. Tokenized deposits could, therefore, become eligible for deposit insurance coverage.<sup>35</sup> Stablecoins are crypto assets that aim to maintain a stable value relative to a specified asset or a pool or basket of assets (IMF 2025b). Different from bank deposits, whose stability in value is supported by comprehensive regulatory and resolution regimes, deposit insurance coverage (where available), and access to central bank liquidity, stablecoins, at least at the moment, lack some of these stabilization features. In addition, although redemption at par is often expected by investors, this may not always be guaranteed for all stablecoin holders, and most will need to rely on exchanges to sell their stablecoins, where the value of the latter may deviate from par. Unlike traditional and tokenized money market fund shares, the stablecoin issuer does not directly compensate stablecoin holders with dividends or interest. Some countries (for example, the United States) have taken the view that stablecoins should not be insured because the relationship between the issuer and the user is not a deposit.<sup>36</sup> Other countries (for example, the United Kingdom) have noted the challenges in extending deposit insurance to stablecoins without explicitly ruling it out.<sup>37</sup> The operational complexity of stablecoin arrangements, including the use of distributed ledger technology and multijurisdictional issuance, may complicate the operationalization of any deposit insurance coverage (for example, which entity would retain the user information needed by the DIS to identify and reimburse insured users?). Instead, to protect stablecoin users from losses, regulatory safeguard arrangements (for example, through segregation of user funds) may be the most appropriate, similar to the arrangements that should be established for e-money (IMF 2021). Deposit insurance coverage should not be extended to unbacked crypto assets or algorithmic stablecoins, which are used for speculative investments.

## C. Membership

Membership should be mandatory for all licensed deposit-taking banks to avoid adverse selection (IADI CP 7). In some countries, state-owned banks are exempted from coverage. Country authorities argue that deposits at state-owned banks are implicitly guaranteed by the government and, thus, do not need deposit insurance. However, an exemption gives state-owned banks an undue competitive advantage (by not having to pay premiums) while they benefit from the DIS-supported financial stability, including the reduced risk of bank runs (IMF 2022). Jurisdictions with an offshore banking system should not extend deposit insurance to offshore banks because the purpose of a DIS is to protect retail depositors, not large-value foreign deposits. The licensing of domestic and offshore banks should be fully separated, with strict “Chinese walls” that prevent the commingling of onshore and offshore activities because these make designing a robust DIS, including an effective fiscal backstop, much more challenging.

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<sup>34</sup> They can be distinguished from deposit tokens, which are natively issued on distributed ledgers.

<sup>35</sup> The European Banking Authority deems tokenized deposits eligible for deposit insurance coverage under the same conditions as traditional deposits (EBA, Report on Tokenized Deposits, 2024 <https://www.eba.europa.eu/sites/default/files/2024-12/4b294386-1235-463f-b9b5-08f255160435/Report%20on%20Tokenised%20deposits.pdf>).

<sup>36</sup> For example, under the European Union’s Markets in Crypto-Assets Regulation, stablecoin issuers are required to deposit at least 30 percent of their reserves in separate accounts at credit institutions. This percentage increases to 60 percent for stablecoins classified as “significant.”

<sup>37</sup> Bank of England (2022, 2025). The United Kingdom’s Prudential Regulation Authority expects banking groups to issue stablecoins from nonbank entities with separate branding.

Careful sequencing is recommended with regard to extending DIS membership to nonbanks. Although in some jurisdictions, only institutions with a banking license are allowed to take deposits, other jurisdictions also permit other deposit takers—such as credit unions, cooperatives or mutuals, or microfinance institutions. Depositors in nonbanks are likely to be smaller and less sophisticated, thus having a stronger need for protection. However, such institutions may not be subject to as stringent prudential regulation and supervision as commercial banks. To limit risks to a DIS, it is therefore critical to introduce sound regulatory and supervisory requirements across institutions, whereby nonbanks would be expected to meet regulatory standards equivalent to those for banks, subject to appropriate proportionality. This should be a precondition for nonbanks to join a DIS. If there are many nonbanks holding deposits that are, on average, much smaller than those held at banks, country authorities could establish a separate DIF for deposits held at nonbanks and—as some jurisdictions do—also apply a lower coverage level. The presence of multiple DISs within one jurisdiction is not ideal, however, if member institutions only differ in legal nature (for example, commercial banks, cooperatives) but are otherwise licensed and supervised by the same regulator, cater to the same depositors, and offer the same level of protection. A single DIS is more efficient in such circumstances because it can pool limited resources. Different coverage levels can also contribute to depositor runs between the sectors, especially if they are competing for the same depositors, and complicate public awareness efforts. A separate DIF for nonbanks should be large enough to mutualize the risks in the nonbanking sector and needs to mitigate regulatory arbitrage if there is any difference in the coverage. Different funds could be managed by the same DIA to avoid the duplication of administrative functions.

