

## GLOSSARY

**adverse selection** - The tendency for higher-risk institutions to opt for deposit insurance and lower-risk institutions to opt-out of deposit insurance when membership in a deposit insurance system is voluntary.

**bank runs** - A rapid loss of deposits precipitated by fear on the part of the public that a bank may fail and depositors may suffer losses.

**benchmark** - A standard or rule to which other items or processes can be compared.

**blanket guarantee** - A declaration by the government that all deposits will be protected.

**bridge bank** - A temporary bank established and operated to acquire the assets and assume the liabilities of a failed institution until final resolution can be accomplished.

**coinsurance** - An arrangement whereby depositors are insured for a portion less than 100 percent of their deposits.

### **collateralization**

**conservatorship** - The legal procedure provided by statute for the interim management of financial institutions.

**contagion effect/systemic risk** - The spread of bank runs to multiple financial institutions.

**corporate governance** - The processes, structures, and information used for directing and overseeing the management of an organization .

**debt management** - The control of maturities and timing of issuance for securities by business or government.

**deposit payoff** - A resolution method for failed institutions that involves the reimbursement of deposits and the transfer of the bank's assets to a receiver for liquidation.

**depositor preference** - The granting of preferential treatment to depositors such that their liabilities must be paid in full before remaining creditors can collect on their claims.

**differential premium/risk-based premium** - A levy on an institution assessed on the basis of that institution's risk to the deposit insurer. .

**disclosure** - A fact, condition, or description that is revealed clearly and publicly..

**ex-ante funding** - The accumulation of a fund in anticipation of the failure of insured institutions.

**ex-post funding** - The assessment of premiums after the failure of an insured institution to provide funds for the disposition of the failed institution.

**financial safety net** - Comprises the deposit insurance function, prudential regulation and supervision, and the lender-of-last-resort function.

**flat-rate premium** - A premium assessed at a uniform rate across all insured institutions.

**forbearance** - To grant an extension of time to certain distressed institutions from minimum regulatory requirements.

**internal-control systems** - A system of objectives and controls designed to provide for the safeguarding of assets and the reliability of financial records.

**least-cost resolution** - A procedure that requires the deposit insurer or other designated entity to implement the resolution alternative that is determined to be less costly than all other resolution alternatives, including the liquidation of the failed institution.

**lender-of-last-resort function** - The provision of liquidity to the financial system by a central bank.

**limited-coverage deposit insurance** - A guarantee that the principal and the interest accrued on protected accounts will be paid up to a specified limit.

**mandate** - The set of official instructions given to an organization to perform its tasks.

**market discipline** - A situation where depositors or creditors assess the risk characteristics of a bank and act upon such assessments to deposit or withdraw funds from the bank.

**moral hazard** - The incentive for increased risk-taking that is present in most insurance contracts and arises from the fact that parties to the contract are protected against loss.

**netting arrangements** - In some countries, the reduction of an accountholder's insured deposits by the amount of outstanding loans in a failed institution. In other countries, the reduction of an accountholder's outstanding loans by the amount of deposits above the coverage limit.

**open-bank assistance** - A resolution method in which an insured bank in danger of failing receives assistance in the form of a direct loan, an assisted merger, or a purchase of assets.

**paybox** - A deposit insurer with powers limited to paying off the claims of insured depositors.

**purchase-and-assumption transaction** - A resolution method in which a healthy insured institution purchases some or all of the assets and assumes some or all of the deposit liabilities of a failed institution.

**rebate** - The return of part of a payment, representing some deduction from the full amount previously paid.

**receivership** - The legal procedure for winding down the affairs of an insolvent institution.

**recovery rate** - The ratio of net collections to the book-value of an institution's assets.

**regulatory discipline** - The establishment of regulations covering, for example, the establishment of new banks, minimum capital requirements, qualifications of directors and managers, business activities, and risk-management systems that help prevent excessive risk-taking by insured institutions.

**reinsurance** - The assumption by another party of part or all of the risk held by the deposit insurer.

**resolution** - The disposition plan for a failed institution.

**resolution costs** - For a given resolution method, the sum of the expenditures and obligations incurred, including any immediate or long-term obligations and any direct or contingent liabilities for future payment, net of recoveries on assets of the failed bank.

**risk-minimizer** - A deposit insurer with powers to reduce the risk it faces.

**set-off** - The netting of an accountholder's assets and liabilities in a failed institution.

**subordinated debt** - A debt instrument that ranks lower than another instrument in the priority of its claim on the issuer's assets.

**supervisory discipline** - Actions taken to monitor the performance of banks, require that banks take corrective action promptly, and close nonviable institutions.

**systemic risk** - Risk associated with the general health or structure of the financial system that would have serious adverse effects on economic conditions or financial stability.

**too big to fail** - The practice of protecting uninsured depositors, creditors, and others from loss when large banks fail.

**working capital** - The current funds available to administer the deposit insurance function.

**workout** - The making of special repayment arrangements in light of likely or actual default on a loan.