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ABSTRACT

This paper examines the Deposit Insurance System in Turkish Republic of North Cyprus (TRNC) and also a brief review of Deposit Insurance Systems araoud the globe. Purpose of this study is; to find the problems of the current Deposit Insurance System in TRNC,and secondly design and maintain an effective Deposit Insurace System for TRNC.Deposit schemes characterized by co-insurance,private administration,and a low deposit insurance premium appear to be particularly favored by depositors. In this study to evoluate deposit insurance system in TRNC a questionaire was made.The investigation findings shows that; the knowledge deposit insurance system are at very low position by the public and also by the bank staff.In the future this will be cause a new crises in TRNC Banking Sector.

INTRODUCTION

As the past decade shows us competitive banking system is critical to nations economic vitality.Banks have traditionally performed the important function of intermediating between lenders and barrowers by using liquid, short-term liabilities to found relatively long-term liquid assets.By providing a liquid savings vehicle for small and large investors alike by developing specialised skills to evaluate and diversify the risk of their barrowers,banks have played an important role in funding economic growth.

So the importance of banks is known and banks are nothing when they dont have enough Consumers or depositors. During the last two decades, a wave of systemic banking crises has rolled back and forth around the globe. The wave has struck developed and developing countries alike, resulting in 112 episodes of systemic crisis in 93 countries and 51 episodes of borderline crisis in 46 countries (Figure 1).

Then depositors are threathen because of bankruptcy. Costumers or depositors should believe the bank to pay them money back.At this point the Deposit Insurance System both helps banks and also depositors.What's Deposit Insurance?

Deposit insurance is the one of the mechanisms employed by governments to promote the stability of banking systems as well as to protect small depositors from losses due to bank failures. It is a complementary element of an extensive financial safety net that includes banking law and regulations, central bank lender of last resort facilities, and banking supervision.

If there's an effective Deposit Insurance System in countries then costumers

the banks then banks are able to lend money or give right loan agreements to barrowers or investors. If investors make good choose to invest his/her money then it becomes an economical growth for country. This cause a financial safety in the country.

This Project purpose is to analyse the Deposit Insurance Systems around the globe and design and maintain an effective Deposit Insurance for TRNC. Investigation divides into five sections;In section 1 Deposit Insurance Systems aroun the globe, in section 2 Deposit Insurance System in TRNC,in section 3 Methodology ,in section 4 Findings and finally section five Conclusion and Recommendations.

Section 1 are giving information about the mean of deposit insurance,advantages and disadvantages of deposit insurance,the basic characteristics of deposit insurance and finally deposit insurance around the globe.

Section 2 are giving information about the establishment and objective of deposit insurance system in TRNC,administration and representation of fund,rates of insurance and procedures and principles of collection,resources of fund,kinds of insurance premiums,obligation to provide information and decuments,method of payments,exemption from tax and dues and charges,offences and penalties and finally the provisions and final provisions from the fund.

Section 3 are giving information about which method is used in this study.

Section 4 gives the findings of the investigation which are calculated and maked in Microsoft Exel and finally section 5 conclusion and recommendations of this study.

1.)LITERATURE REVIEW

1.1)Mean Of Deposit Insurance?

Deposit insurance is one of the mechanisms employed by governments to promote the stability of banking systems as well as to protect small depositors from losses due to bank failures. It is a complementary element of an extensive financial safety net that includes banking law and regulations, central bank lender of last resort facilities, and banking supervision.At the same time as **MrGuy Saint Pierre** says in international conferance on deposit insurance "the principal objectives of a deposit insurance system are to contribute to the stability of a country's financial system and to protect less-financiallysophisticated depositors from the loss of their deposits when banks fail''(Intenational conferance on deposit insurance,October 2001,pg 6)

Most of the countries adopted their deposit insurance systems as a response to banking crises they had faced. About two thirds of the explicit DISs have been established over the course of the past fifteen years. As of Spring 1999, a total of sixty-eight countries had explicit deposit systems in place (Demirguc-Kunt and sobacı, May 1 2001,pg.6)

1.1.1) Explicit vs. Implicit Deposit Insurance

The foremost difference between an explicit and implicit deposit insurance system is the presence of a formal arrangement establishing a guarantee scheme for deposits through some form of legislation such as the central bank law, banking law, or the constitution. Often times these formal arrangements also explicate the main features of the systems such as the beginning date of coverage, type of deposits and institutions

covered, maximum coverage limits, funding arrangements, membership, administration, and resolution mechanisms of failed banks.

In the absence of such formal arrangements for deposit insurance we assume the country has an "implicit" deposit insurance system. This is due to the fact that whether or not the elements of insurance are defined by explicit statutes, authorities in every country establish a de facto insurance system for banks. A deposit insurance system, Mr. Saint-Pierre noted, is preferable to implicit protection if it clarifies the authorities' obligations to depositors and limits the scope for discretionary decisions that may result in arbitrary actions. (Intenational conferanve on deposit insurance,October 2001,pg 6)

1.2.) Advantages and Disadvantages of Deposit Insurance System

By providing a guarantee that depositors are not subject to loss,deposit insurance has two somewhat contradictory effects. On thepositive side it removes the incentive to participate in a bank run, while on the negative side it eliminates the need for depositors to police bankrisk-taking.

Deposit insurance systems are designed to minimise or eliminate the risk that depositors placing funds with a bank will suffer a loss. Deposit insurance thus offers protection to the deposits of households and small business enterprises, which may represent life savings or vital transactions balances. With a deposit insurance system in place, these households and businesses can "go about their business" with some assurance that their funds are secure. This in turn supports the stability and smooth operations of the economy. This sense of public assurance is important. Public concern about the safety of deposits – whether based on fact or only on rumour – can lead, and has led, to the aforementioned damaging bank runs that can cause banks that are otherwise sound to fail. Similarly, concerns about one bank have at times led to concerns about others, resulting in so-called

"contagion runs". Public confidence in the safety of bank deposits, in contrast, promotes the stability of individual banking institutions. Public confidence reduces the likelihood that depositors at an individual bank will panic and withdraw funds suddenly if concerns arise about the condition of that institution. Thus, deposit insurance can enhance stability by preventing bank runs. No amount of prudential supervision can provide protection against runs that is equivalent to deposit insurance.In addition, as opposed to blanket guarantees provided in times of stress, the explicit coverage rules of a deposit insurance system provide clear incentives for risk-monitoring by certain creditors ex ante and, ex post,provide a basis for distinctions in the treatment of bank creditors. A related effect of deposit insurance that may be important in some financial systems is that it levels the playing field to a degree for large and small institutions. Under a formalised deposit insurance program, all institutions have access to depositor protection in the amounts specified by the coverage rules.

Finally, the explicit rules of the deposit insurance program provide added certainty regarding the resolution process for failed banks. This can be extremely important for maintaining stability when a banking crisis threatens. Deposit insurance thus works together with the other elements of the safety net to contain potential threats to individual institutions or groups of institutions. In this way, deposit insurance supports economic stability by helping to avert interruptions in bank liquidity and credit availability that could otherwise result from disruptive bank runs or bank failures.

While deposit insurance systems, as well as the other elements of a financial safety net arrangement, contribute to stability and thereby promote economic growth, they can also generate perverse effects. By providing protection to market participants, costs of pursuing

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While deposit insurance systems, as well as the other elements of a financial safety net arrangement, contribute to stability and thereby promote economic growth, they can also generate perverse effects. By providing protection to market participants, costs of pursuing

riskier strategies are reduced and excessive risk-taking might be incentivised – the moral hazard problem. With their deposits protected against loss,insured depositors have little incentive to monitor bank risk-taking, and may simply seek the highest return possible on their deposits.

Thus,deposits may tend to flow away from conservatively managed institutions towards those willing to pay higher returns by assuming more risk.Deposit insurance can thus exacerbate moral hazard by altering the normal risk-return trade-off for banks, reducing the costs associated with riskier investment strategies. These incentives are inherent to some degree in the nature of all insurance, and even the best structural designs for deposit insurance systems cannot be expected to eliminate moral hazard. As will be discussed later in this paper, supervision and regulation of insured institutions, as well as some degree of market oversight, are essential for controlling moral hazard in order to maintain safety and soundness.

Moral hazard can be expensive, as evidenced by the savings-and-loan crisis in the United States during the 1980s, the banking problems of the Scandinavian countries during the same period, and the current crises in Japan, Korea and other Asian countries. While moral hazard was not the only factor at work in these crises, most would agree that it contributed to the high cost of resolution in each case.

The distinction between maintaining stability and preventing failures should also be emphasised. A safety net that is structured to prevent all failures is likely to stifle innovation and reduce the responsiveness of the banking industry to changing customer needs and other developments in the marketplace. To avoid such rigidity, an exit mechanism needs to be formulated and incorporated into the system. A properly balanced

deposit insurance program can provide order in winding up the affairs of a failing institution, and can thus facilitate the establishment of an effective exit mechanism.

It is easy to underestimate the value of deposit insurance when times are good. When times are bad, governments often re-evaluate the need for such arrangements. Typically, deposit insurance systems are adopted in the aftermath of severe banking crises or when industry conditions are deteriorating and unstable. A recent IMF survey of deposit insurance systems in 60 countries indicated that 40 of these systems were initiated during the 1980s and 1990s, largely in response to actual banking problems or the perceived threat of instability.(Nicholas j Ketcha Jr,2000,pg.223)

1.3.) Deposit Insurance Around the World

Table 1 documents the many ways in which deposit-insurance design varies across countries.4 An optimal worldwide blueprint is not likely to be found. For example, account coverage varies from unlimited guarantees to tight coverage limits. On the one hand, Mexico, Turkey and Japan promise 100 percent depositor coverage.

However, countries like Chile, Switzerland, and U.K. cover only an amount of deposits that is actually less than their per capita GDP. Also, although many countries cover deposits denominated in foreign currency, most schemes exclude interbank deposits. Besides setting a maximum level of coverage, some countries insist that accountholders "coinsure" a proportion of their deposit balances. Coinsurance provisions are still relatively rare, but are more frequent in recently adopted schemes.

Deposit insurance obligations are typically advance-funded, most commonly from a mixture of government and bank sources. To allow the insurer to build and maintain an appropriate fund of reserves against its loss exposures, in such countries banks are generally assessed an annual premium that is based entirely or in large part on the amount of their insured deposits.

Efforts to make these annual premiums sensitive to bank risk exposure have began in recentyears. Insurance schemes are typically managed in a government agency or in a public-private partnership. However, a few countries, such as Switzerland, Germany and Argentina, manage their schemes privately. Finally, in almost all countries, membership is compulsory for chartered banks. The most notable exception is Switzerland.

Table 1 also records the establishment dates of each country.s scheme. A number of countries adopted or expanded their deposit insurance scheme during crises. For example, Thailand, Malaysia, and Korea moved to blanket coverage in response to their recent crises.

4 For the complete database, see Demirgüç-Kunt and Sobaci (forthcoming) which builds on earlier studies by Kyei (1995) and Garcia (1999).

The 1990s saw a rapid spread in transitional countries perhaps partly motivated by their long-term interest in joining the EU and in some African countries.Countries that adopted deposit insurance in 1999 are Ecuador, El Salvador, and as part of the Central African Currency Union, Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, and Republic of CongoMost of these new schemes show generous coverage levels. For example, Central African Republic and Chad have coverage ratios that lie between 13 and 15 times their GDP per capita.

Precisely because the range of design features is so extensive, the data set can permit analysts to compare and contrast how well different features work in different circumstances.(J. Kane Demirguc-Kunt- Sept. 2001, pg. 6)

1.4.)Basic Charasteristics Of An Effective Deposit Insurance.

1.4.1.)Depositor protection,Moral Hazard,The Role Of The Banking Sector and The Financial Safety Net.

1.4.1.1) The role of the banking sector and the financial safety net

Financial institutions that accept deposits from the public (hereinafter referred to as banks) are important in the economy because of their involvement in the payments system, their role as intermediaries between depositors and borrowers, and their function as agents for the transmission of monetary policy. Banks are in the business of assuming and managing risks.

By their nature, banks are vulnerable to liquidity and solvency problems, among other things,because they transform short-term liquid deposits into longer-term, less-liquid loans and investments. They also lend to a wide variety of borrowers whose risk characteristics are not always readily apparent.

The importance of banks in the economy, the potential for depositors to suffer losses when banks fail, and the need to mitigate contagion risks, lead countries to establish financial safety nets. A financial safety net usually includes prudential regulation and supervision, a lender of last resort and deposit insurance. The distribution of powers and

responsibilities between the financial safety-net participants is a matter of public-policy choice and individual country circumstances. For example, some countries incorporate all financial safety-net functions within the central bank, while others assign responsibility for certain functions to separate entities.

1.4.1.2) Forms of depositor protection

Policymakers have many choices regarding how they can protect depositors. Some countries have implicit protection that arises when the public, including depositors and perhaps other creditors, expect some form of protection in the event of a bank failure. This expectation usually arises because of the government.s past behaviour or statements made by officials.Implicit protection is, by definition, never formally specified. There are no statutory rules regarding the eligibility of bank liabilities, the level of protection provided or the form which reimbursement will take. By its nature, implicit protection creates uncertainty about how depositors, creditors and others will be treated when bank failures occur. Funding is discretionary and often depends on the government.s ability to access public funds. Although a degree of uncertainty can lead some depositors to exert greater effort in monitoring banks, it can undermine stability when banks fail.Statutes or other legal instruments usually stipulate explicit deposit insurance systems.Typically, there are rules governing insurance coverage limits, the types of instruments covered, the methods for calculating depositor claims, funding arrangements and other related matters. A deposit insurance system is preferable to implicit protection if it clarifies the authorities. obligations to depositors and limits the scope for discretionary decisions that may result in arbitrary actions. A deposit insurance system can also provide countries with an orderly process for dealing with bank failures.

The introduction of a deposit insurance system can be more successful when a country.sbanking system is healthy. A deposit insurance system can contribute effectively to the stability of a country.s financial system if it is part of a well-designed safety net.

To be credible, a deposit insurance system needs to be properly designed, well implemented and understood by the public. It also needs to be supported by strong prudential regulation and supervision, sound accounting and disclosure regimes, and the enforcement of effective laws.

A deposit insurance system can deal with a limited number of simultaneous bank failures, but cannot be expected to deal with a systemic banking crisis by itself.

1.4.1.3) Moral hazard

A well-designed financial safety net contributes to the stability of a financial system; however,if poorly designed, it may increase risks, notably moral hazard. Moral hazard refers to the incentive for excessive risk taking by banks or those receiving the benefit of protection. Such behaviour may arise, for example, in situations where depositors and other creditors are protected, or believe they are protected, from losses or when they believe that a bank will not be allowed to fail. In these cases, depositors have less incentive to access the necessary information to monitor banks. As a result, in the absence of regulatory or other restraints,weak banks can attract deposits for high-risk ventures at a lower cost than would otherwise be the case.

Moral hazard can be mitigated by creating and promoting appropriate incentives through good corporate governance and sound risk management of individual banks, effective market discipline and frameworks for strong prudential regulation, supervision and laws. These elements involve trade-offs and are most effective when they work in concert.

Good corporate governance and sound risk management of individual banks help to ensure that business strategies are consistent with safe-and-sound operations, and thus can act as the first line of defence against excessive risk taking. Good corporate governance and sound risk management includes standards, processes, and systems for ensuring appropriate direction and oversight by directors and senior managers, adequate internal controls and audits, management of risks, the evaluation of bank performance, the alignment of remuneration with appropriate business objectives, and management of capital and liquidity positions.

Moral hazard can be mitigated by market discipline exercised by shareholders as well as by larger creditors and depositors who are exposed to the risk of loss from the failure of a bank.

