9. Country- or Region-Specific

Entries in this section focus on deposit insurance in a specific country or region and cover the following: country-specific descriptions of deposit insurance systems, comparative surveys, international experiences with deposit insurance systems, and banking and deposit insurance reforms outside of the United States.

Allen, Linda. 1994. Deposit Insurance and Bank Closure Policy: The Israeli Banking System. Bank of Israel *Banking Review* 4 (June): 31–55.

> This article adds to the growing literature on designing an optimal deposit insurance scheme unhampered by some of the moral-hazard problems engendered by current regulations. The author surveys the deposit protection schemes in Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. She also considers one particular proposal for the fair pricing of deposit insurance and applies it to the case of Israel's banking system.

Anikin, Andrei Vladimirovich. 1997. *Zashchita bankovskikh vkladchikov: Rossiiski problemy v svete mirovogo opyta* (Banking deposit insurance: Russian problems in light of the world experience). Moscow: Izd-vo "Delo."

> In Russian without English summary.

Anyanwu, J. C. 1991. Deposit Insurance in Nigeria: Benefits, Costs, and Operational Strategies. *Savings and Development* 1:67–77.

> The paper argues that deposit insurance builds and maintains confidence in financial institutions and the financial system as a whole, fosters and permits more effective and efficient competition between financial institutions, and creates equity with respect to depositors. However, it involves direct operating costs and payments, opportunity cost, and direct costs. The Nigerian Deposit Insurance Corporation (NDIC) was established in 1988 to insure all deposit liabilities of licensed banks and other financial institutions operating in Nigeria so as to maximize the aforementioned benefits under the joint ownership of the Federal Government and the Central Bank of Nigeria. It operates the fixed premium regime with regulatory and supervisory roles. It is argued here that NDIC be made independent and be allowed to compulsorily insure all deposits but continue the fixed premium regime with selective regulation to reduce associated moral hazards. (©1999 EconLit)

Asian Development Bank (ADB). 1997. Technical Assistance to the Republic of the Philippines for Institutional Capacity Building of the Philippine Deposit Insurance Corporation. Report. TAR: PHI 31654. ADB.

> During 1997, the Philippine Deposit Insurance Corporation (PDIC) and the Philippine Department of Finance (DOF) asked the Asian Development Bank for a technical assistance grant for the institutional strengthening of PDIC. The request arose from the realization of the need for the PDIC to improve its regulatory and supervisory powers in the face of a increasingly volatile market.

This document explains the grant's objectives, scope, cost estimates, financing plan, implementation arrangements, and terms of reference for the consultants.

Association for the Study of the Cuban Economy (ASCE). 1994. *Cuba in Transition*. Proceedings of the 4th Annual Meeting of ASCE, Florida International University.

Twenty-nine papers, written in English and Spanish, examine the transition of Cuba toward a market economy. Among the twenty-four English-language papers are the papers that focus on monetary dualism as an instrument toward a market economy; dual monetary systems in the Western hemisphere and the Cuban transition; inflation and the monetary regime during the Cuban economic transition; the role of deposit insurance in a market-oriented banking system in Cuba; the historical development of the Cuban banking system; elements for a modern financial system; the case for an independent Central Bank; a first approximation design of the social safety net for a democratic Cuba; required changes in Cuba's laws and legal institutions during its transition to a free-market democracy; and economic and financial institutions needed to support the market. (©1999 EconLit)

Atiyas, Izak. 1990. Financial Distress and Implicit Deposit Insurance: Essays on Turkey's Experience with Financial Liberalization. Ph.D. diss., New York University.

This dissertation reviews a financial liberalization episode in Turkey and presents theoretical analyses of some economic issues raised by that experience. The overview shows that interest rates were deregulated in a period when the corporate sector experienced low or negative profitability. Consequent problems of nonperforming loans in the banking sector resulted in fierce competition for financial resources and extremely high ex post real interest rates. In the corporate sector, the leverage of firms in financial distress increased despite high costs of borrowing. The author argues that these patterns of behavior are best explained by (1) widespread financial distress and (2) implicit deposit insurance combined with the absence of a regulatory framework.

Bank for International Settlements (BIS). 1999. Bank Restructuring in Practice. Policy Paper no. 6. BIS.

Contents include "Bank Restructuring in Practice: An Overview," by John Hawkins and Philip Turner; "Restructuring the Banking System—The Case of Brazil," by Geraldo Maia; "Bank Restructuring in China," by Xie Ping; "Banking Problems: Hong Kong's Experience in the 1980s," by Raymond Li; "Bank Restructuring in Korea," by Dookyung Kim; "Policy Responses to the Banking Crisis in Mexico," by Pablo Graf; "Development and Restructuring of the Saudi Banking System," by the Saudi Arabian Monetary Agency; and "Bank Restructuring in South-East Asia," by John Hawkins.

Bank Guarantee Fund of Poland. 1999. Polish Experiences in Providing Guarantees for Bank Deposits. Unpublished manuscript. Bank Guarantee Fund of Poland.

During the 1990s the Polish parliament passed two fundamental pieces of legislation: the Banking Act and the Act on the National Bank of Poland. These acts began a new era for the Polish banking system. This paper examines the banking situation in Poland and how it has progressed. Topics include the privatization of banks and the establishment, organization, responsibilities, and financing of the Bank Guarantee Fund.

Barth, James R., Gerard Caprio Jr., and Ross Levine. 1999. Financial Regulation and Performance: Cross-Country Evidence. Policy Research Working Paper no. 2037. The World Bank.

Costly bank failures in the 1980s and 1990s focused the authors' attention on the need to find ways to improve the performance of different countries' financial systems. They believe that financial systems can be improved, but there is little empirical evidence to support any specific advice about regulatory and supervisory reform. With few cross-country comparisons of financial regulatory and supervisory systems, economists cannot decide how to correct incentives and moral-hazard problems in developing economies—whether, for example, to require higher (and more narrowly defined) capital-to-asset ratios, to mandate stricter definition and disclosure of nonperforming loans, to require that subordinated debt be issued, or to install world-class supervision. Proposed reforms usually involve changes in financial regulations and supervisory standards, but many pressing questions about reform remain unanswered. The authors conclude that (1) countries with relatively weak governments and bureaucratic systems impose harsher regulatory restrictions on bank activities; (2) countries with more restrictive regulatory regimes do not automatically have poorly functioning banking systems; and (3) countries with more restrictive regulatory systems are not less likely to suffer a banking crisis.

Barth, James R., Daniel E. Nolle, and Tara N. Rice. 1997. Commercial Banking Structure, Regulation, and Performance: An International Comparison. Economics Working Paper no. 97-6. Office of the Comptroller of the Currency.

This paper provides detailed information on banking structure, permissible banking activities, regulatory structure, deposit insurance schemes, and supervisory practices in each of the 15 European Union countries as well as in Canada, Japan, Switzerland, and the United States.

Bartholomew, Philip F. 1989. Foreign Deposit Insurance Systems. Special Report. Office of Policy and Economic Research, Federal Home Loan Bank Board.

The author lists countries with deposit insurance schemes and describes the various premium-pricing schemes used by those countries.

Bartholomew, Philip F., and Vicki A. Vanderhoff. 1991. Foreign Deposit Insurance Systems: A Comparison. *Consumer Finance Law: Quarterly Report* 45:243–48.

When one considers proposals for reforming deposit insurance in the United States, it is useful to examine the practices of other countries that offer a federal government guarantee of deposits at financial institutions. At least 27 other countries have some system of federal deposit insurance. This article tabulates information collected on administration, membership, coverage, and financing of these systems.

Bruyneel, Andre, and Axel Miller. 1995. Belgium Implements Deposit-Guarantee Scheme. *International Financial Law Review* 14, no. 6:18–20.

Belgium has implemented the European Commission directive on deposit-guarantee schemes for credit institutions. The Law of December 23, 1994, inserted a number of new provisions into the Law of March 22, 1993, on the status and control of credit institutions. The main differences between the new system and the system organized in 1985 are that (1) the participation of credit institutions in the deposit-guarantee scheme is now mandatory; (2) there is only one insurance fund for all credit institutions; (3) the contributions made by the credit institutions are effectively paid to the Institut de Réescompte et de Garantie/Herdiscontering, and a ceiling is set on the obligations of each institution; and (4) the circumstances entitling a depositor to obtain reimbursement have been extended to all circumstances in which depositors' funds have become unavailable (formerly a depositor was entitled to obtain reimbursement only in bankruptcy or similar situations).