In addition, new fintech-driven business models like embedded finance, nonbank-led digital banking models, and banking-as-a-service can complicate the application of deposit insurance. These models introduce multilayered relationships between customers, technology platforms, and licensed banks, which may obscure who the (insured) depositor is and which institution holds the liability. International experience shows that challenges typically arise from recordkeeping, pass-through deposit insurance conditions, and the risk of misleading representations by nonbank partners. Clear rules on the allocation of responsibilities between banks and third-party providers, disclosure and transparency, coupled with public awareness campaigns are necessary to manage risks.

## 6. Conclusions and Policy Implications

The importance and incidence of deposit insurance continue to grow. The majority (144 of 191<sup>38</sup>) IMF member countries now have an explicit DIS. The main design features for a robust DIS that IMF staff advocate include a paybox-plus mandate, ex ante funding for DIFs with reliable public backstops, the capability to promptly reimburse insured deposits through deposit transfers, exclusion of active bankers and bank representatives from DIS leadership and governance bodies, and clear coverage and membership. Other important areas, such as the institutional setup, the specifics of DIF funding levels, and the coverage level, depend on country-specific circumstances. Key issues going forward include:

- *Ensuring a prompt payout of insured deposits within a short timeframe remains challenging.* Depositors have 24/7 access to deposits (through mobile and internet banking), and the risk and speed of deposit runs increase; therefore, DIAs will be under growing pressure to minimize payout delays. Importantly, social media impact public perceptions of the effectiveness of a DIS, which needs to be factored into public awareness activities. A payout in seven working days—the deposit insurers’ self-declared goal since 2014—remains a work in progress in many jurisdictions, especially in EMDEs.
- *Insufficient funding of a DIF and the lack of a credible public backstop remain weak spots for many DIS.* Many DIFs remain critically underfunded and lack a reliable government backstop that can be promptly activated, with negative consequences for their credibility and role in the financial safety net.
- *The role of a DIS in resolution and the cooperation and coordination with the RA are critical, and a DIS that still operates under a narrow paybox mandate should consider updating to a paybox-plus mandate.* The relationship between the RA and a DIS (when the latter is not assigned to the former; see IMF 2025a) is becoming increasingly important to ensure the seamless transfer of deposits in a resolution to the benefit of depositors, which requires robust information exchange and interagency arrangements. A paybox-plus mandate supports this critical relationship and creates a framework for the benefit of the safety net and depositors.
- *The consequences of the March 2023 turmoil for the determination of a sufficient level of coverage to curtail the risk of bank runs triggered by uninsured deposits remain under discussion.* The affordability of higher coverage and the moral hazard associated with it need careful consideration and would require a commensurate increase in deposit insurance funding. High levels of coverage would not be credible for many countries, particularly in jurisdictions without the backing of a sovereign with sufficiently deep pockets.
- *The rise of fintech in the form of new products and market participants raises important medium-term challenges for deposit insurers and the scope of coverage.* Effective regulation and supervision of new technology-enabled entrants in the financial sector and of new deposit-like products will be a critical precondition before any extension of deposit insurance coverage can be considered. It is the responsibility of a DIS to ensure that public awareness programs clearly explain to consumers the DIS membership of new fintech-driven entrant institutions and which new products are insured or not, even if they are offered by insured member institutions. This crucial awareness and consumer information also involve the active participation of financial institutions and technology firms, which should avoid creating a misleading perception in the public on how widely the safety net is spanned.
- *Public awareness remains a critical and challenging aspect of robust deposit insurance.* If depositors are unaware of deposit insurance and do not understand the scope of coverage, the positive effect of a DIS in mitigating bank runs will be undermined. The deposit insurer, other safety net participants, and the financial industry should continuously inform and educate the public—as required by the Core Principles.

<sup>38</sup> As of September 2025.

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