However, for market discipline to work effectively, these groups must have the knowledge required to assess the risks they face. Information should be readily available and be generally understandable by the public. Sound accounting and disclosure regimes are required, as well as ongoing attention to a bank.s soundness by ratings agencies, market analysts, financial commentators and other professionals.

Many countries rely heavily on prudential regulatory and supervisory discipline to mitigate moral hazard and control excessive risk taking. Regulatory discipline can be exercised through sound and effective regulations covering the establishment of new banks, the implementation of minimum capital requirements, the qualifications of directors and managers, sound-business activities, fit-and-proper tests for controlling shareholders, standards for risk management, strong internal controls, and external audits. Supervisory discipline can be exercised by ensuring that banks are monitored for safety and soundness

as well as compliance issues and that corrective actions are taken promptly when problems surface,including the closure of banks when necessary.

Specific deposit insurance design features can also mitigate moral hazard. These features may include: placing limits on the amounts insured; excluding certain categories of depositors from coverage; using certain forms of coinsurance; implementing differential or risk-adjusted premium assessment systems; minimising the risk of loss through early closure of troubled banks; and demonstrating a willingness to take legal action, where warranted, against directors and others for improper acts.

Many of the methods used to mitigate moral hazard require certain conditions to be in place.For example, differential or risk-adjusted differential premium assessment systems may be difficult to design and implement in new systems and in emerging or transitional economies.

Early intervention, prompt corrective action and, when warranted, bank closure require that supervisors and deposit insurers have the necessary legal authority, in-depth information on bank risk, financial resources, and incentives to take effective action. Personal-liability provisions and availability of sanctions can reinforce incentives of bank owners, directors, and managers to control excessive risk, but they depend on the existence of an effective legal system that provides the necessary basis for action against inappropriate behaviour.

Policymakers should consider a country.s conditions and factors that may determine the effectiveness of particular measures for mitigating moral hazard, the commitment and the ability to implement them, and the advancement of a reform agenda to eliminate gaps that may limit their effectiveness.

1.4.2.)Coverage and Limits

The scope of deposit insurance coverage and its limits depend on a country's willingness and ability to balance the goal of achieving financial stability with the introduction of incentives for depositors to exercise some discipline. Deciding what to cover and where to set the limits involves a trade-off between depositor discipline and financial stability.

Limits that are set too low are unlikely to prevent bank runs in the event of financial troubles. However, limits that are set too high restrict the discipline that depositors can exert on banks to control their risk-taking.

A few countries have implemented various forms of coinsurance as a means of instilling more market discipline. Although it was noted that not all coinsurance systems are able to maintain depositor confidence when the financial system is under serious stress, where the coinsurance system is structured to protect depositors up to a certain minimal amountthis can be achieved.

The Study Group did not discuss who should be insured, which instruments (such as foreign currency deposits) should be covered or the level at which the deposit insurance limits should be set. It is recognized, however, that these are important issues that need to be considered when establishing a deposit insurance system.(FINANCIAL STABILITY FORUM-Working Group on Deposit Insurance -June 2000 -International Guidance on Deposit Insurance A Consultative Process page 7.)

1.4.3.1.)Compulsory membership

In general, membership should be compulsory to avoid adverse selection. There are some cases, however, where a strong commitment of banks to participate in a deposit protectionsystem can be observed and broad participation of banks may be achieved without a legal obligation. This can occur if depositors are aware of and

sensitive to the existence of deposit insurance, thus creating strong incentives for banks to be part of a system. In other cases, if depositors are less concerned about deposit insurance or are not aware that coverage is limited to certain banks, then the stronger banks may opt out. Further, in a voluntary system strongbanks may opt out if the cost of failures is high and this may affect the financial solvency andthe effectiveness of a deposit insurance system.

1.4.3.2.) Considerations when granting membership to banks

There are two circumstances that may require different approaches to granting membership to banks. First, when a deposit insurance system is established and second, when membership is granted to new banks in an existing system.

When a deposit insurance system is created, policymakers are faced with the challenge of minimising the risks to the deposit insurer, while granting extensive membership. Generally,two options are available: automatic membership or requiring banks to apply for entry.

Automatic membership for all banks may be the simplest option in the short term. However,the deposit insurer may then be faced with the difficult task of having to accept banks that create an immediate financial risk or that pose other adverse consequences for the deposit insurance system.

Alternatively, banks may be required to apply for membership. This option provides the deposit insurer with the flexibility to control the risks it assumes by establishing entry criteria.It also can serve to enhance compliance with prudential requirements and standards. In such cases, an appropriate transition plan should be in place that details the criteria, process and time frame for attaining membership. The criteria should be transparent.The way that policymakers grant membership in existing deposit insurance systems varies. In

some countries, the licensing or chartering of new banks and the granting of membership in a deposit insurance system are separate functions of different safety-net participants. In other countries the relevant safety-net participants jointly approve new members and in others,membership is automatic with the issuance of a bank charter or license. Whichever option is chosen, appropriate mechanisms are necessary to ensure that membership requests are handled expeditiously and effectively, and that eligible banks meet minimum prudential standards and entry requirements.

1.4.3.3.) Foreign banks

Although domestically incorporated or chartered banks are the principal members of most deposit insurance systems, some countries require foreign-bank subsidiaries and branches to participate in the system as well. Several arguments are made for their inclusion: the stability of the domestic financial system; the goal of providing a minimum level of deposit insurance to all depositors; the notion that foreign banks benefit from a stable domestic financial system and should therefore participate in the deposit insurance system as part of doing business in a country; the desire to minimise competitive issues by placing foreign banks on the same footing as domestic banks; and the diversification that arises from wider membership and expansion of the funding base.

1.4.3.4.) Non-bank financial institutions

Policymakers take different approaches to non-bank financial institutions that offer deposits and deposit-like products. The rationales for expanding membership beyond banks include:the desire not to introduce competitive distortions among different types of institutions offering similar products; the objective of enhancing the stability of the financial system byincluding all institutions that accept deposits or deposit-like

products; and the desire to apply prudential regulatory and supervisory rules to all such institutions.

There are many cases, however, where non-bank financial institutions are excluded frommembership. The most common reasons are that such institutions may not be as relevant as banks to a country.s financial stability, that they may be subject to different regulatory and supervisory standards, and they may have different authorities overseeing their affairs. In such circumstances, policymakers may establish separate protection schemes to cover non-bank financial institutions.

1.4.3.5.) State-owned banks

State-owned banks present unique issues for deposit insurance systems. These banks are usually the beneficiaries of an implicit or full government guarantee that may make their inclusion in a deposit insurance system appear unnecessary. Nevertheless, some countries have chosen to include them in their systems. Some of the reasons are: to facilitate privatisation; to ensure competitive equality with private-sector banks in terms of the level of coverage and premium contributions; to provide a mechanism to bring such banks under the same prudential regulatory and supervisory rules applicable to other banks; and to diversify the deposit insurers risks and increase its funding base. .(Financial Stability Sorum-Septamber 7,2001- GUIDIANCE DEVELOPING EFFECTIVE DEPOSIT INSURANCE SYSTEMS,Pg.16)

1.4.4.) Private or government deposit insurance systems

There are many variations of private and public systems in place. Some form of a banking industry group usually runs private protection systems. These systems areusually not established by legislation, have no legal obligation to pay depositors, have no government involvement in their operations, and have no government back-up support.As a

result, these systems do not expose, by themselves, the government and taxpayers to loss.Private protection systems can function effectively in normal times if failures areinfrequent and minor. In a generalized economic downturn, when the protection system is under stress (for instance, in dealing with a wave of failures or a large failure), the capacity of such a system to absorb losses and its ability to pay depositors may become problematic. These private systems are less likely to maintain depositor confidence in such times. In these circumstances, the government may have to provide a backstop to the protection system, thus exposing the safety net without certain safeguards that would otherwise be in place with a government-backed system. By contrast, there are private deposit insurance systems that have a legislative underpinning. These systems are required to pay depositor claims and usually have access to government assistance, often in the form of interest-bearing loans. Thus, wellstructured private deposit insurance systems with these elements can maintain depositor confidence.

Certain government-backed public systems provide the full faith and credit of the government and are part of the financial safety net. As a result, they are able to maintain depositor confidence even in times of stress. The credibility of such systems, however, is linked to the government's ability to stand behind the assurance that it provides todepositors.

1.4.5.) Funding mechanisms

There is a variety of funding options available to deposit insurers, which range from an *ex-ante* to an *ex-post* basis or some combination thereof. In an *ex-ante* system, the deposit insurer is often able to build a fund so that financial resources are readily available when a failure occurs. A major consideration of an *ex-ante* system is determining the size of the target fund and its investment policies. An important principle of an *ex-ante* system is that

banks contribute to the deposit insurance system by paying premiums before their demise. There is a trend toward the adoption of *ex-ante* systems.

Deposit insurance systems that are funded on an *ex-post* basis, by contrast, rely on the ability of surviving banks to fund losses after they have been incurred. In many cases, the need to pay assessments or levies to deal with failures occurs at an inopportune time, and the funding requirements may impose a financial burden on the industry.

At times both *ex-ante* and *ex-post* mechanisms may need to rely on additional financial resources such as loans or government support. In some countries, deposit insurers alsohave access to financial markets for their funding needs. It is essential that policy-makers consider how the deposit insurance system can deal with failures in normal times and those that may occur in waves during times of stress. Regardless of the funding mechanism, no deposit insurance system can withstand, on its own, a systemic crisis.

When deposit insurance systems are funded through premiums, policy-makers have a choice between a flat-rate premium or some form of differentiated premium based on a bank's risk profile. Many countries are adopting risk-based premiums or some form of a differentiated premium system to help address moral hazard, but there has been limited experience so far.Although a properly designed risk-based premium system can reduce moral hazard,adopting flat-rate premiums in newly emerging or transitional economies may be more appropriate given the potential difficulties involved in the design and implementation of risk-based premiums. These difficulties include finding appropriate and acceptable methods of differentiating institutional risk; obtaining reliable and appropriate data;considering the transparency of the approach; and examining the potential destabilising effects of imposing high premiums on already troubled banks.(FINANCIAL

STABILITY FORUM-Working Group on Deposit Insurance -June 2000 -International Guidance on Deposit Insurance A Consultative Process page 8.)

1.4.6.)Mandates,Powers and Structure

1.4.6.1.) Mandates and powers

A mandate is a set of official instructions or statement of purpose. There is no single mandate or set of mandates suitable for all deposit insurers. Existing deposit insurers have mandates ranging from narrow, so-called .paybox. systems to those with broader powers and responsibilities, such as risk-minimisation, with a variety of combinations in between.

Whatever the mandate selected, it is critical that there be consistency between the stated objectives and the powers and responsibilities given to the deposit insurer.Paybox systems largely are confined to paying the claims of depositors after a bank has been closed.

Accordingly, they normally do not have prudential regulatory or supervisory responsibilities or intervention powers. Nevertheless, a paybox system requires appropriate authority, as well as access to deposit information and adequate funding, for the timely and efficient reimbursement of depositors when banks fail.

A risk-minimiser. deposit insurer has a relatively broad mandate and accordingly more powers. These powers may include: the ability to control entry and exit from the deposit insurance system, the ability to assess and manage its own risks, and the ability to conduct examinations of banks or request such examinations. Such systems also may provide financial assistance to resolve failing banks in a manner that minimises losses to the deposit insurer.Some risk-minimisation systems have the power to set regulations, as well as to undertakeenforcement and failure-resolution activities. Formally

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ABSTRACT

This paper examines the Deposit Insurance System in Turkish Republic of North Cyprus (TRNC) and also a brief review of Deposit Insurance Systems araoud the globe. Purpose of this study is; to find the problems of the current Deposit Insurance System in TRNC,and secondly design and maintain an effective Deposit Insurace System for TRNC.Deposit schemes characterized by co-insurance,private administration,and a low deposit insurance premium appear to be particularly favored by depositors. In this study to evoluate deposit insurance system in TRNC a questionaire was made.The investigation findings shows that; the knowledge deposit insurance system are at very low position by the public and also by the bank staff.In the future this will be cause a new crises in TRNC Banking Sector.

INTRODUCTION

As the past decade shows us competitive banking system is critical to nations economic vitality.Banks have traditionally performed the important function of intermediating between lenders and barrowers by using liquid, short-term liabilities to found relatively long-term liquid assets.By providing a liquid savings vehicle for small and large investors alike by developing specialised skills to evaluate and diversify the risk of their barrowers,banks have played an important role in funding economic growth.

So the importance of banks is known and banks are nothing when they dont have enough Consumers or depositors. During the last two decades, a wave of systemic banking crises has rolled back and forth around the globe. The wave has struck developed and developing countries alike, resulting in 112 episodes of systemic crisis in 93 countries and 51 episodes of borderline crisis in 46 countries (Figure 1).

Then depositors are threathen because of bankruptcy. Costumers or depositors should believe the bank to pay them money back.At this point the Deposit Insurance System both helps banks and also depositors.What's Deposit Insurance?

Deposit insurance is the one of the mechanisms employed by governments to promote the stability of banking systems as well as to protect small depositors from losses due to bank failures. It is a complementary element of an extensive financial safety net that includes banking law and regulations, central bank lender of last resort facilities, and banking supervision.

If there's an effective Deposit Insurance System in countries then costumers

the banks then banks are able to lend money or give right loan agreements to barrowers or investors. If investors make good choose to invest his/her money then it becomes an economical growth for country. This cause a financial safety in the country.

This Project purpose is to analyse the Deposit Insurance Systems around the globe and design and maintain an effective Deposit Insurance for TRNC. Investigation divides into five sections;In section 1 Deposit Insurance Systems aroun the globe, in section 2 Deposit Insurance System in TRNC,in section 3 Methodology ,in section 4 Findings and finally section five Conclusion and Recommendations.

Section 1 are giving information about the mean of deposit insurance,advantages and disadvantages of deposit insurance,the basic characteristics of deposit insurance and finally deposit insurance around the globe.

Section 2 are giving information about the establishment and objective of deposit insurance system in TRNC,administration and representation of fund,rates of insurance and procedures and principles of collection,resources of fund,kinds of insurance premiums,obligation to provide information and decuments,method of payments,exemption from tax and dues and charges,offences and penalties and finally the provisions and final provisions from the fund.

Section 3 are giving information about which method is used in this study.

Section 4 gives the findings of the investigation which are calculated and maked in Microsoft Exel and finally section 5 conclusion and recommendations of this study.

1.)LITERATURE REVIEW

1.1)Mean Of Deposit Insurance?

Deposit insurance is one of the mechanisms employed by governments to promote the stability of banking systems as well as to protect small depositors from losses due to bank failures. It is a complementary element of an extensive financial safety net that includes banking law and regulations, central bank lender of last resort facilities, and banking supervision.At the same time as **MrGuy Saint Pierre** says in international conferance on deposit insurance "the principal objectives of a deposit insurance system are to contribute to the stability of a country's financial system and to protect less-financiallysophisticated depositors from the loss of their deposits when banks fail''(Intenational conferance on deposit insurance,October 2001,pg 6)

Most of the countries adopted their deposit insurance systems as a response to banking crises they had faced. About two thirds of the explicit DISs have been established over the course of the past fifteen years. As of Spring 1999, a total of sixty-eight countries had explicit deposit systems in place (Demirguc-Kunt and sobacı, May 1 2001,pg.6)

1.1.1) Explicit vs. Implicit Deposit Insurance

The foremost difference between an explicit and implicit deposit insurance system is the presence of a formal arrangement establishing a guarantee scheme for deposits through some form of legislation such as the central bank law, banking law, or the constitution. Often times these formal arrangements also explicate the main features of the systems such as the beginning date of coverage, type of deposits and institutions

covered, maximum coverage limits, funding arrangements, membership, administration, and resolution mechanisms of failed banks.

