CARIBBEAN COMMUNITY (CARICOM) POLICY ON DEPOSIT INSURANCE

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CONTENTS

EXECUTIVE SUMMARY

The CARICOM Policy for Deposit Insurance promotes the adoption of a harmonised legal and regulatory framework for deposit insurance systems in the Community in order to provide eligible depositors with a minimum level of protection in the event of the failure of a financial institution. The Policy therefore aims to promote market confidence and financial stability by enhancing the financial safety-net architecture in Member States and aligns with Articles 38 and 71 of the Revised Treaty of Chaguaramas. These provisions respectively abolish discriminatory restrictions in the financial sector and affirm that the Council for Finance and Planning (COFAP) *shall adopt proposals for the establishment of financial infrastructure supportive of investments in the Community* as an element of the Common Supportive Measures for the efficient functioning of the CARICOM Single Market and Economy (CSME).

The deposit insurance system comprises the comprehensive set of legal, operational and financial arrangements to facilitate efficient and transparent protection and/or prompt compensation of covered deposits in the event of a bank failure. The importance of an enhanced depositor protection system emerged as an important lesson from the 2008/2009 global financial crisis given its role in stabilizing expectations and securing a coordinated response from all safety net players during a crisis. As CARICOM Member States seek to strengthen their national financial safety net within the context of the growing interconnectedness of the financial systems in the Community, the adoption of a harmonised regime for deposit insurance emerges as a desirable regional initiative.

State of Play of Deposit Insurance Systems in CARICOM Member States. Deposit insurance was introduced in the Community as early as 1986 by Trinidad and Tobago followed by Jamaica in 1998, The Bahamas in 1999 and Barbados in 2007 in response to national failure events in all except one instance. However, the collapse of CL Financial, a regional financial conglomerate and its subsidiaries in January 2009, had spillover effects to other Member States and led to the pursuit of a series of reforms to improve the protection of depositors, strengthen regulatory cooperation and cross-border supervision in order to preserve financial stability. Belize and Guyana have since enacted deposit insurance legislation and the Organisation of the Eastern Caribbean States (OECS) is contemplating a regional deposit insurance scheme.

In general, the deposit insurance systems in the Community vary in a number of areas such as public policy objectives, mandate, powers, composition of membership, eligible deposits (local or foreign currency or both), coverage level, as well as institutional and governance arrangements. Altogether, the deposit insurance landscape within the Community does not as yet afford a similar level of protection for CARICOM Nationals who utilize the CSME free movement regime wherever they are located in the Community. The expansion of the network of deposit insurers as well as the modernization of the deposit insurance systems in accord with internationally accepted standards and best practices is therefore a priority for the Community.

Objectives of the CARICOM Policy. The **CARICOM Policy on Deposit Insurance** promotes the introduction of a best practice deposit insurance system through either the reform of an existing deposit insurer, or the establishment of a new system in each Member State or among a group of Member States (such as the ECCU) so as to encourage market confidence and support financial stability in the Community. The main objectives of the Policy are to -

(i) Contribute to the development and stability of the financial systems within the Caribbean Community;

(ii) Provide eligible depositors within the Caribbean Community with a minimum level of protection by safeguarding their deposits against losses due to the failure of a financial institution;

(iii) Promote market confidence by strengthening the crisis management and financial stability framework in Member States through greater co-ordination among financial safety-net partners; and

(iv) Foster greater collaboration between the deposit insurer in one Member State and the counterpart in other jurisdictions, so as to reduce the possibility of contagion risk from bank failure and/or financial crises originating in any one Member State in the Community.

The achievement of these objectives will be pursued through the following four (4) strategies and related measures.

Strategy I: Promote Stability and Development of the Financial System in the Caribbean Community. In recognition of the important role of deposit insurance in promoting fair, efficient and sound domestic financial markets, CARICOM Member States will adopt a **minimum harmonisation approach** to the establishment, modernization, operation and regulation of their deposit insurance system. The minimum harmonisation framework will require Member States to jointly concur on the applicable minimum standards and requirements but will allow different deposit insurance regimes to co-exist within the Community. Accordingly, Member States will adopt a CARICOM Model Deposit Insurance Law which will serve as a benchmark for the introduction of deposit insurance legislation or the reform or enhancement of the existing legal framework. The Model Law will set out the key features for a deposit insurance system in the Community and will, *inter alia*, stipulate the public policy objectives, the mandate and related powers for the deposit insurer. Specifically, the Model Law will promote the "**Paybox-Plus**" model as an appropriate mandate for Deposit Insurers in CARICOM. Under this model, the Deposit Insurer will be responsible for reimbursing depositors as well as discharging certain resolution functions. Member States may, however, adopt a more expansive mandate than the Paybox-Plus model. Altogether, CARICOM Deposit Insurers should be operationally independent with sustainable ex ante funding arrangements in place to allow for the discharge of their mandate.

Strategy II: Provide Eligible Depositors in CARICOM Member States with a Minimum Level of Protection in the case of Bank Failure. Membership in the deposit insurance system in CARICOM Member States will be obligatory for all financial institutions that are licensed by the relevant authority, to accept deposits with the exception, initially, of credit unions and building societies. Given the need to protect the most vulnerable depositors without falling risk to moral hazard, Member States will work towards achieving a minimum coverage level of **90 percent of all depositors**. In addition, all local currency deposits held by natural and legal persons in member institutions will be covered by the deposit insurer but coverage for other accounts and deposits will be at the discretion of the individual Member State. Further, Member States will work towards standardizing the legal definition of the term "deposits" as well as the coverage rules so as to establish a common approach to the reimbursement of depositor's claims.

In accord with the standard for prompt reimbursement of depositors' claims, Member States will seek to implement an automatic claim settlement system targeted at reducing the payout period to a maximum of twenty (20) working days after an event. Depositors should be made aware of these procedures along with other features of the deposit insurance scheme in an easily comprehensible manner. The Deposit Insurer will therefore be required to work closely with other financial safety net partners to conduct an active public awareness programme on the key attributes (benefits and limitations) of the deposit insurance system and on developments following an event.

Strategy III: Promote Market Confidence* by *Strengthening the Crisis Management and Financial Stability Frameworks in Member States through Greater Co-ordination among Financial Safety-Net Partners. The Policy recognizes the role of the Deposit Insurer as a financial safety net partner and advocates for effective and efficient regulatory cooperation and information sharing with other such partners. The Deposit Insurer is also expected to participate in the national crisis management mechanism and will be required to have in place an effective contingency planning and crisis management policy as well as procedures to promptly respond to an event. Moreover, in accord with the Paybox plus mandate, the deposit insurer will be expected to both reimburse depositors and provide financial support during the resolution process. Additionally, the deposit insurer will be allowed primacy over other creditors of the failed financial institution in the recovery of the funds used to reimburse depositors.

Strategy IV: Promoting Regional Financial Stability through Enhanced Regulatory Coordination and Cooperation among Deposit Insurers and Other Financial Safety-Net Partners across Member States. The existence of regionally-active banks in the Community establishes the importance of cooperation among financial safety net partners across Member States in order to reduce the potential for contagion risk. Specifically, eligible financial institutions operating in another Member State whether as a branch or subsidiary will be required to become a member of the deposit insurance system in the operating territory. Additionally, the relevant authorities in Member States will coordinate efforts in the early detection and prevention of crises and the resolution of distressed banks with cross-border operations. Member States will therefore facilitate the cross-border exchange of information as well as functional cooperation activities among the relevant authorities and will support the establishment of a Regional Body of Deposit Insurers.

Supporting Reforms, Impact Assessment and Policy Implementation. The transition to a modern deposit insurance system will require ongoing legal and regulatory reforms to institute complementary rules in the financial sector architecture. A priority in this regard is the establishment of a special resolution regime to facilitate the orderly restructuring or winding up of failed financial institutions.

The CARICOM Policy recognizes deposit insurance as an important element of Member States' financial safety net architecture towards the strengthening of financial stability in the Community. As such, a harmonized deposit insurance framework within the context of the Community regimes for the free movement of capital and the right of establishment of financial institutions will help to mitigate the contagion effects of bank failure or financial crises in one or more Member States. While the funding outlay will depend on the stage of development of deposit insurance in each Member State, there will be opportunities for functional cooperation activities as well as the sharing or centralization of the delivery of certain services among deposit insurers.

The approval and adoption of the CARICOM Policy on Deposit Insurance will be followed by the preparation of a Model Law and proposals for a Special Resolution Regime for consideration by Member States. Additionally, monitoring of the banking industry and the deposit insurance framework in Member States will be ongoing to determine whether developments in the prevailing environment have implications for the standards set out in the regional policy. Accordingly, an initial review of the CARICOM Policy will be undertaken three years after the date of adoption.

CARIBBEAN COMMUNITY (CARICOM) POLICY
ON DEPOSIT INSURANCE

1. PURPOSE

1.1 This document sets out the CARICOM Policy on Deposit Insurance for the Caribbean Community (CARICOM) Member States. The Policy –

(i) promotes the adoption of a harmonised legal and regulatory framework for deposit insurance in order to provide a minimum level of protection to depositors within the Community;

(ii) aims to promote market confidence and financial stability within CARICOM Member States by:

(a) enhancing the financial safety-net[1] architecture; and
(b) contributing to deepening the integration of financial markets in the Community; and

(iii) represents one of the measures to facilitate the efficient functioning of the CARICOM Single Market and Economy (CSME) as endorsed for elaboration by the Thirty-Third Meeting of the Conference of Heads of Government of the Caribbean Community (*St. Lucia, July 2012*).

