



Deposit Insurance Corporation of Japan

Japan's Deposit Insurance Funds

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Outline

- 1. Introduction of Deposit Insurance Corporation of Japan (DICJ)**
- 2. DICJ's Deposit insurance Funds (Liability Reserves)**
 - General Account & Other Accounts*
 - Developments of Liability Reserves*
 - Funding & Investments*
 - Compliance with Core principles*
- 3. Issues for the Future**
 - How to Set a Target?*





1-1. DICJ : Overview

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As of end Mar.2018

Establishment	1971
Number of Staff	414 (authorized number of staff)
Mandate	Loss Minimizer
Functions	Deposit Insurer, Financial Administrator
Insured Banks	560 (as of the end of February 2019)
Coverage	¥10 million (US\$ 90 thousand)
Insurance Premium	Flat Rate System (currently 0.034%)
Fund Reserves	¥3.6 trillion (US\$ 33 billion: General Account)
Subsidiaries	<ol style="list-style-type: none">1. Resolution & Collection Corporation (Number of staff: 320)2. Regional Economy Vitalization Corporation of Japan3. The Corporation for Revitalizing Earthquake- Affected Business4. Specified Bridge Companies





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1-2. Safety-Net Participants and their Roles

■ JFSA: Japan's Financial Services Agency

- ◆ Regulator & supervisor of all financial institutions & infrastructures

■ DICJ: Deposit Insurance Corporation of Japan

- ◆ Deposit Insurer
- ◆ Financial Administrator (Receiver, Administrator, Provider of Financial Assistance including liquidity provision & asset purchase)

■ BOJ: Bank of Japan(Central Bank)

- ◆ Monetary Policy (Provider of Liquidity as a Back Stop)

■ MOF: Ministry of Finance

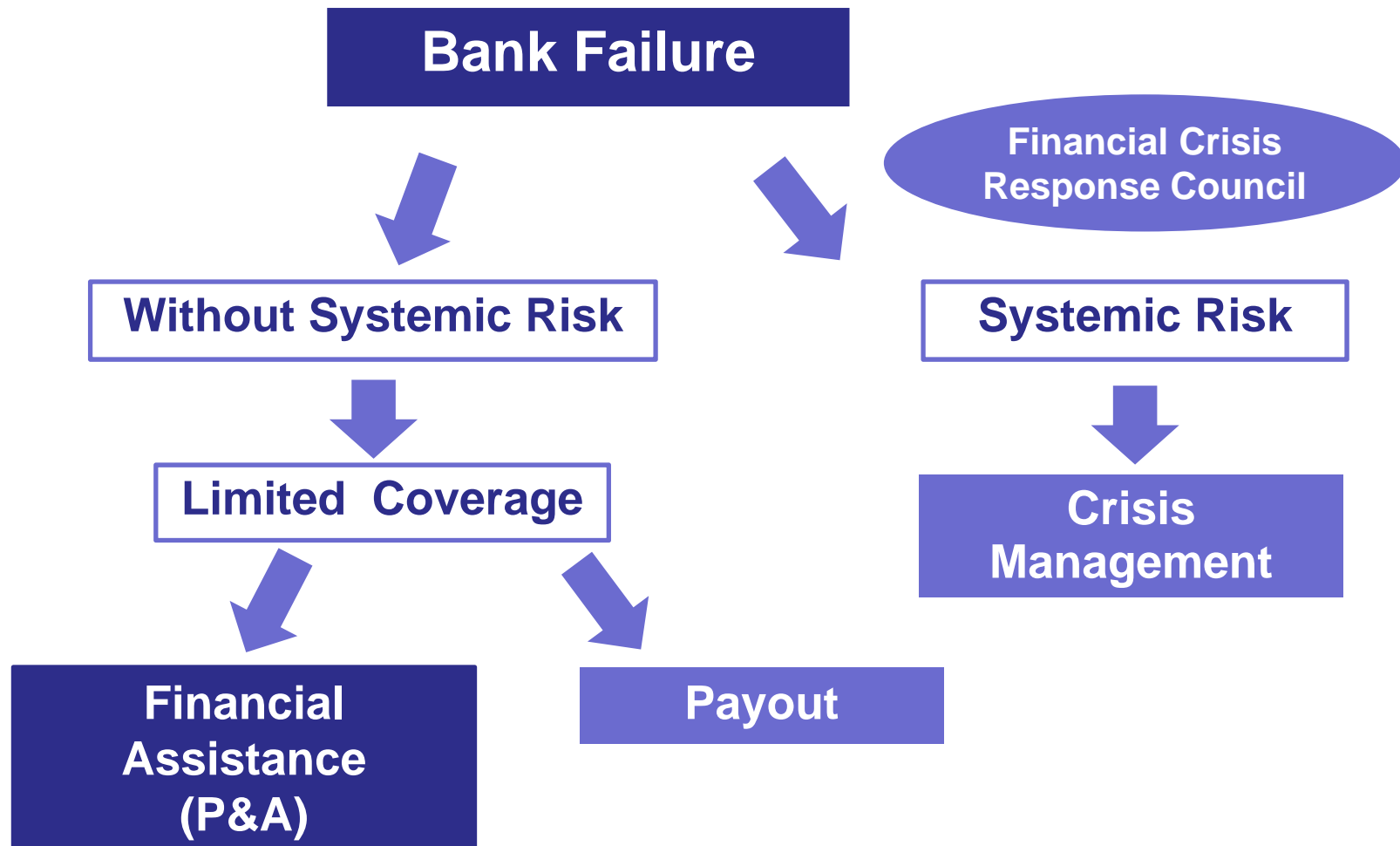
- ◆ Fiscal Authority (Provider of Guarantee, etc.)





