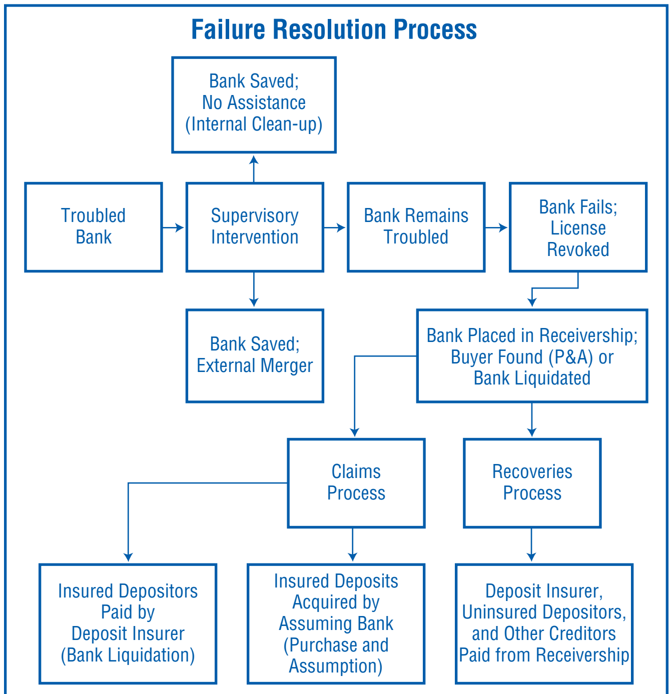
Feature Article:

A Guide to Processing Deposit Insurance Claims: A Cross-Country Perspective

A fundamental goal of most deposit insurance systems is to contribute to financial stability. However, establishing a deposit insurance system will not improve financial sector resilience unless depositors are confident that the system will work. Indeed, depositor confidence is key to preventing individual bank failures from escalating into a systemic banking crisis.

This article discusses the deposit insurance claims process, whereby insured depositors are reimbursed when a bank fails.[1] The article reviews the role of deposit insurers in a bank failure as well as their responsibilities in the claims process. It also reviews the basic tools that deposit insurers need to satisfy the claims of insured depositors (and others) and the procedures commonly followed in the claims process. Finally, the article explores the claims process of deposit insurers in Canada, the Philippines, the Russian Federation, and the United States.

Figure 1



Source: FDIC.

When a Bank Fails: The Deposit Insurer's Role

A number of steps are involved in winding up or liquidating the business and affairs of a failed bank.[2] First, the resolution authority determines a methodology for handling the failed bank. That methodology may include the purchase of some or all of the bank's deposits and assets by an acquiring bank, liquidation of the bank's assets, settlement of depositor and other claims under applicable laws, and disposition of pending or outstanding litigation.

In many countries, once a decision is made to revoke a bank's charter or license, the bank is placed into receivership.[3] A receiver may be appointed administratively or through a bankruptcy court.[4] The receivership process has two parts: recovering value from the failed bank's assets and paying claims (see Figure 1). The receiver sells the bank's assets and returns recovered funds to the bank's claimants according to established protocols on seniority. Claimants include depositors, general creditors, subordinated debt holders, and shareholders.[5] Claims against the receivership may also arise

[1] For a more in-depth discussion of the claims process, see "Reimbursing Depositors" and "Claims and Recoveries," Financial Stability Forum (FSF) Working Group on Deposit Insurance Discussion Papers, September 2001.

[2] The processes discussed in this article are generally applicable to most deposit insurance systems; however, specific features of the claims process will reflect the laws and customs of the specific country.

[3] In some countries, a bank's charter or license will not be revoked until the affairs of the bank have been wound up, and some countries do not have a formal receivership process.

[4] In most countries, bank failures are administered by the court system through the bankruptcy process. A third party that is not a creditor of the failed bank is appointed as the receiver or bankruptcy trustee. In a few countries, however, the deposit insurer may be appointed as receiver operating under the judicial process. In still others—notably the United States and the Philippines—the deposit insurer is appointed as receiver and operates through an administrative process.