2. INTRODUCTION

2.1 The CARICOM Single Market and Economy (CSME) is premised on five (5) pillars, namely – the free movement of people, goods and capital, the right of establishment and the provision of services. These pillars are set out in the Revised Treaty of Chaguaramas (2001) which, *inter alia,* outlines the areas for macro-economic policy coordination and harmonisation which would be supportive of the functioning of the CSME.[2] Specifically, Article 38 abolishes discriminatory restrictions on banking, insurance and other financial services in the Community. In addition, Article 71 mandates the Council for Finance and Planning (COPAP) to adopt proposals for the establishment of supportive *financial infrastructure.*[3] In particular, the COFAP is

[1] A country's 'financial safety net' is defined to include the functions of prudential regulation and supervision, resolution, lender of last resort and deposit insurance.

[2] These areas include monetary policy cooperation (in respect to the free movement of capital), fiscal policy, financial policy and investment policy coordination and harmonisation as well as capital market integration.

[3] 'Financial Infrastructure' is the set of institutions that enable the effective operation of financial intermediaries, that is, the legal and regulatory framework for financial sector operations (including payment systems for settlement of financial transactions, credit information bureaux, arrangements for the safe custody and transfer of asset ownership, for example, collateral registries).

required to assist Member States in establishing, *inter alia*, appropriate financial institutions for the facilitation of sustainable investments.

2.2 The financial system is critical to a country's economic progress because of the role that financial institutions perform in mobilizing savings, diversifying risks and allocating capital to the most productive uses. A sound and robust financial system is one that remains stable and efficient in the wake of economic shocks and exhibits predictability, flexibility, resilience, and internal stability. Key elements of a sound and robust financial system can be categorized as financial infrastructure supportive of effective market functioning, institutional governance mechanisms and the regulation and supervision of market institutions. Market confidence in the financial system is promoted through the establishment of a sound legal and regulatory framework, a strong supervisory regime and appropriate financial safety net mechanisms to protect depositors. Accordingly, the draft **CARICOM Financial Services Agreement (CFSA),**[4] *inter alia*, encourages Member States to "*adopt measures to ensure the protection of depositors' funds in a financial service supplier within its territory in accordance with domestic law."*[5]

2.3 Typically, a country's financial safety-net infrastructure comprises an effective prudential regulatory and supervisory framework; implicit or explicit deposit insurance to protect more vulnerable depositors; macro-prudential early warning systems along with a resolution regime for banks; and lender of last resort facilities at the central bank. While deposit insurance usually provides relief to vulnerable depositors after the failure of a financial institution, the other safety-net mechanisms seek to mitigate financial risks through the implementation of early intervention strategies to investigate and resolve insolvent institutions. The role of the financial safety-net is therefore the prevention of a financial crisis through the early intervention and resolution of failing deposit-taking institutions as well as the protection of depositors' funds where a decision is taken to liquidate such entities.

2.4 **Deposit insurance**[6] is the system established by governments "*to protect depositors against the loss of their insured deposits in the event that a bank is unable to meet its*

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[4] The final text of the CARICOM Financial Services Agreement (CFSA) was agreed for finalization by the Fifteenth Meeting of the Council for Finance and Planning (*Trinidad and Tobago, August 2013*). However, the CFSA has not yet been approved by the Legal Affairs Committee for adoption by Member States.

[5] Article 19 of the CFSA (Revised Draft as at 12 June 2021).

[6] Annex 1 sets out the glossary of terms related to Deposit Insurance Systems.

obligations to depositors.[7] The deposit insurance system therefore comprises the comprehensive set of legal, operational and financial arrangements to facilitate efficient and transparent protection and/or prompt compensation of covered deposits in the event of a bank failure. It is targeted at preserving confidence in the financial system by mitigating the adverse effects of bank failure including contagion risks that may lead to a financial crisis. A well-designed and efficiently operated deposit insurance system can be a major contributor to the stability of a country's financial system by providing certainty regarding depositor protection in the resolution of failed banks. Deposit insurance essentially replaces the implicit or blanket government guarantee with an explicit arrangement which enables governments to limit their exposure in resolving a failed financial institution and/or a crisis. However, the deposit insurance system, by itself, cannot prevent systemic failure and must be complemented by the other elements of the financial safety net.

2.5 The 2008/9 global financial crisis heightened the focus on enhanced depositor protection systems and highlighted the central role of deposit insurance in stabilising expectations as well as the importance of a coordinated response to a crisis that includes all safety-net players.[8] Several countries worldwide have since introduced deposit insurance or embarked on reforms[9] to broaden the responsibilities and strengthen the core functions of existing deposit insurers as a critical element of their financial safety net. CARICOM Member States have also embarked on strengthening their financial safety net within the context of the growing interconnectedness of the financial systems in the Community which makes the adoption of a harmonized regime for deposit insurance a desirable regional initiative. The **CARICOM Policy on Deposit Insurance** therefore promotes the introduction of a best practice deposit insurance system through either the reform of an existing deposit insurer, or the establishment of a new system in each Member State (or among a group of Member States) so as to encourage market confidence and support financial stability in the Community.

[7] International Association of Deposit Insurers (IADI) – IADI Core Principles for Effective Deposit Insurance Systems (November 2014), page 8.

[8] Pruski, Jerzy (2014). "The expanding role of deposit insurance in the financial safety-net", The Banker, January 2014.

[9] While the trend is towards the introduction of a national deposit insurance system some countries (including the United States, Germany, Austria, Colombia and Portugal) have established multiple deposit insurance systems.

3. FINANCIAL CRISES AND DEPOSIT INSURANCE

3.1 A financial crisis emerges when the failure of one or more banks has a significant impact on the real economy either through the reduction in credit flows as a result of liquidity shortages or the loss of asset values or both. During the 2008 financial crisis, the interconnectedness of the global financial system and the vulnerabilities of domestic financial systems were magnified. Although the advanced economies, especially in Europe and North America, were the epicenter of the financial crisis, the effects were felt in Asia, Africa, Latin America and the Caribbean. The financial crisis also had a cataclysmic impact on the real sector as the disruption in financial flows precipitated a global economic recession. The effects of the crisis were thereby transmitted to the public sector because some governments were forced to bail-out distressed financial institutions, resulting in elevated debt levels which constrained government expenditure on procyclical growth policies, particularly in developing countries. As a consequence, the policy focus has shifted towards strengthening financial systems at the national, regional and global level and to providing enhanced protection to depositors in order to restore and maintain market confidence.

3.2 The growing integration of financial markets and systems in CARICOM, whilst desirable within the context of the CSME, has highlighted the desire for equivalent treatment of Community Nationals and brought an increased greater risk of contagion among Member States. In January 2009, the collapse of CL Financial, a Trinidad and Tobago-based financial conglomerate and its insurance companies - Colonial Life Insurance Company (CLICO) and the British American Insurance Company (BAICO), precipitated a regional financial crisis, which had a devastating impact on the financial sector in many CARICOM Member States. The countries primarily affected by the regional financial crisis were Barbados, the Members of the Organisation of the Eastern Caribbean States (OECS), and Trinidad and Tobago. The Bahamas, Guyana and Suriname were also adversely affected. Although the crisis originated in the insurance industry, the collapse of CL Financial served as a catalyst for increased regional cooperation among financial sector supervisors, particularly in respect to the supervision of cross-border regional conglomerates.

3.3 In the post crisis period, the policy response of CARICOM Member States has been to strengthen the national and regional architecture for financial stability. As a result, there has been the trend towards the establishment of national Financial Stability Units in the Central Banks, the formation of national Crisis Preparedness and Management Committees and taking steps to promote greater co-operation and coordination among safety-net partners. Central Banks have also prepared and publicized national financial stability reports and there is ongoing work to standardise macro-prudential[10] policy and systemic risk indicators, to gauge the systemic importance of various sectors as well as to map the interconnectedness of cross-border entities. Work is also ongoing on the preparation of a Regional Financial Crisis Management Plan while there has been renewed interest in deposit insurance in some Member States.

4. OVERVIEW OF DEPOSIT INSURANCE SYSTEMS IN CARICOM

4.1 Prior to the CL Financial debacle, financial crises in CARICOM were largely national events with limited spillover effects on other Member States. For instance, stresses emerged in the banking system in Trinidad Tobago in the 1980s, and again between the period 1989 to 1993 when three finance houses became insolvent and had to be placed under Central Bank supervision.[11] Consequently, Trinidad and Tobago became the first Member State to establish a Deposit Insurance Corporation (DIC) in 1986. In Jamaica, the financial sector experienced a lingering crisis during the 1990s which resulted in interventions in a number of banks, life insurance companies, building societies and merchant banks. Jamaica then launched the Financial Sector Adjustment Company (FINSAC) in 1997 to undertake a comprehensive restructuring of the sector and deposit insurance was introduced in 1998. In 1997, The Bahamas experienced the failure of the Gulf Union Bank (Bahamas) Limited but this did not constitute a full crisis. However, its liquidation is still ongoing and the passage of Deposit Insurance legislation in 1999 was retroactively applied to this failed institution. In 2007, Barbados introduced deposit insurance and is the only jurisdiction where the establishment of the deposit insurance system was not in direct response to a failed bank or financial crisis. In July 2018, the Parliament of Guyana passed the Deposit Insurance Bill thereby establishing a deposit insurance scheme for the protection of insured depositors. Additionally, the Belize Deposit Insurance Act 2020 was passed by the Parliament in December 2019 and signed into law in January 2020. This law establishes the legal framework for the protection of depositors in domestic banks and credit unions.

4.2 The financial system in the OECS has experienced several challenges stress since 2009 which have manifested in a number of indigenous financial institutions approaching failure thereby prompting several intervention strategies through 'special emergency

[10] Macro-prudential data comprise indicators that can be used to predict and explain periods of financial crises. The data typically include economic data, financial soundness and stability indicators, financial market data, debt and credit variables, etc.