1-3. Resolution Options

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2-1. DICJ's Accounts

- **DICJ has 4 accounts related to resolutions out of 9 accounts**

- **General Account**

- ◆ Provides financial assistance up to the amount of the insurance payout cost in the event of a failure of financial institution
- ◆ Insurance premium is currently 0.034% (flat premium system)

- **Crisis Management Account**

- ◆ Provide financial assistance beyond the insurance payout cost, which is shared ex-post by all financial institutions
- ◆ Crisis Management Measures are taken on an approval of the Prime Minister following deliberation by the Financial Crisis Response Council

- **Financial Revitalization Account**

- **Early Strengthening Account**

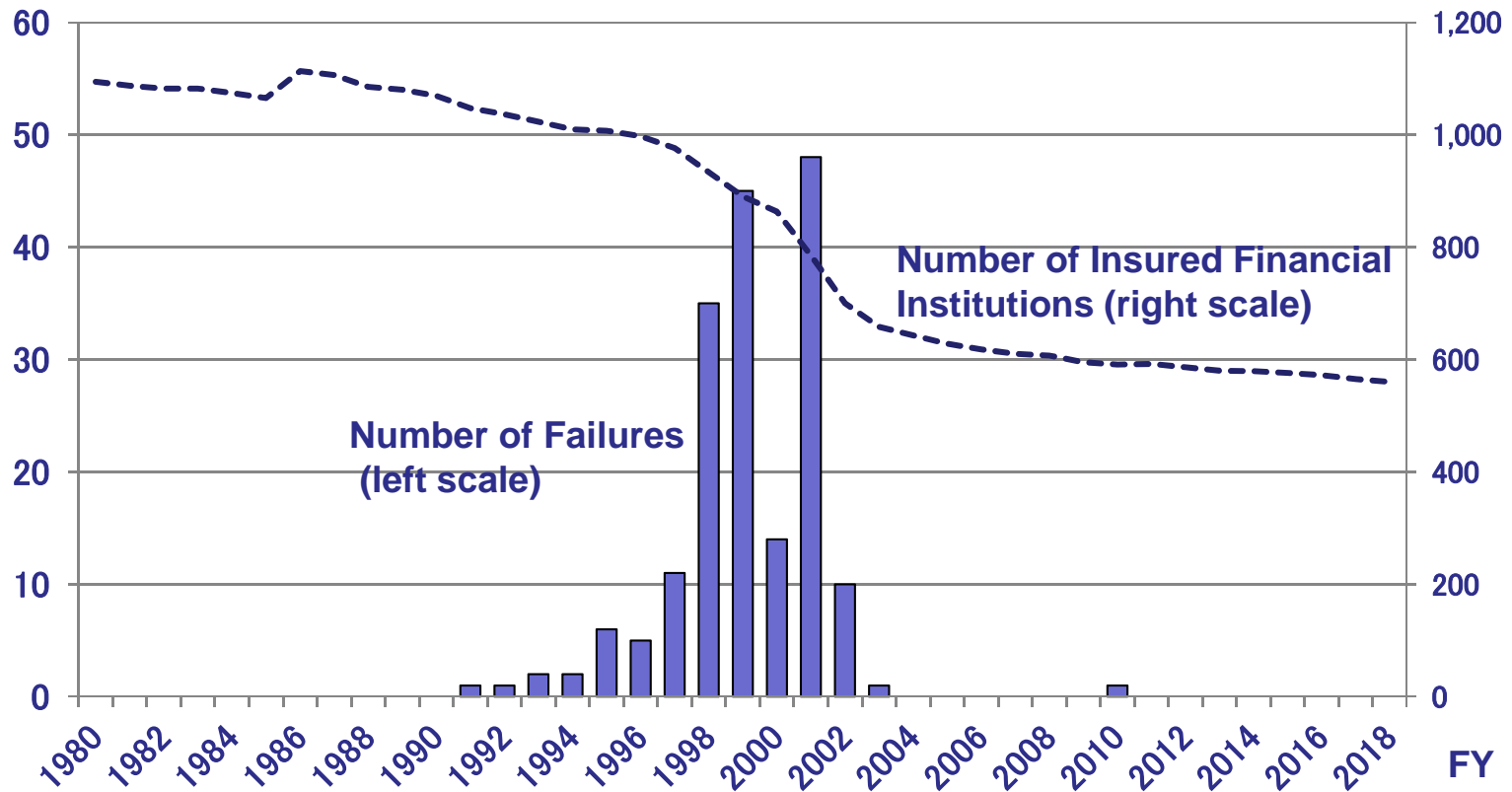




2-2. Number of Failures : History

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Number of failed and whole insured deposit-taking financial institutions