In the absence of such formal arrangements for deposit insurance we assume the country has an "implicit" deposit insurance system. This is due to the fact that whether or not the elements of insurance are defined by explicit statutes, authorities in every country establish a de facto insurance system for banks. A deposit insurance system, Mr. Saint-Pierre noted, is preferable to implicit protection if it clarifies the authorities' obligations to depositors and limits the scope for discretionary decisions that may result in arbitrary actions. (Intenational conferanve on deposit insurance,October 2001,pg 6)

1.2.) Advantages and Disadvantages of Deposit Insurance System

By providing a guarantee that depositors are not subject to loss,deposit insurance has two somewhat contradictory effects. On thepositive side it removes the incentive to participate in a bank run, while on the negative side it eliminates the need for depositors to police bankrisk-taking.

Deposit insurance systems are designed to minimise or eliminate the risk that depositors placing funds with a bank will suffer a loss. Deposit insurance thus offers protection to the deposits of households and small business enterprises, which may represent life savings or vital transactions balances. With a deposit insurance system in place, these households and businesses can "go about their business" with some assurance that their funds are secure. This in turn supports the stability and smooth operations of the economy. This sense of public assurance is important. Public concern about the safety of deposits – whether based on fact or only on rumour – can lead, and has led, to the aforementioned damaging bank runs that can cause banks that are otherwise sound to fail. Similarly, concerns about one bank have at times led to concerns about others, resulting in so-called

"contagion runs". Public confidence in the safety of bank deposits, in contrast, promotes the stability of individual banking institutions. Public confidence reduces the likelihood that depositors at an individual bank will panic and withdraw funds suddenly if concerns arise about the condition of that institution. Thus, deposit insurance can enhance stability by preventing bank runs. No amount of prudential supervision can provide protection against runs that is equivalent to deposit insurance.In addition, as opposed to blanket guarantees provided in times of stress, the explicit coverage rules of a deposit insurance system provide clear incentives for risk-monitoring by certain creditors ex ante and, ex post,provide a basis for distinctions in the treatment of bank creditors. A related effect of deposit insurance that may be important in some financial systems is that it levels the playing field to a degree for large and small institutions. Under a formalised deposit insurance program, all institutions have access to depositor protection in the amounts specified by the coverage rules.

Finally, the explicit rules of the deposit insurance program provide added certainty regarding the resolution process for failed banks. This can be extremely important for maintaining stability when a banking crisis threatens. Deposit insurance thus works together with the other elements of the safety net to contain potential threats to individual institutions or groups of institutions. In this way, deposit insurance supports economic stability by helping to avert interruptions in bank liquidity and credit availability that could otherwise result from disruptive bank runs or bank failures.

While deposit insurance systems, as well as the other elements of a financial safety net arrangement, contribute to stability and thereby promote economic growth, they can also generate perverse effects. By providing protection to market participants, costs of pursuing

riskier strategies are reduced and excessive risk-taking might be incentivised – the moral hazard problem. With their deposits protected against loss,insured depositors have little incentive to monitor bank risk-taking, and may simply seek the highest return possible on their deposits.

Thus,deposits may tend to flow away from conservatively managed institutions towards those willing to pay higher returns by assuming more risk.Deposit insurance can thus exacerbate moral hazard by altering the normal risk-return trade-off for banks, reducing the costs associated with riskier investment strategies. These incentives are inherent to some degree in the nature of all insurance, and even the best structural designs for deposit insurance systems cannot be expected to eliminate moral hazard. As will be discussed later in this paper, supervision and regulation of insured institutions, as well as some degree of market oversight, are essential for controlling moral hazard in order to maintain safety and soundness.

Moral hazard can be expensive, as evidenced by the savings-and-loan crisis in the United States during the 1980s, the banking problems of the Scandinavian countries during the same period, and the current crises in Japan, Korea and other Asian countries. While moral hazard was not the only factor at work in these crises, most would agree that it contributed to the high cost of resolution in each case.

The distinction between maintaining stability and preventing failures should also be emphasised. A safety net that is structured to prevent all failures is likely to stifle innovation and reduce the responsiveness of the banking industry to changing customer needs and other developments in the marketplace. To avoid such rigidity, an exit mechanism needs to be formulated and incorporated into the system. A properly balanced

deposit insurance program can provide order in winding up the affairs of a failing institution, and can thus facilitate the establishment of an effective exit mechanism.

It is easy to underestimate the value of deposit insurance when times are good. When times are bad, governments often re-evaluate the need for such arrangements. Typically, deposit insurance systems are adopted in the aftermath of severe banking crises or when industry conditions are deteriorating and unstable. A recent IMF survey of deposit insurance systems in 60 countries indicated that 40 of these systems were initiated during the 1980s and 1990s, largely in response to actual banking problems or the perceived threat of instability.(Nicholas j Ketcha Jr,2000,pg.223)

1.3.) Deposit Insurance Around the World

Table 1 documents the many ways in which deposit-insurance design varies across countries.[4] An optimal worldwide blueprint is not likely to be found. For example, account coverage varies from unlimited guarantees to tight coverage limits. On the one hand, Mexico, Turkey and Japan promise 100 percent depositor coverage.

However, countries like Chile, Switzerland, and U.K. cover only an amount of deposits that is actually less than their per capita GDP. Also, although many countries cover deposits denominated in foreign currency, most schemes exclude interbank deposits. Besides setting a maximum level of coverage, some countries insist that accountholders "coinsure" a proportion of their deposit balances. Coinsurance provisions are still relatively rare, but are more frequent in recently adopted schemes.

Deposit insurance obligations are typically advance-funded, most commonly from a mixture of government and bank sources. To allow the insurer to build and maintain an appropriate fund of reserves against its loss exposures, in such countries banks are generally assessed an annual premium that is based entirely or in large part on the amount of their insured deposits.

Efforts to make these annual premiums sensitive to bank risk exposure have began in recentyears. Insurance schemes are typically managed in a government agency or in a public-private partnership. However, a few countries, such as Switzerland, Germany and Argentina, manage their schemes privately. Finally, in almost all countries, membership is compulsory for chartered banks. The most notable exception is Switzerland.

Table 1 also records the establishment dates of each country.s scheme. A number of countries adopted or expanded their deposit insurance scheme during crises. For example, Thailand, Malaysia, and Korea moved to blanket coverage in response to their recent crises.

4 For the complete database, see Demirgüç-Kunt and Sobaci (forthcoming) which builds on earlier studies by Kyei (1995) and Garcia (1999).

The 1990s saw a rapid spread in transitional countries perhaps partly motivated by their long-term interest in joining the EU and in some African countries.Countries that adopted deposit insurance in 1999 are Ecuador, El Salvador, and as part of the Central African Currency Union, Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, and Republic of CongoMost of these new schemes show generous coverage levels. For example, Central African Republic and Chad have coverage ratios that lie between 13 and 15 times their GDP per capita.

Precisely because the range of design features is so extensive, the data set can permit analysts to compare and contrast how well different features work in different circumstances.(J. Kane Demirguc-Kunt- Sept. 2001, pg. 6)

1.4.)Basic Charasteristics Of An Effective Deposit Insurance.

1.4.1.)Depositor protection,Moral Hazard,The Role Of The Banking Sector and The Financial Safety Net.

1.4.1.1) The role of the banking sector and the financial safety net

Financial institutions that accept deposits from the public (hereinafter referred to as banks) are important in the economy because of their involvement in the payments system, their role as intermediaries between depositors and borrowers, and their function as agents for the transmission of monetary policy. Banks are in the business of assuming and managing risks.

By their nature, banks are vulnerable to liquidity and solvency problems, among other things,because they transform short-term liquid deposits into longer-term, less-liquid loans and investments. They also lend to a wide variety of borrowers whose risk characteristics are not always readily apparent.

The importance of banks in the economy, the potential for depositors to suffer losses when banks fail, and the need to mitigate contagion risks, lead countries to establish financial safety nets. A financial safety net usually includes prudential regulation and supervision, a lender of last resort and deposit insurance. The distribution of powers and

responsibilities between the financial safety-net participants is a matter of public-policy choice and individual country circumstances. For example, some countries incorporate all financial safety-net functions within the central bank, while others assign responsibility for certain functions to separate entities.

1.4.1.2) Forms of depositor protection

Policymakers have many choices regarding how they can protect depositors. Some countries have implicit protection that arises when the public, including depositors and perhaps other creditors, expect some form of protection in the event of a bank failure. This expectation usually arises because of the government.s past behaviour or statements made by officials.Implicit protection is, by definition, never formally specified. There are no statutory rules regarding the eligibility of bank liabilities, the level of protection provided or the form which reimbursement will take. By its nature, implicit protection creates uncertainty about how depositors, creditors and others will be treated when bank failures occur. Funding is discretionary and often depends on the government.s ability to access public funds. Although a degree of uncertainty can lead some depositors to exert greater effort in monitoring banks, it can undermine stability when banks fail.Statutes or other legal instruments usually stipulate explicit deposit insurance systems.Typically, there are rules governing insurance coverage limits, the types of instruments covered, the methods for calculating depositor claims, funding arrangements and other related matters. A deposit insurance system is preferable to implicit protection if it clarifies the authorities. obligations to depositors and limits the scope for discretionary decisions that may result in arbitrary actions. A deposit insurance system can also provide countries with an orderly process for dealing with bank failures.

The introduction of a deposit insurance system can be more successful when a country.sbanking system is healthy. A deposit insurance system can contribute effectively to the stability of a country.s financial system if it is part of a well-designed safety net.

To be credible, a deposit insurance system needs to be properly designed, well implemented and understood by the public. It also needs to be supported by strong prudential regulation and supervision, sound accounting and disclosure regimes, and the enforcement of effective laws.

A deposit insurance system can deal with a limited number of simultaneous bank failures, but cannot be expected to deal with a systemic banking crisis by itself.

1.4.1.3) Moral hazard

A well-designed financial safety net contributes to the stability of a financial system; however,if poorly designed, it may increase risks, notably moral hazard. Moral hazard refers to the incentive for excessive risk taking by banks or those receiving the benefit of protection. Such behaviour may arise, for example, in situations where depositors and other creditors are protected, or believe they are protected, from losses or when they believe that a bank will not be allowed to fail. In these cases, depositors have less incentive to access the necessary information to monitor banks. As a result, in the absence of regulatory or other restraints,weak banks can attract deposits for high-risk ventures at a lower cost than would otherwise be the case.

Moral hazard can be mitigated by creating and promoting appropriate incentives through good corporate governance and sound risk management of individual banks, effective market discipline and frameworks for strong prudential regulation, supervision and laws. These elements involve trade-offs and are most effective when they work in concert.

Good corporate governance and sound risk management of individual banks help to ensure that business strategies are consistent with safe-and-sound operations, and thus can act as the first line of defence against excessive risk taking. Good corporate governance and sound risk management includes standards, processes, and systems for ensuring appropriate direction and oversight by directors and senior managers, adequate internal controls and audits, management of risks, the evaluation of bank performance, the alignment of remuneration with appropriate business objectives, and management of capital and liquidity positions.

Moral hazard can be mitigated by market discipline exercised by shareholders as well as by larger creditors and depositors who are exposed to the risk of loss from the failure of a bank.

However, for market discipline to work effectively, these groups must have the knowledge required to assess the risks they face. Information should be readily available and be generally understandable by the public. Sound accounting and disclosure regimes are required, as well as ongoing attention to a bank.s soundness by ratings agencies, market analysts, financial commentators and other professionals.

Many countries rely heavily on prudential regulatory and supervisory discipline to mitigate moral hazard and control excessive risk taking. Regulatory discipline can be exercised through sound and effective regulations covering the establishment of new banks, the implementation of minimum capital requirements, the qualifications of directors and managers, sound-business activities, fit-and-proper tests for controlling shareholders, standards for risk management, strong internal controls, and external audits. Supervisory discipline can be exercised by ensuring that banks are monitored for safety and soundness

as well as compliance issues and that corrective actions are taken promptly when problems surface,including the closure of banks when necessary.

Specific deposit insurance design features can also mitigate moral hazard. These features may include: placing limits on the amounts insured; excluding certain categories of depositors from coverage; using certain forms of coinsurance; implementing differential or risk-adjusted premium assessment systems; minimising the risk of loss through early closure of troubled banks; and demonstrating a willingness to take legal action, where warranted, against directors and others for improper acts.

Many of the methods used to mitigate moral hazard require certain conditions to be in place.For example, differential or risk-adjusted differential premium assessment systems may be difficult to design and implement in new systems and in emerging or transitional economies.

Early intervention, prompt corrective action and, when warranted, bank closure require that supervisors and deposit insurers have the necessary legal authority, in-depth information on bank risk, financial resources, and incentives to take effective action. Personal-liability provisions and availability of sanctions can reinforce incentives of bank owners, directors, and managers to control excessive risk, but they depend on the existence of an effective legal system that provides the necessary basis for action against inappropriate behaviour.

Policymakers should consider a country.s conditions and factors that may determine the effectiveness of particular measures for mitigating moral hazard, the commitment and the ability to implement them, and the advancement of a reform agenda to eliminate gaps that may limit their effectiveness.

1.4.2.)Coverage and Limits

The scope of deposit insurance coverage and its limits depend on a country's willingness and ability to balance the goal of achieving financial stability with the introduction of incentives for depositors to exercise some discipline. Deciding what to cover and where to set the limits involves a trade-off between depositor discipline and financial stability.

Limits that are set too low are unlikely to prevent bank runs in the event of financial troubles. However, limits that are set too high restrict the discipline that depositors can exert on banks to control their risk-taking.

A few countries have implemented various forms of coinsurance as a means of instilling more market discipline. Although it was noted that not all coinsurance systems are able to maintain depositor confidence when the financial system is under serious stress, where the coinsurance system is structured to protect depositors up to a certain minimal amountthis can be achieved.

The Study Group did not discuss who should be insured, which instruments (such as foreign currency deposits) should be covered or the level at which the deposit insurance limits should be set. It is recognized, however, that these are important issues that need to be considered when establishing a deposit insurance system.(FINANCIAL STABILITY FORUM-Working Group on Deposit Insurance -June 2000 -International Guidance on Deposit Insurance A Consultative Process page 7.)

1.4.3.1.)Compulsory membership

In general, membership should be compulsory to avoid adverse selection. There are some cases, however, where a strong commitment of banks to participate in a deposit protectionsystem can be observed and broad participation of banks may be achieved without a legal obligation. This can occur if depositors are aware of and

sensitive to the existence of deposit insurance, thus creating strong incentives for banks to be part of a system. In other cases, if depositors are less concerned about deposit insurance or are not aware that coverage is limited to certain banks, then the stronger banks may opt out. Further, in a voluntary system strongbanks may opt out if the cost of failures is high and this may affect the financial solvency andthe effectiveness of a deposit insurance system.

1.4.3.2.) Considerations when granting membership to banks

There are two circumstances that may require different approaches to granting membership to banks. First, when a deposit insurance system is established and second, when membership is granted to new banks in an existing system.

When a deposit insurance system is created, policymakers are faced with the challenge of minimising the risks to the deposit insurer, while granting extensive membership. Generally,two options are available: automatic membership or requiring banks to apply for entry.

Automatic membership for all banks may be the simplest option in the short term. However,the deposit insurer may then be faced with the difficult task of having to accept banks that create an immediate financial risk or that pose other adverse consequences for the deposit insurance system.