Bucchi, Wadico. 1992. Garantia de depositos em instituições financeiras (Deposit guarantees for financial institutions [in Brazil]). Instituto Brasileiro de Ciência Bancária (São Paulo, Brazil).

In Portuguese without English summary.

Buch, Claudia M. 1996. Creating Efficient Banking Systems: Theory and Evidence from Eastern Europe. Germany: J. C. B. Mohr.

The author analyzes the effects of domestic financial liberalization in Eastern Europe since 1989, focusing on the reforms of the banking system and on the most advanced reform states of Eastern Europe--the Czech Republic, Hungary, and Poland--as well as Estonia, which has followed a unique path in reforming its banking sector. She analyzes microeconomic aspects of banking reforms, covering the problem of nonperforming loans on the balance sheet, weak information systems as a constraint for banking in Eastern Europe, and banking regulations and deposit insurance. The author examines the banking sector's competitive structure; commercial banks' portfolio choices and the structure of their loan portfolios; bank efficiency and profitability; and evidence on the financial structure of firms and on the role of banks in real sector adjustment and in the privatization process. (©1999 EconLit)

Canada Deposit Insurance Corporation (CDIC). 1993. Deposit Insurance Survey Report. Unpublished manuscript. CDIC.

In June 1992, the Canada Deposit Insurance Corporation (CDIC) initiated a Deposit Insurance Survey as part of a research project designed to gain information about the nature and operations of deposit insurance systems in place around the world. The Survey consisted of a detailed questionnaire sent to 122 countries, with the request that the country notify the CDIC if it did not have deposit insurance in place. The Survey report has four parts: (1) a list of respondents; (2) a two-page summary of responses; (3) copies of the responses from those countries that had a deposit insurance scheme in place; and (4) a list of respondents' addresses.

Cardone, Clara. 1996. A Single European Union Deposit Insurance Scheme? An Overview. Working Paper. Universidad Carlos III de Madrid.

This paper discusses and analyzes the different aspects of the deposit insurance schemes in the European Union (EU) and their harmonization and compatibility with other EU regulations.

Cargill, Thomas F., Michael M. Hutchison, and Takatoshi Ito. 1996. Deposit Guarantees and the Burst of the Japanese Bubble Economy. *Contemporary Economic Policy* 15 (July): 41–52.

This article describes the status of deposit insurance systems in Japan and reviews the history of deposit guarantees. In the 1990s, some Japanese financial institutions faced near or outright insolvency for the first time since the end of World War II. To gain perspective on the problem, the authors gather publicly available data and facts on deposit guarantees in Japan.

Carr, Jack L., Frank G. Mathewson, and Neil C. Quigley. 1994a. The Economics of Canadian Deposit Insurance. Research Report no. 9052. Department of Economics, University of Western Ontario.

The introduction of deposit insurance in Canada in 1967 is commonly explained as an efficiency-enhancing response to macroeconomic shocks and contagious runs by imperfectly informed depositors, as well as a means of promoting domestic institutions that would compete with the large chartered banks. In this paper, the authors show that since 1967 insolvencies among Canadian banks, trust and mortgage loan companies have increased, and the number of domestic competitors for the large banks has been reduced. A model in the spirit of Akerlof and Romer (1993) links these observations to the incentives provided by deposit insurance. The authors argue that the Canadian scheme was primarily designed to force the incumbent banks to subsidize trust and mortgage loan companies and the entry of regionally based chartered banks. As such, the scheme was politically efficient in the sense of Becker (1983) but has reduced economic efficiency. (©1999 EconLit)

Carr, Jack L., Frank G. Mathewson, and Neil C. Quigley. 1994b. Ensuring Failure: Financial System Stability and Deposit Insurance in Canada. *Observation* 36. C. D. Howe Institute, Canada.

> The authors analyze the history and economics of deposit insurance in Canada. They examine the stability of Canada's financial system before deposit insurance was introduced; the reasons for the introduction of deposit insurance in 1967 and its impact on bank failures; and the current structure for governance by the Canada Deposit Insurance Corporation, depositor compensation, and regulation. The paper demonstrates the primacy of political motives in the decision to have deposit insurance and argues that deposit insurance has resulted in reduced economic efficiency in Canada. In conclusion, the authors recommend reforms to the current structure of Canada's deposit insurance scheme to achieve greater efficiency. (©1999 EconLit)

Carr, Jack L., Frank G. Mathewson, and Neil C. Quigley. 1995. Stability in the Absence of Deposit Insurance: The Canadian Banking System, 1890–1966. *Journal of Money, Credit, and Banking* 27, no. 4 (part 1): 1137–58.

> The Canadian banking system experienced a prolonged period of stability prior to the introduction of deposit insurance in 1967. Documenting the reasons for this stability provides important evidence in the debate over the impact of mandatory flat-rate deposit insurance. This paper uses new archival data to refute recent claims that this stability resulted from an implicit deposit insurance scheme managed by Canada's largest banks and guaranteed by the federal government. The authors argue that the Canadian banking system was stable for two reasons. First, the absence of deposit insurance provided incentives for both prudence on the part of management, and monitoring by depositors and regulators. Second, the absence of unit banking and other regulatory barriers to competition facilitated efficient mergers which produced a relatively small number of well-managed banks. (©1999 EconLit)

Chamorro, J. M. 1993. Valoración de la Garantía de los Depósitos Bancarios y Alineado por Riesgo: Una aplicación al caso España (The value of the banking deposit guarantee and ranking by risk: An application to Spain's case). *Revista Españo de Economía* 10, no. 1:93–110.

> In Spanish without English summary.

Chamorro, J. M., Pérez de Villarreal, and G. Rubio Irigoyen. 1994. Tres ensayos sobre la garantía de los depósitos: Aplicaciones a la banca españo (Three essays on the guarantee of deposits: Application to the Bank of Spain). Working Books, Fundación BBV.

> In Spanish without English summary.

Chant, John F. 1997. Canada's Economy and Financial System: Recent and Prospective Developments and the Policy Issues They Pose. In *The Banking and Financial Structure*

in the NAFTA Countries and Chile, edited by George M. von Furstenberg, 2–43. Kluwer Academic Publishers.

> This chapter examines the changes that have taken place in Canadian financial markets since 1980, exploring the extent to which changes have been the result of policy responses to economic events (as compared with deliberate reform). Events influencing policy during the period have been the failures of banks and other institutions, developments in technology, and pressures for globalization. The chapter finds that policy has been directed to a small set of issues that emerge repeatedly in different forms.

Chen, Lien-Lien, and Raymond P. H. Fishe. 1993. Informal Financial Arrangements and the Stability of Deposit Insurance in Less Developed Countries. *Southern Economic Journal* 60, no. 1:157–68.

> A formalized deposit insurance system such as that in the United States is found in only a small number of other countries, with varying degrees of coverage and membership requirements. One reason that deposit insurance plays a smaller role in developing countries is that they typically suffer from a less-diversified economic base, making them more prone to liquidity crises that deposit insurance cannot prevent. The authors use a model that provides two major insights into the nature of financial intermediation in developing countries: (1) in equilibrium, the monitoring of loans requires a mixed strategy; and (2) a sufficiently high probability of common external shock prevents intermediaries from entering less-diversified areas, which are typically located in less-developed countries. Informal arrangements may arise if they provide a method of tying payments to project outcomes or if they reduce monitoring costs. One example of such arrangements is rotating savings clubs. The model also suggests that formal financial intermediaries may coexist with informal arrangements if the two entities have different monitoring costs.

Chen, Thomas P., and K. Thomas Liaw. 1993. Bank Deposit Insurance Policies: An International Overview and Recommendations for Taiwan. *American Asian Review* 11, no. 4:9–29.

> This article provides an overview of bank deposit insurance systems around the world and makes recommendations for Taiwan's bank deposit insurance reforms. The authors consider two proposals: (1) use the cost of capital of a financial institution to determine the insurance premium; and (2) determine deposit insurance premiums by capital adequacy and supervisory ratings. In conclusion, the authors determine that only the second proposal can be effectively implemented in Taiwan.