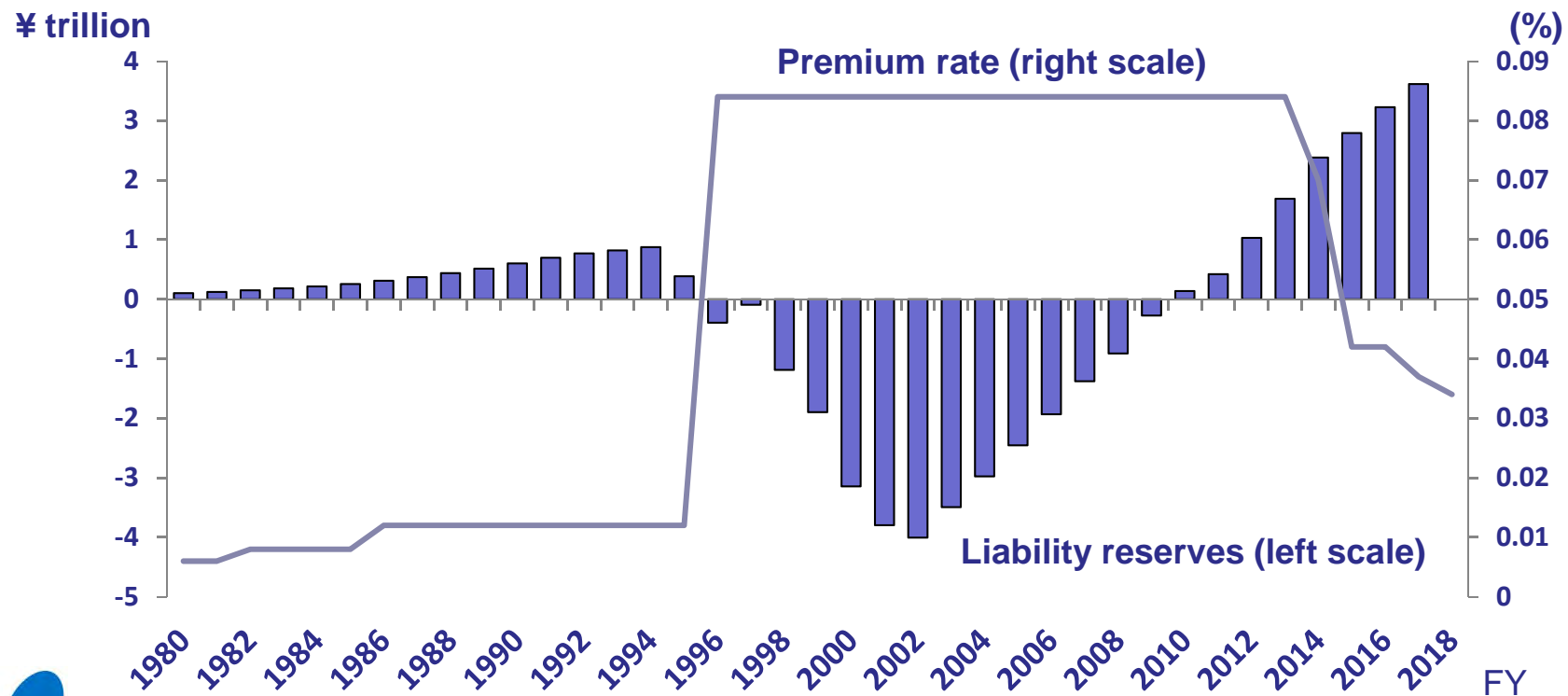




2-3. Developments of Liability Reserves

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- DICJ set a tentative target as ¥5 trillion to be reached at the end of FY2021 (end of March 2022). The reserves are ¥ 3.6 trillion at the end of March 2018.





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2-4. Funding & Investments

■ General Account

- ◆ Revenues are basically insurance premiums: 383 billion yen in FY 2017
