Preliminary version

A Review of Integrated Protection Schemes for Financial Consumers[1]

Seungkon Oh[2]

Korea Deposit Insurance Corporation

February 2015

Abstract

This study aims to examine the current state of integrated protection schemes (IPS) worldwide, review the advantages and disadvantages of integrated protection schemes vis-à-vis sectoral schemes and thus describe the policy implications for jurisdictions considering the adoption of an integrated protection scheme. Out of a total of 61 jurisdictions analyzed through a review of survey responses and existing literature, 17 have an integrated protection scheme. These integrated protection schemes were analyzed with regard to design features, which include relationship with the financial supervisory authority, limit and scope of coverage, funding mechanism, and resolution powers. This paper provides some suggestions for designing an effective IPS based on the IADI Core Principles for Effective Deposit Insurance Systems, among other things. First, an IPS must have operational indepen dence. Second, the limit and scope of coverage should consider the characteristics of each financial sec tor. Third, a funding mechanism including back-up funding in emergency situations for an IPS should be prepared in advance. Fourth, establishing an effective resolution regime alongside an IPS should be considered.

Keywords: *integrated protection schemes, financial consumer, deposit insurer*

JEL classification: G20, G28

1. This paper is a revised version of research project of “Integrated Protection Schemes” for the IADI performed by the author in 2013 and 2014. This paper does not necessarily reflect the view of the IADI and the KDIC.
2. Senior Research Fellow , e-mail. skoh@kdic.or.kr

1. Introduction

The recent global financial crisis has uncovered shortcomings (for example, inadequate coverage, co-insurance, no protection for some financial sectors, etc.) in financial consumer protection. As financial consumer protection has implications for financial stability, concerted efforts are being made to address these gaps. One of the reforms is to enhance or streamline institutional arrangements for financial consumer protection. Since the recent global financial crisis, several countries have introduced protection schemes for investors and/or policyholders. Serbia set up an investor compensation scheme in 2011 while Greece, Malaysia, Singapore, Indonesia and Hong Kong have adopted or are preparing to adopt an insurance guarantee scheme. Meanwhile, other countries including Jamaica, Kazakhstan, Russia and Liechtenstein have expressed interest in introducing protection schemes other than for depositor protection.[1] In general, there is a growing trend toward enhancing financial consumer protection.[2]

As there is no 'one-size-fits-all' model, the institutional structures for financial consumer protection do vary across jurisdictions. In general, which model to adopt depends on the existing structure of financial supervision and consumer protection, and the nature of the financial markets.

When designing a financial consumer protection framework, there are a number of general considerations. First, should the financial consumer protection function be established within or separate from financial supervision? Second, if the decision is to create a separate entity, a jurisdiction may then have to decide on whether to create separate schemes for depositors, investors and policyholders or place the function in a single agency, usually in a pre-existing depositor protection scheme. An example of the former is Greece which established a separate agency in 2010 for general policyholder protection. Examples of the latter include Serbia, Malaysia and Singapore where the mandate of the deposit insurer was expanded to cover investors or policyholders. An integrated single agency model and a multiple (separate) agency model both have their advantages and disadvantages.

With the blurring of demarcation lines between financial sectors and the emergence of innovative financial products, financial services have become increasingly complex and many financial institutions have restructured to become financial conglomerates or financial holding companies. In order to effectively deal with this development, many countries have decided to integrate financial

[1] Jamaica has conducted studies and consultations with stakeholders regarding establishing compensation schemes for the non-deposit taking sector (insurance, securities and pension) in 2010, however a final policy decision has not been made by the end of 2014.

[2] Schich and Kim(2011) reports that among the 34 OECD member countries, 32 have an explicit deposit insurance scheme, 29 have an investor compensation scheme and 18 have an insurance (life and/or general) guarantee scheme.

supervision and are also gradually shifting toward integrated financial consumer protection schemes.[3] The Korea Deposit Insurance Corporation (KDIC) and the Financial Services Compensation Scheme (FSCS) in the U.K. already have integrated protection schemes which cover investors and policyholders as well as depositors. Other jurisdictions too have integrated schemes to protect depositors and either investors or policyholders.

Recognizing this trend, this study aims to gather information about the current state of integrated single agency schemes (or integrated protection schemes (IPS)) worldwide, highlight the advantages and disadvantages of an IPS and the lessons learned for countries considering the adoption or enhancements of such a scheme. To accomplish that, a literature review of financial consumer protection schemes was carried out and a detailed survey was conducted involving members of the International Association of Deposit Insurers (IADI) and the European Forum of Deposit Insurers (EFDI). An attempt to identify the theoretical basis for integrated protection schemes in the current literature has yielded very little results as is the case for integrated supervision. However, the survey results provided useful background information on the basis for the adoption of an integrated protection scheme, its advantages and disadvantages and some of its key design features.

To make the analysis clear, we define the terminology of IPS as follows. An integrated protection scheme (IPS) is defined as a system where a single agency, usually a pre-existing deposit insurer, provides guarantee or protection to investors in securities firms (Investor Compensation Scheme: ICS) and/or policyholders of insurance companies (Insurance Guarantee Scheme: IGS) in addition to depositors in deposit-taking financial institutions (Deposit Insurance Scheme: DIS) for the loss of insured funds or unsatisfied claims in the event of a member institution's failure. This definition excludes any other types of protection schemes apart from the DIS, ICS, and IGS.

The structure of the paper is as follows. Chapter 2 summarizes the current state of financial consumer protection schemes worldwide and introduces some findings about the features of the existing IPS from literature review and survey responses.[4] Chapter 3 explores the background and reasons, for and against, the adoption of an IPS and discusses the key considerations when designing such a scheme. Chapter 4 concludes with a recap of policy implications and a direction of future research.

[3] Among the 100 countries studied by IMF(2006), 59 have an integrated supervisory authority.
[4] We circulated a survey questionnaire to members of the IADI and the EFDI and received responses from 49 organizations.