Chu, Kam Hon. 1995. The Monetary and Banking System of Hong Kong: A Study from a Free Banking Perspective. Ph.D. diss., University of Toronto.

> This dissertation shows that a bank can use its deposit rate and portfolio to give a signal to depositors about its underlying quality. Hong Kong is used as a case study because its banking system was close to a free banking system. Empirical

results of both regression and cluster analysis applied to free cross-sectional data for 1964–1965 indicate that banks with higher liquidity ratios and lower deposit rates had, on average, higher profitability. This study challenges the "efficiency" argument for deposit insurance by showing that an implicit or non-risk-rated deposit insurance scheme destroys the signaling mechanism and induces a moral-hazard problem by encouraging banks to take risks; deposit insurance also encourages poor-quality banks to enter the industry and therefore raises systemic risk. The results are consistent with the argument that deposit insurance induces banks to take excessive risks.

Ciampi, C. A. 1991. Intervento all'Assemblea ordinaria del FITD (Proceedings of the FITD Assembly). Documenti no. 314. Banca d'Italia.

In Italian without English summary.

Ciampi, C. A. 1992. Il credito di ultima istanza (The credit of last resort). Quaderni dell'Associazione per lo Sviluppo degli Studi di Banca e Borsa no. 112.

In Italian without English summary.

Commission of the European Communities (CEC). 1994. Directive 94/19/EC on Deposit Guarantee Schemes. *Official Journal of the European Communities,* L135 (May 31): 5–14. Brussels: CEC.

The CEC directive 94/19/EC establishes guidelines for countries to establish deposit insurance schemes if they are to be European Union members. Under the directive, depositors will be guaranteed a minimum level of protection against the undesirable outcomes of asset-allocation decisions taken by bank managers, who, by virtue of their monopoly of information concerning the bank's portfolio, have greater power than the depositor. The directive requires that implementation of this protection involve setting minimum standards of coverage.

Cuevas, Olinto Méndez. 1994. *Breves comentarios a la Ley General de Bancos: Incidencias de la Ley Especial de Protección a los depositantes y de regulacion de emergencias en las instituciones financieras* (Short comments related to banking laws [in Venezuela]: Implications of the special law for protecting depositors and financial institutions during financial emergencies). Caracas: n.p.

In Spanish without English summary.

Cull, Robert. 1998. The Effect of Deposit Insurance on Financial Depth: A Cross-Country Analysis. Working Paper no. 1875. The World Bank.

Whether explicit deposit insurance strengthens or weakens financial markets depends on the circumstances in which it is adopted. Adopting a system to counteract instability appears to have little (or negative) effect. Adopting it when government credibility and institutional development are high appears to have a positive effect on financial depth.

Deutsche Bundesbank. 1992. Deposit Protection Schemes in the Federal Republic of Germany. In *Monthly Report of the Deutsche Bundesbank,* (July): 28–36.

The Deutsche Bundesbank (Germany's Central Bank) discusses the deposit insurance system in Germany, which consists of multiple private, public, mandatory, and voluntary deposit insurers. Germany's central bank discuses (1) its justification for deposit insurance; (2) the different protection schemes operated by the several deposit insurers; (3) deposit protection abroad; and (4) deposit protection in the European Community.

Di Noia, Carmine. 1994a. Il Fondo Interbancario di Tutela dei Depositi: Alcune ipotesi di riforma (prima parte). *Rivista Bancaria: Minerva Bancaria* 2:37–72.

In Italian without English summary.

Di Noia, Carmine. 1994b. Il Fondo Interbancario di Tutela dei Depositi: Alcune ipotesi di riforma (seconda parte). *Rivista Bancaria: Minerva Bancaria* 3:63–80.

In Italian without English summary.

Di Noia, Carmine. 1994c. Il Fondo Interbancario di Tutela dei Depositi: Alcune ipotesi di riforma (terza parte). *Rivista Bancaria: Minerva Bancaria* 4:53–79.

In Italian without English summary.

Di Noia, Carmine. 1995. Structuring Deposit Insurance in Europe: Some Considerations and a Regulatory Game. Working Paper no. 94-31. Wharton Financial Institutions Center, Wharton School of Business, University of Pennsylvania.

The protection of savings and the creation of insurance schemes is becoming a topic of discussion for the European Union (EU): incoming directives describe a sort of "financial guarantee scheme model" that would be valid not only for deposit insurance but also for investor compensation schemes in case of failure of investment firms. This paper describes the ongoing process, focusing on the recently approved deposit-guarantee-scheme directive that will compel the European Union member states to redraw their internal regulations. The author studies the effects of the directive on the equilibrium of different kinds of institutional regulations and suggests ways of regulating the single deposit insurance authorities within the EU member states.

Dowd, Kevin. 1990. Some Lessons from the Recent Canadian Bank Failures. In *Research in Financial Services: Private and Public Policy*, vol. 1, edited by George G. Kaufman, 113–28. JAI Press.

The failure of Canada's Home Bank in 1985 was the first bank failure in that country since 1923. The author suggests that the major cause of the bank's failure was the strategy of the bank's management. Furthermore, he identifies three major areas in which the regulatory environment clearly failed: (1) the weakness of the bank was not detected until a considerable amount of harm had already been done; (2) the Canadian deposit insurance system encouraged excessive risk-taking by bank management; and (3) under the guise of acting as a "lender of last

resort," the Bank of Canada allowed itself to be dragged into a second bailout operation that only put off the bank's failure and increased the costs involved.

Duan, Jin-Chuan, Mao-Wei Hung, and K. Thomas Liaw. 1995. Pricing Deposit Insurance in Taiwan. In *Advances in Pacific Basin Business, Economics, and Finance,* vol. 1, edited by Cheng Few Lee, 311–19. JAI Press. Also 1992. On the Pricing of the Deposit Insurance Liabilities of the CDIC [Central Deposit Insurance Corporation] in Taiwan. In *Economic and Political Reforms in Asia,* edited by Thomas Chen, Young Back Choi, and Sung Lee, 88–99. St. John's University Press.

The fixed-rate deposit insurance system presents a fundamental vulnerability in a volatile financial market such as the one in Taiwan. For most of the Central Deposit Insurance Corporation's six years of operation, deposit insurance coverage was overcharged. In 1990, however, the actuarial liability facing the CDIC was staggering compared with the levied insurance premium. Inasmuch as the banking industry in Taiwan is undergoing major deregulation, a fixed-rate deposit insurance system appears particularly inadequate.

Duan, Jin-Chuan, and Min Teh Yu. 1994. Assessing the Cost of Taiwan's Deposit Insurance. *Pacific-Basin Finance Journal* 2, no. 1:73–90.

The authors use Merton's (1977) deposit insurance pricing model to analyze ten depository institutions in Taiwan. To compute the inputs needed for Merton's formula, they used a market-based maximum-likelihood-estimation method developed by Duan. The authors' findings indicate that these ten institutions were for the most part heavily subsidized by the deposit insuring agency. When compared with the estimates obtained by use of the Ronn and Verma (1986) method, these results raise a question as to the appropriateness of the Ronn and Verma method for deposit insurance pricing.

Dziobek, Claudia, and Ceyla Pazarbaşioğlu. 1998. Lessons from Systemic Bank Restructuring. International Monetary Fund *Economic Issues* 14.

The authors of the study analyze the experiences of 24 countries (representing all areas of the world) that initiated reforms in the 1980s and early 1990s: 4 industrial and 15 developing countries, and 5 countries in transition to market-oriented systems. The authors consider a banking crisis systemic if a fifth or more of the total deposits in the national system are affected; they define systemic bank restructuring and explain which practices lead to successful restructuring. They present several illustrative cases in which countries restructured.

Federal Deposit Insurance Corporation (FDIC). 1990. *Proceedings of the International Conference on Deposit Insurance and Problem-Bank Resolution Policies.* FDIC.

This volume is a collection of comments by representatives of bank trade associations, deposit insurance entities, central banks, and government offices. Panel topics include Policy Issues Surrounding Problem-Bank Resolutions; The Impact of Problem-Bank Resolutions on the Stability of Financial Markets; The Role of Deposit Insurance Programs in Financial Systems; Banking Industry

Perspective on Deposit Insurance and Government-Sponsored Safety Nets; and Where Do We Go from Here: International Trends in Problem-Bank Resolution Policies.