- ◆ Outstanding amount of Reserves is 3.6 trillion yen or 33 billion U.S. dollars at the end of March 2018
- ◆ There is no bond issuance nor borrowings
- ◆ Government guarantee up to 19 trillion yen for bond issuance and borrowings is budgeted in FY 2018
- ◆ Reserves are put in the current account in the Bank of Japan

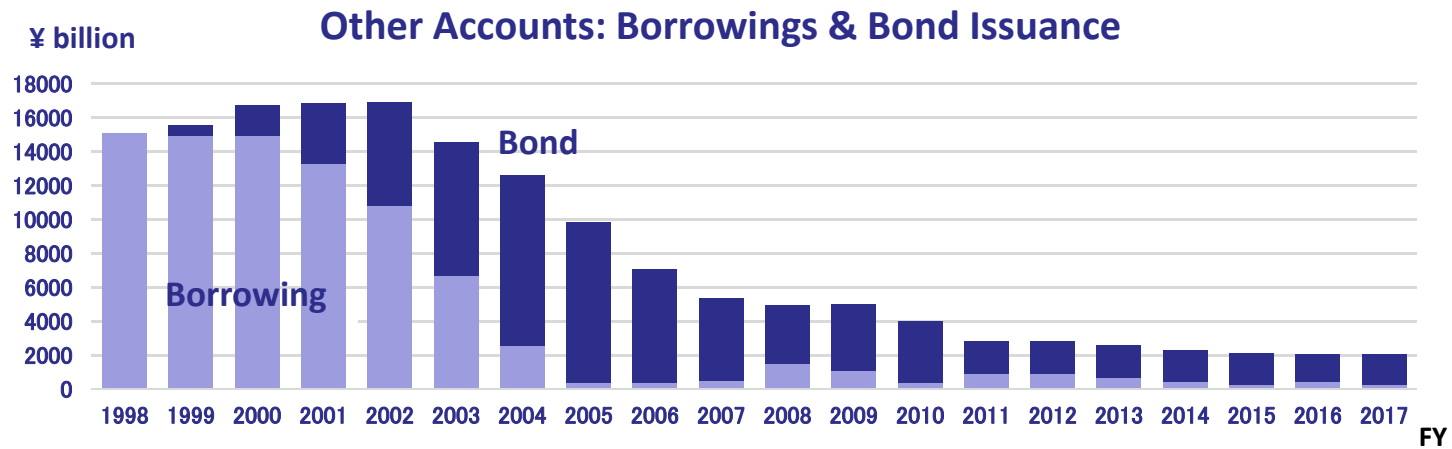
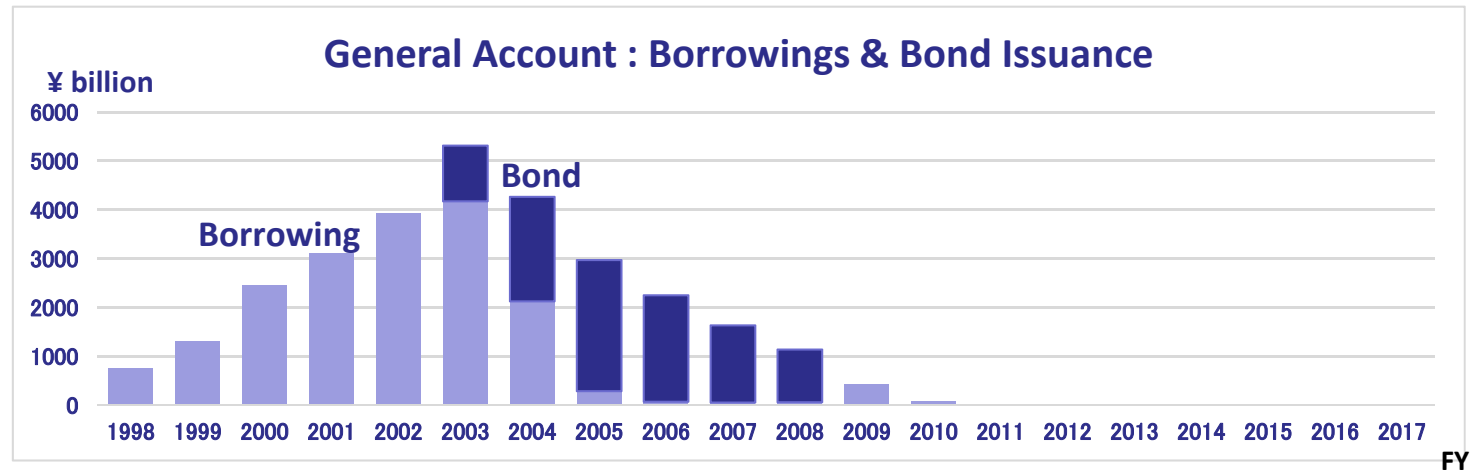
■ In other accounts, DICJ is issuing bonds in the market and borrowing from private financial institutions