[11] Odle, Maurice, The Global Financial Crisis: How Did We Get Here and How Do We Move Forward? ILO Caribbean Tripartite Conference on Promoting Human Prosperity Beyond the Global Financial Crisis. Kingston, April, 2009.

powers' sanctioned by the Central Bank. In March 2015, the Eastern Caribbean Central Bank (ECCB) announced plans to implement a uniform deposit insurance system based on maximum harmonisation for the Eastern Caribbean Currency Union (ECCU).[12] In June 2020, the Eastern Caribbean Central Bank (ECCB) published a paper entitled "*Establishment of a Deposit Insurance System for the Eastern Caribbean Currency Union*" for public comment. Haiti and Suriname have also expressed interest in introducing deposit insurance but have not yet enacted legislation.

4.3 The deposit insurance systems which have been established in CARICOM Member States are at different stages of development and the deposit insurer in the respective jurisdictions has been vested with differing powers and responsibilities. Jamaica has the most advanced deposit insurance system which allows for the reimbursement of depositors as well as the pursuit of least cost resolution strategies in dealing with distressed banks.[13] The other jurisdictions have adopted a model[14] whereby the deposit insurer is mainly responsible for reimbursing depositors but may also play a limited role in bank resolution. The somewhat marginal role of deposit insurers in resolving distressed banks and in providing system oversight in CARICOM States is in direct contrast to global trends towards greater engagement of the deposit insurer in these activities.

4.4 Generally, CARICOM central banks continue to have lead responsibility for providing oversight of the financial sector, for preserving financial stability and serving as sole resolution authority, with the exception of Jamaica where the Deposit Insurance Corporation has some resolution functions and can act as liquidator or receiver for failed banks. However, international best practice envisions a much greater role for deposit insurers than currently performed by the schemes in CARICOM. Specifically, the deposit insurer is now expected to be involved in crisis management and failure resolution of distressed banks.[15]

4.5 Current international best practice also requires that the deposit insurer should be established as a separate legal entity, be operationally independent, well-governed, transparent, accountable and insulated from external interference in accord with acceptable corporate governance standards. However, in CARICOM, the degree of independence between the deposit insurer and the monetary authority differs among Member States. While the deposit insurer in Jamaica and Trinidad and Tobago

[12] The Eastern Caribbean Currency Union (ECCU) is comprised of Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines.

[13] This is referred to as a 'loss minimiser' mandate.

[14] This is referred to as the Paybox-Plus model.

[15] IADI Core Principle 6 (*Deposit Insurer's Role in Contingency Planning and Crisis Management*) and Principle 14 (*Failure Resolution).*

operates as an independent entity, the other deposit insurers rely on the central bank for financial, technical and administrative resources as well as accommodation. In the Bahamas, the Deposit Insurance Corporation is a department of the central bank but its affairs are managed under a Service Agreement. In Barbados, the Deposit Insurer is also heavily reliant on the central bank for resources**.** In all instances, the central bank is represented on the board of the deposit insurer and therefore is able to influence its policies and governance arrangements.

4.6 The promotion of market confidence is considered as an important objective of the deposit insurance system. As such, the scope and coverage of the deposit insurance system is a major factor in reducing uncertainty and promoting public confidence in the financial system. In this regard, the convention is for the deposit insurer to set a minimum coverage level of 90 to 95 percent of the depositors in an insured bank.[16] Data for 2019 (**Annex II**) indicate that the deposit insurance systems in CARICOM have achieved coverage ratios, which on average, are almost aligned with the international standard. In Barbados, deposit insurance covers approximately 87 percent of depositor accounts while the coverage ratio in the other Member States are just above 90 percent. When the coverage level is evaluated against the classical rule of achieving 2 to 3 times of Gross Domestic Product (GDP) per capita, Member States do not perform as well. In all the CARICOM jurisdictions, the coverage level is below the stipulated minimum of 2 times the country's GDP per capita.[17] In general, coverage levels should be based on public policy objectives and the country-specific circumstances.[18] In this regard, international best practice now suggests that the coverage level should cover the majority of depositors while leaving a substantial amount of deposits exposed to market discipline.

4.7 Moreover, an assessment[19] of deposit insurance systems in CARICOM has highlighted the following concerns –

(i) Existence of partly outdated deposit insurance regulations (for example, in respect to the requirements for asset classification and provisioning);

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[16] IADI, in its *Enhanced Guidance for Effective Deposit Insurance Systems: Deposit Insurance Coverage, Guidance Paper*, published in March 2013 stipulates a minimum coverage ratio of 90 percent of depositors.

[17] Jamaica recently increased its maximum coverage limit from J$600,000 to J$1,200,000.

[18] IADI (March 2016). A Handbook for the Assessment of Compliance with the Core Principles for Effective Deposit Insurance Systems, page 19.

[19] GBDS, Report of the Consultancy on the Development of a Deposit Protection Model for CARICOM Member States, February 2016, p. 143.

(ii) Inadequate arrangements for funding the normal business or for emergency funding of the deposit insurer;[20]

(iii) Deficiencies in prudential rules which affect the effective monitoring of stresses in the financial system;

(iv) An incomplete risk-based supervision framework which is not fully applied in respect to either the monitoring of financial institutions or in the determination of premiums to be paid under the deposit insurance system in the Member States with functioning deposit insurers; and

(v) Weak framework for consolidated supervision of banking groups and financial conglomerates, at the regional level.

4.8 A pre-requisite for the modernization and region-wide adoption of deposit insurance in CARICOM suggests that Member States will need to work towards formulating implementable solutions to address these concerns. Moreover, given the growing integration of the financial sector in the Community, Member States will also need to provide for closer cross-border collaboration and cooperation between the national deposit insurer and counterparts in other jurisdictions. Accordingly, the CARICOM Policy on Deposit Insurance aims to promote the introduction of a modern best practice regime to protect consumers and promote confidence in the financial system in Member States.

5. PRE-CONDITIONS FOR DEPOSIT INSURANCE SYSTEMS IN CARICOM

5.1. The effectiveness of a deposit insurance system in protecting depositors and contributing to a jurisdiction's financial stability, is influenced not only by the design features, but also by the environment within which it operates. The operating environment includes the structure of the financial system, quality of prudential re-gulation, supervision and resolution regimes, the legal and judicial framework as well as the accounting and disclosure system for deposit-taking financial institutions. Specifically, the key pre-conditions for the successful introduction of a deposit insurance system include the stability of the macroeconomic environment and the soundness of the banking sector. In instances where these key factors do not exist, there is a high risk that the system will lose credibility if it is confronted with the failure

[20] IADI Core Principle 9 – Sources and Uses of Funds - emphasizes the importance of the deposit insurer establishing sources of back-up funding for liquidity purposes.

of a financial institution at an early stage when it is not able to reimburse insured depositors. **Each Member State should therefore conduct a careful assessment of the country's macroeconomic conditions and the structure and performance of its financial system before steps are taken to introduce deposit insurance**.

5.2 The financial sector in CARICOM Member States is quite diverse and reflects differences in the level of market development, regulatory regime and industry practices. Overtime, the banking industry in Member States has emerged as the most vibrant sector (with total assets in excess of 120% of regional GDP) but exhibits a high level of concentration with four (4) banks accounting for 75% of regional onshore banking assets. Three (3) of these banks are Canadian-owned[21] and account for 61% of regional onshore banking assets. Non-banking system assets[22] were estimated at around 39% of regional GDP, with assets of insurance companies, investment firms credit unions respectively accounting for 20%, 9% and 7%.

5.3 Overall, the regional financial sector has weathered the global financial crisis fairly well and continues to show resilience. The banking system in the Community appears to be reasonably sound, with capital adequacy ratios in the majority of Member States, comfortably exceeding the international standard of 8%. The level of excess reserves remains elevated due to weak growth in credit to the private sector. Despite the dampened economic conditions,[23] banks in the region have maintained their profitability largely due to increases in fee income and the implementation of cost-containment measures. Nonetheless, there are some weaknesses in the regional financial stability framework that should be addressed. The stresses in the system include the undercapitalisation of some financial institutions and the deterioration in the credit quality of the loan portfolios, with the non-performing loan ratio reaching as high as 20% in some jurisdictions. In addition, the level of market concentration and the interconnectedness of the regional financial system with the implementation of the free movement regimes under the CSME, have increased the potential for contagion risk in the Community. Consequently, greater collaborative efforts are required among regulatory authorities in Member States to promote financial stability at the domestic and regional level.

5.4 Against this background, expanding the network of deposit insurers in the Community is therefore in the interest of CARICOM Member States. Additionally, the existing

[21] However, since 2018, Canadian banks have divested some of their Caribbean assets.

[22] The non-banking sector is comprised of a wide range of financial institutions including *inter alia*, finance houses, trust and mortgage companies, credit unions, insurance companies, co-operatives, building societies, merchant banks, and microfinance institutions.

[23] In 2017, economic growth averaged 0.3% and predicted to reach 2% in 2018.

deposit insurance systems in CARICOM should be modernized so that they can become more effective as a safety-net partner. This modernization will involve the upgrading of the existing deposit insurance laws and operational procedures as well as their alignment with international standards.[24] This Policy therefore proposes the adoption of best practices by CARICOM Member States in the upgrading and establishment of Deposit Insurance Systems which are consistent with relevant international standards.[25]

6. OBJECTIVES OF THE CARICOM POLICY ON DEPOSIT INSURANCE

6.1 The goal of the CARICOM Policy on Deposit Insurance is to protect depositors in the Community and promote financial stability of Member States. Accordingly, the main **objectives of the CARICOM Policy on Deposit Insurance** are to -

(i) Contribute to the development and stability of the financial systems within the Caribbean Community;

(ii) Provide eligible depositors within the Caribbean Community with a minimum level of protection by safeguarding their deposits against losses due to the failure of a financial institution;

(iii) Promote market confidence by strengthening the crisis management and financial stability framework in Member States through greater coordination among financial safety-net partners; and

(iv) Foster greater collaboration between the deposit insurer in one Member State and the counterpart in other jurisdictions, so as to reduce the possibility of contagion risk from bank failure and/or financial crises originating in any one Member State in the Community.