2. Overview of the Financial Consumer Protection Schemes

The purpose of this paper is to examine the current state of IPS worldwide, review the advantages and disadvantages of IPS, and thus describe the policy implications for jurisdictions considering the adoption of an IPS. To do that, a survey questionnaire was circulated to members of the IADI and the EFDI, and 49 schemes from 46 countries responded to the survey.[5] In addition to an analysis of the survey results, a literature review was also undertaken. Schich and Kim (2011) and OECD (2011) each provided a detailed report on financial consumer protection systems and insurance guarantee schemes in OECD member countries. OXERA (2005) and OXERA (2007) presented a comprehensive overview of investor compensation schemes and insurance guarantee schemes in EU member states. For deposit insurance, IADI (2011) and IADI (2012) survey databases, as well as other sources, were analyzed. Besides, websites of the IADI (www.iadi.org) and the EFDI (http://efdi.eu) and annual reports published by individual protection schemes were drawn upon.[6]

<Table 1> shows the list of jurisdictions with an integrated protection scheme. Out of 61 jurisdictions from the survey responses and literature review, 17 have an integrated protection scheme as defined in this study.[7] The most common form of integrated protection schemes is one that protects both depositors and investors. Québec (Canada) and 11 European jurisdictions have such schemes, while there are three countries – Malaysia, Singapore, and Australia - that protect both depositors and policyholders, but not investors. Out of these three, in Malaysia and Singapore, the deposit insurers (Malaysia Deposit Insurance Corporation (MDIC) and Singapore Deposit Insurance Corporation (SDIC), respectively) protect both life and non-life policyholders. In Australia, the Australian Prudential Regulation Authority (APRA) provides protection to depositors and non-life policyholders. The U.K. and Korea, meanwhile, provide the broadest form of protection covering all three categories of financial consumers of depositors, investors, and policyholders.

[5] The number of responses does not match the number of countries because, in several countries, multiple organizations answered the questionnaire: Canada Deposit Insurance Corporation (CDIC) and Autorité des marchés financiers (AMF) in Québec, Canada; EntschädigungseinrichtungdeutscherBanken (EdB) and National Association of German Cooperative Banks (BVR) in Germany; and Bank Deposit Guarantee Fund (BDGF) and Investor Compensation Fund (ICF) in Romania.

[6] When there is a discrepancy between survey answers and data in Schich and Kim (2011), a reference to the concerned country's website or annual report was made to reconcile the differences.

[7] For Belgium, Denmark, Iceland, and Luxembourg, the data are from Schich and Kim (2011), while others are from the survey findings.

<Table 1> Jurisdictions Providing Integrated Protection Schemes

DIS+ICS	DIS+IGS		DIS+ICS+IGS
	Both Life and Non-Life	Non-Life Only	
Austria, Belgium, Quebec(Canada), Denmark, France, Germany, Greece, Iceland, Liechtenstein, Luxembourg, Serbia, Sweden	Malaysia, Singapore	Australia	Korea, U.K.
12	2	1	2

Source : IADI (2013)

IPS agencies in <Table 1> can take different forms depending on its organizational nature. First, there are jurisdictions, such as Australia, Québec (Canada), Belgium, and Sweden where the financial regulator, central bank or other government agencies is responsible for integrated protection services. In Australia, the APRA, which is the financial regulator, provides protection for depositors and non-life policyholders since October 2008. To serve this purpose, the Australian government established the Financial Claims Scheme (FCS) within the APRA. The AMF in Québec (Canada) regulates financial markets and administers both the Deposit Insurance Fund and the Financial Services Compensation Fund. The Belgium Central Bank manages both the deposit guarantee fund and the investor compensation scheme. The Swedish National Debt Office (SNDO) in Sweden, which is a government agency under the Ministry of Finance, protects both depositors and investors.

The second type of agency with such a responsibility is the bankers' association. In the case of Germany, a subsidiary of the Association of German Banks, the Entschädigungseinrichtung deutscher Banken (EdB), protects depositors of private banks and investors.[8] The Deposit Guarantee and Investor Protection Foundation of the Liechtenstein Bankers Association (DGIPF) in Liechtenstein is also run by the bankers' association.

The third type of agency is private organizations. The Hellenic Deposit and Investment Guarantee Fund (HDIGF) in Greece, established in 2009, is a private organization jointly managed by the Bank of Greece, the Hellenic Bank Association, the Ministry of Economy and Finance, and the Association

[8] There are six systems in Germany: two statutory DGSs supervised by the German Federal Financial Supervisory Authority (one for private banks and one for public sector banks); two additional depositor protection funds offering supplemental coverage for the same credit institutions on a voluntary basis; and two institutional protection schemes safeguarding the viability of cooperative banks and savings banks in conformity with the EU Directive. (quoted at FSB (2012))

of Greek Cooperative Banks. 60 percent of its initial funding came from the central bank.[9] A rather similar situation prevails in France, with a private organization in charge of a general interest mission, under a joint interaction between banks, the financial supervisor and the Ministry of Finance.

Lastly, in Korea, Malaysia, Serbia, Singapore and the U.K., the protection agencies operate as separate and operationally independent public organizations.

2.1 Relationships between IPS and Financial Supervisory Authorities

As an important component of the financial safety-net, the structure of a financial protection scheme should align with the financial supervisory system. With the failure of a financial institution, financial supervisory authorities and financial consumer protection agencies have responsibilities for ex-ante supervision and ex-post consumer protection, respectively. Therefore, it would be fair to assume that, to a certain extent, the form of ex-ante supervision influences the structure of ex-post consumer protection. <Table 2> shows the types of financial supervisory systems adopted by jurisdictions with integrated protection services introduced in <Table 1>. While 12 of them have adopted integrated supervisory systems, Greece and Serbia have different supervisory authorities for different financial sectors. In the cases of France and Luxembourg, banks and securities firms are supervised by the same authority and insured by the same protection scheme. In Malaysia, Bank Negara Malaysia (BNM), the central bank, regulates banks and insurance companies and the MDIC insures both.