2-5. Borrowings & Bond Issuance

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2-6. Compliance with Core Principles -1

■ Core Principle 9 : Sources and Uses of Funds

The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit insurance should be borne by bank.

◆ Essential Criteria 1

Funding for the deposit insurance system is provided on an ex ante basis. Funding arrangements are clearly defined and established in law or regulation.





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2-7. Compliance with Core Principles -2

◆ Essential Criteria 2

Funding the deposit insurance system is the responsibility of the member banks.

◆ Essential Criteria 3

Initial “start-up” or “seed” funding (e.g. from government or international donor organizations) is permitted to help establish a deposit insurer.

Any start-up funding provided by a government should be fully repaid before the deposit insurer reduces any or all bank premiums.





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2-8. Compliance with Core Principles -3

◆ Essential Criteria 4

Emergency funding arrangements for the deposit insurance system, including pre-arranged and assured sources of liquidity funding, are explicitly set out (or permitted) in law or regulation.

Sources may include a funding agreement with the government, the central bank or market borrowing.

If market borrowing is used, it is not the sole source of funding. The arrangement for emergency liquidity funding is set up in advance, to ensure effective and timely access when required.

◆ Essential Criteria 5

After establishing an ex ante deposit insurance fund:

- (a) the target fund size is determined on the basis of clear, consistent and transparent criteria, which are subject to periodic review; and
- (b) a reasonable time frame is set to achieve the target fund size.





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2-9. Compliance with Core Principles -4

◆ Essential Criteria 6

The deposit insurer has responsibility for the sound investment and management of its funds.

The deposit insurer has a defined investment policy for its funds that aims at ensuring:

- (a) the preservation of fund capital and maintenance of liquidity; and*
- (b) that adequate risk management policies and procedures, internal controls, and disclosure and reporting systems are in place.*

◆ Essential Criteria 7

The deposit insurer may hold funds in the central bank. The deposit insurer establishes and complies with rules to limit significant investments in banks.





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2-10. Compliance with Core Principles -5

◆ Essential Criteria 8

Where the deposit insurer is not the resolution authority, it has the option, within its legal framework, to authorize the use of its funds for resolution of member institutions other than liquidation.

◆ Essential Criteria 9

Should deposit insurer income/revenue (e.g. premiums received, recoveries from failed banks and interest accrued on investment funds) be taxed by the government, it is at a rate which is neither punitive nor disproportionate to other corporate taxation, nor unduly hinders the accumulation of the deposit insurance fund.

Any remittances to the government by the deposit insurer are limited to repayment of government-provided start-up funding and government-provided liquidity funding.