6.2 Since CARICOM Member States are at varying stages of economic and financial development, the specific strategies and measures to be implemented towards the achievement of these objectives will be country-specific but must be consistent with the standards outlined in the CARICOM Policy on Deposit Insurance. It is, however,

[24] International standards for the establishment and functioning of deposit insurers have been determined by IADI and the Financial Stability Board. The IADI Core Principles outline critical design features of a deposit insurance system and have become increasingly important in contributing to depositor confidence and financial stability.

[25] The IADI has articulated sixteen (16) Core Principles for Effective Deposit Insurance Systems.

expected that Member States will formulate their country-specific strategy and determine an implementation plan and timetable to achieve the reforms articulated in the Policy.

7. STRATEGIES AND MEASURES TO ACHIEVE THE OBJECTIVES OF THE CARICOM POLICY ON DEPOSIT INSURANCE

7.1 *Strategy I: Promote Stability and Development of the Financial System in the Caribbean Community*

7.1.1 **Fair, Efficient and Sound Financial Markets.** The CARICOM Policy on Deposit Insurance recognizes the important role of the deposit insurance system in promoting fair, efficient and sound financial markets in the Community. In addition to minimizing the risk to depositors of losing funds when a bank fails, the existence of deposit insurance encourages a diversified financial sector and facilitates the orderly resolution of weak banks thereby contributing to a healthier financial system. Moreover, an explicit deposit insurance system reduces sovereign risk, limits discretionary decisions and promotes public confidence in the financial system. The Policy therefore advocates that CARICOM Member States will commit to the adoption of an appropriate deposit insurance solution or the modernization of an existing deposit insurance system in accord with mutually agreed best practice principles and standards.

7.1.2 **Harmonised Approach to Deposit Insurance.** Member States will adopt a harmonised approach (**based on minimum harmonisation**) to the establishment or modernization, operation and regulation of their deposit insurance system. The concept of '**minimum harmonisation'** requires that Member States jointly concur on the **minimum standards and requirements** for the establishment or modernization, operation and regulation of their deposit insurance system. Under the minimum harmonisation approach, Member States' deposit insurance system would be aligned with agreed minimum standards (**Appendix III**). This approach provides for the co-existence of diverse deposit insurance systems within the Community and will accommodate existing national deposit insurance systems as well as the sub-regional system under consideration by the OECS. Additionally, this approach allows for some Member States to offer a higher level of protection to depositors than stipulated by the regional standards. The expectation is that the minimum harmonisation approach will promote financial integration and greater efficiency of the operations of deposit insurers in an environment of diverging deposit insurance solutions as long as the same minimum standards are adhered to by all jurisdictions. Ultimately, Member

States will take steps to achieve greater policy convergence in order to promote regional financial stability and a common level of protection for depositors throughout the Community.

7.1.3 **CARICOM Model Legislation.** A key characteristic of the minimum harmonisation approach is the adoption of Model Legislation to establish the framework for the establishment, modernization, regulation and operation[26] of the deposit insurance system in Member States. The Model Law will seek to avoid regulatory gaps and will –

(i) set out those provisions (**Annex III**) which will be 'fully harmonised' and so provide for a minimum level of protection to insured depositors across Member States;

(ii) identify other elements of the deposit insurance regime that would be 'partly harmonised' by allowing for several options and/or by granting discretion to the national deposit insurer; and

(iii) outline the parameters for the standardization of key procedures and processes governing the operations of the deposit insurer as well as protocols to achieve regulatory co-operation and coordination with other financial safety net partners both domestically and across Member States.

The Model Law will therefore serve as a benchmark for Member States seeking to introduce new deposit insurance legislation or to reform/enhance existing legislation.

7.1.4 Accordingly, **Member States will either enact or amend the existing law for the establishment and/or functioning of a national deposit insurance system in accord with the provisions of the CARICOM Model Law.** In the case of Member States with a functioning deposit insurance system, an assessment should be conducted as to whether the existing legal framework is consistent with the CARICOM Policy and Model Law. The Member States should identify the reforms to be undertaken to achieve compliance with the agreed standards and then determine a timeline to bring their national system in line with the CARICOM Policy.

[26] The standardisation of key administrative processes of the deposit insurer including the maintenance of account information and other Information Technology (IT) systems, reporting requirements for member institutions and claim reimbursement procedures, should be embraced as a medium-term goal.

7.1.5 **Key Features of the Deposit Insurance System.** The CARICOM Model Law will set out the key features of the deposit insurance system and will, *inter alia*, stipulate the public policy objectives, the mandate and related powers for the deposit insurer. Specifically, Member States will seek to harmonize the **public policy objectives** of their deposit insurance system to converge around ***the protection of depositors' funds and support for financial system stability***. In keeping with these objectives, the **mandate**[27] should clearly specify the safety net functions which will be allocated to the deposit insurer. An appropriate **mandate for the deposit insurer in CARICOM Member States** which accords with the public policy objectives is the **"Paybox-Plus" model** which will also allow for the effective discharge of its responsibilities as a financial safety net partner. Under this mandate, the deposit insurer is responsible for reimbursing insured deposits and for discharging certain resolution functions such as providing financial support. Member States may, however, choose a more expansive mandate than the Paybox-Plus model in keeping with their public policy objectives. Any Member State whose Mandate falls below the minimum standard will seek to upgrade its mandate accordingly within an agreed timeframe.

7.1.6 **Powers of the Deposit Insurer.** Generally, the deposit insurer should have all the powers necessary to fulfil its objectives and mandate as well as to promptly discharge its obligations to depositors. In accord with the public policy objectives and the Paybox-Plus mandate, **the general powers**[28] of the deposit insurer should include but are not limited to –

(i) assessing and collecting premiums, levies or other charges;

(ii) transferring deposits to another bank;

(iii) reimbursing insured depositors;

(iv) obtaining directly from banks timely, accurate and comprehensive information necessary to fulfil its mandate;

[27] The mandate establishes the role and responsibilities of the deposit insurer and its relationship with other safety net participants and can be classified into the following categories – *Paybox, Paybox-Plus, Loss Minimizer*, and *Risk Minimizer*. On the continuum, the "paybox" mandate is the most restrictive as it allows the deposit insurer to only carry out the claim re-imbursement function in the event of the failure of a financial institution. The "paybox plus" mandate allows the deposit insurer to undertake claim reimbursement as well as perform a limited resolution function. Under the "loss minimizer" mandate, the deposit insurer weighs the options and selects the lowest cost option in resolving the event. The "risk minimizer" mandate is the most expansive and allows the deposit insurer to be actively involved in managing a financial crisis, namely contingency planning and crisis management, resolution, liquidation and claim reimbursement.

[28] IADI Core Principles for Effective Deposit insurance Systems (November 2014) – Core Principle 2 – Mandate and Powers.

(v) receiving and sharing timely accurate and comprehensive information within the safety-net and with relevant safety-net participants in other jurisdictions;

(vi) compelling banks to comply with their legally enforceable obligations to the deposit insurer (for example, provide access to depositor information), or requesting that another safety-net participant do so on behalf of the deposit insurer;

(vii) setting operating budgets, policies, systems and practices; and

(viii) entering into contracts.

The deposit insurer may have additional powers to execute certain resolution functions such as providing financial support under the paybox-plus mandate.

7.1.7 **Governance Arrangements.** The deposit insurer should be operationally independent, accountable, insulated from external interference[29] and managed in accord with appropriate corporate governance practices. The deposit insurer in CARICOM Member States should therefore be established or function as a separate legal entity with its own legislative framework, governance, management and operating structures to execute its functions as well as appropriate oversight mechanisms.

7.1.8 **Funding the Deposit Insurer.** The mechanisms for funding of the deposit insurer are a major determinant in its success at achieving its public policy objectives and will involve decisions on the funding model (that is, ex-ante or ex-post funding[30]); the financing of start-up costs; the target fund size; and access to emergency funding. Ideally, the funding framework for the deposit insurer should be established by law or regulation and should allow for the provision of funding on an ex ante basis with clearly defined and diversified sources in order to minimize liquidity issues. Accordingly, the funding framework for the Deposit Insurer in CARICOM Member States will be enshrined in the Model Law. **Member States will therefore take the necessary action to establish sustainable ex-ante funding arrangements for the**

29 IADI Core Principle 3 - Governance.

30 The two generic approaches for funding the deposit insurer are categorized as ex ante or ex post funding. Ex-ante funding requires the accumulation and maintenance of a deposit insurance fund to cover deposit insurance claims and related expenses prior to the occurrence of a bank failure primarily through the collection of premiums. Ex-post funding requires the deposit insurer to recoup the funds used for payouts in the event of bank failure from the premiums paid by surviving banks. The former model is considered to be representative of best practice while ex-post funding is associated with several disadvantages such as being more expensive and unfair to successful banks, as well as having to borrow larger amounts more often from the government or central bank.

deposit insurer including funding for normal operations, emergency and supplementary back-up funding as well as replenishment after a payout[31] **in accord with the public policy objectives and mandate**. It is expected that the initial capital for the start-up of a new deposit insurer will be partly provided by the responsible government authority and the participating member institutions. Where feasible, seed capital may also be sourced from development partners. However, the operations of the deposit insurance entity will be mainly funded through premium contributions from member institutions.