<Table 2> Type of Financial Supervision in Countries Providing an IPS

Integrated Supervision	Composite (Banking and Securities)	Composite (Banking and Insurance)	Individual Supervision
Australia, Austria, Belgium, Québec(Canada), Denmark, Germany, Iceland, Korea, Liechtenstein, Singapore, Sweden, U.K.[1)]	France[2)], Luxembourg	Malaysia	Greece, Serbia
12	2	1	2

Note: 1) The U.K. Financial Services Authority (FSA) was split into two entities in April 2013: the Prudential Regulation Authority (PRA) for prudential purposes and the Financial Conduct Authority (FCA) for regulation of business conduct and consumer protection.

2) In France, the Autorité de Contrôle Prudentiel et de Résolution (ACPR) is responsible for the supervision of deposit-taking institutions and investment firms while the Autorité des Marchés Financiers (AMF) is the regulator of financial markets.

[9] The HDGF, which was the predecessor to the HDIGF, was established in 1995.

2.2 Coverage Limit and Scope of the IPS

<Table 3> lists the coverage limits of integrated protection schemes by sector. With the exception of Korea which applies a uniform coverage limit of KRW 50 million (USD 45,000) to all sectors, all other integrated protection schemes have varying limits for depositors, investors and insurance policyholders. In terms of deposit insurance, most European countries insure deposits up to EUR 100,000 (USD 129,400) as required by the EU Directive on Deposit Guarantee Schemes. Singapore has the lowest limit at SGD 50,000 (USD 40,730) followed by Korea (KRW 50,000,000, USD 45,000) and Serbia (EUR 50,000, USD 64,700). For investor compensation, the EU Directive on Investor Compensation Schemes requires a minimum coverage level of EUR 20,000 (USD 25,900). While Austria, Belgium and Serbia cover up to EUR 20,000, the coverage level in France includes EUR 70,000 (USD 90,600) for securities and for cash associated with securities accounts. Germany has a coinsurance system that covers 90 percent of losses of up to EUR 20,000. In most of the jurisdictions that provide protection to both depositors and investors, the coverage limit for investors is set at a lower level than that of depositors. Conversely, in Québec (Canada), the coverage for investors - CAD 200,000 (USD 196,000) - is twice that of depositors. As for protection of policyholders, all countries providing insurance guarantee schemes– Australia, Malaysia, Singapore and the U.K., excluding Korea– have higher limits for policyholders than for depositors. Australia and Singapore have not set any limits for non-life insurance-related losses and the U.K. covers up to 90 percent of all claimed losses with no upper limit for both non-compulsory life and non-life insurance (and 100 percent for certain compulsory insurance claims, e.g. third party motor insurance). On the other hand, Malaysia has the same coverage limit of RM 500,000 (USD 165,000) for both life and non-life insurance. Singapore's coverage limit for life insurance products is between SGD 100,000 and 500,000 (USD 81,460~407,300), which is 10 times of the coverage limit for deposits.

<Table 3> Coverage Limits for Financial Consumers by Sector

Country	DIS	ICS	IGS-Life	IGS-General
Australia	AUD 1mil.[1)] (USD1.038mil.)	-	-	No limit
Austria	EUR100,000 (USD 129,400)	EUR20,000 (USD 25,900)	-	-
Belgium	EUR100,000 (USD 129,400)	EUR20,000 (USD 25,900)	-	-
Québec (Canada)	CAD100,000 (USD 98,000)	CAD200,000 (USD196,000)	-	-
Denmark	EUR100,000 (USD 129,400)	EUR20,000 (USD 25,900)	-	-
France	EUR100,000 (USD 129,400)	EUR70,000 (USD90,600) for securities + EUR 70,000 for cash associated with securities accounts	-	-
Germany	EUR100,000 (USD 129,400)	90%, max EUR20,000 (USD 25,900)	-	-
Greece	EUR100,000 (USD 129,400)	EUR30,000 (USD38,800)	-	-
Korea	KRW50mil. (USD 45,000)	KRW50mil. (USD 45,000)	KRW50mil. (USD 45,000)	KRW50mil. (USD 45,000)
Liechten - stein	CHF100,000 (USD 110,000)	CHF30,000 (USD33,000)	-	-
Malaysia	RM250,000 (USD 82,500)	-	Up to RM500,000 (USD165,000)	Up to RM500,000 (USD165,000)
Serbia	EUR50,000 (USD 64,700)	EUR20,000 (USD 25,900)	-	-
Singapore	SD50,000 (USD 40,730)	-	SD100,000 ~500,000 (USD81,500 ~407,000)	No limit
Sweden	EUR100,000 (USD 129,400)	SEK250,000 (USD38,500)	-	-
U.K.	GBP85,000 (USD 129,400)	GBP50,000 (USD76,100)	90% of claim with no upper limit	90% of claim with no upper limit

Note: 1) Australia: The new coverage limit of AUD 250,000 was adopted on 1 February 2012. 2) Non-USD currencies were converted into USD equivalent with exchange rates at the end of 2011.

There is little difference in the scope of coverage for deposits. Most jurisdictions guarantee deposits at deposit-taking institutions such as banks. Consequently, only the scope of coverage related to investment and/or insurance products in each jurisdiction is shown in <Table 4>. For investor compensation, most integrated protection schemes cover investment products that are related to the trading of securities. The Fonds de Garantie des Dépôts et de Résolution (FGDR) in France protects cash associated with securities accounts as well as the securities themselves. Liechtenstein even covers derivatives including swaps and options. In Korea, cash deposits for the purchase and sale of securities and principal-guaranteed money trusts are insured by the protection scheme. In the U.K., investors are also protected against bad advice or mismanagement. As for insurance products, while Australia covers any insurance policy issued by a general insurer, Korea, Malaysia, Singapore and the U.K. have specific rules regarding the scope of coverage and product eligibility. Meanwhile, Australia reports that it does not protect deposits and insurance policies denominated in foreign currencies.