[5] General creditors include vendors, suppliers, and contractors of the failed bank; employees; and lease holders. A claims priority, established in law, determines the order in which claimants are paid from the receivership. For example, in the United States depositors are given preference over other claimants. This allows the Federal Deposit Insurance Corporation (FDIC), standing in the place of insured depositors, and uninsured depositors to be paid from the liquidation of the failed bank's assets before the general creditors.

from legal actions by or against the insolvent bank and from financial assistance provided to the bank by the deposit insurer or others prior to failure.

Insured depositors in many countries subrogate their claims against the receivership to the deposit insurer when a failed bank is liquidated. Accordingly, the deposit insurer becomes the claimant against the receivership, acting in place of the insured depositors. The deposit insurer reimburses depositors, up to the level of their insured deposits, for the funds that are covered by deposit insurance. In doing so, the deposit insurer bears the time and recovery-rate risks of the receivership process.[6]

In addition to insured depositor claims, the deposit insurer may be responsible for processing other claims—that is, gathering information on the monies owed and filing the paperwork with the receiver or bankruptcy administrator. Any excess funds that are recovered from the sale of the bank's assets are then distributed to those claimants, as appropriate, according to applicable laws.

The methodology used to resolve a failed bank determines the scope of the claims process. For example, in a purchase and assumption transaction (P&A), all deposits, secured liabilities, and good assets (typically cash and cash equivalents) of the failed bank are transferred to an acquiring bank. If the good assets are insufficient to cover the failed bank's deposit liabilities, the deposit insurer adds enough cash or bonds to make the depositors whole. The acquiring bank may take other assets as well. A whole bank P&A transaction greatly reduces the work involved in the claims process, as it is not necessary to make an insurance determination.

Making the Claims Process Efficient and Effective

A number of factors contribute to efficient and effective claims processing. First, the scope and level of deposit insurance coverage must be clearly defined in law and well understood by the public.[7] The public must be aware of the institutions, products, and types of accounts covered by deposit insurance; the amount of coverage; and adjustments that may be made to that coverage. (Coverage adjustment calculations may involve account consolidation or the offset of loans against deposit balances.) A well-designed deposit insurance system will provide the information that is necessary for an orderly and fair claims process. For example, laws in some countries require that depositors be ranked ahead of other claimants in the distribution of the failed bank's assets.[8] That is, depositor claims are paid first out of the funds recovered as the bank's assets are liquidated. The priority for paying insured depositors must be transparent to instill confidence in the insurance system. As such, this information should be available to depositors and other creditors when they place their funds in the bank.

The deposit insurer also must be adequately funded to ensure that payments to insured depositors are made in a timely manner and to maintain public confidence in the value of the insurance guarantee. In practice, many deposit insurance systems have access to more than one source of funding. The most common source of ready money is a deposit insurance fund, which typically is built up from assessments paid by member banks and accumulated interest on the fund balance. The authority to borrow from the government or the private sector often provides a backup source of funds. Assessments can also be charged to the banking industry after a bank failure.

An efficient claims process also requires that information systems and human resources be readily available to the deposit insurer. Also, because communication among authorities involved in the claims process is crucial, the deposit insurer must foster strong working relationships with the supervisory authority, other relevant safety-net players, and the receiver to ensure the cooperation necessary for a timely, accurate, and efficient payout of insured depositors. The deposit insurer must develop detailed procedures to implement when an insured institution fails. These procedures must clearly delineate the deposit insurer's responsibilities as well as a schedule for claims processing.

Finally, the deposit insurer should possess efficient systems for processing claimant information and making monetary distributions. The claims process involves aggregating the monies belonging to an individual depositor housed in separate accounts for the purpose of determining insured balances. Further, in some cases deposit insurance is provided on the basis of the different rights and capacities in which the funds are held;

[6] The rights of insured depositors to file claims against the receivership are taken on or subrogated by the deposit insurer. In other words, it becomes the duty of the deposit insurer—not the insured depositor—to file a claim against the receivership.

[7] For a discussion of the elements of a well-designed deposit insurance system, see Blair, Carns, and Kushmeider (2007); and FSF Working Group on Deposit Insurance (2001).

[8] For example, Title III of the Omnibus Budget Reconciliation Act of 1993 established national depositor preference for all insured depository institutions in the United States.