7.1.9 **Deposit Insurance Fund.** The operational readiness of deposit insurers is predicated on their financial capacity to effectively discharge their mandates. **As such, under the ex-ante funding model, all participating deposit-taking institutions will be required to make premium contributions so that the Deposit Insurer can cover operating expenses and accumulate into a Deposit Insurance Fund to cover future claims from depositors**. The deposit insurer will determine a targeted level for the Fund's assets in order to ensure financial viability on the basis of clear, consistent and transparent criteria which should be subject to periodic review.[32] The deposit insurer in each Member State will determine the methodology for computing premium rates, the level of premium, and the frequency of payment of premiums. The premium to be levied on participating institutions should be subjected to an actuarial review on a periodic basis.

7.2 *Strategy II: Provide Eligible Depositors in CARICOM Member States with a Minimum Level of Protection in the case of Bank Failure*

7.2.1 The primary function of deposit insurance coverage is to prevent bank runs and promote market confidence and financial stability. The scope and coverage of the deposit insurance scheme are therefore important determinants of the quality of protection afforded to depositors. As such, the relevant principles and standards which should be applied to determining the membership of the deposit insurance system and the deposits to be covered will be enshrined in the CARICOM Model Law and disclosed to the public.

7.2.2 **Membership.** The scope of membership of the deposit insurance system should be based on domestic conditions and national public policy objectives. Accordingly, membership in the deposit insurance system in CARICOM Member States will be

31 IADI, Funding of Deposit Insurance Systems, Guidance Paper, Research and Guidance Committee (IADI), May 2009.

32 IADI Core Principle 9, Essential Criteria 5 addresses the importance of establishing a targeted Fund Size that would allow the deposit insurer to have the financial resources to discharge its responsibilities.

obligatory for all financial institutions that are licensed by the relevant authority to accept deposits with the exception, initially, of credit unions and building societies. Under the minimum harmonisation approach, the participation of credit unions and other non-bank institutions in the deposit insurance system will be left to the discretion of the Member State. In this regard, the deposit insurance system in Belize and Jamaica includes credit unions and building societies respectively. Since a considerable number of households in CARICOM Member States maintain deposits with non-bank institutions such as credit unions and building societies, other Member States will, in due course, give consideration to the inclusion of these entities in the deposit insurance system. Where such institutions cannot be accommodated under the deposit insurance system, an alternative strategy could involve the establishment of separate "guarantee schemes" to protect the deposits held in those institutions.

7.2.3 **Level of Coverage.** Deposit insurance primarily seeks to protect the most vulnerable depositors such as persons of low income or modest means but it is not intended to insure all deposits in the financial system as this may give rise to moral hazard.[33] The level of coverage should therefore be set so that the majority of small or retail depositors across banks are fully protected. However**,** coverage should be limited, credible and cover the majority of depositors while leaving a substantial amount of deposits exposed to market discipline. The appropriate level of coverage should take into account the public policy objectives; the state of the macroeconomic and financial system; the distribution of deposits among depositors; and the supervisory framework in Member States**.**[34] Given the current macro-economic conditions and the composition of deposits across the Community, **Member States will work towards achieving a minimum coverage ratio[35] of 90 percent of all depositors.** The deposit insurer would be required to undertake regular reviews of the composition of deposits and to adjust the coverage level, as necessary.

7.2.4 **Insurable Deposits. All local currency deposits held by the designated member institutions will be covered** by the deposit insurer in each Member State. Coverage will be provided to all depositors including natural and legal persons. Member States will determine their coverage rules and the account types that will be deemed to have different legal capacities and rights in accord with the domestic legislation. In respect to joint accounts, each beneficiary will have an equal interest unless otherwise

[33] Moral hazard refers to a situation where the existence of insurance causes parties to accept more risks because they do not bear the full cost of their actions. In the case of deposit insurance, comprehensive coverage reduces the incentive of depositors, shareholders and management to monitor the risky behavior of financial institutions and to manage their own risk-taking actions.

[34] IADI guidance on the level of coverage.

[35] According to IADI, globally, the average coverage ratio for 2015 was estimated to be 93.3 percent of depositors and 92.8 percent per account.

evidenced in legal documents. The inclusion of additional ownership categories such as nominee accounts, business accounts and other designated accounts will be left to the discretion of the Member State. However, Member States will work towards the standardization of the legal definition of the term 'deposits'[36] and the coverage rules to allow for a common approach to the reimbursement of accounts held under these ownership categories.

7.2.5 **Excluded Deposits.** The list of **Excluded Deposits** will be agreed by Member States and enumerated in the Model Law and will include, at minimum, interbank deposits/balances; letters of credit; deposits held with insurance companies and securities firms; deposits of government and statutory corporations' subordinated debt; preference shares; deposits of foreign currencies; deposits of affiliates[37] of member institutions; as well as deposits of any person who is a party to, or who profited from the circumstances giving rise to the failure of a member institution. However, a Member State may choose to extend coverage to some of the excluded deposits such as foreign currency deposits.[38] **The inclusion of such deposits will be left to the discretion of the Member State in accord with its public policy objectives and the relevant international standards.**

7.2.6 **Compensation Procedures.** The effective protection of depositors is predicated on the ability of the relevant authorities to act quickly to resolve failing financial institutions and for the deposit insurer to effect prompt payout when an event occurs. Member States will therefore implement measures to strengthen information sharing between the deposit insurer, the central bank and the insured institutions in order to ensure that the deposit insurer is provided ready access to a comprehensive database of the deposits and the account holders. The obligation to notify depositors about the commencement period for payouts and the conditions under which the deposit insurer will initiate the payment process will be enshrined in the Model Law.

7.2.7 In order to ensure prompt reimbursement of insured depositors after an event, Member States will implement **an automatic claim settlement system** targeted at reducing the payout period to a maximum of twenty (20) working days.[39] It is recognized that initially, Member States may be unable to achieve the international standard of 7 working days for the payout due to legal, institutional and technological

[36] A possible definition of 'deposits' is provided in Annex III for the consideration of Member States.

[37] The term 'affiliates' refer to connected parties of the distressed institution.

[38] Where foreign currency deposits are widely held by the public but are not covered by the deposit insurance scheme, this may cause the financial system to be vulnerable to bank runs in times of stress

[39] At present, only the DIS in Jamaica allows for automatic claim settlement.

constraints. In some jurisdictions, the legislation currently allows up to 18 months for claim settlement after an event. In addition, delays in the reimbursement of depositors may be due to a lack of timely and accurate data as well as legal issues such as set-off provisions.[40] While **set-off provisions may be included in the national deposit insurance legislation, these will not be mandatory as a regional standard.** However, Member States which adopt set-off provisions should ensure that the deposit insurer is able to achieve the targeted payout period of 20 working days.

7.2.8 **Investigations and Sanctions.** An essential element of the resolution process is the conduct of a thorough investigation into the causes of a bank becoming non-viable. The robustness of the investigation along with the legal right to bring claims against responsible parties could result not only in substantial recoveries but would also serve as a tool for fostering discipline in the banking sector. Accordingly, the Model Law will provide for the conduct of such investigations and for sanctions to be imposed on persons that have been deemed to be negligent or have contributed to the insolvency of a financial institution. Deposit-taking institutions that are in breach of the deposit insurance legislation will also be subject to sanctions. The competent authority responsible for administering the deposit insurance legislation, will determine the applicable penalties to be imposed in each instance.

7.2.9 **Public Awareness Programme.** The credibility of the deposit insurance system from the outset of its establishment is critical to its effective operation. **The obligation for the deposit insurer to implement an effective public awareness programme[41] will therefore be enshrined in the CARICOM Model Law.** This Programme should clearly detail the features of the deposit insurance system including the types of accounts and depositors that are covered, the legal capacities and rights of different accounts, the coverage rules, the excluded accounts, the maximum coverage level, the member institutions and any other relevant information. In the event of a failure, the deposit insurer will be charged with informing the public about the procedures for the reimbursement of depositors including the information that must be provided in support of a claim for reimbursement, the method of payment, and the amount of the liability to be settled. This information should be disseminated in a comprehensible manner. The deposit insurer is also required to work closely with the other safety net

[40] The term 'set-off' refers to situations where the claim of a creditor in an insolvent bank (for example, a deposit) is deducted from a claim of the bank against the creditor (for example, a loan).

[41] IADI Principle 10 provides guidance on public awareness responsibilities of the deposit insurer and stipulates that depositors and members of the public should be provided on an ongoing basis with information about the benefits and limitations of the deposit insurance system.

partners to keep the public informed of developments regarding the resolution action and the treatment of uninsured deposits, *inter alia*.