<Table 4> Coverage Scope for Investment and Insurance Products

Country	Coverage Scope
Australia[1)]	**(Insurance)** Any insurance policy issued by a general insurer except for denominated in foreign currencies
Austria	**(Investment)** Financial instruments under custody which cannot be returned to the owner
Québec (Canada)	**(Investment)**Products or services that the market intermediary is authorized to offer within the limits of his certificate or registration
France	**(Investment)** All securities and securities accounts except those of financial institutions and public bodies, cash associated with these accounts
Germany	**(Investment)** Liabilities arising from securities transactions
Greece	**(Investment)** Investment services of brokerage and dealing
Korea	**(Investment)** Cash in customer accounts, principal-guaranteed money trusts, etc. **(Insurance)** Policies held by individuals, retirement insurance policies, principal-guaranteed money trusts, etc.
Liechtenstein	**(Investment)** Transferable securities, units in investment undertakings, MM instruments, financial futures contracts, FRA's, SWAP's, options
Malaysia[2)]	**(Insurance)**Selected benefits insured under the insurance policies
Serbia	**(Investment)** Financial instruments, money accounts in connection with investment services
Singapore	**(Insurance)** All life products(Life), work injury, motor vehicle third party, personal motor/travel/property, and foreign domestic worker(Non-Life)
Sweden	**(Investment)** Any financial instrument or money which the institution handles on behalf of customers in the course of providing investment services
U.K.[3)]	**(Investment)** Designated Investment Business defined in the FSA Handbook – includes client money and assets, claims for negligent advice or management of investments, etc. **(Insurance)** Life assurance, Pensions, Annuities, Endowments, (Life), Employer liability, Public liability, Motor, Household, property, Travel, Professional indemnity etc.(Non-Life)

Note: 1) Australia excluded reinsurance and retrocession policies, insurance policies written by a foreign general insurer, and others from coverage.

2) In Malaysia, eligibility is limited to policyholders of Ringgit-denominated Malaysian policies and the policy must be issued in Malaysia by MDIC's insurer member.

3) In the U.K., reinsurance, credit, marine and aviation policies are excluded from non-life protection.

2.3 Funding of the IPS

Sufficient funding is essential for the effectiveness of integrated protection schemes. Funding methods can be divided in two main types: ex-ante and ex-post. Consistent with the findings of the FSB Report on the Thematic Review on Deposit Insurance Systems in 2012,[10] the IPS survey found that more integrated protection agencies like Québec (Canada), Germany, Korea, Malaysia, Serbia, Singapore and Sweden (DIS) raise funds ex-ante.[11] Australia, Austria, Liechtenstein and the U.K., on the other hand, are funded ex-post. However, there is a shift away from ex-post to ex-ante funding among European nations after the recent global financial crisis, with France and Greece adopting both ex-ante and ex-post funding mechanisms. The FGDR of France had raised EUR 2.5 billion and EUR 120 million for the deposit insurance fund and the investor compensation scheme, respectively, on an ex-ante basis at the end of 2013. In 2009, the Hellenic Deposit and Investment Guarantee Fund (HDIGF) of Greece began collecting annual premiums from member institutions to build the investor compensation fund.

On the other hand, Malaysia (DIS and IGS), Germany (ICS), Singapore (DIS and IGS) and Korea (DIS, ICS, and IGS) have adopted a risk-based premium system, as a tool to promote sound risk management and mitigate moral hazard.

[10] 16 of the 21 countries surveyed by FSB(2012) report that they chose an ex-ante funding system while only five chose ex-post funding.

[11] In Sweden, the deposit insurance fund is raised ex-ante, but the investor compensation scheme is funded ex-post.

<Table 5> Funding Type and Insurance Premiums

Country	Funding Type	Insurance Premium	Assessment Base
Australia, Austria, Liechtenstein, U.K.	Ex-post	-	
Québec (Canada)	Ex-ante	0.04%(DIS)	Insured deposits
		CAD 100 or 160(ICS)	Category of services
France[1)]	Ex-ante and Ex-post	EUR2,535 mil.(DIS)	Split among scheme participants
		EUR120 mil.(ICS)	
Germany	Ex-ante	0.016%(DIS)	Deposits
		1.23%,2.46%, 3.85% or 7.7%(lower than 10%, ICS)	Gross commission income and of gross earnings on financial transactions
Greece	Ex-ante and Ex-post	0.3113%(DIS)	Deposits
		0.0758%(ICS)	Value of clients assets
Korea	Ex-ante	0.08%(DIS-Banks) 0.4%(DIS-MSBs)	Annual average of deposits
		0.15%(ICS)	Annual average of deposits in investors' accounts
		0.15%(IGS)	Arithmetic average of policy reserves and premium income
Malaysia	Ex-ante	0.03~0.24%(DIS)	Total insured deposits
		0.025~0.2%(IGS-Life) 0.05~0.4%(IGS-Non-life)	Actuarial valuation liabilities(Life) Net premiums(Non-life)
Serbia	Ex-ante	0.1%(DIS, quarterly)	Total insured deposits
Singapore	Ex-ante	0.02~0.07%(DIS)	Insured deposits
		0.028~0.142%(Life) 0.106~0.529(Non-life)	Aggregate protected liabilities(Life), Gross premiums(Non-life)
Sweden	Ex-ante (DIS)	0.1%(DIS)	All covered deposits
	Ex-post (ICS)	Small annual fees (ICS)	-

Note: 1) France set up global reserve amounts for DIS and ICS, and these amounts are split among scheme participants to define their contributions.

Source: IADI Survey (2013)

Most integrated protection agencies report that they maintain separate funds for each scheme and, except Korea and the U.K., prohibit cross-subsidization or borrowing between funds. The jurisdictions are Québec (Canada), Germany, Greece, Malaysia, Serbia and Singapore.[12][13] France has separate accounts for each fund, and no cross-subsidization or borrowing is allowed. On the other hand, in Korea, the deposit insurance fund has several sector-specific accounts (e.g. banking account, financial investment account, insurance account) that are managed separately, but if necessary one account can borrow from another account or assets and liabilities can be transferred from one account to another.[14] In the case of Liechtenstein which has adopted an ex-post funding system, all premiums and/or other contributions are placed into one account. In the U.K., FSCS manages eight broad funding classes and has some limited borrowing powers between classes subject to interest being paid by the borrowing class, and the funds being repaid in the same financial year.