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2-11. Compliance with Core Principles -6

◆ Essential Criteria 10

If the deposit insurer uses differential premium systems:

- (a) *the system for calculating premiums is transparent to all participating banks;*
- (b) *the scoring/premium categories are significantly differentiated; and*
- (c) *the ratings and rankings resulting from the system pertaining to individual banks are kept confidential.*



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3-1. Issues for the Future -1

- **What should be the reserves' target once we will have achieved the current ¥5 trillion target (after Mar.2022) ?**
- **Is it appropriate to change the target form from an amount to a ratio?**
 - ◆ An amount target is fixed and easy to understand
 - ◆ IADI's survey shows most of jurisdictions adopt a ratio for a target
 - ◆ A ratio of funds to insured deposits or eligible deposits?
- **What would be the appropriate reserves' level (ratio)?**
 - ◆ IADI's survey shows that a target ratio in each jurisdiction is ranging from 0.25% to 15% (to insured deposits), and 0.825% to 5.7% (to eligible deposits)
 - ◆ There is no established standard theory to solve this question (?)





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3-2. Issues for the Future -2

- **Three possible methods to estimate a target**
- **Estimate the expected shortfall at the tail of distribution**
 - ◆ If we think expected losses should be covered by provisions, and unexpected losses should be covered by capital,
 - ◆ Should deposit insurance funds cover losses beyond the unexpected losses?
- **Estimate the default probability and the loss given default**
 - ◆ It is difficult to estimate the default probability of a financial institution which is not listed or has no credit ratings
- **Estimate the necessary amount of funds by using historical data**
 - ◆ In Japan, there is only one failure in the past 15 years



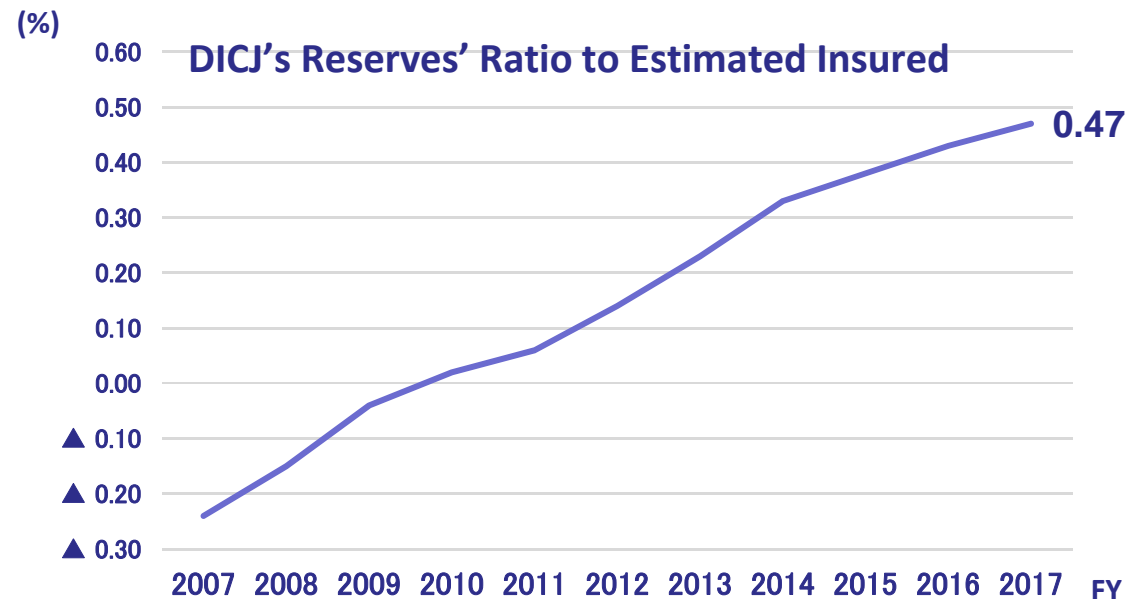


3-3. Issues for the Future -3

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■ Targets are widely varied from jurisdiction to jurisdiction

- ◆ U.S. achieved 1.35% of insured deposits and upgraded its target to 2%
- ◆ EU is encouraging member jurisdictions to achieve 0.8%
- ◆ DICJ's Reserves account for 0.46% of estimated insured deposits





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*Thank you very much
for your kind attention !*



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<https://www.dic.go.jp/english/index.html>