7.3 *Strategy III: Promote Market Confidence* by ***Strengthening the Crisis Management and Financial Stability Frameworks in Member States through Greater Co-ordination among Financial Safety-Net Partners***

7.3.1 **Role of the Deposit Insurer as a Financial Safety Net Partner.** The Paybox-Plus mandate requires that the deposit insurer executes its primary function of reimbursing depositors in addition to providing support for the resolution of distressed banks and financial crises. To this end, the deposit insurer would be established as an independent authority, would be required to collaborate with other financial safety net partners and would be vested with the requisite powers to discharge these responsibilities. In order to effectively discharge its mandate, the deposit insurer must be able to access firm-level and macro-prudential data for the financial sector as well as collaborate with the financial sector supervisor to undertake joint inspections and/or examinations to assess the health of financial institutions. Deficiencies in the flow and availability of information will undermine the ability of the deposit insurer to carry out its mandate. Therefore, the deposit insurer must be able to closely collaborate with the financial sector supervisor in the supervision of member institutions and to ensure timeliness and consistency in the information communicated to the public particularly during the pre- and post-resolution of a distressed entity or crisis. Accordingly, **Member States will take steps to formalize the arrangements (through memoranda of understanding, if necessary) to promote regulatory cooperation and information sharing between the deposit insurer and the other domestic financial safety-net partners.**[42]

7.3.2 **Contingency Planning and Crisis Management.** The importance of system-wide improved risk management techniques, early warning systems and the implementation of early intervention strategies in mitigating the failure of financial institutions must be underscored. Member States' authorities with responsibility for financial stability must –

(i) develop or enhance the capacity to conduct systemic analyses of the financial sector (including scenario testing and simulation exercises);

(ii) develop appropriate early warning systems; and

(iii) implement early intervention strategies, as necessary.

[42] IADI Principle 4 – Relationship with Other Safety-Net Partners.

As a key financial safety net partner, the deposit insurer will participate in the national crisis management committee (or mechanism) and will collaborate with other financial safety net partners to ensure that there is a framework to provide for the early detection, management and resolution of an insolvent financial institution or crisis. The deposit insurer should therefore be required to have in place effective contingency planning and crisis management policies and procedures to ensure that it is able to effectively respond to the risk of, or actual failure of a financial institution and other events.[43]

7.3.3 **Role of the Deposit Insurer in Resolution.** Resolution refers to the restructuring and/or liquidation of parts or the whole of a non-viable financial institution. The timely resolution of a failed or failing financial institution promotes market confidence, supports liquidity preservation, and reinforces systemic stability. A delay in intervening in a troubled financial institution may be costly and disruptive in the long run. Usually, the roles and responsibilities of the deposit insurer and other financial safety-net partners would be stipulated in the relevant legislation. Accordingly, a deposit insurer with a paybox-plus mandate will be responsible for reimbursing depositors as well as providing financial support for a distressed financial entity in the resolution process. A deposit insurer which has a mandate as a "loss minimiser" or a risk minimiser" will have a more expanded role in resolution while a "paybox" mandate only allows for the reimbursement of depositors.

7.3.4 In Member States where the deposit insurer has the power to act as a Liquidator, a Recoveries Strategy (including a Disposition Plan) must be formulated. The Recoveries Strategy, will identify appropriate avenues for the disposition of assets as well as the recovery procedures. The deposit insurer's right to recover its claims should be legislated to be in accord with the statutory creditor hierarchy which will be stipulated in the CARICOM Model Law.[44] In this regard, the deposit insurer must have primacy over other creditors of the failed bank by subrogation[45] in its recovery of the funds used to reimburse depositors.

7.3.5 **Strengthening the Financial Stability Framework.** CARICOM Member States undertake to consider the introduction of a Special Resolution Regime to support /

[43] IADI, Core Principle 6 – Deposit Insurer's Role in Contingency Planning and Crisis Management.

[44] IADI, Principle 16 – Recoveries.

[45] The deposit insurer, through the process of subrogation, will replace depositors as a creditor of the failed bank. As a creditor, the deposit insurer will have the right to access information from the liquidator in order to monitor the liquidation process.

enhance existing resolution arrangements and to provide for the resolution of systemically important financial institutions (SIFIs) in order to reduce the call on public funds.[46] The Deposit Insurer will work with other financial safety net partners to develop the Special Resolution Regime which should clearly differentiate the actions to be taken by each partner during normal business conditions and periods of crisis.

7.4 *Strategy IV: Promoting Regional Financial Stability through Enhanced Regulatory Coordination and Cooperation among Deposit Insurers and Other Financial Safety-Net Partners across Member States*

7.4.1 **Cross-Border Regulatory Cooperation.** The deepening of financial integration including the existence of regionally-active banks in the Community establishes the importance of cooperation among financial safety net partners across Member States in order to reduce the potential for contagion risk. Specifically, differences in the key attributes of the deposit insurance systems in Member States including differences regarding coverage, payout capabilities and funding have the potential to create significant externalities which could negatively impact regional financial stability. Notwithstanding, this Policy does not impose any obligations on the deposit insurer in any Member State to compensate depositors in a branch or subsidiary of a parent financial institution operating in another Member State. However, **each financial institution operating in a Member State whether as a branch or subsidiary must become a member of the deposit insurance system in the operating territory**. **Moreover, the relevant authority in Member States will coordinate efforts in the early detection and prevention of financial crises and for the resolution of distressed banks with cross-border operations, where necessary.**

7.4.2 **Cross-border Exchange of Information.** The deposit insurer will require regular access to accurate and reliable information on insured financial institutions including those with cross-border operations in order to effectively discharge its mandate. The relevant authority in Member States **will facilitate the exchange of such information though the conclusion of a Multilateral Memorandum of Understanding[47] which would specify the areas of information sharing, regulatory cooperation and technical cooperation among deposit insurers in the Community**. Additionally, Member States will undertake the legislative changes to the central bank and/or financial institutions law to allow for the cross-border sharing of information by deposit insurers.

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46 Financial Stability Board, 2011. Key Attributes of Effective Resolution Regimes for Financial Institutions

47 IADI, Core Principle 5 – Cross-Border Issues states that where foreign banks operate in a jurisdiction formal information sharing and coordination arrangements should be entered into with deposit insurers in the relevant jurisdictions.

7.4.3 **Functional Cooperation.** The modernization or establishment and effective operation of the deposit insurance system in Member States can be facilitated through cross-border cooperation and exchange of experiences. The relevant authority in Member States therefore commit to actively working towards promoting functional and technical cooperation among deposit insurers in the Community. To this end, some possible areas for functional cooperation include the sharing of legal and information technology (IT) services, the provision of technical training, the design of public education programmes and the standardisation of administrative services. In this regard, **Member States will support the establishment of a Regional Body of Deposit Insurers which would facilitate technical cooperation among the deposit insurers in the Community as well as assist in achieving greater coordination of the supervision of regional banks and the formulation of standards for deposit insurance**.

7.5. *Supporting Reforms Necessary to Facilitate Effective Deposit Insurance Systems within CARICOM*

7.5.1 The effectiveness of a deposit insurance system is determined by its design features within the context of the environment in which it operates, namely the resilience of the financial sector, the legal and regulatory framework including the quality of the supervisory regime, the inter-relationship among the financial safety net partners and the applicable accounting and disclosure regime[48] for the financial sector. As such, transitioning to a modern deposit insurance system will require that Member States undertake complementary reforms in order to ensure its effectiveness. These measures include the following:

(i) **Ongoing legal and regulatory reform.** It will be necessary for Member States to undertake an assessment of the relevant legislation, *inter alia*, the central bank, insolvency, financial institutions and companies law to ensure consistency with the updated or new domestic deposit insurance law. Legal reform must be coordinated and comprehensive and should seek to modernise all legislation which impact on the deposit insurance regime. For example, the financial institutions law may have to be amended to allow the deposit insurer to play an active role as a financial safety-net partner. Additionally, the bankruptcy or insolvency laws may need to be revised to allow for the prioritization of insured depositor claims over other creditors.

[48] A sound accounting and disclosure regime for financial institutions are necessary for the effective evaluation of risks by deposit insurance systems. Such a regime includes comprehensive and well-defined accounting principles for preparation of financial statements and the conduct of audits as well as rules especially techniques for the valuing assets.

(ii) **Establishment of a special resolution regime for financial institutions.** A special resolution regime should be established by the relevant authorities to allow for the orderly restructuring or winding up of failed financial institutions. Clear procedures and triggers should be established for declaring an institution insolvent and for beginning resolution activities in accord with international standards.[49] The roles of Resolution Authority, Administrator, and Liquidator should be clearly defined in the enabling legislation and vested with the powers to discharge supporting functions such as claims and recoveries. Additionally, the Resolution Authority should comprise key players in the financial safety net as a collective unit with built-in mechanisms for close coordination and cooperation before and after a failure. In summary, an effective failure resolution regime should -

(a) ensure continuity of systemically important financial services as well as payments, clearing and settlement functions;

(b) ensure speedy reimbursement of depositors;

(c) minimise resolution costs and disruption of the financial market;

(d) maximise recoveries on assets of an insolvent financial institution;

(e) provide a legal mandate for cooperation, information exchange and coordination domestically as well as with relevant foreign resolution authorities before and during a resolution; and

(f) reinforce discipline by taking the appropriate legal action for negligence or other wrongdoing.

[49] The Financial Stability Board's *Key Attributes of Effective Resolution Regimes for Financial Institutions* was updated in October 2014.

8. IMPACT ASSESSMENT

8.1 *Implications of the CARICOM Policy on Deposit Insurance*

8.1.1 The CARICOM Policy recognizes that deposit insurance forms an important aspect of the financial safety net by strengthening the existing risk management architecture in Member States thereby contributing to financial stability. As such, a harmonised deposit insurance framework within the context of the Community regimes for the free movement of capital and the right of establishment of financial institutions, will help to mitigate the adverse effects of bank failure or financial crises on household welfare and small businesses by ensuring that depositors throughout the Community receive a minimum level of protection.