Federal Deposit Insurance Corporation (FDIC). 1998a. *Conference Papers: International Conference on Deposit Insurance*. Vol. 1. FDIC.

Conference papers include "Seguro de Depósitos Sociedad Anónima (SEDSA), Argentina," by José Carlos Jaime; "The Nature and Role of Deposit Insurance in Korea," by Jong-Suk Park; "The Nature and Role of Deposit Insurance," by Grant Reuber (CDIC); "Bank Guarantee Fund in the Republic of Poland," by Ewa Kawecka Włodarczak and Jan Szambelańczyk; "Deposit Insurance, Deposit Priority, Both, or Neither? And Bankruptcy Priority for Bank Deposits: A Contract Theoretic Explanation," by Urs W. Birchler (Swiss National Bank); "The Interbank Deposit Protection Fund (FITD of Italy): Legal and Economic Aspects," by Cristiano Zazzara; "The Nigeria Deposit Insurance Corporation: Establishment, Administration, Achievements, and Challenges," by John U. Ebhodaghe; "Bank Deposit Insurance System in the Philippines," by Ernest Leung; "The Structure and Functions of the Deposit Insurance System—The Performance of the Central Deposit Insurance Corporation of Taiwan," by Wei-Yi Lin; and "Comparative Analysis of Established Deposit Insurance Systems," by Cristian Bichi (National Bank of Romania).

Federal Deposit Insurance Corporation (FDIC). 1998b. *Conference Papers: International Conference on Deposit Insurance.* Vol. 2. FDIC.

Conference papers include "The Nordic Countries' Banking Crises," by Heikki Koskenkylä; "Recent Banking Crises and Lessons Learned: The U.S. Experience," by Barry Kolatch; "Resolution and Collection Methods in Japanese Financial Markets," by Ryoji Kitami; "The UNCITRAL Model Law on Cross-Border Insolvency," by Simeon A. Sahaydachny; and "Milestones in the Collection and Use of Data for Federal Deposit Insurance," by Don Inscoe.

Fingleton, Eamonn. 1995. Japan's Invisible Leviathan. *Foreign Affairs* 74, no. 2:69–85.

The West often ascribes mystery and chaos to political and economic power in Japan. Yet Japanese power is actually a carefully structured hierarchy, and the capstone is neither big business nor the Ministry of International Trade and Industry but the little-understood and low-profile Ministry of Finance. The MOF controls Japan's equivalents of the U.S. Federal Reserve, Treasury Department, Internal Revenue Service and Federal Deposit Insurance Corporation. It is the prime mover behind Japan's savings rate, distribution of overseas aid and regulation of monopolies. However obscure, it may well be the most powerful bureaucracy in the world. (©1999 EconLit)

Fondo Interbancario di Tutela dei Depositi (FITD). 1999. International Deposit Insurance Systems. Unpublished manuscript. Rome: FITD.

> The FITD examines the deposit insurance schemes in the following countries: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, Portugal, Spain, Sweden, the United Kingdom, and the United States.

Fratianni, Michele. 1995. Bank Deposit Insurance in the European Union. In *Politics and Institutions in an Integrated Europe*, edited by Barry Eichengreen, Jeffry Frieden, and Jürgen von Hagen, 144–76. Springer Publishing. Also 1995. Bank Deposit Insurance in the European Union. Discussion Paper no. 110. Global Programs Office, School of Business, Indiana University.

> This article studies bank deposit insurance in the European Union (EU) and its likely effect on the member countries' banking industries. Deposit insurance is a relatively new phenomenon in the EU and has emerged because of the more competitive environment now prevailing in the banking industry there. None of the existing deposit insurance schemes approximates the optimal solution of actuarially fair insurance premiums. Bank regulation and bank supervision have substituted for imperfect deposit insurance. Consequently, the relevant focus of the analysis becomes the overall regulatory level rather than deposit insurance in isolation. The home-rule principle, embedded in the Second Banking Directive, created incentives for member countries to compete in the area of regulations. This competition, however, has a floor provided by a spate of EU directives that set minimum standards, including the 1994 directive on deposit insurance.

Fratianni, Michele. 1996. Bank Deposit Insurance: The Italian Case. *Review of Economic Conditions in Italy* 2 (July–December): 221–50.

> This article deals with deposit insurance in Italy and the presiding institution, the Fondo Interbancario de Tutela dei Depositi (FITD). Since the formation of the FITD, the agency has faced a few crises and has developed a procedure for monitoring bank risk. This procedure turns out to be largely ineffective inasmuch as it does not add information to what is already available to the financial markets. In addition, FITD has a weak institutional structure in the sense that it is dominated by the Banca d'Italia (BI). The author provides a set of recommendations to strengthen the deposit insurance institution.

Freixas, Xavier. 1998. Nuevos avances en la teoria de la regulacion financiera (New advances in the theory of financial regulation). *Moneda y Credito* no. 206:11–37. [In Spanish with English summary.]

> In this paper the author examines recent contributions to the theory of financial regulation. He first considers the results in the theory of banking where he distinguished different topics. Issues of concern include the areas of the optimal design of regulatory mechanism, the regulation of deposit insurance, the optimal bank closure policy, the analysis of regulation and systemic risk analysis. The author then proceeds to survey the contributions to the regulation of financial

markets. These include issues of disclosure regulation and restrictions to trading (insider information). Over all, the analysis of these contributions allowed the author to recognize that the methodology used does not take into consideration the results of regulatory analysis that stems out of the Industrial Organization literature. On the contrary, the models focus on a very specific issue and therefore seem to indicate that there is still some way to go before reaching a satisfactory integrated theory of financial regulation. (©1999 EconLit)

Fres-Felix, Maria L. 1991. *Deposit Insurance Schemes: Its Nature, Role and Issues*. Research and Training Centre, Southeast Asian Central Banks (SEACEN). Kuala Lumpur: SEACEN Centre.

The financial liberalization that swept the international community led to increased global competition in banking and ultimately increased the risks in the industry. As banking systems continue to evolve and face ever-increasing risks, some bank failures occur. It is during such times of crisis that the question of protection of deposits is underscored. In the SEACEN region, only two countries—the Philippines and Sri Lanka—have deposit insurance systems in place. Some other member countries have considered establishing such a scheme. The concept and practice of deposit insurance seems simple on the surface, but it also presents some complexities. This study is aimed at informing researchers about the nature of deposit insurance, its role, and the issues it raises. The hope is that the information can foster better understanding of such a scheme.

Fries, Steven, Robin Mason, and William Perraudin. 1993. Evaluating Deposit Insurance for Japanese Banks. *Journal of the Japanese and International Economy* 7, no. 4:356–86.

Declines in Japanese land value and stock market prices have created doubt as to the financial stability of the Japanese banking system and the adequacy of its deposit insurance scheme. In this article, the authors apply the pricing models of Fries and Perraudin (1993) and Merton (1977) to value the Japanese authorities' deposit guarantees for 16 city, trust, and long-term-credit banks. The authors estimate both models using exact maximum-likelihood techniques that allow for time aggregation and for the fact that observed quantities such as stock market values are nonlinear functions of underlying driving processes.

Garrido Torres, A. 1991. Crisis bancaria y regulación financiera: El seguro de depósitos (Banking crisis and financial regulation: Deposit Insurance). Working Paper 22/91. Caja de Ahorro y Pensiones de Barcelona.

In Spanish without English summary.

Gay, Gerald D., Stephen G. Timme, and Kenneth Yung. 1991. Bank Failure and Contagion Effects: Evidence from Hong Kong. *Journal of Financial Research* 14, no. 2:155–65.

In this paper, the authors examine the influence of three Hong Kong bank failures on stock prices of the colony's banking industry. As deposit insurance is nonexistent in Hong Kong, the world's fourth-largest financial center, an interesting environment is provided for testing contagion effects of bank failure on other financial institutions. By examining contagion effects in an environment void of explicit deposit insurance, this study should provide interesting insights into the resiliency of modern-day financial markets. In turn, insights should also be provided into debates concerning the role and reform of deposit insurance and the rationale for regulation of the financial services industry in general. The results indicate that unexpected bank failure causes significant negative stock price reactions within the banking industry; yet, some banks are less affected than others. (©1999 EconLit)

Gonzalez, Arturo Huerta. 1998. *El Debate del FOBAPROA: Orígenes y consecuencias del "rescate bancario"* (The debate over FOBAPROA: Origins and consequences of the "banking rescue"). Mexico City: Editorial Diana.

