

PUBLIC AWARENESS

Abstract

Public information and awareness are factors often overlooked in deposit insurance system design. For a deposit insurance system to be effective, it is essential that the public be informed about the benefits and limitations of the system. Public awareness is particularly important for newly established deposit insurance systems. Although the costs of ensuring that the public is informed may be considerable, the need for public awareness should not be underestimated.

Many countries with established systems have widely publicised the terms and conditions of deposit insurance coverage to ensure that depositors are aware of the systems in place to limit the probability of runs in the event of the failure of an insured institution. It also is important to make sure that depositors are aware of coverage limitations in terms of amounts and types of accounts covered in order to avoid the presumption that all deposits and other financial products are protected.

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Public information and awareness often are overlooked in the design of a deposit insurance system. In order for a deposit insurance system to be effective, it is essential that the public be informed about the benefits and limitations of the system. Public awareness is particularly important for newly established deposit insurance systems or when an existing system undergoes a significant change. Although the costs of ensuring that the public is informed may be considerable, the need for public awareness should not be underestimated.

This paper discusses the role that public awareness plays in contributing to an effective deposit insurance system.¹ It identifies the objectives of a public-awareness program and the target audiences that may need to be reached. Other features of a public-awareness program that are discussed include what information needs to be communicated, which communication techniques are effective, and what lessons have been learned with respect to promoting public awareness.

Background

The need for public information and awareness stems from the unique intermediary role played by depository institutions. Research studies that have focused on the special role of depository institutions have stressed the ability of such institutions to fund illiquid assets with highly liquid liabilities. This liquidity-transformation function, which enables depository institutions to provide useful services, however, is also the source of depository institutions' susceptibility to destructive deposit runs.

The belief that a run will occur can be self-fulfilling. If depositors are uncertain whether their funds are safe, there is a greater likelihood that they will withdraw their funds when problems or the perception of problems develop at a depository institution. If withdrawals occur in sufficient number and scale, a run may ensue and even spread to other institutions. The result is that economic activity is affected adversely. If runs become widespread, there may be a contraction in the economy overall. As discussed below, a well-designed public-awareness program can reduce the likelihood that depositors will withdraw their funds when problems develop at an insured institution.

Objectives of a Public-Awareness Program

The effectiveness of a public-awareness program is tested when institutions fail or there is a wave of failures. In times of financial stress, countries can least afford to discover that the public is not adequately informed about the features of the deposit insurance system. Thus, it is important to craft a public-awareness program as soon as possible after the decision is made to establish a deposit insurance system. It also should be noted

¹ The Subgroup includes representatives from Jamaica (coordinator), Hungary, Japan, Mexico, and Philippines.

that efforts to inform the public about deposit insurance should be viewed in a long-term context. As discussed below, experience has shown that the characteristics of the deposit insurance system need to be publicised regularly so that the credibility of the system is strengthened and maintained.

A public-awareness program can be designed to achieve several objectives. First, a well-designed program can disseminate information to promote and facilitate understanding of the concept of deposit insurance and the main features of a country's deposit insurance system. In this regard, the public needs to be educated about both what deposit insurance can and cannot accomplish. With respect to the latter, unrealistic expectations can undermine a deposit insurance system and contribute to financial instability.

An effective public-awareness program also can help to restore and promote confidence in the financial sector. This objective is particularly important when countries may be experiencing waves of failures and/or when countries may be transitioning from a blanket guarantee to limited coverage of deposits. If depositors have trust in the safety of money placed in insured institutions, economic recovery can be achieved more quickly and financial stability can be enhanced.

Third, a public-awareness program can help to disseminate vital information to depositors when failures of insured institutions occur. The public should be assured that the deposit insurer, together with the bank supervisory agency, is working to resolve any such failures quickly and that insured deposits are safe. In the event an insured depository institution is closed, a public-awareness program, for example, can provide guidance to depositors as to how to file claims. The ability of a deposit insurer to provide such information has implications for how effectively it can fulfil its mandate and for how quickly depositors' funds are restored and depositor confidence is maintained.

Finally, a well-designed public-awareness program carries benefits for the officials and staff of the deposit insurer. A public-awareness program helps to put a human face on the entity that provides deposit insurance. Such a program can create an image of solidity, professionalism, public-mindedness, and efficiency for the deposit insurer. As a result, greater public acceptance may make the job of the deposit insurer easier, especially when failures of depository institutions occur.