Alternatively, banks may be required to apply for membership. This option provides the deposit insurer with the flexibility to control the risks it assumes by establishing entry criteria.It also can serve to enhance compliance with prudential requirements and standards. In such cases, an appropriate transition plan should be in place that details the criteria, process and time frame for attaining membership. The criteria should be transparent.The way that policymakers grant membership in existing deposit insurance systems varies. In

some countries, the licensing or chartering of new banks and the granting of membership in a deposit insurance system are separate functions of different safety-net participants. In other countries the relevant safety-net participants jointly approve new members and in others,membership is automatic with the issuance of a bank charter or license. Whichever option is chosen, appropriate mechanisms are necessary to ensure that membership requests are handled expeditiously and effectively, and that eligible banks meet minimum prudential standards and entry requirements.

1.4.3.3.) Foreign banks

Although domestically incorporated or chartered banks are the principal members of most deposit insurance systems, some countries require foreign-bank subsidiaries and branches to participate in the system as well. Several arguments are made for their inclusion: the stability of the domestic financial system; the goal of providing a minimum level of deposit insurance to all depositors; the notion that foreign banks benefit from a stable domestic financial system and should therefore participate in the deposit insurance system as part of doing business in a country; the desire to minimise competitive issues by placing foreign banks on the same footing as domestic banks; and the diversification that arises from wider membership and expansion of the funding base.

1.4.3.4.) Non-bank financial institutions

Policymakers take different approaches to non-bank financial institutions that offer deposits and deposit-like products. The rationales for expanding membership beyond banks include:the desire not to introduce competitive distortions among different types of institutions offering similar products; the objective of enhancing the stability of the financial system byincluding all institutions that accept deposits or deposit-like

products; and the desire to apply prudential regulatory and supervisory rules to all such institutions.

There are many cases, however, where non-bank financial institutions are excluded frommembership. The most common reasons are that such institutions may not be as relevant as banks to a country.s financial stability, that they may be subject to different regulatory and supervisory standards, and they may have different authorities overseeing their affairs. In such circumstances, policymakers may establish separate protection schemes to cover non-bank financial institutions.

1.4.3.5.) State-owned banks

State-owned banks present unique issues for deposit insurance systems. These banks are usually the beneficiaries of an implicit or full government guarantee that may make their inclusion in a deposit insurance system appear unnecessary. Nevertheless, some countries have chosen to include them in their systems. Some of the reasons are: to facilitate privatisation; to ensure competitive equality with private-sector banks in terms of the level of coverage and premium contributions; to provide a mechanism to bring such banks under the same prudential regulatory and supervisory rules applicable to other banks; and to diversify the deposit insurers risks and increase its funding base. .(Financial Stability Sorum-Septamber 7,2001- GUIDIANCE DEVELOPING EFFECTIVE DEPOSIT INSURANCE SYSTEMS,Pg.16)

1.4.4.) Private or government deposit insurance systems

There are many variations of private and public systems in place. Some form of a banking industry group usually runs private protection systems. These systems areusually not established by legislation, have no legal obligation to pay depositors, have no government involvement in their operations, and have no government back-up support.As a

result, these systems do not expose, by themselves, the government and taxpayers to loss.Private protection systems can function effectively in normal times if failures areinfrequent and minor. In a generalized economic downturn, when the protection system is under stress (for instance, in dealing with a wave of failures or a large failure), the capacity of such a system to absorb losses and its ability to pay depositors may become problematic. These private systems are less likely to maintain depositor confidence in such times. In these circumstances, the government may have to provide a backstop to the protection system, thus exposing the safety net without certain safeguards that would otherwise be in place with a government-backed system. By contrast, there are private deposit insurance systems that have a legislative underpinning. These systems are required to pay depositor claims and usually have access to government assistance, often in the form of interest-bearing loans. Thus, wellstructured private deposit insurance systems with these elements can maintain depositor confidence.

Certain government-backed public systems provide the full faith and credit of the government and are part of the financial safety net. As a result, they are able to maintain depositor confidence even in times of stress. The credibility of such systems, however, is linked to the government's ability to stand behind the assurance that it provides todepositors.

1.4.5.) Funding mechanisms

There is a variety of funding options available to deposit insurers, which range from an *ex-ante* to an *ex-post* basis or some combination thereof. In an *ex-ante* system, the deposit insurer is often able to build a fund so that financial resources are readily available when a failure occurs. A major consideration of an *ex-ante* system is determining the size of the target fund and its investment policies. An important principle of an *ex-ante* system is that

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At times both *ex-ante* and *ex-post* mechanisms may need to rely on additional financial resources such as loans or government support. In some countries, deposit insurers alsohave access to financial markets for their funding needs. It is essential that policy-makers consider how the deposit insurance system can deal with failures in normal times and those that may occur in waves during times of stress. Regardless of the funding mechanism, no deposit insurance system can withstand, on its own, a systemic crisis.

When deposit insurance systems are funded through premiums, policy-makers have a choice between a flat-rate premium or some form of differentiated premium based on a bank's risk profile. Many countries are adopting risk-based premiums or some form of a differentiated premium system to help address moral hazard, but there has been limited experience so far.Although a properly designed risk-based premium system can reduce moral hazard,adopting flat-rate premiums in newly emerging or transitional economies may be more appropriate given the potential difficulties involved in the design and implementation of risk-based premiums. These difficulties include finding appropriate and acceptable methods of differentiating institutional risk; obtaining reliable and appropriate data;considering the transparency of the approach; and examining the potential destabilising effects of imposing high premiums on already troubled banks.(FINANCIAL

STABILITY FORUM-Working Group on Deposit Insurance -June 2000 -International Guidance on Deposit Insurance A Consultative Process page 8.)

1.4.6.)Mandates,Powers and Structure

1.4.6.1.) Mandates and powers

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Whatever the mandate selected, it is critical that there be consistency between the stated objectives and the powers and responsibilities given to the deposit insurer.Paybox systems largely are confined to paying the claims of depositors after a bank has been closed.

Accordingly, they normally do not have prudential regulatory or supervisory responsibilities or intervention powers. Nevertheless, a paybox system requires appropriate authority, as well as access to deposit information and adequate funding, for the timely and efficient reimbursement of depositors when banks fail.

A risk-minimiser. deposit insurer has a relatively broad mandate and accordingly more powers. These powers may include: the ability to control entry and exit from the deposit insurance system, the ability to assess and manage its own risks, and the ability to conduct examinations of banks or request such examinations. Such systems also may provide financial assistance to resolve failing banks in a manner that minimises losses to the deposit insurer.Some risk-minimisation systems have the power to set regulations, as well as to undertakeenforcement and failure-resolution activities. Formally

specifying the mandate of a deposit insurer (either in law, in a formal policy statement, an agreement, or by private contract) clarifies the role of deposit insurance within the financial safety net. Clarity of the mandate reinforces the stability of the financial system and contributes to sound governance and greater accountability.As a general principle, a deposit insurer should have all powers necessary to fulfil its mandate.All deposit insurers require the ability to enter into contracts, set appropriate requirements,and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.

1.4.6.2.) Basic structure and operational issues

Regardless of the scope of a deposit insurer.s mandate, there are certain structural and operational issues that must be addressed. One of the first tasks is to determine whether the deposit insurance function should be assigned to an existing organisation or whether aseparate entity should be established.

Assigning the deposit insurance function to an existing entity, (for example adding a department to a central bank), has the advantage of allowing the deposit insurer to draw on staff resources and skills from the larger organisation. However, this approach also has drawbacks. The primary disadvantage is that a larger organisation may have difficulties separating its other responsibilities and interests from the deposit insurance function. Whether or not the deposit insurer is a separate organisation, it is vitally important to set clearly the responsibility and accountability of each safety-net function.

1.4.6.3.) Basic governance arrangements

There are a variety of forms of governance that can be used by a deposit insurance system. The form of governance utilised should reflect the mandate and the degree to which the deposit insurer is legally separated from the other financial safety-net participants.

The governing body of the deposit insurance system should include individuals with the requisite knowledge who understand the organisation.s activities as well as the environment in which it operates, and they should have the authority to make decisions.

The deposit insurer should have access to the input and views of the other safety-net participants and relevant interested parties. Members of the governing body and management of the deposit insurer should be subject to a fit-and-proper test, and they should be free from conflicts of interest.

Governance systems and practices should be developed on the basis of sound strategic planning, risk-management processes, and good internal control and audit systems. The governance structure should be transparent and subject to clear oversight and accountability.Rules specifying corporate governance practices should be developed.(Financial Stability Sorum-Septamber 7,2001- GUIDIANCE DEVELOPING EFFECTIVE DEPOSIT INSURANCE SYSTEMS ,page 19.)

1.4.7.) Conditions for establishing an effective limited-coverage deposit insurance system

The Study Group identified certain conditions that should exist for an effective and credible limited-coverage deposit insurance system to be established. These include:

- a sound legal regime;
- a stable macroeconomic environment and policies consistent with maintaining a safe

  and sound banking system;

- a financial system characterized by appropriate regulation and effective supervision;
- compliance with recognized accounting, auditing, and regulatory standards; and
- an effective disclosure regime.

In an ideal world all of these conditions would be present before deposit insurance is introduced; however, in many cases this may not be practicable. Thus, careful attention needs to be placed on when and how a deposit insurance system can be introduced successfully.

1.4.8.) Key attributes of an effective deposit insurance system

Key attributes of an effective deposit insurance system identified by the Study Group are:

- the framework upon which a deposit insurance system is established should explicitly define its benefits, including insurance coverage and limits;
- there should be mandatory bank participation in the deposit insurance system;
- there should be clear mandates and defined roles and responsibilities for the deposit insurer, the regulatory and supervisory agencies, and the central bank (the "agencies"). Arrangements should include an accountability regime and close coordination and the free flow of timely information among the agencies;
- the deposit insurer should have well-defined funding mechanisms in place to quickly meet its obligations to depositors; and

- the public should be informed of the key elements of the deposit insurance systemto instil confidence.

1.4.9.) Public-policy objectives

The first step in designing a deposit insurance system is to identify the public-policy objectives that it is expected to achieve and these objectives must be well understood. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and to protect less-financially-sophisticated depositors. Although the determination of such objectives is the responsibility of governments, the private sector can play a role in their achievement.

The choice of how a deposit insurance system is to be operated depends on many factors that are unique to each country and its governmental and financial systems.

A well-designed and well-understood deposit insurance system contributes to the stability of a country.s financial system by reducing the incentives for depositors to withdraw their insured deposits from banks because of a loss of confidence.

Policymakers should ensure that the authorities and the public view all components of the deposit insurance system as credible. The level and scope of coverage, the speed with which insured deposits are repaid, and the credibility of the underlying guarantee will affect the deposit insurance system.s ability to enhance the stability of the financial system. Public attitudes and expectations play a particularly important role in reinforcing the credibility and the effectiveness of a deposit insurance system.

Deposit insurance protects insured depositors against the consequences associated with the failure of a bank but it is not designed to protect banks from failing. The provision of deposit insurance relieves insured depositors of the difficult tasks of monitoring and assessing the condition of banks and their asset quality. At the same time, deposit insurance contributes to the maintenance of confidence, so that less-financially-sophisticated depositors, or those who find it hard to assess the financial condition of a bank, are less likely to participate in bank runs.

A continuous-improvement process should exist for reviewing the extent to which a deposit insurance system is meeting its public-policy objectives and its mandate. Also, the appropriateness of the mandate, powers and elements that make up a deposit insurance system should be periodically reviewed. In this way, countries can ensure that their deposit insurance arrangements remain consistent with economic and social conditions and lessons learned, and that financial safety-net participants are better able to deal with the challenges they may encounter.

1.4.10.) Strategic Analysis Model – A tool for policy-makers

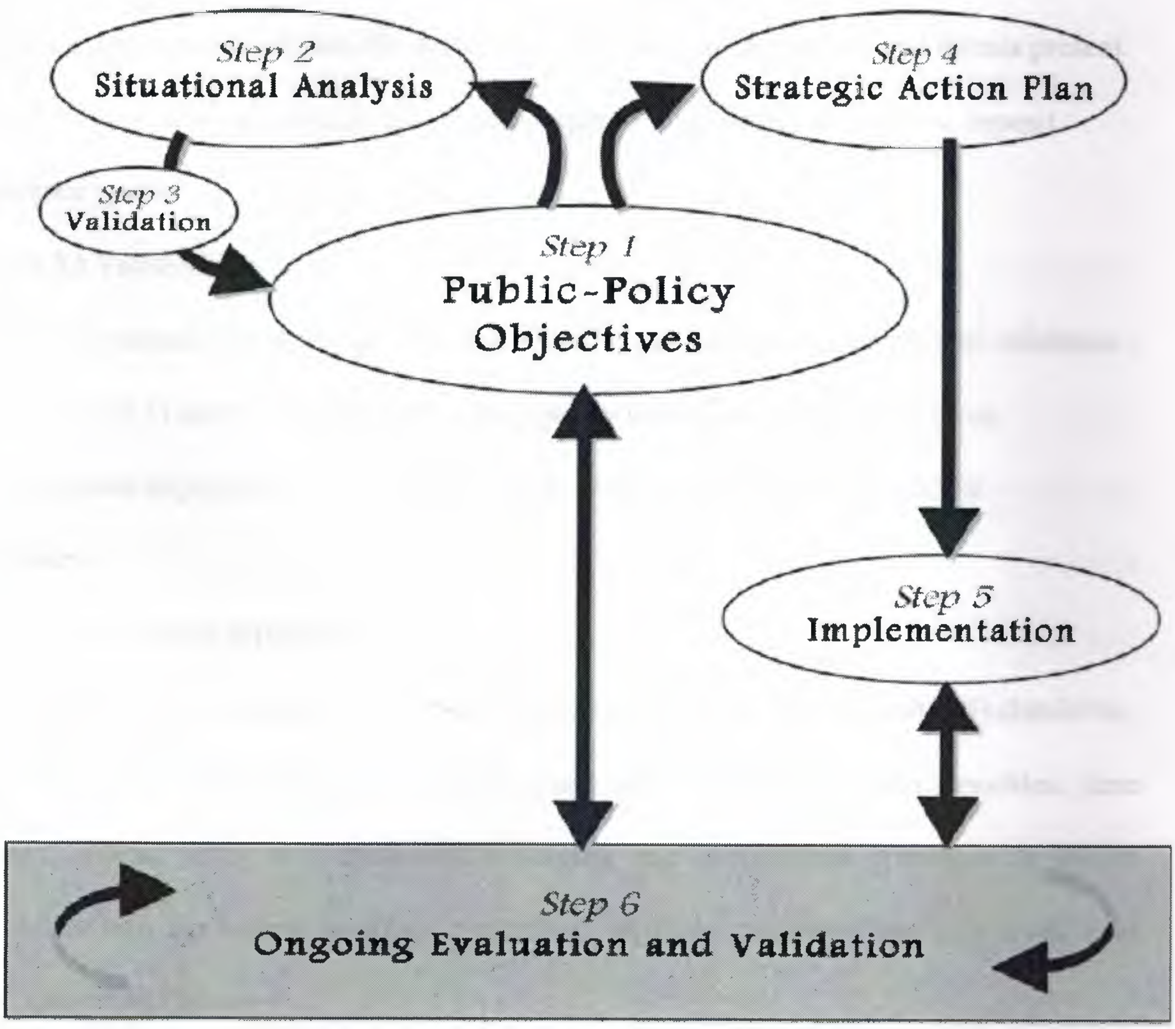
As a tool for assisting policy-makers in determining how to design, implement, and enhance an effective deposit insurance system, the Study Group developed a strategicanalysis model (see figure overleaf). A brief overview of the model follows:

1.4.10.1.) Setting out the public-policy objectives

The analysis should begin by listing the relevant public-policy objectives to be attained,preferably in a public-policy paper (Step 1). This analysis should take into account the extent to which the conditions are present in a given country. The policy paper should set out the key attributes and important elements of the system in determining the mandate and the powers to be given to the deposit insurer. As well, the policy paper should outline the role of the deposit insurer within the financial safety net and the deposit insurer's relationship with the other participants in the regulatory and supervisory regime.