Text in Spanish, but chapter titles (in translation) include "Causes of the Bank Crisis"; "Government Intervention and 'The Banking Fund Problem of the Protection of Savings Deposits' (FOBAPROA)"; "Fiscal Cost and the Political Results of the Bank Recovery"; "The Debate over FOBAPROA"; and "The Political Parties' Proposals and an Alternative."

Gruben, William. 1998. Banking Structures, Market Forces, and Economic Freedom: Lessons from Argentina and Mexico. *Cato Journal* 18, no. 2:263–74.

The author presents evidence of the linkages among market discipline, government guarantees, bank performance, and exchange-rate stability in Argentina and Mexico. Various researchers' econometric models of the financial systems in those two countries offer varieties of evidence that have not, until now, found their way into the literature. By considering these several models together, the author is able to draw collective conclusions that the individual constructors of the models could not and did not draw. The author argues that banking crises in Latin America, more than in industrial countries, can surprise regulators rather than be anticipated and therefore planned for. He points out the benefits of adopting policies that offer market-based signals so as to create market-based discipline.

Hall, Maximilian, and John Bettles. 1999. Deposit Insurance Reform in Japan: Better Late Than Never? *Journal of Financial Services Research* 15, no. 3:211–42.

The deposit insurance system in Japan was introduced in 1971 as a response to intensified competition in the deposit-taking sector. The system has undergone a number of significant changes to accommodate developments in the local financial sector. The pace of such reform accelerated to help stabilize the Japanese financial system in the face of systemic risk. The authors explain how local deposit insurance arrangements evolved to cope with events such as the failure of housing loan companies or the failure of other major financial institutions. They also assess the policy responses; address the part played by deposit insurance in alleviating the pressures of the late 1990s experienced by the

Japanese banking sector; and examine the extent to which Japanese authorities have learned from the U.S. experience with deposit insurance.

Hallagan, William. 1997. Speed and Sequencing of Market Reforms: The Case of Banking in Latvia. *Contemporary Economic Policy* 15, no. 2:24–34.

After Latvia regained its independence from the former Soviet Union, Latvia's banking sector initiated free-market reforms. Initially, several apparent disequilibriums existed in the market for banking services. The processes that generated these disequilibriums are described, as are the events that transpire as the market approaches equilibriums over time.

Hindryati, Rin. 1992. Deposit Insurance Still But a Dream. *Indonesia Business Weekly* 1, no. 2, p. 42.

The author examines the status of deposit insurance in Indonesia in 1992. He cites reasons the Bank of Indonesia and other government officials had not yet created a deposit guarantee scheme.

Hungary. 1995. *International Financial Law Review*. Banking Yearbook (October) p. 86.

The National Deposit Insurance Fund (NDIF) in Hungary is somewhat similar to the FDIC in the United States, except that the NDIF does not exercise the sort of control that the FDIC does over state-chartered nonmember federally insured banks. As the number of foreign banks investing in Hungary increases, privatizing the Hungarian banking industry will become more important for the Hungarian government.

Kane, Edward J., and George G. Kaufman. 1993. Incentive Conflict in Deposit-Institution Regulation: Evidence from Australia. *Pacific-Basin Finance Journal* 1, no. 1:13–29.

The authors designed a model to explain pre-1990 U.S. failures of federal and state deposit insurance funds. It incorporates four premises: (1) regardless of the existence of an explicit government deposit insurance system whose potential losses are subject to limited liability and formal coverage limits, depositors and bank management recognize that the self-interest of government officials creates a system of implicit coverage to "bailout" taxpayers; (2) the extent of the implicit coverage depends on regulators' and politicians' career interests; (3) officials tend to gamble on postponing needed regulatory action; and (4) this regulatory gambling occurs at taxpayer expense.

Karlsen, Harald. 1994. The Norwegian Banking Crisis—Rescue Operations in the Period 1988–1993. *Norges Bank Economic Bulletin* 65, no. 1:69–73.

In Norway the safety net for the banking system has two elements. The first, prudential protection, consists of three lines of defense: the bank's capital base, the bank's own guarantee funds, and the Government Bank Insurance Fund (GBIF). The second element of the safety net is liquidity protection ensured by

Norges Bank (the central bank) through the provision of liquidity in its role as lender of last resort. Late in 1990, the possibility seemed to exist that the guarantee funds could face difficulties in fulfilling their roles unless member banks' financial performances improved. This situation was the background for the formation of the GBIF in March 1991. Late in 1991, after two large banks lost all their equity capital, the GBIF was allowed to provide share capital and other types of core capital directly to the banks. In 1992, the largest commercial banks had another difficult year that led to the infusion of more government funds.

Key, Sydney J. 1992. Deposit-Protection Schemes: Issues for an EC Directive. Research Report 11. Centre for European Policy Studies.

The first section of this report briefly summarizes the European Commission's proposal and presents a table to facilitate comparison among different approaches to deposit protection. The second section sets forth the arguments for the home—and host—country approaches to deposit insurance for three methods of providing banking service: across borders, via subsidiaries, and via branches. The third section analyzes the extent to which the home-country approach requires the harmonization of national schemes, not only to ensure that consumers are adequately protected and that systemic risk is reduced but also to minimize moral hazard and avoid competitive distortions. The fourth section deals with the external dimension of a European Commission deposit insurance directive. The fifth section briefly discusses the relationship between deposit insurance and the functions of a possible future European Central Bank, such as that envisioned in the Maastricht Treaty.

Kjaer, Jorn H. 1991. Reguleringen af den finansielle sektor (Regulation of the financial sector). *Nationalokonomisk Tidsskrift* 129, no. 1:15–22. [In Danish with English summary.]

Financial institutions are generally subject to more intensive official regulation and supervision than commercial and industrial companies. The reasons for this are: (1) greater public interest in maintaining their solvency, (2) their function as transmission channels for monetary policy, (3) the possibility of allocating financial resources to priority areas, (4) a perceived need to avoid excessive profits. The Danish experience is reviewed and it is concluded that regulation has become more market oriented. It is recommended to pursue this deregulation further, in particular as regards the remaining restrictions in the mortgage credit area. There is, however, a strong public interest in minimizing the risk of failures, in particular as regards deposit-taking institutions. A deposit insurance scheme is also essential. (©1999 EconLit)

Ko, Dong Won. 1996. Financial Liberalization and Internationalization: The Korean Experience. Ph.D. diss., Duke University.

This dissertation analyzes and evaluates financial liberalization and internationalization in South Korea and describes that country's financial system. The author strongly argues that the independence of the South Korean central bank should be secured as soon as possible because such independence is crucial for pursuing financial liberalization and internationalization. The author also recommends that the South Korean government adopt a universal banking system as the optimal model of the nation's future banking system because universal banking, which permits diversification, helps improve bank competitiveness. Finally, the author urges the South Korean government to adopt a risk-adjusted premium system (rather than a flat-rate premium scheme) in implementing the deposit insurance system, because the flat-rate system causes moral-hazard problems.

Ko, Dong Won. 1997a. Bank Deposit Insurance System in Korea. *Korean Journal of International and Comparative Law* 25:93–117.

The author analyzes the substantive provisions of South Korea's Bank Deposit Insurance Act of 1995 and outlines the deposit insurance systems in major countries, such as the United States, Japan, Germany, and the United Kingdom, as well as in the European Union, to suggest some recommendations for improving the South Korean bank deposit insurance system. Finally, the author makes four recommendations for improving the system, focusing in particular on the introduction of a risk-adjusted premium scheme for stabilizing the bank deposit insurance system as soon as possible.

Ko, Dong Won. 1997b. Korea Introduces Bank Deposit Insurance Scheme. *International Financial Law Review* 16, no. 4:46–48.

Whenever South Korean banks have carried large nonperforming loans, the government and the central bank have consistently bailed them out. However, following the liberalization and internationalization of South Korea's financial market in the early 1980s, this kind of commitment proved unsustainable. Because of these trends, the government created a scheme that would provide stability and safeguard depositors' interests. The main aim of the Bank Deposit Insurance Act of 1995 (BDIA) was to protect depositors and create financial stability by means of a bank deposit insurance system. The government recognized that depositors' interests must be safeguarded by the state; nevertheless, the insurance system that was created still needs to be improved.