8.1.2 In general, the adoption of the CARICOM Policy on Deposit Insurance will require the outlay of resources to undertake legal, regulatory and institutional reforms at the national and regional level, in order to create a network of independent deposit insurers with effective operational autonomy. The actual outlay will depend on the stage of development of deposit insurance in the respective Member States. Member States which already have the infrastructure and technical capacity may require less resources to modernize the existing deposit insurance system in accord with the CARICOM Policy. On the other hand, Member States which do not have a deposit insurance system are likely to require substantial investment to build capacity in the area of deposit insurance. However, it is expected, that in the future, Member States may be able to benefit from shared services and pooling the resources of their individual Deposit Insurance Funds to access better investment opportunities. A strategy of sharing or centralizing certain services (under the ambit of the proposed Regional Body of Deposit Insurers) would also allow Member States to leverage the technical expertise available in the region and to reduce operational costs. Some of the activities which may be provided through a centralised service include –

(i) the shared use of information technology (IT) software to support an efficient payout system in the event of a bank failure in any Member State;

(ii) human resource training and technical assistance;[50]

[50] The existing Deposit Insurers in the Community have already signaled their willingness to provide technical assistance to new deposit insurance systems. The Deposit Insurer in Jamaica and Trinidad and Tobago have amassed a wealth of knowledge and experience in the administration of deposit insurance which could be leveraged to guide the development of new systems in the Community.

(iii) legal and other specialized technical services;

(iv) standardisation of claims reimbursement procedures and related documentation; and

(v) collaboration and co-ordination of national public awareness and education programmes.

8.2 ***Policy Implementation, Monitoring and Evaluation***

8.2.1 The approval and adoption of the CARICOM Policy on Deposit Insurance by Member States will be followed by the drafting of a Model Law and proposals for a Special Resolution Regime for financial institutions. Policy implementation will therefore require specific actions by Member States to either adopt or align their existing domestic laws with the Community Model Law on Deposit Insurance as well as related legislative guidelines on agreed standards and best practices. The dynamism of the banking industry in Member States will require ongoing monitoring to ensure that regional standards and procedures remain appropriate to the prevailing market conditions in Member States. Monitoring of the deposit insurance system in Member States will involve an effort to identify gaps to be addressed and opportunities for functional cooperation among deposit insurers in the Community. Accordingly, the CARICOM Policy on Deposit Insurance will undergo an initial regional review after (3) years from the date of adoption.

9. CONCLUSION

9.1 The role of deposit insurance and the design features of modern deposit insurance systems have been undergoing significant changes since the 2008/0 global financial and economic crisis. Accordingly, there has been a shift away from the implicit guarantee to bail out distressed banks that governments had provided to the introduction of modern a deposit insurance system aimed at the mitigation of moral hazard as well as the preservation of market discipline and financial stability. Progress in this regard is ongoing in Community Member States but several Member States are yet to introduce an explicit deposit insurance system. The adoption and implementation of the CARICOM Policy on Deposit Insurance will serve to ensure that the savings of the most vulnerable households in Member States are protected as well as minimize contagion risks, deepen financial integration and promote financial stability in the Community.

October 2021

ANNEX I

GLOSSARY

Bank - refers to any entity which accepts deposits or repayable funds from the public, and is classified under the jurisdiction's legal framework as a deposit-taking institution.

Bank run - A rapid loss of deposits precipitated by fear on the part of the public that a bank may fail and depositors may suffer losses.

Blanket guarantee - is defined as a declaration by authorities, that in addition to the protection provided by limited coverage deposit insurance or other arrangements, certain deposits and perhaps other financial instruments will be protected.

Benchmark - A standard or guideline to which other items or processes can be compared.

Bridge bank - refers to an entity that is established to temporarily take over and maintain certain assets, liabilities and operations of a failed bank as part of the resolution process.

Contagion - The spread of an individual bank run to several other financial institutions or a financial crisis in one State spreading to another.

Corporate governance - The processes, structures, and information used for directing and overseeing the management of an organisation.

Deposit insurance - is defined as a system established to protect depositors against the loss of their insured deposits in the event that a bank is unable to meet its obligations to the depositors.

Deposit insurer - refers to the specific legal entity responsible for providing deposit insurance, deposit guarantees or similar deposit protection arrangements.

Deposit insurance system - refers to the deposit insurer and its relationships with the financial safety net participants that support deposit insurance functions and resolution processes.

Emergency funding arrangements - refer to pre-arranged and assured sources of liquidity funding and these are explicitly set out in law or regulation. Sources may include a funding agreement with the government, the central bank or credit at market rates from financial institutions

Ex-ante funding - refers to the regular collection of premiums, with the aim of accumulating a fund to meet future obligations (for example, reimbursing depositors) and cover the operational and related costs of the deposit insurer.

Ex-post funding - refers to systems in which funds to cover deposit insurance obligations are only collected from surviving banks after a bank failure.

Financial safety-net – is designed to include the functions of prudential regulation and supervision, resolution, lender of last resort and deposit insurance.

Foreign bank – A foreign-bank subsidiary is incorporated as a separate entity in the host country. A foreign-bank branch, on the other hand, is an extension of the foreign bank itself into a host country. Foreign-bank branches and subsidiaries may be subject to different rules and supervised differently by a host country.

Individual account - An account owned and controlled by one person rather than corporation or other legal entity.

Joint account – An account owned/controlled by two or more persons for their mutual benefit.

Liquidation - (or receivership) refers to the winding down (or winding-up) of the business affairs and operations of a failed bank through the orderly disposition of its assets after its licence has been revoked and it has been placed in receivership.

Liquidator - (or receiver) refers to the legal entity that undertakes the winding down of the failed bank and the disposition of its assets.

Loss-minimizer mandate - allows the insurer to pursue a range of least cost resolution strategies in dealing with distressed banks.

Mandate - of the deposit insurer refers to the set of official instructions describing its roles and responsibilities. There is no single mandate or set of mandates suitable for all deposit insurers. Mandates may be selected from paybox, paybox plus, loss minimizer or risk minimizer options.

Moral hazard - arises when parties have incentives to accept more risk because the costs that arise from the risk are borne, in whole or in part, by others.

Pay-box mandate - restricts the function of the deposit insurer to the reimbursement of insured deposits.

Pay-box plus mandate - is where the deposit insurer has additional responsibilities such as certain resolution functions (for example, financial support).

Public policy objectives - refer to the goals which the deposit insurance system is expected to achieve.

Resolution - refers to the disposition plan and process for a non-viable bank. Resolution may include: liquidation and depositor reimbursement, transfer and/or sale of assets and liabilities, the establishment of a temporary bridge institution and the write down of debt or conversion to equity. Resolution may also include the application of procedures under insolvency law to parts of an entity in resolution, in conjunction with the exercise of resolution powers.

Resolution authority - is defined as a public authority that, either alone or together with other authorities, is responsible for the resolution of financial institutions established in its jurisdiction (including resolution planning functions).

Risk minimizer mandate - allows the deposit insurer to discharge comprehensive risk minimization functions that include risk assessment/management, a full suite of early intervention and resolution powers and in some cases prudential oversight responsibilities.

Set-off - Refers to situations where the claim of a creditor in an insolvent bank (for example, a deposit) is deducted from a claim of the bank against the creditor (for example, a loan).

Special resolution regime - identifies the policy options for the orderly winding up of failed financial institutions. The policy options may include *inter alia*, deposit reimbursement, purchase and assumption, bridge bank, open bank assistance and liquidation.

Subrogation - is the substitution of one party (for example, the deposit insurer) for another (for example, the insured depositor) with reference to a lawful claim, demand, or right, so that the party which substitutes succeeds to the rights of the other in relation to the debt or claim and its rights and remedies.

Systemic risk – A risk that has implications for the general health of the financial system and can have serious adverse implications for financial stability and overall economic conditions.

Target fund-size refers to the size of the ex-ante deposit insurance fund, typically measured as a proportion of the assessment base (for example, total or insured deposits) sufficient to meet the expected future obligations and cover the operational and related costs of the deposit insurer.

Trust account – An account held on behalf of another person and administered / maintained by a trustee. It is usually established under a trust agreement.

ANNEX II

SELECTED STATISTICS ON DEPOSIT INSURANCE SYSTEMS IN CARICOM (AS AT 31 DECEMBER 2019)

Deposit Insurers	Date Established	No. of Member Institutions	Coverage as a percent of Depositors /Deposit Accounts (%)	Fund Size (US $million)	Fund Size as a percent of Covered Deposits (%)
Bahamas Deposit Insurance Corporation (DIC-BS)	1999	11	96.0[1]	61.5	2.9
Barbados Deposit Insurance Corporation (BDIC)	2007	11	83.6[1]	31.0	2.84
Guyana Deposit Insurance Corporation	2018	8	95.1	7.4	1.03
Jamaica Deposit Insurance Corporation (JDIC)	1998	11	95.2	175	6.39
Deposit Insurance Corporation, Trinidad and Tobago (DICTT)	1986	24	94.4	538	12.7

Comparison of Coverage Levels of Deposit Insurers in CARICOM (as at 31 December 2019)

Deposit Insurer	Coverage Level In Local Currency ($)	Coverage Level (US$)	GDP Per Capita (Current US$)	Coverage Level to GDP Per Capita
Bahamas Deposit Insurance Corporation (DIC-BS)	50,000	50,000	32,287	1.50
Barbados Deposit Insurance Corporation (BDIC)	25,000	12,500	16,436	0.76
Guyana Deposit Insurance Corporation (GDIC)	2,000,000	9,592	5,468	1.75
Jamaica Deposit Insurance Corporation (JDIC)	600,000	4,480	5,354	0.84
Deposit Insurance Corporation, Trinidad and Tobago (DICTT)	125,000	18,505	17,276	107

Source: Data provided by the Deposit Insurance Corporations for The Bahamas, Barbados, Jamaica and Trinidad and Tobago. In the case of Guyana, data is provided by the Bank of Guyana

Notes: 1. Ratio is a percent of deposit accounts.

2. Belize passed deposit insurance legislation in January 2020. The deposit insurance system will have 8 member institutions and an insured limit of BZD 20,000 (US$10,000) per depositor per institution.