Strategic Analysis Model – A Tool for Policy-makers

Designing, Implementing and Enhancing an Effective Deposit Insurance System



(FINANCIAL STABILITY FORUM-Working Group on Deposit Insurance Strategic Analysis Model – A Tool for Policy-makers Designing, Implementing and Enhancing an Effective Deposit Insurance System-June 2000,page 4)

1.4.10.2.) Situational analysis against conditions

Step 2 should consider the structure (including ownership, extent of competition and size of institutions) and strength of the financial system. The analysis should address the state of the legal regime; the economic environment; the regulatory and supervisory system; the quality of accounting, regulatory and auditing standards; and the disclosure regime.

This analysis should expose the strengths, weaknesses, opportunities and threats present in the environment and identify the changes required to construct an effective deposit insurance system.

1.4.10.3.) Validation

Once the situation analysis has been completed, there should be a review and validation process (Step 3) against the proposed public-policy objectives, as well as the key attributes and important elements of the system. Adjustments should be made if necessary.

1.4.10.4.) Strategic action plan

After the validation phase has been completed, a strategic action plan (Step 4) should be developed. This plan should set out the goals (deliverables) and their priorities, time frames, critical paths, communication strategies, and consultation processes. It should alsodefine how the deposit insurance system will be made operational and how it will deal with transitional issues.

In transitioning from a blanket guarantee, care must be taken to ensure that the bankingsystem is not disrupted. In this regard, policy-makers should have in place contingency plans to deal with any adverse consequences. It is critical that the public understands the planned changes and the time frame within which they will be completed.

1.4.10.5.) Implementation phase and acceptance

Implementation of the deposit insurance system and other necessary changes (Step 5) should be supported by a mechanism to track progress and identify any adjustmentsrequired. The purpose of this phase is to render the system operational and deal with transitional issues. For example, appropriate corporate governance of the deposit insurer(the board of directors, senior management, internal controls, and an accountability regime) will need to be put in place. Also, budgets, funding, and access to information,including information-exchange arrangements, need to be addressed promptly.

1.4.10.6.) Ongoing evaluation and validation

Because of the dynamic nature of financial systems, there is a clear need for ongoing evaluation and validation of the effectiveness of the deposit insurance system, which may require changes after it becomes operational. This continuous-improvement process should incorporate new developments in the financial system and the lessons learned at home and abroad and should allow for timely changes to the system. This continuousimprovement process should include benchmarking against core principles, guidelines and best practices.(FINANCIAL STABILITY FORUM-Working Group on Deposit Insurance June 2000 -**International Guidance on Deposit Insurance A Consultative Process,page 5)**

1.4.11.) Public awareness

In order for a deposit insurance system to be effective, it is essential that the public be informed about its benefits and limitations. Experience has shown that the characteristics of a deposit insurance system need to be publicised regularly so that its credibility can be maintained and strengthened.

A well-designed public-awareness program can achieve several goals, including the dissemination of information that promotes and facilitates an understanding of the deposit insurance system and its main features. Also, a public-awareness program can build or help restore confidence in the banking sector. Additionally, such a program can help to disseminate vital information when failures occur, such as guidance regarding how to file claims and receive reimbursements.

When designing a public-awareness program, it is critical to identify the target audience. Bank employees, especially those in operations, as well as those on the front-line, are important conduits for providing information about deposit insurance.

Care should be taken to select strategies that meet the goals set in the public-awareness program. A public-awareness plan that addresses issues related to failures should be carefully developed before an actual failure occurs. A well-designed public-awareness program helps to counteract the potentially disruptive effects of bank failures and helps maintain confidence in the stability of the financial system.

In countries where public confidence in the banking system is high and awareness of an existing deposit insurance system is very low, special communication strategies need to be developed to ensure that the stated goals are achieved while public confidence is maintained.(Financial Stability Sorum-Septamber 7,2001- GUIDIANCE DEVELOPING EFFECTIVE DEPOSIT INSURANCE SYSTEMS)

SECTION 2) DEPOSIT INSURANCE SYSTEM IN TRNC

2.1) Establishment and Objective Of Fund

By the Saving Deposit Insurance Fund law is established within the structure of the Central Bank s fund which shall be a corporate body to be called Saving Deposit Fund.The object of this law is to have the saving deposited at banks insured,and to protect all rigths of saving deposit holders.

2.2)Administartion and Representation of Fund

The Fund shall be administrated and represented by its board of mangement.The Board of Manegement of the Fund shall consist of six members and shall be composed of the Governor of the Central Bank,two vice Governors of Central Bank,two representatives of the Ministry an done representative of the Northern Cyprus Bank Associations.The Governor of the Central Bank shall be the Chairman of The Board of the Management and shall preside over the meetings.In the absence of the Governor of the Central Bank,Vice Governor of the Central Bank shall preside over the meetings.The remuneration to be paid to the representatives for the management and representation of the Fund shall be determined by the Council of the Ministers.

The Board of the Management of the Fund may be called to meet every other two month and the request of the Chairman least three members A simple majority of members shall consitute the quorum at any meeting,and decisions shall be taken by a simple majority of members.The membership of the representative of Nort Cyprus Bankers Association shall lapse in case his bank is turned over the Fund, as from the time of its turning over.

The Duties,Powers,the method and principle guiding the Proceedings of the Fund Management shall be laid down in a regulations to be made by the Central Bank and approved by the Council of Ministers and published in the Official Gazete.

2.3.)Resources of Fund

1. Resorces of Fund are coprised of the fallowing;

(A)Insurance Premiums;

(B)Deposits,pledges and credits expiring because of limitation of time;

(C)Advences to be made from the budget;

(E)Surcharges on the late payments by banks of legal cash reserves;

(D)Aids to be secured for this purpose from Turkey and other countries;

(F)Penalties to be recovered from banks under the Banking Law of the TRNC;

(G)Income acruing on the assets of the Fund and other incomes.

2.In extraordinary circumstances the Fund may barrow money with prior premissions of the Council of Ministers.

2.4.)Rates of Insurance and Procedures and Principles of Collection

All saving deposits deposited at banks are covered by the insurance of the Fund.Provided that as from 01.01.2004 the amount of the savings deposits to be covered by the insurance of the Fund may be fixed by the Central Bank,such amounts not being less than 20.000 Euros for each account.*

Insurance premiums payable on deposits covered by the ınsurance of the Fund,the dates for their collection and the method and principles regulating their payment,shall be prescribe by regulations to be issued by the Central Bank and published in Official Gazete

Insurance premiums on saving deposits are calculated on the basis of abstracts in accordance with section 33 of Banking Law of the TRNC.The Premium rate applied is %00.25 on the total saving deposits as at each quarterly period.Premium rates %100 over or under this rate may be introduced at the proposal of the Central Bank and by approval of the Council of Ministers.A surcharge under the provisions of the procedure for the recovery of Public Debts Law is payable on premiums not paid when due.

Saving deposits in a bank,belonging to partners holding more than %10(ten percent)of the capital of that bank and to the chairmanand members of its Board of Directors,General Managerand Asistant General Managers,internal external auditors and the parents,spouses and children of the aforesaid persons, are not covered by the insurance of the Fund.

***By resolution dated 12.07.2004,the Board of Management of Central Bank has resolved that the total amount of capital and interest protected by the insurance of the Fund in accounts opened or renewed after 01.09.2004 shall be up to 200.000 Euro;and in accounts opened or renewed after 01.12.2004 shall be up to 100.000 Euro; and in accounts opened or renewed after 01.03.2005 shall be up to 100.000Euro; and in accounts opened or renewed after 01.06.2005 shall be up to 20.000 Euro.**

2.5.)Kinds of Insurance Premiums

Insurance premiums on Turkish Lira savings deposits are paid in Turkish Liras,and on foreign currency savings deposits in US Dollars,Germen Mark,and Euro,and other kinds of foreign currency deposits in equavalent US Dollars.

2.6.)Obligation to Provide Information and Documents

Except in curcumstances relating to the security of the State, and where serious consequances may ensue affecting the fundamental foreign interests of the State and without prejudice to the rules relating to the rights of professinal secrecy,privacey of the family lifeand the right of defence,public bodies are obliged,no withstanding any prohabitive or restrictive provisions contained in any specific law,to provide continously or in an asolated cas,at appropriate periods and in due manner all kinds of information reguested by the Fund,even though such information may be classified as secret,and to produce boks and documents to be demanded;provide thet the obligation to supply such information and documents shall be limited to transactions within the purwiev of this law.

2.7.)Method of Payments

The method and conditions of payments shall be governed by regulations to be made by the Board of the Management of the Fund with the approval of the Council of Ministers and tobe published in the Official Gazete,having due regard to the cash position of the Fund and its capacity for payment.

2.8.)Exemption from Tax, Dues and Charges

Not withstanding any provisions to the contrary in any other law,the Fund is exempt from the payments of any kind of taxes,dues and charges.

2.9.)Offences and Penalties

Any person contrevening the provisions of this law or regulations, rules or notifications made under this law shall be guilty of an offence and may, on conviction be liable to a fine up to 50,000,000,000Tl (fifty billion Turkish Liras) or to imprisonment up to seven years or to both.The amounts of fine mentioned in this section shall be incresed as January in each year according to the revoluation multiplicant to be laid down under sections 5 6 of the Revaluation of the Capitals and Economic Assets of Business Law.

2.10.)Provisions and Final Provisions

Saving deposits belonging to real persons, and to corporate societies carriying on the business of banking as bankers using the title 'Bank' and to Provident Fund held in banks the management of which were taken over prior to the coming into force of this law ,are covered by the insurance of the Fund.

The accumulated resources of the Fund established under the Savings Deposit Insurance Fund Law now repealed by this law,shall be transfered to the Fund established under this law.Starting from the date of coming into force of this law,saving deposits shall be insured subject to the new definition given to saving deposits.Provided that implementations prior to the coming into force of this law are deemed to be covered by the Saving Deposit Insurance Fund Law.

Saving deposits in banks liquidated under the provisional section 1 of Saving Deposit Insurance Fund Law repealed by this law,are wholly under the cover of the Saving Deposit Insurance Fund Law.

Of persons acting as members of the commitee of management representing depositors whose law from the protection of the Fund,the deposits of only those members of the management commitee who act as representatives of the excluded depositors,and those of their spouses,parents chidrens shall be deemed to bo covered by the Fund,and to be subject to the provisions of this law so long as no court judgements are given against such persons causing the insolvency and liquidation of the bank attributable to decisions taken by them in contravention of legisletion in force, and so long as no decisions is taken for their exclusion from the protection of ther Fund.This law shall be administrated by the Minister responsible for Economic Affairs and this law shall come into force as from the date of its publications in the Official Gazete.

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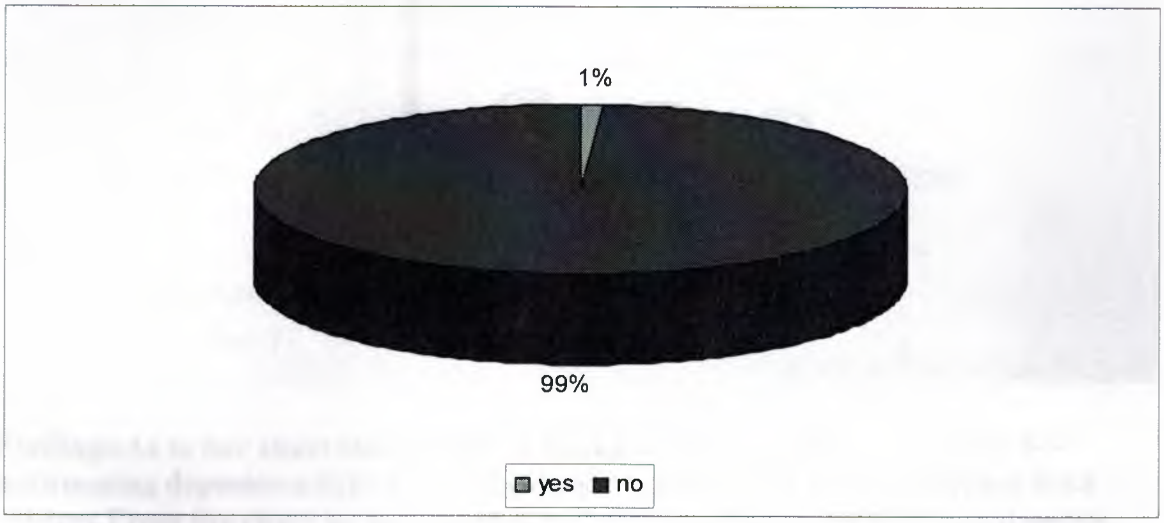
SECTION 3)METHODOLOGY

In this study to evoluate deposit insurance system in TRNC a questionaire was made. Questionaire was found and be made from Asst. Prf.Dr. Okan Şafaklı.The investigation was made between the May 1 and June 1.It had two parts.First part was bank satff and investigation included Yakın Doğu Bank,Iş Bank,Faisal Islamic Bank,Altınbaş Bank,HSBC Bank,Ziraat Bank,Şeker Bank,Türk Bank. For the first part of questinaire was made on 81 bank staff.Seven questions are asked to bank staff.Second part was depositors..Second part of questionaire was made on 100 depositors and 9 questions are asked to the depositors.The purpose of the study was to understand the knowledge of bank staff and depositors about deposit insurance system in TRNC.The results of questionaire were explained by Microsoft Excel.(For brief details questionaire would be found at Appendix A)

SECTION 4) FINDINGS

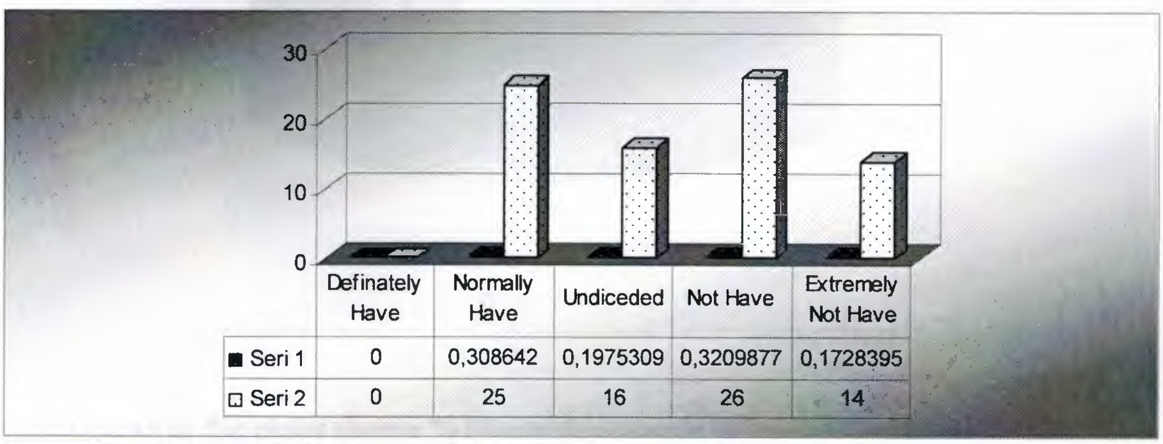
The İnvestigation for bank staff

1)Did you take a course for informating depositors about the Deposit Insurance Fund by the bank directors?