The Claims Process: Basic Procedures

The deposit insurer should establish the necessary systems to process the claims of insured depositors and, if responsible, of uninsured depositors and other claimants. If necessary, an appeals process should also be established.

As part of preclosure preparatory work, the deposit insurer should, whenever possible,

- Receive notification about a possible failure and collect preliminary deposit data or receive information from the primary regulator,
- Gather information about the institution's data system(s), and
- Pre-position claims-processing staff.

After an insured institution is closed, the deposit insurer should

- Notify the public and depositors of reimbursement procedures;
- Secure information on depositors (and on other claimants, if responsible) and determine the insurance status of each depositor by
  - Downloading the institution's deposit information into the deposit insurer's processing systems,
  - Reviewing incoming transfers and determining whether they arrived prior to the institution's closure,
  - Drawing up individual deposit statements showing principal and interest as of the closing date and then sorting them to determine ownership,
  - Identifying the excluded depositors or accounts, verifying the rights of trustees and beneficiaries, and clarifying any fiduciary relationships,
  - Performing the interest calculations on deposits according to the statutory provisions, and
  - Posting account statements to the general ledger and balancing to ensure accuracy;
- Determine if any deposits are to be set off against outstanding loans or if any deposits are used as collateral;
- Make adjustments, as appropriate, for any insured deposits that are held in foreign currencies;
- Examine proof of insurance, if needed; and
- Keep records of all reimbursements made to depositors for verification and auditing purposes.

Follow-up tasks may be required, such as

- Submitting the reimbursement process to an independent auditor,
- Submitting the deposit insurer's claim as creditor of the closed institution to the liquidator in compliance with the subrogation rules, and
- Locating depositors whose reimbursement was unsuccessful during the normal process.

that is, deposit insurance is provided to the ultimate beneficial owner of the account, regardless of how the account may be titled. These are complex processes that require specialized systems to ensure depositors are paid in a timely fashion.

The Claims Process: How Depositors Are Reimbursed

Efficient and timely claims processing requires extensive planning and preparation by the deposit insurer. Determining who should be reimbursed and ensuring that insurance limits are respected are the most crucial and time-consuming steps (see text box).

Legislative or other provisions in a number of countries allow the deposit insurer to prepare for closure at institutions that appear *likely* to fail—often known as *preclosure planning*.[9] During the preclosure planning phase, the bank's primary regulator notifies the deposit insurer of a possible failure and provides the insurer information about the failing bank. Deposit insurers also collect preliminary deposit data and information about the institution's data system(s) and pre-position staff in preparation for the closing.

Granting the deposit insurer access to, or control of, deposit data before a bank is closed helps to ensure that legitimate claims are paid promptly and lessens the risk of account misrepresentation. However, advance notice

[9] For example, in the United States, the FDIC, which insures bank and thrift deposits, generally is given at least 90 days' notice before an insured institution is closed. If no financial institution can be found to assume the deposits during this period, the FDIC makes plans to pay depositors the full amount of their insured deposits.

in a number of countries is not possible.[10] Accordingly, the deposit insurer cannot begin the insurance determination process until after the institution has been closed, delaying payment to insured depositors (and the bank's other creditors). The longer the period between closure and the deposit insurer's access to the institution's records, the greater the risk that manipulation of the institution's data might occur. This could result in the inability of the deposit insurer to sort out depositors with legitimate claims from those seeking protection of funds that were not legally insured.

Regardless of how a bank closing is handled, a deposit insurer needs to know when to start and when to complete the claims process. Likewise, depositors (and other claimants) need to know when and how they can expect to receive their funds. In many instances, insured depositors do not have to take any action to receive their reimbursement—once the bank's records are processed, the insurer distributes depositor funds. In other cases, however, insured depositors must file a claim and show proof of ownership or identification before being reimbursed. In addition, an appeals process may need to be established, and the deposit insurer may need to process claims and payments for uninsured and nondepositor claimants if it is also acting as the receiver. To reduce the loss of public confidence in the insurance guarantee, depositors must be made aware of any actions that affect their insured deposits—such as the need to file a claim and how to do so—and when they can expect to be reimbursed.

A deposit insurer should have clearly established procedures for determining deposit and other account balances in the event of failure. Over the course of any business day, a depositor's account balance may be affected by debit or credit transactions. Transparent rules should be in place indicating how the bank's business on the day of failure will be closed out to arrive at deposit balances used for insurance determination purposes.