As shown in <Table 6>, most of the integrated protection agencies have back-up funding arrangements in place in case of a shortage of funds to meet their obligations. Australia, DIS in Québec (Canada), and Sweden, being part of the financial regulator or the government, have emergency credit lines from these agencies. The APRA in Australia has a special appropriation of AUD 20 billion from the government. The protection agencies in Québec (Canada) and Sweden can borrow without limit from the government of Québec and the Swedish National Debt Office (SNDO), respectively. The FSCS in the U.K. has put in place syndicated loan arrangements with commercial banks of up to GPB 750 million, while additional back up funding is also available from the National Loans Fund (part of government). Austria, Korea, Malaysia, and Singapore are authorized to borrow from the government. Raising funds from the market is permitted in Austria, France, Germany, Greece, Korea and Malaysia. Charging additional levies on insured financial institutions is permitted in France, Greece, Malaysia and Singapore. Conversely, the investor compensation scheme in Québec (Canada) and the integrated protection schemes in Liechtenstein and Serbia have no access to emergency funding.

[12] The Greek government established the Resolution Scheme in 2011 when the global financial crisis was still unresolved. To fund the Scheme, it passed a special law to allow a one-time borrowing from the deposit insurance fund.

[13] In Malaysia, there are a total of six funds: Conventional Deposit Insurance Fund, Islamic Deposit Insurance Fund, Family Solidarity Takaful Protection Fund, General Takaful Protection Fund, Life Insurance Protection Fund and General Insurance Protection Fund. These funds are managed separately.

[14] In addition to the cross-borrowing arrangement, if an account has accumulated too many losses that it cannot repay debt, the Deposit Insurance Committee may decide to reduce/exempt its interest payment burdens or grant a deferral of repayment.

<Table 6> Back-up Funding Arrangements

Country	Back-up Financing and Others
Australia	Special appropriation of AUD20 bil. from the government
Austria	Other DIF coverage, borrowing from the market, government guarantee
Québec (Canada)	Funding from the government of Quebec without limit (DIS) None for ICS
France	Additional levy on member institutions and borrowing from the market
Germany	Extra contributions and borrowing from the market
Greece	Special levy and borrowing from the market
Korea	Borrowing from the government, BOK, and member institutions, DIF bonds and others
Liechtenstein	No arrangements
Malaysia	Borrowing from the government, raising funds from the capital market, ex-post levy
Serbia	No arrangements
Singapore	Borrowing from MAS and additional levy
Sweden	Unlimited borrowing from the SNDO
U.K.	Syndicated loan from up to GBP750 mil. from commercial banks and access to the Government National Loans Fund.

Source: IADI Survey (2013)

2.4 Resolution Powers of the IPS

<Table 7> provides a summary of mandates and resolution powers of each integrated protection scheme surveyed in this paper. Nine of them are payboxes, responsible only for reimbursing depositors in the event of a financial institution failure.[15] The DGIPF in Liechtenstein and the FSCS in the U.K. are payboxes with extended powers. The DGIPF in Liechtenstein has very limited powers regarding deposit reimbursement because it only has a system of depositor preference in the event of a financial institution's liquidation. The U.K. FSCS is liable not only for reimbursement but also to share the resolution costs with the Authorities (for resolutions managed by the Bank of England). FSCS also has the power to seek continuity of cover for policyholders of a failed insurance company by funding a transfer or the issuance of substitute policies. The FGDR in France can, upon the request

[15] The Austrian Deposit Guarantee Scheme (ADGS) stated that it has early warning functions.

of the resolution authority (ACPR), participate in the restructuring or resolution proceedings as well as reimbursing depositors and investors. The KDIC in Korea and the MDIC in Malaysia, as risk-minimizers, have the broadest range of resolution powers. Besides reimbursement, the KDIC has powers over the entire resolution process which include risk monitoring, asset disposition, recovery of funds through receivership management and conducting investigations against failed financial institutions. The MDIC also has powers for risk monitoring and the resolution of failed member institutions.

<Table 7> Mandates and Powers of the IPS

Country	Type of Mandate	Resolution Authority and Others
Australia	Paybox	APRA
Austria	Paybox	Early warning function (ADGS)
Belgium	Paybox	
Québec (Canada)	Risk-minimizer (DIS) Paybox (ICS)	AMF
Denmark	Paybox	
France	Loss-minimizer	ACPR, Resolution capacities under the request of ACPR
Germany	Paybox	Bafin
Greece	Paybox	Bank of Greece
Korea	Risk-minimizer	FSC and KDIC
Liechtenstein	Paybox with extended powers	Court
Malaysia	Risk-minimizer	BNM and MDIC
Serbia	Paybox	MoF and National Bank of Serbia
Singapore	Paybox	MAS
Sweden	Paybox	
U.K.	Paybox with extended powers for resolution funding; powers for insurance continuity	Bank of England (for banks)

Source: IADI Survey (2013)

3. Policy Considerations for the IPS

3.1 Background for Adopting an IPS

A growing number of jurisdictions have adopted protection schemes not only for depositors but also for investors and/or policyholders. In some cases, sector-specific schemes were established to protect financial consumers in their respective markets against the risk of losses, but there is an increasing trend for an existing deposit insurer to be given the mandate to provide protection to investors or policyholders as well.[16] This is because, in most countries, banking is more dominant and critical to financial stability than investment or insurance business. Therefore, deposit insurance is usually established before any protection scheme for investors or policyholders. Moreover, there is no evidence of the reverse where an investor compensation scheme or insurance guarantee scheme is later mandated to extend protection to depositors.[17]

A search of current literature for a theoretical basis for integrated protection schemes yielded no results. Nearly all previous analyses to find the theoretical underpinnings of integrated supervisory systems produced similar outcomes as well. In such studies, the most commonly used approaches to discuss the theoretical basis for integration are: an institutional approach, a functional approach, a regulation-by-objective approach and an integrated approach. Despite many attempts to identify the theoretical basis for each of these approaches, no paper has yet provided a clear answer to this question. Instead, IMF (2006) lists the potential advantages and disadvantages of each approach and recommends jurisdictions to adopt supervisory structures that fit country specific circumstances.[18] For the integration of financial consumer protection schemes, it would be advisable, too, to compare the benefits and limitations of the multiple agency model versus an integrated single agency model and choose a system that is most appropriate for unique jurisdiction requirements.