Korea Deposit Insurance Corporation (KDIC). 1996. *Deposit Insurance System in Korea.* KDIC.

This booklet presents an outline of the insurance scheme in South Korea, touching on (1) the framework of the Deposit Insurance System, (2) the structure of the Korea Deposit Insurance Corporation, and (3) the management committee members and executives of the Korea Deposit Insurance System.

Kyei, Alexander. 1995. Deposit Protection Arrangements: A Survey. Working Paper no. 96/83. International Monetary Fund.

Partly based on responses to a 1992 questionnaire, this paper compares the key elements of various deposit protection systems around the world. Starting in the

1980s, more and more countries were adopting explicit deposit insurance schemes, largely in response to emerging problems with their financial systems.

Liu, Ming-Hua. 1992. Bank Supervision in Hong Kong. Ph.D. diss., University College of North Wales.

In response to the banking crises and international supervisory convergence in the 1980s, Hong Kong introduced a new banking law, which for the first time imposed a statutory minimum ratio of capital to total risk-adjusted assets. This dissertation examines the experiences of the Hong Kong banking system with the discipline of market forces and bank failures. It analyzes the effect of three different capital adequacy ratios—gearing ratios, risk-independent ratios, and risky-assets ratios—on the overall riskiness of banks and on their profitability, to see if there is any theoretical basis for regulating bank capital. It evaluates the capital requirements introduced in Hong Kong in the late 1980s.

Macchiati, Alfredo. 1990. Assicurazione dei depositi e crisi bancarie in Italia (Deposit Insurance and the Banking Crisis in Italy). *Banche e Banchieri* 17, no. 1:29–45.

In Italian without English summary.

Marshall, Kathryn G. 1994. The Case against Deposit Insurance in Indonesia. In *Indonesia Assessment: Finance as a Key Sector in Indonesia's Development*, edited by Ross H. McLeod, 186–201. Institute of Southeast Asian Studies.

The author argues that a deposit insurance scheme would be inappropriate for Indonesia since the scheme would increase a bank's incentives to make risky loans. Without a deposit insurance scheme, depositors can monitor bank behavior and then be compensated for higher risks.

McKenzie, George, and Manzoor Khalidi. 1994. The EU Directive on Deposit Insurance: A Critical Evaluation. *Journal of Common Market Studies* 32, no. 2:171–90.

The authors argue that the incentives induced by the EU Directive on Deposit Guarantees for both depositors and banks are incompatible with the goal of fostering a stable and efficient financial system. The authors explore (1) the problem of moral hazard and the principle of co-insurance (a principle requiring depositors to bear losses arising from bank failure); (2) the concept of a bank safety net and the relationship between the Deposit Guarantee Directive and other financial market directives, especially the Bank Solvency Directive; (3) the principle of subsidiary, which leaves the implementation of the directive in the hands of national authorities, subject to minimum standards.

McQuery, Elizabeth. 1999. The Banking Sector Rescue in Mexico. Federal Reserve Bank of Atlanta *Economic Review* 84, no. 3:14–29.

This article examines Mexico's bank rescue efforts (1995–1998), focusing particularly on the role of the deposit insurance fund, the Bank Fund for the Protection of Savings. According to the author, the governmental rescue programs prevented a systemic collapse of the banking sector but cost more than

$55 billion dollars. The article also attempts to place the overall rescue effort within a larger context by looking at its economic and political consequences. The Mexican experience suggests that country-specific factors can profoundly affect the success of government policies and that governments need to pay more attention to political matters, even when problems appear to be economic or technical.

Milhaupt, Curtis. 1999. Japan's Experience with Deposit Insurance and Failing Banks: Implications for Financial Regulatory Design? *Monetary and Economic Studies* 17, no. 2:21–46. Bank of Japan. Also 1999. Japan's Experience with Deposit Insurance and Failing Banks: Implications for Financial Regulatory Design? Discussion Paper no. 99-E-8. Institute for Monetary and Economic Studies, Bank of Japan.

This paper examines three decades of Japanese experience with deposit insurance and failing banks, and analyzes the implications of that experience for bank safety-net reform in other countries. The literature and policy debate on deposit insurance have been heavily colored by U.S. banking history and focus almost exclusively on explicit deposit protections schemes. Analysis of Japan's safety-net experience suggests that (1) deposit insurance in the real world, for all its flaws, is superior to the real-world alternative—implicit government protection of depositors and discretionary regulatory intervention in bank distress; (2) a well-designed explicit deposit insurance system with a credible bank closure policy is the starting point for the designing of effective private alternatives to a government-run safety net; and (3) the trend toward greater institutionalization of the Japanese safety net reflects increased political competition and greater emphasis on legal as opposed to reputational systems of economic ordering.

Miller, Geoffrey P. 1997. Is Deposit Insurance Inevitable? Lessons from Argentina. In *Economic Dimensions in International Law: Comparative and Empirical Perspectives*, edited by Jagdeep S. Bhandari and Alan O. Sykes, 392–404. Cambridge University Press. Also 1996. Is Deposit Insurance Inevitable? Lessons from Argentina. *International Review of Law and Economics* 16, no. 2:211–32.

This article explores the Argentine government's decision to abolish deposit insurance and its subsequent decision to reestablish a form of deposit insurance. Although fundamental reform of deposit insurance does appear possible, the experience in Argentina suggests the need for skepticism about how long such reforms can last, especially in economic systems where banking markets have been historically unstable.

Mondschean, Thomas S., and Timothy P. Opiela. 1998. The Impact of Deposit Insurance Reform on Market Discipline in Poland. In *Payment Systems in the Global Economy: Risks and Opportunities*, Proceedings of the 34th Annual Conference on Bank Structure and Competition, 443–53. Federal Reserve Bank of Chicago.

This research focuses on how Polish bank and customer behavior has been affected by market and regulatory changes from 1992 to 1996. The authors present an overview of the Polish banking system, describe trends in deposit

growth from 1992 to 1998, and examine the evolution of Poland's deposit insurance policy.

Mondschean, Thomas S,. and Timothy P. Opiela. 1999. Bank Time Deposit Rates and Market Discipline in Poland: The Impact of State Ownership and Deposit Insurance Reform. *Journal of Financial Services Research* 15, no. 3:179–96.

This article examines the effect of ownership structure and changes in the deposit insurance system on the market for bank time deposits in Poland. The authors find that previously, in an environment of less-restrictive bank supervision and a deposit insurance policy that favored state banks, depositors exacted a price for risk-taking. But after a new law went into effect increasing insurance coverage for private banks, bank-specific variables became less important in explaining differences in deposit interest rates. The authors report, however, that the three fully guaranteed state banks pay significantly lower rates than private banks. Moreover, other state-owned banks, with the same explicit guarantee as private banks, pay significantly lower rates than private banks, so it appears that depositors treat these state-owned banks as if they have a larger implicit guarantee.

Moysey, A. Warren. 1998. Deposit Insurance and Other Compensation Arrangements. Research paper prepared for the Task Force on the Future of the Canadian Financial Services Sector.

This report deals with the compensation arrangements of the Canada Deposit Insurance Corporation, the Canadian Investor Protection Fund, the Canadian Life and Health Insurance Compensation Corporation, the Property and Casualty Insurance Compensation, and a variety of other bodies. The report specifically reviews and makes recommendations on the following public-policy concerns: (1) market mechanisms; (2) funding mechanisms; (3) public confusion about the deposit insurance system; (4) bank management's relationships with primary regulators; (5) rationale for deposit insurance; and (6) conglomeration.

National Bank of the Republic of Macedonia. 1998. Deposit Insurance in the Republic of Macedonia. Unpublished manuscript. National Bank of the Republic of Macedonia.

The document examines deposit insurance as an element for protection of a general banking system and studies the need for deposit insurance, types of deposit insurance systems, and basic elements of explicit deposit insurance systems. The document then turns to the deposit insurance system in the Republic of Macedonia and discusses (1) the position of the Savings Insurance Fund; (2) the functioning of the Fund since its establishment; (3) problems faced by the Fund; and (4) reasons the Fund should not operate as a classic shareholding company.