To begin reimbursing insured depositors (and if responsible, processing other claims) as soon as possible, the deposit insurer needs to secure depositor and other claimant information immediately after an institution is closed. The deposit insurer does this by completing the following activities:

- Downloading deposit information
  - Cleansing the data and reconciling them to the bank's general ledger and supporting subsidiary systems
  - Inputting the deposit data into the insurer's processing systems
- Identifying depositors and determining insurance coverage
  - Preparing and sorting individual account statements showing principal and interest as of the closing date to determine ownership
  - Grouping depositors with multiple accounts and preparing a combined account statement
  - Sorting the combined account statement to show the rights and capacities allowed under deposit insurance laws
  - Identifying excluded depositors or accounts

Any deposits that are to be offset against outstanding loans or that are used as collateral require special treatment according to the laws and regulations in effect. The deposit insurer makes appropriate adjustments for any insured deposits that are held in foreign currencies. In many cases, the deposit insurer will simply convert a deposit held in a foreign currency to the domestic currency at the appropriate exchange rate. In other cases, the deposit insurer may have to pay the depositor in the foreign currency.

The last step before reimbursement is preparing a settlements claim statement specifying the amount to be paid by the deposit insurer and claimed from the receivership. At this point, the deposit insurer is prepared to reimburse insured depositors, provided there are sufficient funds to do so. The deposit insurer can then require identification or other documentation, if needed, and issue checks or implement other means of payment. The insurer must keep a record of all reimbursements made to depositors for verification and auditing purposes.

In some instances, the deposit insurer takes certain follow-up steps after the reimbursement is complete. For example, the insurer may need to submit the reimburse-

[10] In many countries, the decision to close an institution rests with the supervisory authority, which will either suspend or withdraw the institution's license or charter. In other countries, the process of closing an institution may be initiated by the supervisor or deposit insurer, but must be approved by a court. In still other countries, the deposit insurer is restricted by strict bank deposit secrecy rules from gathering information before closure.

ment process to an independent auditor, especially if the procedures implementing the regulations and supporting software were not audited before use. In some cases, the deposit insurer will also need to submit its claim as creditor of the closed institution to the liquidator in compliance with the subrogation rules specifying the amounts reimbursed and the indemnification obligation.

The Claims Process: Canada, the Philippines, the Russian Federation, and the United States

The steps discussed above present a general framework for the deposit insurance claims process. However, deposit insurers use a variety of tools and processes to reimburse insured depositors. The remainder of this article examines the claims process of four deposit insurers: the Canada Deposit Insurance Corporation (CDIC), the Philippines Deposit Insurance Corporation (PDIC), the Deposit Insurance Agency (DIA) of the Russian Federation, and the Federal Deposit Insurance Corporation (FDIC) in the United States. (Select characteristics of each country's claims process can also be found in Table 1.)

Canada

The CDIC maintains a deposit insurance fund that is supported by premiums paid by member institutions. In addition, the CDIC has access to government funds and may borrow in the financial markets. The CDIC has staff dedicated to the claims process, but it sometimes calls upon external consultants to do the detailed accounting and information systems work related to the claims process.

The CDIC coordinates its activities with Canada's bank supervisory agencies (the Office of the Superintendent of Financial Institutions (OSFI) and provincial supervisory agencies). The CDIC board of directors includes OSFI and other safety-net players (the Bank of Canada, the Department of Finance, and the Financial Consumer Agency of Canada). The *Guide to Intervention for Federal Financial Institutions*, which was jointly developed and published by the CDIC and the federal bank regulator, provides a framework for responding effectively to circumstances that could lead to the instability of a financial institution. Given the close working relationships between the CDIC and these safety-net players, the CDIC is fully informed of the potential for a bank's closing.

Before a closure, the CDIC conducts special and preparatory examinations, assesses potential resolution strategies, and secures the necessary funding to undertake its preferred resolution strategy.[11] The CDIC begins to verify, reconcile, and settle insured deposit accounts immediately after a bank is closed. Deposits are paid out "as soon as possible," with one to three months being the average period from the date of closing to payment. During this period, depositors can request advance payment(s) of their insured deposits. These requests are checked against the bank's records, and the CDIC approves or disapproves the request.