The rest of this section focuses on the background for adopting an integrated protection scheme in the jurisdictions surveyed in this paper. A good example of a jurisdiction that has decided to integrate financial consumer protection in response to a financial crisis is Australia. To tackle the recent global financial crisis, the Australian government decided that the financial regulator, APRA, should provide explicit guarantee of up to AUD 1 million for depositors and the full amount of benefits for general

[16] More recent cases include Malaysia, Singapore and Serbia.
[17] In the U.K., the FSCS was established by the consolidation of pre-existing schemes for depositors, insurance policyholders and investors.
[18] IMF (2006) suggests that the reasons for integrated supervision are: i) conglomeration of financial systems and the rise of complex conglomerates, ii) smaller size of the overall economy, iii) recent financial sector crisis, and iv) legal factors.

policyholders starting October 2008. The Korean government, too, decided to integrate sectoral protection schemes into the KDIC in April 1998 because of the 1997 Asian financial crisis. For purpose of this study, Korea's integrated protection scheme came about as part of financial supervisory reform.

The second group of jurisdictions with integrated protection schemes is EU member states. Member states are obligated to implement the directives at the EU level. Complying with the EU Directive on Deposit Guarantee Schemes of 1994 and the Investor Compensation Schemes Directive of 1997, EU members began adopting integrated protection schemes. The responsibility for investor compensation schemes was given to existing deposit insurer instead of creating a new agency (OXERA, 2005). Denmark, Germany (in 1998 for these two countries), Austria, Belgium, France, Sweden (in 1999 for these four countries) and Luxembourg (in 2000) provide protection for both investors and depositors.[19] In Greece, the Athens Stock Exchange Members' Guarantee Fund (ASEMGF) is responsible for investor compensation since 1997. Yet, among banks which are members of the deposit insurer (HDGF) but are not members of the ASEMGF, 12 of them which offer covered investment services were allowed to join the HDIGF's Investment Cover Scheme in 2009. This transformed the HDIGF into an integrated protection scheme. Today, the responsibility for investor compensation is shared between the ASEMGF and the HDIGF.

The third group includes jurisdictions like Korea, the U.K. and Québec (Canada) which integrated their protection schemes along with a reform of their financial supervisory and regulatory regimes. In the case of Korea, the KDIC only insured bank depositors when it was established in 1996. When financial supervision was integrated in April 1998, the KDIC was also transformed into an integrated agency for financial consumer services, taking over the Securities Investors Protection Fund, the Insurance Guarantee Fund, the Credit Unions Safety Fund and other sector-specific protection funds. The decision to reorganize the financial safety net was spurred by the Asian financial crisis that hit most of Asia in October 1997. During the 1997 crisis, a large number of financial institutions started to fail including banking, securities, insurance, credit unions and savings banks. In response, the Korean government decided to adopt integrated systems for both financial supervision and consumer protection and resolution in order to increase the efficiency of supervision and failure resolution. After the reorganization, the Korean government injected public funds into the financial system and made concerted efforts to resolve failed financial institutions, which led to a successful restructuring of the financial industry and the stabilization of the financial system.

[19] In its survey response, France stated that it has a plan to broaden its protection scheme by adding protection for life insurance policyholders because the three sectors – bank deposits, financial investment and life insurance – share closely-related business environments and are regulated by the same supervisory authority, ACP.

In the U.K., with the rising trend of financial conglomeration in the 1990s, the Parliament enacted the Financial Services and Markets Act in June 2000 and established the FSA (which was later split into the PRA and the FCA in April 2013) as an integrated financial regulator. At the same time, the FSCS was established as an integrated agency for financial consumer protection to administer the eight pre-existing sectoral protection schemes such as the Deposit Protection Board, Investors Compensation Scheme and the Policyholders Protection Board. A single Financial Ombudsman Service was also established at the same time.

In Québec (Canada), the AMF was created as an integrated financial supervisory authority in 2004 and it carries out the responsibility to protect depositors and investors while fulfilling its supervisory responsibility. Before the establishment of the AMF, depositors and investors were protected by separate schemes. The decision to integrate financial supervision and consumer protection, according to the AMF, was due to a combination of factors including: simplifying the organizational structures, creating more synergy, effective crisis response, following more adequately the development of new international guidance and regulations, and reducing the gap between supervision and consumer protection.

The fourth group includes countries where the deposit insurer took over responsibilities for financial consumer protection from the central bank or the financial supervisory authority. In Malaysia and Singapore, the responsibilities for policyholders' protection were transferred from the central bank (BNM) and the financial regulatory authority (MAS) to the MDIC and the SDIC, respectively. In 1996, the BNM set up the Insurance Guarantee Scheme Fund to compensate policyholders in the event of a failure of an insurance company. With the transfer of responsibilities, the Fund was transferred to the MDIC in 2011. The SDIC also took over the Policy Owners' Protection Scheme which had been under the MAS's administration until May 2011 in order to enhance cost efficiency and make better use of the SDIC's resources.

Lastly, in Serbia, with the revision of the Law on Capital Market in 2011, the DIA was recently given the responsibility to protect investors. For that purpose, the DIA is managing the Investor Protection Fund under the supervision of the Securities Commission of the Republic of Serbia.

3.2 Pros and Cons of Adopting an IPS

In this section, the advantages and disadvantages that integrated protection schemes have against sectoral protection schemes are discussed. The most immediate benefits of an integrated protection scheme are: i) greater efficiency of operations; ii) greater consumer awareness of protection schemes;

iii) smooth coordination of policies; iv) better crisis prevention and response capabilities; and v) cost efficiency through economies of scale and scope.