Target Audiences

In designing an effective public-awareness program it is critical to identify the target audiences that must be reached. Moreover, which audiences need to be targeted may change over time, depending on what goals have been identified and the stage of development of the deposit insurance program. For example, if a country characterised by stable economic conditions is considering introducing a limited-coverage deposit insurance system, the target audiences may be narrow. If a country is experiencing some financial instability, the target audiences may need to be relatively broad.

One of the most important audiences is the staff of depository institutions, especially operations and front-line staff. Employees of depository institutions should be trained to answer questions about deposit insurance because they are most likely to be queried by depositors and others seeking information.

Present and potential depositors in insured depository institutions should be targeted separately. In this regard, small, unsophisticated depositors should receive special attention. Depository institutions should inform customers of their membership in a deposit insurance system. Information should be readily available about the terms and conditions of coverage. If an institution is able to withdraw from a deposit insurance system, this fact should be reported immediately and in writing to its customers.

In addition to the need to inform employees of insured depository institutions and depositors about the benefits and limitations of deposit insurance, there are various market segments that may need to be targeted. These special market segments might include one or more of the following groups: trade unions, professional and business associations, retirees, and students in high schools and post-secondary institutions. Because of the potential reach of these groups in shaping opinion and disseminating information, it may prove useful to prepare information on deposit insurance targeted specifically toward these groups.

If a public-policy objective of the deposit insurer is to generate savings, officials might consider preparing and disseminating information on deposit insurance to guest workers or expatriates living abroad where there is significant movement of persons into or out of a country for employment and/or other reasons. The existence of information on deposit insurance may influence decisions of individuals as to where they want to deposit their funds. Such decisions may have implications for a given country's foreign-exchange earnings and thus its economic and financial condition.

Deposit insurance officials should not overlook the need to inform the media about the main features of a country's deposit insurance system. When problems develop in insured institutions it is especially crucial that the media have accurate information on deposit insurance and a deposit insurer's effectiveness in helping to resolve failures of these institutions, if applicable. If pertinent, accurate information is provided to the media, the latter can help to quell fears about the safety of depositors' funds, if necessary.

Finally, deposit insurance officials should strive to keep lawmakers and other public officials apprised of the features of the deposit insurance program. Educational efforts that target public officials should discuss how deposit insurance relates to the other components of a country's safety net. Moreover, if problems develop in insured institutions that strain the resources of the deposit insurer, the latter may require financial assistance from the government. Any such assistance may be more readily forthcoming if public officials have a thorough understanding of the objectives and features of the deposit insurance system.

Communication Techniques or Strategies

A broad range of options is available to deposit insurance officials regarding how to disseminate information about deposit insurance to the various audiences discussed above. Care should be taken to select or devise communication strategies that guarantee the best returns in terms of the objectives of the public-awareness program. This decision is likely to be influenced by factors such as: demography, the level of literacy, size of the population, budgetary constraints, and the intended target audience. Deposit insurers might want to contract for the services of experts at companies that specialise in marketing, communications, or other fields. The costs of contracting for outside experts should be weighed against the potential benefits to be gained. In general, most countries rely on both the print and electronic media in different degrees and with varied support from insured depository institutions or government information units to implement their public education or awareness programs.

Educational materials

Deposit insurers in many countries have relied heavily on the publication and dissemination of educational materials to inform target audiences about deposit insurance. Such educational materials include the following: fliers, fact sheets, pamphlets, brochures, booklets and other written documents. These materials are either distributed directly or *via* the Internet, insured institutions, and consumer advice bureaus. For example, officials in some countries have prepared comprehensive books or guides to enable employees of insured institutions to provide their depositors and others with accurate and complete information about insurance coverage. These instructional materials are designed to assist insured institutions in developing in-house training programs on deposit insurance.

Print and broadcast-media coverage

Deposit insurers have adopted different approaches with respect to print- and broadcast-media coverage. This reflects the public-service view that the print and broadcast media are excellent communication vehicles for disseminating information to a broad audience. In fact, in some countries it is mandatory that insured depository institutions indicate in advertisements that they are members of the deposit insurance system that is operating in the country. Deposit insurance systems that have developed logos and tag lines find it helpful to include or highlight the logo and/or tag line in any media advertisement.