Norwegian Banking Law Commission. 1995. Report Relating to Guarantee Arrangements and Public Administration, etc., of Financial Institutions. *Norges Bank Economic Bulletin* 66, no. 4:458–61.

The Norwegian Banking Law Commission presented its second report in November 1995. The report contains a draft of the act relating to guarantee arrangements and public administration of financial institutions. The bill was drawn up on the basis of experience from a national banking crisis and the perceived need to change and modernize existing legislation. The objective of the bill is to secure the claims of customers from financial institutions and to maintain the guarantee arrangements for banks and insurance companies. The bill will also implement the EU's Deposit Insurance Directive in Norway. The bill proposes that the Norwegian deposit insurance scheme shall cover deposits up to NOK 2 million per depositor, an amount considerably higher than the minimum requirement of ECU 20,000 (just over NOK 160,000) stipulated in the EU directive. Except the section relating to banks' guarantee funds, the report is supported by all the members of the commission.

Nowakowski, Jerzy. 1997. Bank Deposit Guarantee System in Poland. *Eastern European Economics* 35, no. 2:84–95.

Concern for the security and stability of the Polish banking system led to the founding of the Bank Guarantee Fund (BFG) in February 1995. The most important reasons for creating an institution responsible for guaranteeing bank deposits were (1) the need to stabilize the banking system by reducing the risk of mass withdrawals if customers were to become alarmed about the security of their deposits; (2) the need to protect consumers; and (3) the need to adjust the Polish guarantee system to the European Union's standards in the context of Poland's association with this organization and its hope of becoming a full member.

Önal, Yildirm Beyazit, Hatice Gereklioğlu Düzakin, and Meltem Akyüz. 1996. Türkıye'de Mevduat Sıgortasi Sıstemını Gelışımı Ve Bankalarin Rısk Değerlendırmesını De İçeren Aktıf Bır Mevduat Sıgortasi Model Önerısı. *Türkıye Bankalar Bırlığı*, vol. 198.

In Turkish without English summary.

Peng, Xun. 1997. Establishing Deposit Insurance System in China. Unpublished manuscript. University of Texas at Austin.

Several trends have come together to make the case for deposit insurance in China compelling. This report proposes banking reforms other than deposit insurance to reduce the risks involved in the banking industry, analyzes the benefits and costs of establishing deposit insurance in China, and recommends proposals that would best implement a deposit insurance system for China that would respond to challenges confronting the financial sector.

Ratón, José Manuel Fínez. 1994. *Garantías Sobre Cuentas y Depósitos Bancarios la Prenda de Créditos* (Guarantees on accounts and banking deposits). Barcelona: Jose Maria Bosch.

In Spanish without English summary. The author examines the search for credit safety and credit guarantees in Spanish banking practices.

Recommendations. 1997. *International Financial Law Review* 16, no. 4:47–49.

This article makes recommendations in four areas for implementing the bank deposit insurance system in South Korea: (1) the risk-based premium system, (2) bank supervisory powers, (3) the inclusion of foreign bank branches in the South Korean deposit insurance system, and (4) capital contributions to the Deposit Insurance Fund.

Reforming the Korean Banking System. 1999. *Financial Market Trends*, no. 72 (February): 85–114.

The South Korean financial system changed fundamentally in the 1990s. Financial reform legislation was passed in late 1997 with the overriding goal of ensuring that the banking system would have a viable cost structure, even though this would entail some losses of employment and a reduction in the size of the banking sector. This article examines the dynamic banking system within South Korea.

Régie de l’assurance-dépôts du Québec. 1997. *Les Trente Ans d’histoire de la Régie de l’assurance-dépôts du Québec* (A thirty-year history of the deposit insurance system in Quebec). Québec: La Régie de l’assurance-dépôts du Québec.

In French without English summary.

Santomero, Anthony. 1997. Deposit Insurance: Do We Need It and Why? Working Paper no. 97-35. Wharton Financial Institutions Center, Wharton School of Business, University of Pennsylvania.

A crucial part of the government safety net is implicit or explicit deposit insurance. This paper explains why deposit insurance exists, why it causes problems, and what can be done to remedy the problems without losing the benefits. The author specifically examines a deposit insurance system in a united Europe. As Europe moves closer toward a single currency and a single financial market, the difficulties associated with weighing and minimizing the cost of deposit insurance become even greater. This is because the willingness of different societies to absorb the costs of such a system in exchange for financial stability, and the willingness of financial institutions to bear risk, will vary. Yet the release of the European Commission’s Deposit Insurance Directive in 1994 made it clear that facing these conflicting pressures was essential to the emergence of a robust financial sector.

Sato, Ryuzo, Rama V. Ramachandran, and Bohyong Kang. 1994. Risk-Adjusted Deposit Insurance for Japanese Banks. In *Japan, Europe, and International Financial*

Markets: Analytical and Empirical Perspectives, edited by Ryuzo Sato, Richard M. Levich, and Rama V. Ramachandran, 223–39. Cambridge University Press. Also 1990. Risk Adjusted Deposit Insurance for Japanese Banks. Working Paper no. 3341. National Bureau of Economic Research.

This article seeks to evaluate the Japanese deposit insurance scheme by contrasting the flat insurance rate with a market-determined risk-adjusted rate. The model used to calculate the risk-adjusted rate is that of Ronn and Verma (1986). It uses the notion of Merton (1977) that deposit insurance can be based on a one-to-one relation between it and the put option; this notion permits the application of the Black and Scholes (1973) model for calculating the insurance rate. The risk-adjusted premiums are calculated for 13 city banks and 22 regional banks. The interbank spread in risk-adjusted rates is found to be as wide in Japan as in the United States. But the insurance system is only one component of the safety network for a country's banking system. The difference between the U.S. and Japanese networks is described and its implications for the evaluation of the insurance system is discussed.

Scheer, Craig M. 1994. The Second Banking Directive and Deposit Insurance in the European Union: Implications for U.S. Banks. *George Washington Journal of International Law* 28, no. 1:171–207.

The analysis section of this article addresses two concerns raised by the European Commission's Deposit Guarantee and Second Banking Directives: (1) the possibility that Congress's prohibition on insurance coverage of foreign deposits in U.S. banks could disadvantage U.S. banks operating in the European Union; and (2) the possibility that the European Union may grow impatient with the structure of U.S. banking laws, especially if EU banks operating in the United States do not receive profit opportunities comparable to those that U.S. banks in the European Union might enjoy because of the Second Banking Directive.

Schoenmaker, Dirk. 1993a. Home Country Deposit Insurance? In *Money and Banking: Issues for the Twenty-First Century—Essays in Honor of Stephen F. Frowen,* edited by Philip Arestis, 2d ed., 95–116. St. Martin's Press.

Whereas supervision is based on the home-country principle, deposit insurance is still based on the host-country principle. This article investigates whether home-country deposit insurance can offer home-country supervisors an incentive for sound supervision. The main idea is to make home supervisors face all the costs when any bank under their supervision fails. However, it is important to consider the effect of such a regulatory change on the overall banking system. The author's framework for the microanalysis of this proposal of home-country deposit insurance is the interaction among the supervision, deposit insurance, and lender-of-last-resort functions.

Schoenmaker, Dirk. 1993b. Internationalization of Banking Supervision and Deposit Insurance. *Journal of International Banking Law* 8, no. 3:106–12.

With the establishment of the home-country principle for banking supervision in the G-10 countries and the European Community, supervision has followed the widespread internationalization of banking. In contrast, deposit insurance is still based on the host-country principle. This article investigates the merits and problems of home-country deposit insurance. The main idea is that home supervisors would be made to bear the costs when any of the banks under their supervision failed. A recent proposal for a European Commission directive to establish deposit protection on the home-country principles is also briefly discussed.

Shumacher, Liliana Beatriz. 1996. Bubble or Depositors' Discipline? A Study of the Argentine Banking Panic (December 1994–May 1995). Ph.D. diss., University of Chicago.

This dissertation evaluates the ability of depositors to impose discipline on banks in a system with no deposit insurance and strong limitations on the central bank's ability to act as the lender of last resort. The author studies the mergers and failures that took place as a consequence of the panic that harmed Argentine banks after the Mexican devaluation of December 1994. The author's findings suggest that when depositors are confronted with a shock to all banks, asset values, they were able to identify the weakest retail banks in the system, viewed them as less prepared to survive the shock, and penalized them with higher withdrawals.