First, an integrated protection agency may have greater operational efficiency over multiple agencies because the experience and knowledge from dealing with different financial sectors can be shared among staff within a single organization. By working in different departments in an integrated protection agency, staff members can gain practical experience across insured sectors, build expertise, share that knowledge with one another, and develop and share best practices. Furthermore, the bankruptcy of a given institution may lead to call two or more guarantees (e.g. the deposit insurance scheme and the investor compensation scheme after a bank also providing investment services has failed). Managing these various guarantees within the same IPS helps to offer clients an efficient payout.

Second, having an IPS may help to raise awareness of the protection scheme among consumers of various financial products and enhance their confidence in the financial system. Consumers do not need to be aware of more than one guarantee scheme and can deal with one entity in the event of failures. In integrated markets, this removes the possible confusion as to which scheme responds to claims.

Third, many of the jurisdictions where protection schemes are integrated have an integrated or cross sectoral supervisor. This makes it easier for the regulator and the protection agency to coordinate. When there are multiple supervisors and multiple protection agencies, there is greater potential for turf wars instead of trying to decide on a policy on the overall industry or on a national level, which can lead to inefficient decisions. On the other hand, a unified supervisor and an integrated protection agency may find it easier to cooperate and coordinate since they each have clearly defined mandates and authorities specified in law or regulation.

The fourth advantage of an integrated protection scheme is that it is better positioned to monitor risk levels at member institutions and effectively handle financial institution failures. In particular, in the event of a failure of a financial conglomerate, an integrated protection agency is more capable of handling the failure on its own than sectoral schemes.[20] As well as being better able to coordinate responses to consumers with different or multiple claims due to one-stop service, it can act as the single protection scheme with the insolvency practitioner – both in managing the estate and in pursuing the recoveries claims.

[20] For the benefits of an integrated protection scheme, Québec (Canada) mentioned that it has knowledge and experience of different schemes within a single organization, enables information-sharing between schemes and can harmonize/coordinate laws and policies across insured sectors.

A further advantage of an integrated protection scheme is that it can achieve cost efficiency through economies of scale and scope. The cost reductions come from eliminating duplicated functions and infrastructure.

Meanwhile, the drawbacks of an integrated protection scheme can include: i) governance issues related to the decision-making process within the Board among board members appointed from various sectoral backgrounds; ii) the risk of cross-subsidization and unequal treatment between different sectors if one particular sector continues to have problems and is not segregated (Korea); iii) a sector-specific scheme may sell (or transfer) the assets of a failed institution more rapidly because it has better knowledge of potential buyers in the industry (Québec (Canada)); and iv) an integrated scheme may have a predominant consumer protection focus, and as such may become detached from the industry.

In practice, it is thought that these potential disadvantages can be adequately addressed if the IPS is well-designed and properly managed. In an answer to a question regarding any problems encountered during the implementation of an integrated protection scheme such as legal issues or strain on human resources, all respondents reported that there was little difficulty in handling these issues regardless of whether they merged existing schemes (Korea and the U.K.) or added a new scheme to the deposit insurer (Malaysia and Singapore).

3.3 Design Features for Consideration in Adopting an IPS

Like sector-by-sector schemes, an integrated protection scheme has public policy objectives of protecting financial consumers from financial institution failures and enhancing public confidence in the financial system, thereby ensuring financial stability. To do that, the protection scheme should be designed in a way that fits the jurisdiction’s financial environment. In particular, system design looks more complicated for integrated protection schemes than for sectoral protection schemes. This section explores the features for consideration when designing an integrated protection scheme based on the IADI Core Principles and jurisdiction cases described above.

Unlike sector-by-sector schemes, an integrated protection scheme requires a system design that addresses sector specifications. Since each sector of the financial industry such as banking, securities and insurance has unique characteristics, the design of an integrated protection scheme must take into account these unique characteristics and at the same time ensure equity in the level of protection provided to the financial consumers of the respective sectors. The plan to implement an integrated protection scheme should gather enough support from industry stakeholders in advance as well as have in place a comprehensive implementation plan so as to be ready to be put into execution immediately, if necessary.

First, to be able to contribute to consumer protection and financial stability, an integrated protection scheme must have operational independence. When financial consumer protection functions are assigned to a supervisory authority or one of the government agencies, there exists a potential conflict of interest between the mandates of consumer protection and prudential supervision as well as a risk of regulatory forbearance. Also, there is a concern that consumer protection may not get sufficient attention from the supervisors, and that financial regulators often do not have in place processes to oversee financial consumer protection effectively. It is for these reasons that many of the countries adopting consumer protection schemes have decided to make them operationally independent agencies. In addition, a clear mandate is required, for which the integrated scheme is accountable. Also, the governance structure should be commensurate with the mandate and the nature of the business of its members in each financial sector to ensure the effectiveness of operations. This is because only when the Board of Directors has sufficient expertise and authority, then a “right” system that provides similar treatment across different sectors and promotes fair competition and industry development can be put in place.

Second, the limit and scope of coverage should consider the characteristics of each financial sector. For deposits, the protection limit should be high enough to protect large majority of but low enough to impose market discipline and curb moral hazard. The protection limit should be set at a level which not only ensures that all small depositors, investors and/or policyholders are protected, but only a certain percentage of the total value of deposits, investments and/or type of policies is covered. Insurance losses may need to be treated differently, as the possible losses can far exceed the consumers’ costs. To do that, basic data with regard to the number of financial consumers and their accounts, the total value and type of deposits, investments and insurance products, and the average account balance or claim/loss in each sector should be prepared and analyzed before coverage limit decisions are made. The responses to the survey questionnaire introduced in the previous chapter indicate that all countries with integrated protection schemes except Korea apply different coverage limits to different financial sector consumers.[21] In most cases, the limit for investors is lower compared with the limits for depositors and policyholders. In particular, Australia and Singapore do not have any limit on guarantees for non-life insurance policyholders while the U.K. has no limit for both life and non-life policyholders. The scope of coverage should not result in arbitrage between sectors or hamper

[21] Korea has a uniform coverage limit of KRW 50 million (USD 45,000) for all financial sectors. After providing temporary blanket coverage after the 1997 Asian financial crisis, Korea returned to a limited coverage system in 2001. At the time of the transition, the coverage limit was set at the current level because it was the highest of the limits offered by sector protection schemes before the integration of protection schemes.

their development. Determining the eligibility for protection would not be difficult for deposit products, but there may be differing views on the eligibility of certain types of investment products and insurance policies.