The CDIC has developed extensive processes and procedures to verify, reconcile, and settle insured deposit accounts. The CDIC calculates interest and pays all eligible deposits up to the application date of the court-approved winding-up order. The CDIC relies on the books and records of the failed member institution; depositors do not have to file a proof of claim. The CDIC obtains final data from the failed bank at the time of closure and reconciles the eligible deposit balance information from its insurance determination process to the bank's sub ledgers and general ledger. Depending on the completeness and accuracy of the bank's records, this process can be quite time-consuming.

Before making a payout, the CDIC identifies depositors whose payments should be withheld because of an offsetting loan balance or other reasons. Payments can be made in the form of a check or by transfer of the deposit to another member institution. The CDIC obtains an independent audit of the payout for control purposes and to support its proof of claim submitted to the liquidator of the estate.

The CDIC reviews the bank's records to identify depositors with multiple accounts and combines those accounts to determine the total amount that will be paid. If the combined deposit balance exceeds the insurance limit, the CDIC confirms the depositor's identity by referring to the bank's original records. This ensures the appropriate aggregation of depositor accounts and mitigates the risk of over- or underpayment of deposit insurance.

Shortly after a bank is closed, the CDIC sends a letter to depositors outlining the process and anticipated timing of the reimbursement. A second letter is sent detailing whether deposits will be transferred to another institution or whether depositors will be reimbursed by check. Finally, a customer statement is prepared and mailed to all depositors when their account balances are reimbursed.

[11] This work helps put CDIC in a payout-ready mode with the information it needs on systems and access to data.

Table 1

Characteristics of the Deposit Insurance Claims Process

	Canada	Philippines	Russian Federation	United States
Deposit insurer	Canada Deposit Insurance Corporation	Philippines Deposit Insurance Corporation	Deposit Insurance Agency	Federal Deposit Insurance Corporation
Year established	1967	1963	2004	1933
Mandate	• Deposit insurer	• Deposit insurer • Co-regulator of banks • Receiver and liquidator of closed banks	• Deposit insurer • Liquidator of banks that take household deposits	• Deposit insurer • Supervisor of state-chartered banks • Receiver and liquidator of closed banks
Funding • Primary source • Secondary source(s)	• Ex ante deposit insurance fund • Member premiums • Government funds • Borrowing authority from markets	• Ex ante deposit insurance fund • Member premiums • Government capital contribution • Borrowing authority from the central bank and certain private sector banks	• Ex ante deposit insurance fund • Member premiums • Government capital contribution • Limited authority to borrow from the government	• Ex ante deposit insurance fund • Member premiums • Line of credit with the U.S. Treasury • Authority to borrow from the Federal Financing Bank and insured institutions
Staffing	External consultants and CDIC staff	PDIC staff	DIA staff and/or selected agent banks	FDIC staff
Number of failed insured institutions since inception, as of year-end 2007	43	473*	Not available	2,237
Other features				
• Advance notice of failure	Yes	Yes	No	Yes
• Advance access to deposit records	Yes	No (bank secrecy laws)	Access required within seven days of bank closure, but DIA may have advance access in some cases	Yes
• Prompt corrective action letter	No	Yes	Yes	Yes
• Deposit insurer named receiver of failed bank	No	Yes	Yes	Yes
• Payouts begin	Within one to three months, on average	Within nine days of bank closure	No later than 14 days after bank closure	Following business day
• Form of payouts	Check or deposit transfer	Cash or deposit transfer	Cash or deposit transfer	Check or deposit transfer
• Claim by depositors required	No	Yes, identification required	Yes, application and identification required	No
• Depositor notification	By letter	Register of Estimated Insured Deposits, national and local media announcements	By letter, local newspapers, and *Bank of Russia Bulletin*	By letter

* Number of banks closed from 1970 to 1997.

Source: FDIC.

The Philippines

The PDIC maintains a deposit insurance fund that is supported by premium assessments paid by member banks. Funding is also provided by the Philippine government through paid-in capital. The PDIC is authorized to borrow from the Philippine central bank and, if necessary, from certain private sector banks. With the approval of the country's president, the PDIC may issue bonds or other obligations to pay insured depositor claims.

