THE GLOBAL FINANCIAL CRISIS: LESSONS FOR DEPOSIT INSURANCE SYSTEMS (DIS) IN DEVELOPING COUNTRIES

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INTRODUCTION

- The sub-prime mortgage crisis started in 2007 and spread very fast across the entire global financial system.
- The crisis brought to the fore the importance & relevance of DIS as many jurisdictions with explicit DIS revised some of the features of their systems with a view to stemming panic and restoring confidence in their respective financial systems.

NATURE, CAUSES AND IMPACT OF THE CRISIS

- The crisis had it roots with the collapse of the American mortgage market.
- The nature of the crisis manifested mainly in the form of banking crisis, currency crisis and stock market crashes.
- The causes were linked to speculation based on false assumption of an unending increase in housing prices occasioned by long period of easy monetary policy.

NATURE, CAUSES AND IMPACT OF THE CRISIS CONT'D

- Other possible causes identified included greed, outright fraud, lax oversight/regulatory regimes and uncoordinated as well as late interventions by governments.
- The impact of the crisis and its severity differs among countries.
- For economies whose financial systems are dominated by internationally active banks such as USA, UK, Japan, western European countries, Taiwan and Malaysia, the impact was swift, direct and severe.

NATURE, CAUSES AND IMPACT OF THE CRISIS CONT'D

- The impact on this category included, among others, declining real output growth; weakened financial systems, loss of jobs; loss of confidence in financial markets, leading to inability to carry out their intermediation role in their respective economies; and stock market prices.
- In developing economies such as countries in Africa, Latin America and Asia, with a few or no internationally active banks, the effect has been less swift but nonetheless, potentially severe.

NATURE, CAUSES AND IMPACT OF THE CRISIS CONT'D

- The impact of the crisis on this category included crash in commodity prices; contraction of revenue; de-accumulation of foreign reserves with attendant pressure on exchange rates; and limited foreign trade finances for banks.
- Others include capital market downturn arising from divestment by foreign investors and contraction in remittances by indigenes living abroad.

REACTIONS TO THE CRISIS FROM SOME JURISDICTIONS

- Governments and authorities in various nations took various actions to stabilize and save financial institutions in their economies.
- Some of the actions taken to bolster liquidity and restore market confidence in some jurisdictions included one or more of the following:
  - State guarantee of wholesale debt obligations;
  - Recapitalization of banks/partial nationalization;
  - Asset purchases;
  - Central bank liquidity schemes; and

REACTIONS TO THE CRISIS FROM SOME JURISDICTIONS CNt'D

- Enhanced depositor protection

➢ DIS coverage level increased from $100,000 to $250,000 in the USA up to 2009. In addition FDIC introduced a Temporary Liquidity Guarantee Programme, which within the time set would guarantee full coverage for some categories of unsecured debt instruments and non-interest bearing deposit transaction accounts.

REACTIONS TO THE CRISIS FROM SOME JURISDICTIONS CNt'D

- In the UK, the deposit insurance coverage level was also increased to £50,000.00 from a maximum of £35,000.00. In addition, co-insurance was abolished.
- The EU increased its deposit insurance coverage from €20,000.00 to at least €50,000.00 in the first instance and ultimately to €100,000.00.

REACTIONS TO THE CRISIS FROM SOME JURISDICTIONS CNt'D

- Blanket coverage was introduced on a temporary basis in many jurisdictions including Iceland, Ireland, Greece, Denmark, Austria, Portugal, Singapore, Australia, Germany, Taiwan and Malaysia.
- There were intensive public awareness campaigns about DIS in various countries and particularly on higher scope and levels of coverage in order to facilitate the effectiveness of the measures.

LESSONS FOR THE DIS IN DEVELOPING COUNTRIES

- Appreciation of the role of DIS
- Change in Emphasis of DIS Public Policy Objective (PPO).
- Government intervention in systemic crisis situation
- Ineffectiveness of Co-insurance
- The need for effective public awareness.
- The need to strengthen the regulatory/supervisory apparatus.
- The need for close inter-agency cooperation and collaboration.
- Encouraging sound corporate governance practices in insured institutions.

SUMMARY AND CONCLUSIONS

- In this paper, the nature and impact of the on-going global financial crisis have been examined.
- Also examined were major responses to the crisis by some countries and the lessons for DIS in developing countries.
- From the lessons, it is obvious that the DIS has a great role to play as a component of financial safety-net particularly in developing countries.