Third, a plan to secure funding for the integrated protection scheme, including back-up funding in emergency situations, should be developed. Recently, the trend is to raise funds ex-ante. Premiums to be levied on member institutions should give consideration to an appropriate premium base, rates, potential liabilities and target fund size. There is also a need to manage the reserves for different sectors separately. With the exception of Korea and the U.K., none of the integrated protection schemes surveyed allow for cross-subsidization, although cross-subsidization or cross-borrowing may be considered in the context of raising emergency finance to address liquidity shortfall when handling problems in one particular sector. In case the reserves are insufficient, back-up funding must be provided. Money can be borrowed from the government. However, using taxpayers' money to resolve financial institution failures and protect financial consumers is generally the last recourse. Therefore, many integrated protection schemes are permitted to borrow from the market or charge special levies to member institutions to cover liquidity shortfall. Meanwhile, Québec (Canada) and the SNDO in Sweden has an unlimited government borrowing facility which can be tapped if there is a shortage of funds to handle financial institution failures.

Fourth, another aspect worth considering is the role of an integrated protection agency as a resolution authority. Often, integrated protection schemes act as payboxes responsible for compensation only. Yet, as in Korea and Malaysia, they are given a resolution authority mandate with a wide range of powers for failure resolution.[22] The protection agencies in the U.K. and France, on the other hand, have only a limited role in the resolution framework. In order to build an effective resolution regime, special consideration should be made in the designing stage with regard to the mandates and powers of the integrated protection scheme for failure resolution, the supporting legislative framework and the relationships within the safety net partners. The more powers and responsibilities it has, the more human and financial resources it will need.[23]

---

[22] The KDIC of Korea was given resolution powers to contain the 1997 Asian financial crisis and mandated to be a risk-minimizer.

[23] Québec (Canada) argued that an integrated protection agency should have adequate and sufficient resources (human and material), recruit and retain people with appropriate expertise, review different legislations that need to be harmonized, secure adequate funding (ex-ante) and back-up funding, and be part of a financial safety net council.

4. Conclusion

There has been a trend to expand financial consumer protection schemes in an integrated manner after the recent global financial crisis, where a pre-existing single deposit insurance agency adds or provides guarantee or protection to investors and/or insurance policyholders. The purpose of this paper is to examine the current state of integrated protection schemes around the world, analyze its characteristics, and provide policy considerations for jurisdictions adopting an integrated protection scheme.

Based on the literature review and a survey questionnaire to the IADI and the EFDI members, 17 out of a total of 61 jurisdictions studied in this paper have an integrated protection scheme. Then, those 17 integrated protection schemes were analyzed with regard to the relationship with the financial supervisory authority, limit and scope of coverage, funding mechanism, and resolution powers. In addition, this paper discusses some possible advantages of an integrated protection scheme such as greater operational efficiency from economies of scale and scope, better coordination with the industry and financial safety net participants, specialized skills, and improved crisis response capabilities.

Finally, a set of design feature considerations in adopting an IPS, based mostly on the Core Principles, are presented. There are also some suggestions for designing an effective IPS. First, an IPS must have operational independence. Second, the limit and scope of coverage should consider the characteristics of each financial sector. Third, a funding mechanism including back-up funding in emergency situations for an IPS should be prepared in advance. Fourth, establishing an effective resolution regime alongside an IPS should be considered. Since each jurisdiction has unique economic and financial environments, designing and implementing an integrated protection scheme must take into account such jurisdiction and industry specifics.

Due to limited data and insufficient literature, this study could only provide an overview and some design features of IPS. More detailed theoretical and empirical analysis of IPS remains for future research.

References

BCBS and IADI, Core Principles for Effective Deposit Insurance Systems, Basel, June 2009.

BCBS and IADI, Core Principles for Effective Deposit Insurance Systems – Methodology for Compliance Assessment, Basel, December 2010.

Bernet, Beat and Susanna Walter, Design, Structure and Implementation of a Modern Deposit Insurance Scheme, SUERF Studies: 2009/5, Vienna, 2009.

FSB, Thematic Review on Deposit Insurance Systems, Peer Review Report, Basel, January 2012.

HM Treasury, A framework for Guarantee Schemes in the EU: A discussion paper, London, October 2005.

IADI, Enhanced Guidance for Effective Deposit Insurance Systems: Mitigating Moral Hazard, Basel, May 2013.

IADI, Survey Questionnaire on the Integrated Protection Schemes, Basel, March 2013.

IADI ,Enhanced Guidance for Effective Deposit Insurance Systems: Deposit Insurance Coverage, Basel, March 2013.

IADI, Discussion Paper on Cross Border Deposit Insurance Issues Raised by the Global Financial Crisis, Basel, July 2010.

IADI, Funding of Deposit Insurance Systems, GuidancePaper, Basel, 2009.

IADI, General Guidance for an Effective Deposit Insurance Mandate, Basel, 2007.

IADI, General Guidance to Promote Effective Interrelationships among Financial Safety Net Participants, Basel, January 2006.

IAIS, Issues Paper on Policyholder Protection Schemes, Basel, October 2013.

IMF, Is One Watchdog Better Than Three? International Experience with Integrated Financial Sector Supervision, Working Paper/06/57, March 2006.

Korea Deposit Insurance Corporation, Financial Consumer Protection Schemes: Overview and Its Implications (in Korean), Seoul, 2006.

OECD, Analysis of Policyholder Protection Schemes and Some Cross-sectoral Considerations, Committee on Financial Markets, April 2011.

Oxera, Description and Assessment of the National Investor Compensation Schemes Established in Accordance with Directive 97/9/EC, Consultation Paper for European Commission, January 2005.

Oxera, Insurance Guarantee Schemes in the EU, Consultation Paper for European Commission, November 2007.

Schich, Sebastian and Byoung-Hwan Kim, Guarantee Arrangements for Financial Promises: How Widely Should the Safety Net be Cast?, Financial Market trends, OECD, 2011.