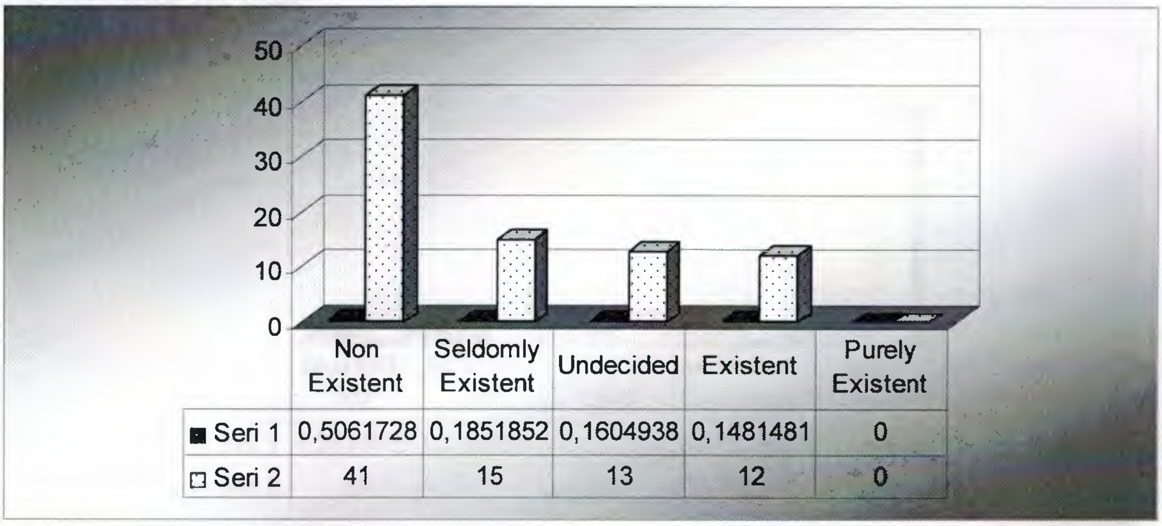
Findings:As in pie chart shown %1 of bank stafftake a course and %99 don't take a course from the bank directors.Banks in TRNC are not educate it's staff to informate its depositors if any question comes for Deposit Insurance System.

2)Do you have enough knowladge about the basical purposes and other rules of Deposit Insurance Fund?



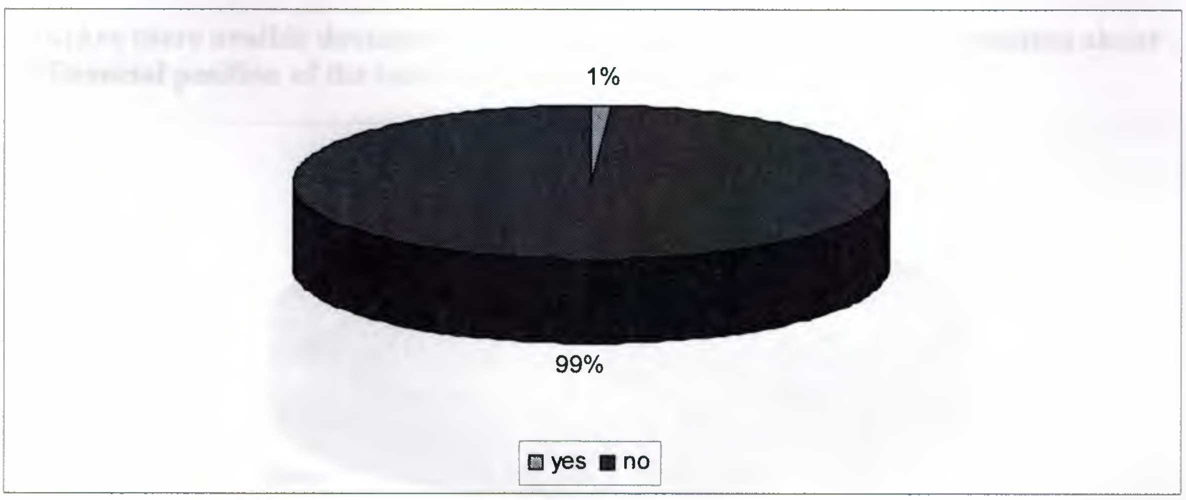
Findings:As in bar chart showed %30 of staff have normally knowladge,%19.75 of staff have undiceded,%32.1 staff not have and finally %17.3 of staff extremely not have knowladge about the deposit insurance.In TRNC bank satff did'nt have knowledge about the deposit ınsurance.

3)Does the bank has a systematic policy for informating it's depositors?



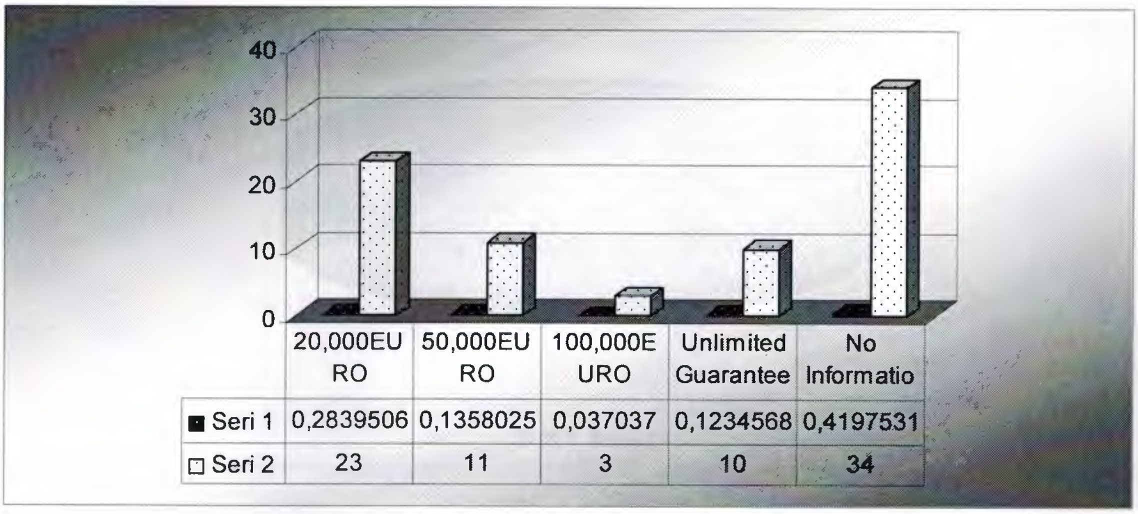
Findings:As in bar chart shown %50 of banks not have a systematic policy for informating depositors,%18.5 have sseldomly existent,%16 have undecided,%14 existent.From the chart we can say that in TRNC banks does'nt have a systematic policy to inform it's depositors.

4)Have the bank brochures and similar documents for informating it's depositors about Deposit Insurance Fund avaible?



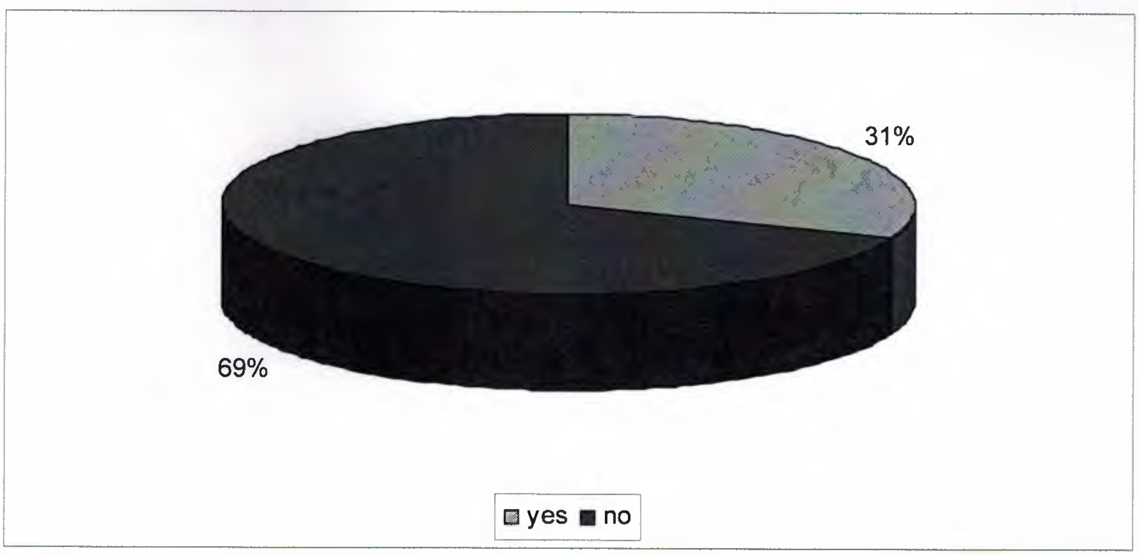
Findings:As in Pie chart shown %1 have documents in banks to informate their costumer,and %99 of banks don't have documents to informate it's depositors about deposit insurance fund.

5)What is the maximum price that has insured for Deposit Insurance account which has deposited for today?



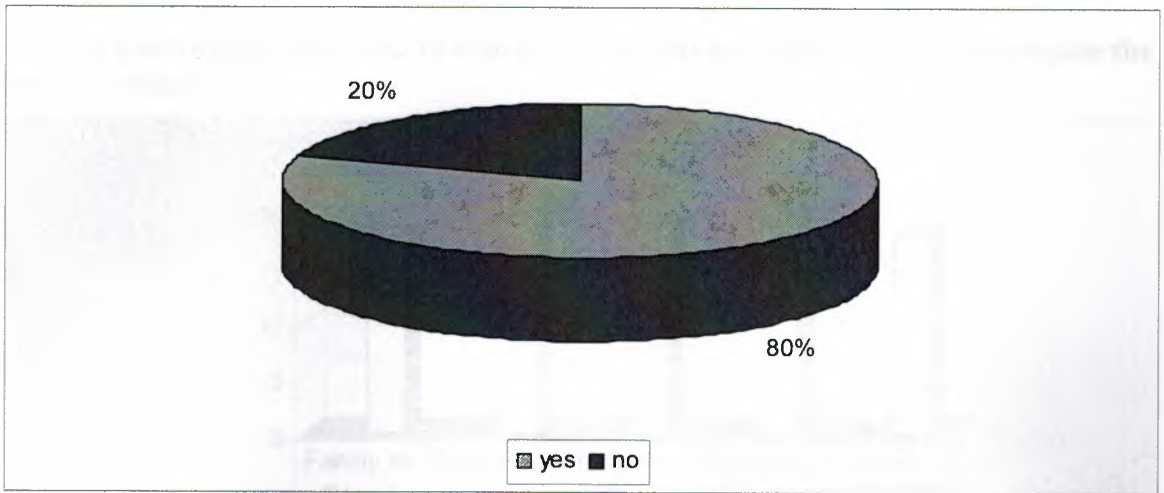
Findings:As in bar chart shown about %28.4 of staff answer 20,000,%13.5 answer 50,000,%3.7 answers 100,000,%12.3 answer unlimited and finally %42 answers no information than it shows in TRNC bank staff realy don't know the right answer because the right answer is 50,000EURO.

6)Are there avaible documents for costumers who want to take information about financial position of the bank in an immediate way?



Findings:As in pie chart shown %31 of banks have documents and %69 don't have documents in the banks to informate depositors.Then in TRNC taking information for the finacial positions of banks is very hard.

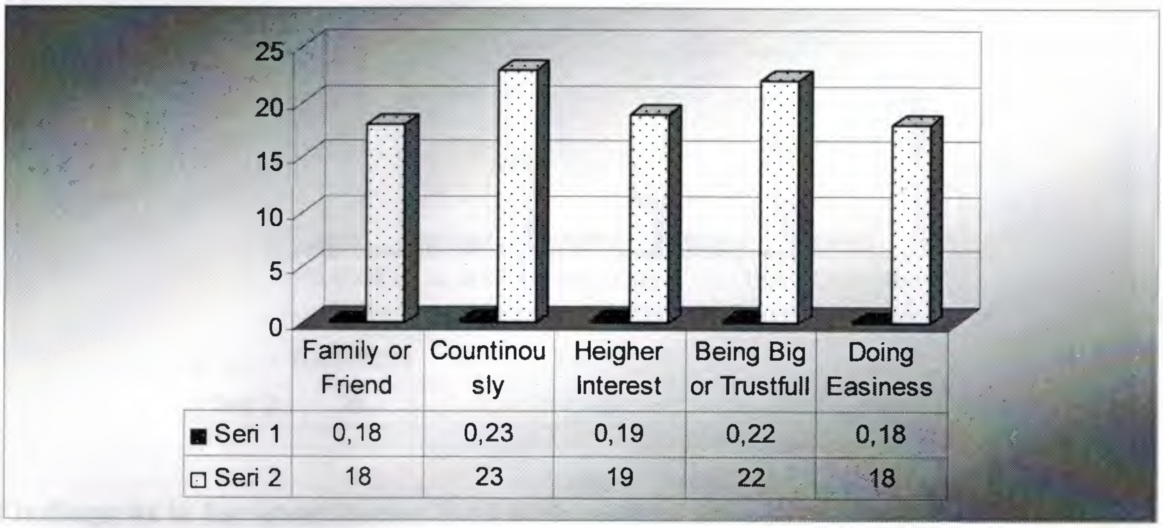
7)If your answer is yes to the sixth question,can we see these documents?



Findings:As in pie chart shown %20 of banks can't show these documents and other %80 can show the documents.We can say that the banks who have avaible in the banks will give information easly to it's depositors in TRNC.

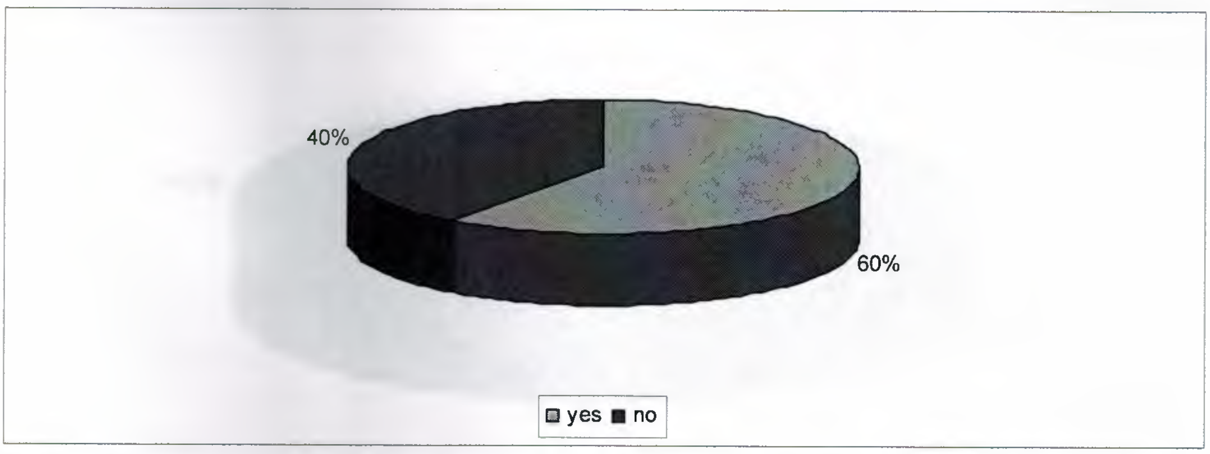
The Investigation for Depositors

1)When you're depositing due to which factors that are listed below do you make the bank selection?