ANNEX III

RECOMMENDED STANDARDS / PROVISIONS FOR MINIMUM HARMONISATION UNDER THE CARICOM MODEL LAW ON DEPOSIT INSURANCE

The **CARICOM Policy on Deposit Insurance** proposes that Member States will adopt a harmonised approach (**based on minimum harmonisation**) to the establishment or modernization, operation and regulation of their deposit insurance system. The concept of '**minimum harmonisation'** requires that Member States jointly concur on the **minimum standards and requirements** for the establishment or modernization, operation and regulation of their deposit insurance system. The minimum harmonisation approach will therefore apply to the following design features consistent with IADI standards –

1. **Public Policy Objectives** of the Deposit Insurance System will converge around the protection of depositors' funds and support for financial system stability.

2. **Mandate and Powers** – The minimum mandate recommended for deposit insurance systems in CARICOM is the **Paybox Plus Model** as this would allow the deposit insurer to reimburse depositors and have some resolution powers (for example, providing financial support).

3. **Governance Arrangements** – All Member States will establish a Deposit Insurance Corporation, to administer deposit insurance. The deposit insurer must comply with sound corporate governance practices to ensure independence from external influences.

4. **Funding Arrangements** – Funding for deposit insurers in CARICOM will be provided on an **ex-ante** basis. Credible funding arrangements for the deposit insurer must be sustainable and must include funding for normal operations, emergency and supplementary back-up funding as well as for replenishment after payouts. In addition, the deposit insurer will establish a Deposit Insurance Fund to accumulate resources to meet future claims by depositors.

5. **Membership** – All licensed, deposit-taking financial institutions, with the exception of credit unions and building societies initially, will be required to become members of the deposit insurance system.

6. **Coverage** - The Coverage level should be set to cover at least **90 percent** of total depositors. The maximum coverage value will be determined by the national competent authority and should be determined based on macroeconomic environment and financial conditions. The coverage level should also seek to attain a balance between depositor protection and market discipline. At minimum, the following ownership categories will be covered by deposit insurance –

(i) individual/single accounts;
(ii) joint accounts; and
(iii) trust accounts.

7. **Definition of Deposit** – 'Deposit' means a "*credit balance which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a credit institution is required to repay under the legal and contractual conditions applicable, including a fixed-term deposit and a savings deposit, but excluding a credit balance where –*

(i) *Its existence can only be proven by a defined financial instrument unless it is a savings product which is evidenced by a certificate of deposit made out to a named person and which exists in a Member State;*

(ii) *Its principal is not repayable at par; and*

(iii) *Its principal is only repayable at par under a particular guarantee or agreement provided by the credit institution or a third party."*

8. **Insured Deposits** - Deposit insurance will apply to natural and legal persons and will cover all local currency deposits. The following deposits qualify for deposit insurance coverage –

(i) savings and checking accounts;
(ii) time deposits and certificates of deposits;
(iii) managers' checks;
(iv) money orders and drafts;
(v) travellers' cheques issued by the policyholder;
(vi) prepaid letters of credit;
(vii) credit balances of deposit instruments in transit;
(viii) interest accrued and/or payable on all insurable deposits; and
(ix) any other deposit liabilities so designated by the national deposit insurer.

9. **Excluded Deposits** - The list of excluded deposits will be standardized and will include, at minimum, interbank deposits/balances, unfunded letters of credit, deposits of government and statutory corporations, subordinated debt, preference shares, deposits of foreign currencies, deposits of persons who have been deemed to have contributed to or benefited from the circumstances given rise to the failure of the financial institution.

10. **Reimbursement of Depositors** – The reimbursement procedures will be standardized including the determination of a minimum payout period (proposed as 20 days) and the introduction of automatic claim reimbursement.

11. **Common Reporting and Disclosure Standards** - will apply for the reporting of information to the deposit insurer. Accounting and auditing procedures will be streamlined, where possible.

12. **Recovery of Claims** - Standardisation of recovery of claims procedures and the prioritization of depositor claims in the insolvency proceedings of the failed institution

13. **Relationships between the deposit insurer and other safety net partners in the domestic market** - Institutional arrangements will be established to ensure coordinated supervision and regulatory cooperation.

14. **Cross-border Cooperation** – Relevant Authorities in Member States will execute a memorandum of understanding or other regional instrument to facilitate technical and functional cooperation among deposit insurers in CARICOM

15. **Legal Sanctions** - Member States will concur on the actions by financial institutions that will constitute breaches of the deposit insurance law and therefore offences as well as the sanctions to be imposed accordingly.

16. **Public Awareness Programme** - A regional Public Awareness programme will be designed and will contain basic information on the design features of the deposit insurance system in Member States.

ANNEX IV

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS (IADI)
PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

1. The IADI Core Principles for Effective Deposit Insurance Systems were first published in 2009. The Financial Stability Board (FSB) affirmed the Core Principles on 18 June 2009 and these Principles have been included in the FSB's compendium of twelve (12) Key Standards for Sound Financial Systems. Further, the International Monetary Fund and the World Bank have incorporated the Core Principles in their Financial Sector Assessment Programme reviews. On 21 November 2014, the IADI issued Revised Core Principles for Effective Deposit Insurance Systems. The Revised Core Principles are aimed at strengthening *the deposit insurance standards in a number of areas including reimbursement speed, coverage, funding and governance, adding more guidance on the deposit insurer's role in crisis preparedness and management*.[1]

2. Technical consultations have indicated that Member States may have a preference for a deposit insurance model based on the **Minimum Harmonisation** approach and the areas that will be subject to the application of a common policy have been identified in **Annex II**. It is however recommended that, as far as possible, Member States should strive to adopt the IADI Core Principles for Effective Deposit Insurance Systems.

3. A summary of the **Revised Core Principles** is presented below as a guide to Member States in framing the powers, mandate and scope of the CARICOM Model Law as well as the national deposit insurance system and in developing the supporting framework.

3.1 Principle 1 – PUBLIC POLICY OBJECTIVES

The public policy objectives a for deposit insurance system are to protect depositors and to support financial system stability. These objectives should be clearly and formally specified and made public through legislation or documents supporting legislation. The design of the deposit insurance system should reflect the public policy objectives.

[1] International Association of Deposit Insurers (IADI) (November 2014), Principles for Effective Deposit Insurance Systems. Website: http://www.iadi.org/

3.2 Principle 2 – MANDATE AND POWERS

The mandate and powers of the deposit insurer should support the public policy objectives which should be clearly defined and formally specified in the legislation.

3.3 Principle 3 – GOVERNANCE

The deposit insurer should be operationally independent, well-governed, transparent, accountable and insulated from external interference.

3.4 Principle 4 – RELATIONSHIP WITH OTHER SAFETY-NET PARTNERS

In order to protect depositors and contribute to financial stability, there should be a formal and comprehensive framework to promote close collaboration and regulatory coordination, including information sharing, on an ongoing basis, between the deposit insurer and other financial safety net partners.

3.5 Principle 5 – CROSS-BORDER ISSUES

Where there is a material presence of foreign banks in a jurisdiction, formal information-sharing and coordination should be in place among deposit insurers in relevant jurisdictions.

3.6 Principle 6 – DEPOSIT INSURER'S ROLE IN CONTINGENCY PLANNING AND CRISIS MANAGEMENT

The deposit insurer should have in place effective contingency planning and crisis management policies and procedures to ensure that it responds to the risk of crises as well as actual bank failures and other events. The development of system wide crisis preparedness strategies and management policies should be the joint responsibility of all safety net partners.

3.7 Principle 7 – MEMBERSHIP

Membership in a deposit insurance system should be compulsory for all banks.

3.8 Principle 8 – COVERAGE.

Policymakers should define clearly the scope and coverage of the deposit insurance system. Coverage should be limited, credible and cover the large majority of depositors *but should leave a substantial amount of deposits exposed to market discipline. Deposit insurance coverage should be consistent with stated public policy objectives and related design features*.

3.9 Principle 9 – SOURCES AND USES OF FUNDS

The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Funding the cost of deposit insurance should be borne by the banks and there should be a clearly stated policy regarding the use of the funds of the deposit insurer.

3.10 Principle 10 – PUBLIC AWARENESS

In order to protect depositors and to contribute to financial stability, it is important that the public be advised on an ongoing basis of the benefits and limitations of the deposit insurance system.

3.11 Principle 11 - LEGAL PROTECTION

The deposit insurer and individuals working both currently and formerly to discharge the mandate of the deposit insurer must be protected from liability arising from actions, claims, lawsuits or other proceedings for their decisions, actions or omissions taken in good faith in the normal course of their duties. Legal protection should be defined in legislation.

3.12 Principle 12 – DEALING WITH PARTIES AT FAULT IN A BANK FAILURE

The deposit insurer or relevant authority should be provided with the power to seek legal redress against those parties at fault in a bank failure.

3.13 Principle 13 – EARLY DETECTION AND TIMELY INTERVENTION

The deposit insurer should be a participant of the financial safety net framework that provides for the early detection of, and timely intervention in troubled banks. The framework should provide for intervention before the bank becomes non-viable.

3.14 Principle 14 – FAILURE RESOLUTION

An effective failure resolution regime should enable the deposit insurer to provide for the protection of depositors and contribute to financial stability. The legal framework should therefore include a special resolution regime. The roles and responsibilities of the respective financial safety-net partners should be clearly articulated in the resolution regime.

3.15 Principle 15 – REIMBURSING DEPOSITORS

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

3.16 Principle 16 – RECOVERIES

The deposit insurer should have, by law, the right to recover its claims in accordance with that of the statutory creditor hierarchy.