Governments in other countries may prohibit advertisement of membership in deposit insurance systems. Such prohibitions may have been put in place to prevent insured institutions from using such membership as a competitive edge. It should be noted, however, that even in countries in which media advertising is prohibited, insured depository institutions are expected to inform their customers about deposit insurance coverage issues. The preferred approach in these countries is for depository institutions to provide such information in written form to individual customers.

Product registers

A number of countries require insured depository institutions to provide depositors and other customers with written lists that stipulate which products offered by the institution are actually insured. Such product registers serve several purposes. First, the registers help to ensure that customers receive general information about deposit insurance. Second, such registers help to differentiate insured and uninsured products, thereby reducing possible confusion on the part of potential and actual customers. For example, deposit insurance officials in some countries review the product registers before insured depository institutions disseminate them to customers.

There is widespread agreement that materials that are made available to customers should be written so that they are readily understood. Deposit insurers in countries with multicultural populations have recognised the need to provide written materials on deposit insurance in the major languages spoken by residents.

Guest lectures and presentations

Deposit insurance officials in some countries have found it beneficial to give guest lectures and presentations to various groups in their respective countries and even abroad. These may be done in coordination with professional groups and associations. Potential audiences include, for example, consumer groups, civic associations, employers and unions, financial journalists, and trade associations. Members of such groups can often reach even broader audiences as a result of personal relationships, thereby helping officials to disseminate accurate information on deposit insurance issues. As noted earlier, officials of deposit insurance systems may want to schedule appearances before groups of citizens who may be living abroad in certain population centers. If these efforts prove to be successful, they can have a beneficial effect on a country's foreign-exchange earnings.

Public hotline/helpline

Deposit insurance officials may find it useful to establish a toll-free telephone number that can be accessed easily by both local and overseas depositors. This service can help to provide customers with answers to their questions or to refer them to the proper individual(s) who can help them with particular issues. Telephone hotlines are particularly useful when an insured institution encounters problems and members of the public are unsure about the safety of their deposits. In countries with multicultural populations, deposit insurance officials may want to provide access to the telephone hotline service in the major languages spoken in the country.

Web site

With the growth in the use of the Internet, many deposit insurers have established Web sites. These Web sites provide basic information on the features of the deposit insurance system in operation in a particular country. If information is given about coverage rules

and insurance limits it can be an effective way to communicate with the populace. A well-designed Web site can be used to complement the information and personal service available through use of the public hotlines discussed above. It also is an effective venue for posting other information, such as information pertaining to employment opportunities and asset disposition. Web sites also can generate feedback from the public either on operational issues or complaints about certain banking practices.

Public forums/educational-outreach seminars

Deposit insurers in a number of countries have found it useful to hold or conduct public forums and educational-outreach seminars. In some countries, deposit insurers conduct regional seminars on a regular basis on deposit insurance issues for bankers and other interested parties. These seminars stress the need for insured institutions to inform their employees, particularly those employed in a front-line or operational capacity, about deposit insurance coverage and other issues.

Deposit insurance officials in some countries have made seminars a fundamental part of their public-awareness program. For example, seminars may be aimed at returning residents and conducted in tandem with representatives from other departments in the government that oversee financial-services activities. Such seminars focus on the mix of measures that have been put in place by the government to protect depositors and investors in the country's financial system. These measures include the strengthening of the legislative framework, the enhanced roles and functions of the various regulatory agencies, the introduction of an explicit deposit insurance scheme, and further investment and savings opportunities in the country's money and capital markets.

Deposit insurance officials should not overlook the need to hold briefings for elected government officials and other policymakers. Deposit insurers in a number of countries have recognised the need to keep an open and ongoing dialogue with lawmakers. Open communications particularly are important when countries revamp their deposit insurance systems.

Operational Issues

Deposit insurers in a number of countries have found it useful to conduct opinion surveys before mounting a public-awareness campaign. The purpose of such surveys is to identify what strategy or strategies should be employed and what audiences should be targeted. Although such surveys may be costly, the potential benefits often outweigh the initial costs that must be incurred. After the survey has been conducted, the focus of the public-awareness campaign should be refined to achieve the desired objective(s).

Subsequently, the results of the public-awareness program should be evaluated to determine its effectiveness. Experience has shown that such surveys may need to be conducted every few years. If failures are relatively rare, the public may forget about the purpose of deposit insurance. Surveys provide useful benchmark information and help to

identify whether new measures are needed to keep the public informed about deposit insurance issues.