A distressed bank may request financial assistance from the PDIC. If the bank meets certain conditions—for example, if the continued operation of the bank is needed to provide adequate banking service in the community or to maintain financial stability in the economy—the PDIC may provide assistance. When rehabilitation is unlikely to resolve the bank's problems, however, the Monetary Board of the central bank may order the bank closed. The PDIC automatically becomes the receiver and begins the payout process. Because a bank deposit secrecy law is in effect, the PDIC can obtain deposit records only upon closure or takeover of the bank, in which case the PDIC is notified and immediately takes charge of the bank's assets and liabilities.

The PDIC's Claims Processing Department handles claims for payment of insured deposits. Staff in this department checks for compliance with documentary requirements, validates supporting documents, and approves or denies claims. This department also determines the funding requirements for a payout and settles claims by either check or cash.

The PDIC follows a self-imposed deadline of making payouts within nine days of a bank takeover. Before making payouts, the PDIC conducts a presettlement examination in which outstanding and insured deposits are identified by bank documents and records. Next, the PDIC establishes the validity of deposit accounts and tracks the inflow of funds. Then, it generates a Register of Estimated Insured Deposits, which becomes the basis for the claims process to begin. Depositors file a claim, and a claims agent verifies that they are the rightful owners by requiring basic documents, such as a passbook or bank statement and valid customer identification, according to established guidelines.[12]

[12] Valid identification includes affidavits of ownership of accounts and birth certificates, among others.

The PDIC pays insured deposits after the validity of the claim is established. A claim is normally processed and paid on the same day it is filed, except in cases where the bank's records are inaccurate or inadequate, or the claimant is unable to provide the required documentation.

The PDIC completes initial servicing or payout of claims at the bank within two to three weeks after the closing/takeover. Thereafter, acceptance and servicing of claims is continued at the PDIC office. Depositors have two years from the bank closing date to file their claims.

The Russian Federation

In the Russian Federation, the DIA is funded by capital contributed by the government and by assessments paid by member institutions. The DIA may conduct the payout process using its own dedicated staff or may use an agent bank selected on a competitive basis. The DIA has preestablished agreements with banks that are accredited to conduct the payout process.

Banking licenses are granted and revoked by the Central Bank of Russia (CBR), which regulates and supervises banks. Banks are declared insolvent by a bankruptcy court (the arbitration court), which also appoints a receiver for the failed bank. The DIA is named receiver when banks that accept household deposits fail.

The CBR is not required to notify the DIA of a potential bank closure; however, the DIA is informed when prompt corrective action measures are taken against an institution. Once the CBR revokes the bank's license, the DIA must be notified no later than the following business day. Often this means that the DIA receives official information about a bank's closure at the same time as the public. However, upon mutual agreement with the CBR, DIA staff may be included in the temporary administration of the bank preclosure and thus gain quicker access to the information.

By law, within seven days from the bank's closure, the DIA must receive a register of the bank's depositors that lists the deposits and other liabilities of the bank. Once the DIA receives this information, it sends letters to all eligible depositors describing the procedure for filing claims and the location, timing, and form of reimbursement. The DIA also publishes information on the payout process in local newspapers and the *Bank of Russia Bulletin*.

Payouts are required by law to start no later than 14 days from the date a bank is closed. Payment calculations are made on the basis of the register of depositors. Adjustments are made if a depositor has borrowed funds from the bank. In such cases, the amount borrowed is deducted (set off) from the aggregate of all deposits. If aggregate deposits exceed the coverage limit but the deduction for borrowings brings the sum below the insurance limit, the full amount of the net deposits is paid.

Depositors can file their claims immediately after the bank is closed. To receive payment, a depositor must submit a claims application and identity documents. Once the paperwork is submitted, the DIA has three days to make the payout. Payments can be by cash or funds transferred to an account specified by the depositor. The depositor also receives a reference document with information about the accounts that were paid.