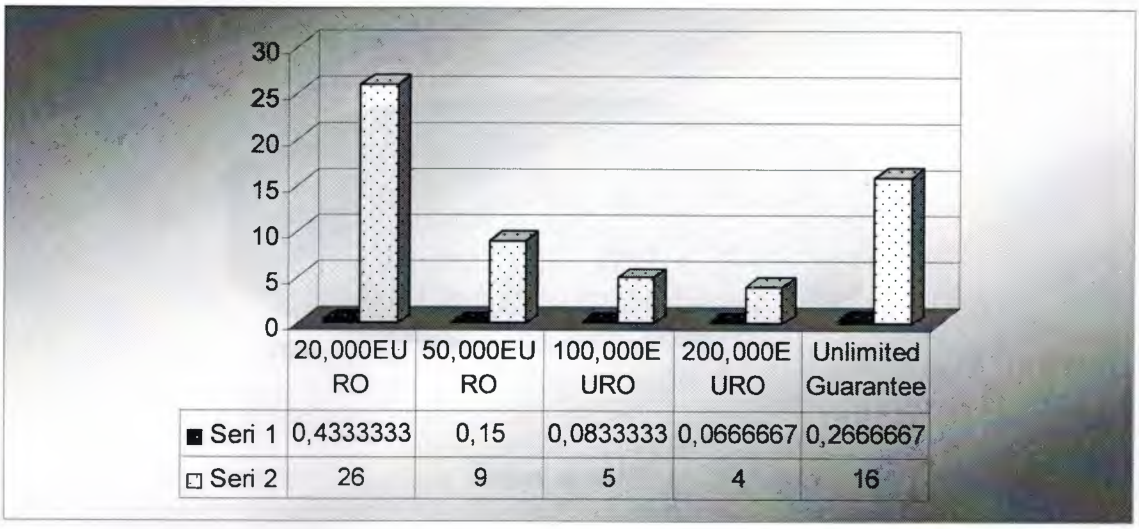
Findings:As in bar chart shown %18 of depositors take advise from family or friend to chose the bank,%23 of depositors chose banks when ıt's been countinously working bank,%19 heigher interest rates,%22 chose when it's big or trustfull bank and finally %18 chose when banks are give easy loans to custumers.

2)Do you have knowladge about deposit quantity that is guarenteed by the Deposit Insurance Fund while you're depositing?



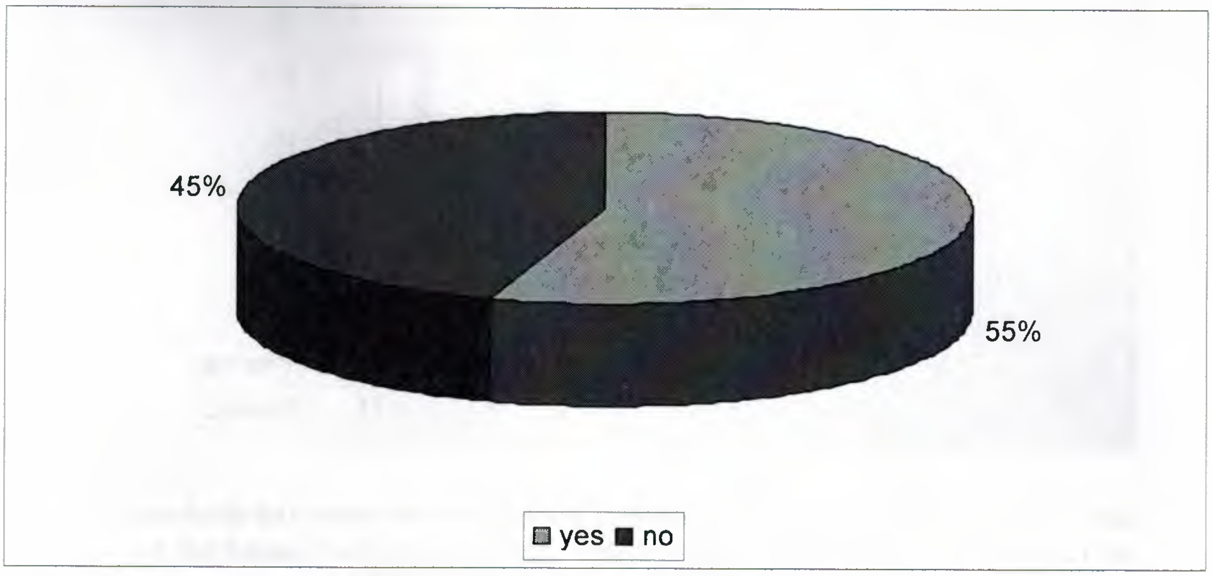
Findings:As in pie chart shown %40 believe that they have not knowladge and %60 believe that they have knowladge about the maximum quantitiy guaranteed by the deposit insurance fund.

3)If your answer yes to second question, what's the maximum deposit quantity that is guaranteed for today?



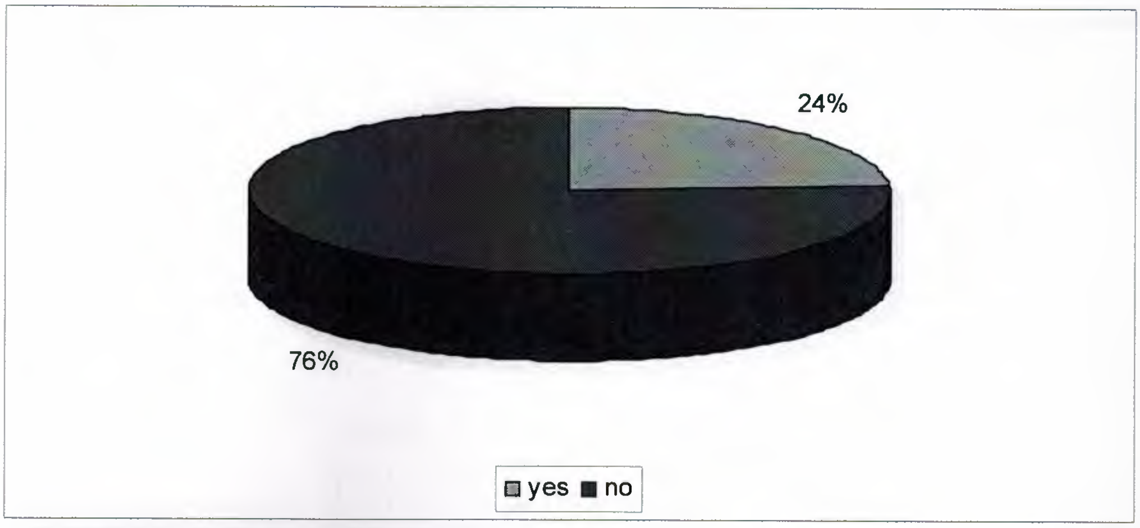
Findings:As in bar chart shown %43 of depositors answer 20,000,%15 answer 50,00,%8.4 answer 100,000,%6.6 answer 200,000 and finally 26.7 answer unlimeted guarantee.Then TRNC depositors who can say that they have know the guaranteed limit also can not know because the right answer must be 50,000EURO.

4)Has your bank being giving information about deposit insurance system while you're depositing?



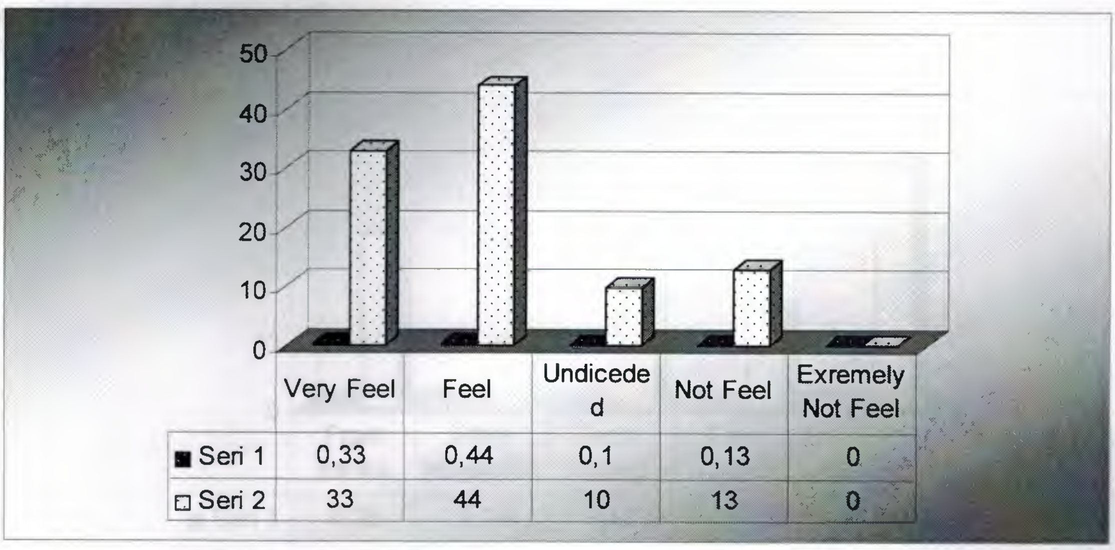
Findings:As in pie chart shown %55 of depositor say their banks give information when they're depositing and %45 say they don't give information about the insurance system.

5)Can you find brochures and similar documents about deposit ınsurance system in your bank?



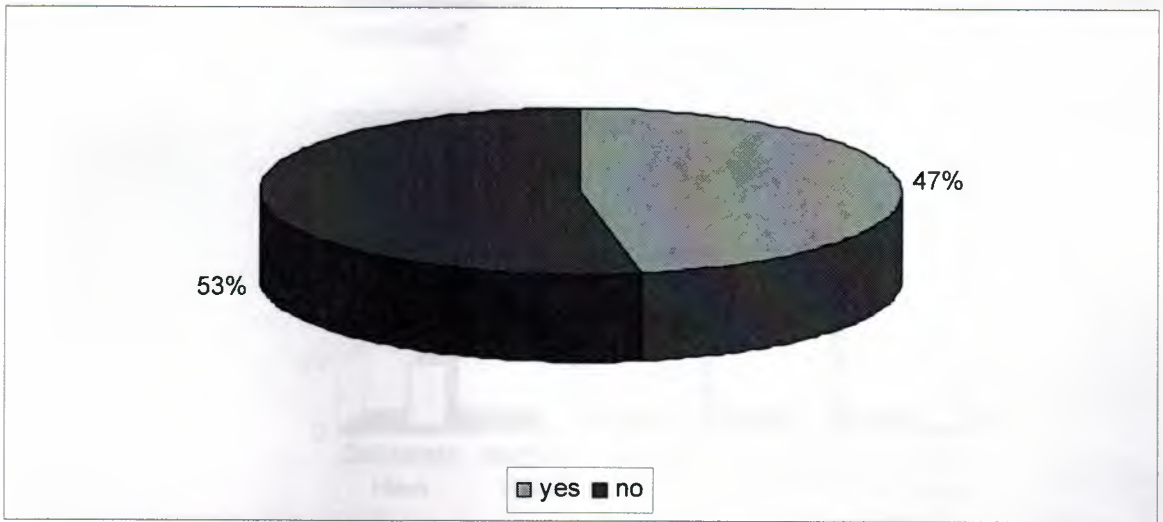
Findings:As in pie chart shown %24 of depositors can find decuments but %76 of depositors can not find any brochures or similar documents about deposit insurance system.And this is the one cause of less information or less knowladge about deposit insurance by depositors.

6)Do you feel a necessity of getting information about the financial positions of the banks while you're depositing?



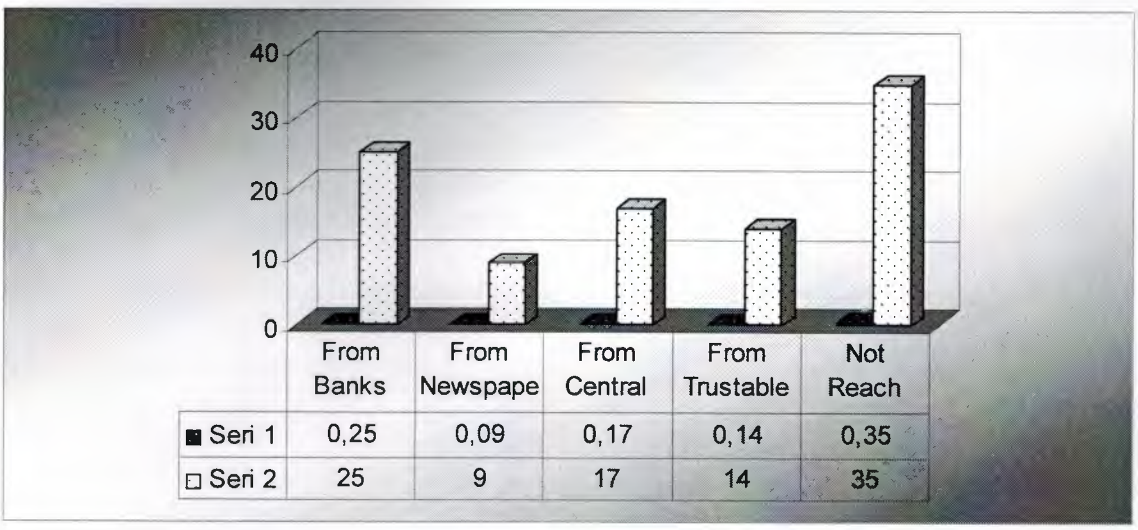
Findings:As in bar chart shown %33 of depositor very feel to know the financial position of the banks,%44 are normally fell,%10 are undiceded,%13 not feel.This shows the depositors in TRNC want to know the financial positions of the bank which they want to deposit them Money.

7)Can you reach enough information about the financial conditions of the banks that are related to the subject?



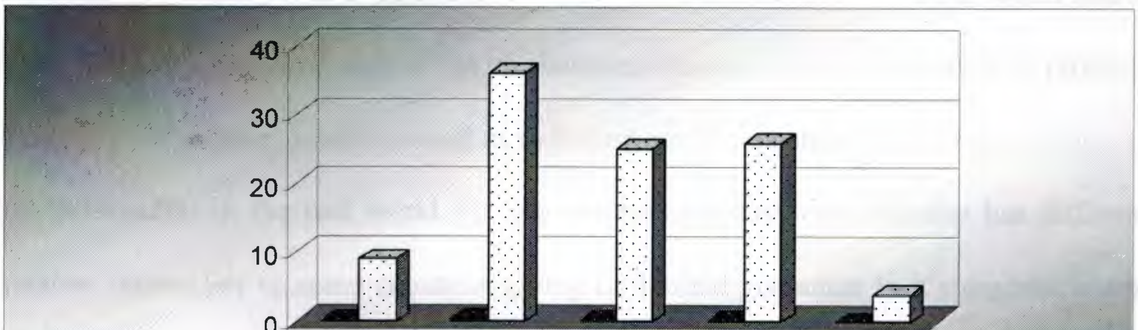
Findings:As in pie chart shown %47 of depositors reach enough information,and %53 of depositors beleive that they can not reach information about financial conditions of banks.

8)How can you reach the necessary information that is related with the financial conditions of the banks?



Findings:As in bar chart shown %25 of depositors reach information from the banks,%9 from the newpaper declaration,%17 of depositors from central bank,%14 of depositors from trustable fiends and finally %35 of depositors beleives that they do not reach enough information.

9)Do you have enough information about subject of which banks are less risky(more reliable)while you're depositing?



	Definately Have	Normaly Have	Undicede d	Not Have	Extremely Not Have
■ Seri 1	0,09	0,36	0,25	0,26	0,04
□ Seri 2	9	36	25	26	4

Findings:As in bar chart shown %9 definately have enoug information ,%36 normally have enoug information,%25 undicided,%26 not have enough information and finally %4 extremely not have enoug information about the chosing which banks are more risky.