Experience has shown that the prime responsibility for the public-awareness campaign generally rests with the deposit insurer. If deposit insurers wait for others to suggest that a public-awareness campaign is warranted, such suggestions may come too late or not at all. However, in seizing the initiative, deposit insurers should solicit the views of officials of insured depository institutions. It is important that the latter be consulted in crafting the public-awareness program because their staff will be key to disseminating information on deposit insurance.

One obvious question that must be addressed is who should pay for the public-awareness campaign. The answer to this question partially rests on what type of deposit insurance system will be or has been adopted. If a purely private scheme is sought or is in place, the costs of any public-awareness campaign should be borne by the private sector. In cases where the scheme is government administered and privately funded, the costs should be borne by the private sector. In the case of a program funded by the government, the costs should be borne by the government. If funding comes from more than one source, the underwriting of costs should be a collaborative effort involving the deposit insurer, member institutions, banking associations or the government.

Special Considerations

There are certain times when the timing and content of a public-awareness program are especially important. These include when a country is transitioning from a blanket guarantee to limited-coverage deposit insurance and when an insured depository institution is closed.

Transitioning to limited coverage

It is vitally important that the public understand what is occurring and why once a decision has been made to lift a blanket guarantee and adopt limited coverage. Any movement to reduce coverage can be misconstrued and perceived negatively by the public if they feel that something “is being taken away from them.” In addition, efforts to scale back coverage may raise unwarranted doubts about the health of depository institutions and/or the financial system overall. Thus, it is crucial to explain to the public why limited coverage is being adopted and what benefits will accrue to the populace.

In transitioning to limited coverage, it is important that the proposed timetable, whether on a fast-track or gradual basis, be communicated to the public. If the timetable cannot be met as the transition proceeds, the public should be informed about what changes have occurred to alter the initial timetable. Subsequently, the revised timetable must be widely publicised.

Failures of insured institutions

When insured depository institutions are closed, it is important that depositors be reassured that their claims will be settled promptly and that they know how to proceed in order to receive payment. Failure situations may be localised or they may encompass an entire country or even cross borders. Deposit insurance officials need to have plans already prepared detailing how they will inform depositors and other creditors about their rights and the procedures for seeking reimbursement.

There are numerous methods that can be employed to inform the public. In some countries, deposit insurers provide on-site information services to assist depositors in the filing of claims and advertise in major newspapers when failures occur. Other methods utilised include television and radio spots informing depositors about the failure(s) and how to proceed with the filing of claims. Press conferences convened by the deposit insurer also can be an effective means to inform the public. As noted earlier, it is important to establish and maintain contacts with the media when the decision is made to establish a deposit insurance system. Such contacts can prove invaluable when failures occur and may need to be enlisted to help allay the fears of the public.

A public-awareness plan to address issues related to closures of insured depository institutions should be carefully conceived before it is needed, not hastily prepared after a closure has occurred. A well-designed public-awareness program can help to counteract the potentially disruptive effects of failures of insured institutions.

Conclusions

In order for a deposit insurance system to be effective, it is essential that the public be informed about the benefits and limitations of the scheme. Although the costs of ensuring that the public is informed may be considerable, the need for public awareness should not be underestimated. It is important to craft a public-awareness program as soon as possible after the decision is made to establish a deposit insurance program. Experience has shown that subsequently the characteristics of the deposit insurance system need to be publicised regularly so that the credibility of the system is strengthened and maintained.

In designing an effective public-awareness program it is critical to identify the target audiences that must be reached. One of the most important audiences is the staff of depository institutions, especially operations and front-line staff. The primary responsibility for the public-awareness campaign generally rests with the deposit insurer. Care should be taken to select or devise communication strategies that guarantee the best returns in terms of the objectives of the public-awareness program.

There are certain times when the timing and content of a public-awareness program are especially important. When a country is transitioning from a blanket guarantee it is important to keep the public well-informed. The public must understand what is occurring and why after the decision has been made to lift a blanket guarantee and adopt

limited coverage. In particular, the proposed timetable, whether on a fast-track or gradual basis, should be communicated to the public. A well-crafted program can help to bring about financial recovery.

Similarly, the timing and content of a public-awareness program are important when insured institutions are closed. Depositors must be reassured that their claims will be settled promptly. They also need to know how to proceed in order to receive payment. A public-awareness plan to address issues related to actual failures should be carefully conceived before it is needed. A well-designed public-awareness program can help to counteract the potentially disruptive effects of failures of insured institutions.