Simanovskii, A. I. 1997. On Deposit Insurance and Banking Bankruptcies: Reflections on Two Draft Laws. *Russian and East European Finance and Trade* 33, no. 4:78–90.

After a two-tiered banking system emerged in Russia, there were many debates about creating a deposit insurance system. This article examines two kinds of arguments against creating such a system, the arguments based on conceptual approaches to the organization of a new system and the specific criticisms of organizational or editorial aspects of the draft law.

Sjaastad, Larry A. 1997. Deposit Insurance: Do We Really Need It? In *Preventing Banking Sector Distress and Crises in Latin America*, Proceedings of a conference held in Washington, DC, April 15–16, 1996, edited by Suman K. Bery and Valeriano F. Garcia, 47–51. Discussion Paper, no. 360. The World Bank. [Followed by comments by Paul M. Horvitz, Roberto Junguito, and Allan H. Meltzer.]

The author explains how both deposit insurance and the lender-of-last-resort facility offered by central banks have evolved as devices to stabilize inherently unstable institutions: fractional reserve banking. He explains (1) the source of banking instability; (2) the difference between deposit insurance and the lender-of-last-resort facility; (3) the moral-hazard problem; (4) alternative ways of delivering deposit insurance; (5) essential characteristics of deposit insurance; (6)

the way in which deposit insurance really "insures"; and (7) the way to design a panic-proof system.

Timewell, Stephen. 1995. Latvia: The Brutal Truth. *The Banker* 145, no. 834, p. 35.

On June 27, 1995, Latvia's largest bank, Banka Baltija, collapsed. The failure is attributed to the criminal acts of the bank's management, the fraudulent involvement of a Russian bank, and even the involvement of the Soviet Union's KGB. The crisis should prove to be a catalyst for a shakeout and an improvement in the Latvian banking sector.

Turkey. 1998. *International Financial Law Review* (July): 113–14.

In 1926, three years after the foundation of the Republic of Turkey, the Turkish Parliament adopted a translation of the Swiss Civil Code, with some amendments, as the new Turkish Civil Code. As a result, the general principles of continental law became applicable in Turkey. This article presents an overview of banking in Turkey, including amendments to the Banks Act, the general framework of organization and operation of a bank in Turkey, the opening of branches in Turkey, and bank inspectors.

Turkey: New Legislation for Banking Sector. 1999. *International Financial Law Review* 18, no. 8:57–58.

On June 18, 1999, Turkey introduced a new Banks Act, which replaced the previous bank regulation. The new act aims to create a safer, more regulated environment for existing banks in Turkey, as well as operational policies similar to those envisaged under the Basle Accord. The new legislation also contains important provisions that increase the barriers to entry for new banks by imposing a much higher minimum capital requirement and payments of certain fees for issuance of new banking licenses.

Umoh, P. N. 1997. *Bank Deposit Insurance in Nigeria*. Lagos: Page Publishers Services.

This book records the activities of the Nigeria Deposit Insurance Corporation from its inception in 1989 to 1996. The topics discussed include (1) the concept of deposit insurance; (2) establishing and administering the corporation; (3) the corporation's activities; and (4) other activities. The book sets out the roles an explicit deposit insurance scheme can play in a country's financial system, particularly in Africa, where such schemes are few.

U.S. General Accounting Office (GAO). 1991. *Deposit Insurance: Overview of Six Foreign Systems.* Report to the Chairman, Senate Committee on Banking, Housing, and Urban Affairs. GAO/NSIAD-91-104.

The GAO obtained information on deposit insurance and protection systems in Canada, France, Germany, Italy, Japan, and the United Kingdom. Because a country's approach to deposit protection is driven partly by the structure of its regulatory regime and partly by the size and nature of its banking system, the

GAO also outlined elements of the six countries' overall financial regulatory systems. In addition, this report reviews the resolution of bank failure cases in five countries (Japan had had no bank failures) and describes the European Community's efforts to encourage establishment of Community-wide deposit protection.

U.S. General Accounting Office (GAO). 1994. *Bank Regulatory Structure: The Federal Republic of Germany*. GAO/GGD-94-134BR.

Proposals to consolidate U.S. bank regulatory agencies have raised questions about how other countries structure and carry out their various bank regulatory, supervisory, and central-bank activities. This report provides information on the structure and operations of regulatory activities in Germany. Specifically, the report describes (1) the German bank regulatory structure and its key participants, (2) how that structure functions, and (3) central bank responsibilities that affect the banking industry.

U.S. General Accounting Office (GAO). 1995a. *Bank Regulatory Structure: The United Kingdom*. GAO/GGD-95-38.

Proposals to consolidate U.S. bank regulatory agencies have raised questions about how other countries structure and carry out their various bank regulatory, supervisory, and central-bank activities. In response to a congressional request that the GAO examine such activities in several countries, this report provides information on the United Kingdom, whose bank regulatory structure is dominated by its central bank. This report describes (1) the U.K. bank regulatory and supervisory structure and its key participants; (2) how that structure functions, particularly with respect to bank authorization, regulation, and supervision; and (3) how banks are examined.

U.S. General Accounting Office (GAO). 1995b. *Bank Regulatory Structure: France*. GAO/GGD-95-152.

Proposals to consolidate U.S. bank regulatory agencies have raised questions about how other countries structure and carry out their various bank regulatory, supervisory, and central-bank activities. In response to a congressional request that the GAO examine such activities in several countries, this report provides information on France, where jurisdiction over the authorization, regulation, and supervision of banks is divided among three separate but interrelated regulatory entities. This report describes (1) the French bank regulatory and supervisory structure and its key participants; (2) how that structure functions, particularly with respect to bank authorization, regulation, and supervision; (3) how banks are examined in France; and (4) how the central bank handles other bank-related responsibilities.

U.S. General Accounting Office (GAO). 1995c. *Bank Regulatory Structure: Canada*. GAO/GGD-95-223.

Proposals to consolidate U.S. bank regulatory agencies have raised questions about how other countries structure and carry out their various bank regulatory, supervisory, and central-bank activities. In response to a congressional request that the GAO examine such activities in several countries, this report provides information on Canada, which relies on a federal supervisor rather than the central bank. This report describes (1) the Canadian bank federal regulatory and supervisory structure and its key participants; (2) how that structure operates, particularly with respect to bank authorization or chartering, regulation, and supervision; (3) how banks are examined; and (4) how participants handle other financial system responsibilities.

U.S. General Accounting Office (GAO). 1997. *Bank Regulatory Structure: Japan*. GAO/GGD-97-5.

Proposals to consolidate U.S. bank regulatory agencies have raised questions about how other countries structure and carry out their various bank regulatory, supervisory, and central-bank activities. In response to a congressional request that the GAO examine such activities in several countries, this report provides information on Japan.

Valori, V. P., and J. Vesala. 1998. Reform of the Finnish Deposit Guarantee Scheme. *Bank of Finland Bulletin,* no. 3.

Finland's deposit guarantee scheme was revised at the start of 1998 with the entry into force of certain amendments to the Act on Credit Institutions (1229/97). Depositors' claims are now protected by means of a new deposit guarantee fund. To provide statutory protection to depositors, membership in the fund is mandatory for all Finnish deposit-taking banks. This article outlines the 1998 changes to the Finnish deposit guarantee scheme.

Vogelsang, Harald. 1990. *Der Einlagensicherungsfond des Bundesverbandes deutscher Banken im Lichte des Versicherungsrechts* (The deposit insurance fund of the federal association of West German banks in light of the insurance law). Karlsruhe: VVW.

In German without English summary.

Woodward, Thomas G. 1989. Deposit Guarantees in Other Countries. Report for Congress (November 27), no. 89-637 E. Congressional Research Service.

This paper reports whether a deposit guarantee scheme is in existence in 15 countries (Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States. When deposit insurance schemes are in place, the author describes their main characteristics.

Yoshino, Joe Akira. 1994. Seguro Depósito (Deposit Insurance in Brazil). Texto Para Discussão Nº 344. Instituto de Pesquisa Econômica Aplicada Texto.

In Portuguese without English summary.