Eligible deposits made in a foreign currency are covered, but the reimbursement is made in rubles. To calculate the amount of the deposit, the DIA uses the exchange rate set by the CBR as of the day the bank fails. A depositor who files a claim that exceeds the coverage limit is paid an amount equal to the coverage limit. The remaining claim is recorded in a claims register, which is used to track deposits and other claims that are not covered by deposit insurance. These claims are paid from the proceeds of the receivership on a pro rata basis. Household depositors and the DIA (as the holder of subrogated claims) have first priority on the assets of the receivership.[13] The claims register closes out no earlier than 60 days after a failed bank's receiver publishes information on the court decision declaring a bank insolvent.

The United States

The FDIC's primary source of funding comes from premiums paid by member banks to a deposit insurance fund. Additional funding is available through a line of credit with the U.S. Department of the Treasury. The FDIC also has the authority to borrow from the Federal Financing Bank and insured depository institutions.

The FDIC's Division of Resolutions and Receiverships performs both the claims and receivership functions when a bank fails. To prepare for a bank closing, the FDIC reviews the institution's financial and operational information to determine the number of staff likely to be needed. A claims agent is appointed to lead the claims process. Before the closing, FDIC staff learns as much as possible about the failing bank by reviewing bank deposit records and making preliminary insurance determinations.

On the day of the closing, claims staff assembles to make final payout determinations. If all of the deposits in the failed bank are not sold to an acquiring institution, staff conducts an insurance determination to identify which deposits are fully insured.

During a typical bank closing, the FDIC takes possession of the premises and records of the bank and then determines the insured status of deposits. Since the FDIC is also the receiver of the bank, it processes the claims of uninsured depositors and other claimants. The payment to insured depositors and the processing of claims that exceed the insurance limit begin the next business day after closure. In general, most banks are closed on a Friday, and depositors have access to their insured deposits on Monday.

Over the closing weekend, the final insurance determination must be made. Staff locates and aggregates deposit accounts that are related by name, address, or tax identification number. Then, ownership rights and capacities are determined and the insurance limit applied. A combined account statement for depositors with multiple accounts is prepared.

In a payout, deposit amounts identified as fully insured are either passed to an agent bank in an insured deposit transfer or paid to depositors in the form of a check mailed to the depositor's address of record. If an account appears to exceed the coverage limit or if other questions exist, the FDIC contacts depositors directly; additional information may be required before the full claim is paid. The FDIC relies primarily on the records of the bank to determine the status of depositor claims. Insurance payments are available to depositors for 18 months, after which time all remaining unclaimed funds are escheated with the appropriate state. The state can attempt to locate the depositors for ten years before the funds revert to the FDIC.

As receiver of the failed bank, the FDIC is also responsible for notifying general creditors of the bank's failure and paying their claims to the extent that funds remain after depositors are paid. The FDIC follows a standard-

[13] According to the Russian Deposit Insurance Law, insured deposits are paid from the DIA's own resources. All other creditors are paid from the bankruptcy estate according to the established priority of claims on a pro rata basis.

ized receivership claims process, which requires that a notice be placed in a local newspaper for three consecutive months and an individual notice be mailed to creditors on the books and records of the failed bank. Creditors may file a claim within the time frame provided in the notice—usually 90 days from the date of the notice. A determination regarding the validity of the claim is made, and if sufficient funds are recovered, the general creditors are reimbursed in whole or in part by the FDIC. If no funds are available for immediate distribution, the claimant gets a receivership certificate showing entitlement to a share in the receivership estate.

Staff also identifies depositors with delinquent loans. The FDIC may have the right to set off the accounts of these depositors. In addition, customers who have uninsured deposits may apply to have their loan balances reduced by the amount of their uninsured deposits.

Conclusion

The capacity to manage the claims process for a failed bank efficiently is an essential function of an effective deposit insurance system. It involves satisfying insured depositors and often liability holders who have bona fide claims against the bank.

The primary purpose of a deposit insurance system is to protect the interests of insured depositors in the event of a bank failure. Despite international differences in the deposit insurance claims process, most nations share a core set of processes for managing claims. A successful claims process ultimately depends on having the necessary resources and developing consistent strategies within the country.

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The authors wish to thank Paul Kupiec and Jack Reidhill of the FDIC's Division of Insurance and Research and James Marino of the FDIC's Division of Resolutions and Receiverships for their advice and comments. They also thank the deposit insurance agencies in Canada, the Philippines, and the Russian Federation for supplying data and descriptions of their systems.

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