SECTION 5)CONCLUSION AND RECOMMENDATIONS

Firs aim of the study was to understand the deposit insurance system in the world and in TRNC. **Deposit insurance:** one of the mechanisms employed by governments to promote the stability of banking systems as well as to protect small depositors from losses due to bank failures.But in the real world it's not too easy.Because each country has different ınsurance system.For eg.some countries giving un limited guarantee to it's depositors and some ones giving limited guarantee.This may bring moral hazard problem.How does it work in TRNC banking sector.

To evaluate the system in TRNC Questionaire was made.(questionaire would be found at Appendix A).In our qustionarire study shows that %49 of responded said that they do not enough information about deposit insurance system.

When we look at the bank side there is not any proper study on this subject.Questionaire showed that %68 of responded said that banks dont have sufficient systematic policy for deposit insurance system and in another question banks can not inform depositors for deposit insurance system.%99 of responded said that there is no any brochures or any other documents to inform it's depositors.

Also bank staff can bring disadvantages to the banking sector.Because they didnt have enoug information about the insurance system.In TRNC deposit insurance is 50,000 but just %15.6 of respondent know the right amount and other part %85.4 answered wrong amount.

Second part of questionnaire was made on depositors; study showed that many depositors didnt have enough information about banking services.% 60 of respondents said that they are informed well about deposit insurance system; but just % 15 of respondents know the right amount in TRNC banking sector. These findings showed that depositors have not enough information about deposit insurance systen in TRNC.

After examining all above questions there is a need a public awareness program in TRNC banking sector.

Recommendations:"

Public information and awareness often everlooked in the design of deposit insurance system.In order for a deposit insurance system to be effective,it's essential that the public be informed about the benefits and limitations of the system.

The need for public information and awareness stems from the uniqe intermediary role played by depository institutions.A public awareness program can be design to achieve several objectives;

First,a well design program can disseminate information to promote confidance and facilitate understanding of the concept of the deposit insurance and the main fatures of a countries deposit insurance system.

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ABSTRACT

This paper examines the Deposit Insurance System in Turkish Republic of North Cyprus (TRNC) and also a brief review of Deposit Insurance Systems araoud the globe. Purpose of this study is; to find the problems of the current Deposit Insurance System in TRNC,and secondly design and maintain an effective Deposit Insurace System for TRNC.Deposit schemes characterized by co-insurance,private administration,and a low deposit insurance premium appear to be particularly favored by depositors. In this study to evoluate deposit insurance system in TRNC a questionaire was made.The investigation findings shows that; the knowledge deposit insurance system are at very low position by the public and also by the bank staff.In the future this will be cause a new crises in TRNC Banking Sector.

INTRODUCTION

As the past decade shows us competitive banking system is critical to nations economic vitality.Banks have traditionally performed the important function of intermediating between lenders and barrowers by using liquid, short-term liabilities to found relatively long-term liquid assets.By providing a liquid savings vehicle for small and large investors alike by developing specialised skills to evaluate and diversify the risk of their barrowers,banks have played an important role in funding economic growth.

So the importance of banks is known and banks are nothing when they dont have enough Consumers or depositors. During the last two decades, a wave of systemic banking crises has rolled back and forth around the globe. The wave has struck developed and developing countries alike, resulting in 112 episodes of systemic crisis in 93 countries and 51 episodes of borderline crisis in 46 countries (Figure 1).

Then depositors are threathen because of bankruptcy. Costumers or depositors should believe the bank to pay them money back.At this point the Deposit Insurance System both helps banks and also depositors.What's Deposit Insurance?

Deposit insurance is the one of the mechanisms employed by governments to promote the stability of banking systems as well as to protect small depositors from losses due to bank failures. It is a complementary element of an extensive financial safety net that includes banking law and regulations, central bank lender of last resort facilities, and banking supervision.

If there's an effective Deposit Insurance System in countries then costumers

the banks then banks are able to lend money or give right loan agreements to barrowers or investors. If investors make good choose to invest his/her money then it becomes an economical growth for country. This cause a financial safety in the country.

This Project purpose is to analyse the Deposit Insurance Systems around the globe and design and maintain an effective Deposit Insurance for TRNC. Investigation divides into five sections;In section 1 Deposit Insurance Systems aroun the globe, in section 2 Deposit Insurance System in TRNC,in section 3 Methodology ,in section 4 Findings and finally section five Conclusion and Recommendations.

Section 1 are giving information about the mean of deposit insurance,advantages and disadvantages of deposit insurance,the basic characteristics of deposit insurance and finally deposit insurance around the globe.

Section 2 are giving information about the establishment and objective of deposit insurance system in TRNC,administration and representation of fund,rates of insurance and procedures and principles of collection,resources of fund,kinds of insurance premiums,obligation to provide information and decuments,method of payments,exemption from tax and dues and charges,offences and penalties and finally the provisions and final provisions from the fund.

Section 3 are giving information about which method is used in this study.

Section 4 gives the findings of the investigation which are calculated and maked in Microsoft Exel and finally section 5 conclusion and recommendations of this study.

1.)LITERATURE REVIEW

1.1)Mean Of Deposit Insurance?

Deposit insurance is one of the mechanisms employed by governments to promote the stability of banking systems as well as to protect small depositors from losses due to bank failures. It is a complementary element of an extensive financial safety net that includes banking law and regulations, central bank lender of last resort facilities, and banking supervision.At the same time as **MrGuy Saint Pierre** says in international conferance on deposit insurance "the principal objectives of a deposit insurance system are to contribute to the stability of a country's financial system and to protect less-financiallysophisticated depositors from the loss of their deposits when banks fail''(Intenational conferance on deposit insurance,October 2001,pg 6)

Most of the countries adopted their deposit insurance systems as a response to banking crises they had faced. About two thirds of the explicit DISs have been established over the course of the past fifteen years. As of Spring 1999, a total of sixty-eight countries had explicit deposit systems in place (Demirguc-Kunt and sobacı, May 1 2001,pg.6)

1.1.1) Explicit vs. Implicit Deposit Insurance

The foremost difference between an explicit and implicit deposit insurance system is the presence of a formal arrangement establishing a guarantee scheme for deposits through some form of legislation such as the central bank law, banking law, or the constitution. Often times these formal arrangements also explicate the main features of the systems such as the beginning date of coverage, type of deposits and institutions

covered, maximum coverage limits, funding arrangements, membership, administration, and resolution mechanisms of failed banks.

In the absence of such formal arrangements for deposit insurance we assume the country has an “implicit” deposit insurance system. This is due to the fact that whether or not the elements of insurance are defined by explicit statutes, authorities in every country establish a de facto insurance system for banks. A deposit insurance system, Mr. Saint-Pierre noted, is preferable to implicit protection if it clarifies the authorities’ obligations to depositors and limits the scope for discretionary decisions that may result in arbitrary actions. (Intenational conferanve on deposit insurance,October 2001,pg 6)

1.2.) Advantages and Disadvantages of Deposit Insurance System

By providing a guarantee that depositors are not subject to loss,deposit insurance has two somewhat contradictory effects. On thepositive side it removes the incentive to participate in a bank run, while on the negative side it eliminates the need for depositors to police bankrisk-taking.

Deposit insurance systems are designed to minimise or eliminate the risk that depositors placing funds with a bank will suffer a loss. Deposit insurance thus offers protection to the deposits of households and small business enterprises, which may represent life savings or vital transactions balances. With a deposit insurance system in place, these households and businesses can “go about their business” with some assurance that their funds are secure. This in turn supports the stability and smooth operations of the economy. This sense of public assurance is important. Public concern about the safety of deposits – whether based on fact or only on rumour – can lead, and has led, to the aforementioned damaging bank runs that can cause banks that are otherwise sound to fail. Similarly, concerns about one bank have at times led to concerns about others, resulting in so-called “contagion runs”. Public confidence in the safety of bank deposits, in contrast, promotes the stability of individual banking institutions. Public confidence reduces the likelihood that depositors at an individual bank will panic and withdraw funds suddenly if concerns arise about the condition of that institution. Thus, deposit insurance can enhance stability by preventing bank runs. No amount of prudential supervision can provide protection against runs that is equivalent to deposit insurance.In addition, as opposed to blanket guarantees provided in times of stress, the explicit coverage rules of a deposit insurance system provide clear incentives for risk-monitoring by certain creditors ex ante and, ex post,provide a basis for distinctions in the treatment of bank creditors. A related effect of deposit insurance that may be important in some financial systems is that it levels the playing field to a degree for large and small institutions. Under a formalised deposit insurance program, all institutions have access to depositor protection in the amounts specified by the coverage rules.

Finally, the explicit rules of the deposit insurance program provide added certainty regarding the resolution process for failed banks. This can be extremely important for maintaining stability when a banking crisis threatens. Deposit insurance thus works together with the other elements of the safety net to contain potential threats to individual institutions or groups of institutions. In this way, deposit insurance supports economic stability by helping to avert interruptions in bank liquidity and credit availability that could otherwise result from disruptive bank runs or bank failures.

While deposit insurance systems, as well as the other elements of a financial safety net arrangement, contribute to stability and thereby promote economic growth, they can also generate perverse effects. By providing protection to market participants, costs of pursuing

riskier strategies are reduced and excessive risk-taking might be incentivised – the moral hazard problem. With their deposits protected against loss,insured depositors have little incentive to monitor bank risk-taking, and may simply seek the highest return possible on their deposits.

Thus,deposits may tend to flow away from conservatively managed institutions towards those willing to pay higher returns by assuming more risk.Deposit insurance can thus exacerbate moral hazard by altering the normal risk-return trade-off for banks, reducing the costs associated with riskier investment strategies. These incentives are inherent to some degree in the nature of all insurance, and even the best structural designs for deposit insurance systems cannot be expected to eliminate moral hazard. As will be discussed later in this paper, supervision and regulation of insured institutions, as well as some degree of market oversight, are essential for controlling moral hazard in order to maintain safety and soundness.

Moral hazard can be expensive, as evidenced by the savings-and-loan crisis in the United States during the 1980s, the banking problems of the Scandinavian countries during the same period, and the current crises in Japan, Korea and other Asian countries. While moral hazard was not the only factor at work in these crises, most would agree that it contributed to the high cost of resolution in each case.

The distinction between maintaining stability and preventing failures should also be emphasised. A safety net that is structured to prevent all failures is likely to stifle innovation and reduce the responsiveness of the banking industry to changing customer needs and other developments in the marketplace. To avoid such rigidity, an exit mechanism needs to be formulated and incorporated into the system. A properly balanced

deposit insurance program can provide order in winding up the affairs of a failing institution, and can thus facilitate the establishment of an effective exit mechanism.

It is easy to underestimate the value of deposit insurance when times are good. When times are bad, governments often re-evaluate the need for such arrangements. Typically, deposit insurance systems are adopted in the aftermath of severe banking crises or when industry conditions are deteriorating and unstable. A recent IMF survey of deposit insurance systems in 60 countries indicated that 40 of these systems were initiated during the 1980s and 1990s, largely in response to actual banking problems or the perceived threat of instability.(Nicholas j Ketcha Jr,2000,pg.223)

1.3.) Deposit Insurance Around the World

Table 1 documents the many ways in which deposit-insurance design varies across countries.[4] An optimal worldwide blueprint is not likely to be found. For example, account coverage varies from unlimited guarantees to tight coverage limits. On the one hand, Mexico, Turkey and Japan promise 100 percent depositor coverage.

However, countries like Chile, Switzerland, and U.K. cover only an amount of deposits that is actually less than their per capita GDP. Also, although many countries cover deposits denominated in foreign currency, most schemes exclude interbank deposits. Besides setting a maximum level of coverage, some countries insist that accountholders "coinsure" a proportion of their deposit balances. Coinsurance provisions are still relatively rare, but are more frequent in recently adopted schemes.

Deposit insurance obligations are typically advance-funded, most commonly from a mixture of government and bank sources. To allow the insurer to build and maintain an appropriate fund of reserves against its loss exposures, in such countries banks are generally assessed an annual premium that is based entirely or in large part on the amount of their insured deposits.

Efforts to make these annual premiums sensitive to bank risk exposure have began in recentyears. Insurance schemes are typically managed in a government agency or in a public-private partnership. However, a few countries, such as Switzerland, Germany and Argentina, manage their schemes privately. Finally, in almost all countries, membership is compulsory for chartered banks. The most notable exception is Switzerland.
Table 1 also records the establishment dates of each country.s scheme. A number of countries adopted or expanded their deposit insurance scheme during crises. For example, Thailand, Malaysia, and Korea moved to blanket coverage in response to their recent crises.

4 For the complete database, see Demirgüç-Kunt and Sobaci (forthcoming) which builds on earlier studies by Kyei (1995) and Garcia (1999).

The 1990s saw a rapid spread in transitional countries perhaps partly motivated by their long-term interest in joining the EU and in some African countries.Countries that adopted deposit insurance in 1999 are Ecuador, El Salvador, and as part of the Central African Currency Union, Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, and Republic of CongoMost of these new schemes show generous coverage levels. For example, Central African Republic and Chad have coverage ratios that lie between 13 and 15 times their GDP per capita.

Precisely because the range of design features is so extensive, the data set can permit analysts to compare and contrast how well different features work in different circumstances.(J. Kane Demirguc-Kunt- Sept. 2001, pg. 6)

1.4.)Basic Charasteristics Of An Effective Deposit Insurance.

1.4.1.)Depositor protection,Moral Hazard,The Role Of The Banking Sector and The Financial Safety Net.

1.4.1.1) The role of the banking sector and the financial safety net

Financial institutions that accept deposits from the public (hereinafter referred to as banks) are important in the economy because of their involvement in the payments system, their role as intermediaries between depositors and borrowers, and their function as agents for the transmission of monetary policy. Banks are in the business of assuming and managing risks.

By their nature, banks are vulnerable to liquidity and solvency problems, among other things,because they transform short-term liquid deposits into longer-term, less-liquid loans and investments. They also lend to a wide variety of borrowers whose risk characteristics are not always readily apparent.

The importance of banks in the economy, the potential for depositors to suffer losses when banks fail, and the need to mitigate contagion risks, lead countries to establish financial safety nets. A financial safety net usually includes prudential regulation and supervision, a lender of last resort and deposit insurance. The distribution of powers and

responsibilities between the financial safety-net participants is a matter of public-policy choice and individual country circumstances. For example, some countries incorporate all financial safety-net functions within the central bank, while others assign responsibility for certain functions to separate entities.

1.4.1.2) Forms of depositor protection

Policymakers have many choices regarding how they can protect depositors. Some countries have implicit protection that arises when the public, including depositors and perhaps other creditors, expect some form of protection in the event of a bank failure. This expectation usually arises because of the government.s past behaviour or statements made by officials.Implicit protection is, by definition, never formally specified. There are no statutory rules regarding the eligibility of bank liabilities, the level of protection provided or the form which reimbursement will take. By its nature, implicit protection creates uncertainty about how depositors, creditors and others will be treated when bank failures occur. Funding is discretionary and often depends on the government.s ability to access public funds. Although a degree of uncertainty can lead some depositors to exert greater effort in monitoring banks, it can undermine stability when banks fail.Statutes or other legal instruments usually stipulate explicit deposit insurance systems.Typically, there are rules governing insurance coverage limits, the types of instruments covered, the methods for calculating depositor claims, funding arrangements and other related matters. A deposit insurance system is preferable to implicit protection if it clarifies the authorities. obligations to depositors and limits the scope for discretionary decisions that may result in arbitrary actions. A deposit insurance system can also provide countries with an orderly process for dealing with bank failures.

The introduction of a deposit insurance system can be more successful when a country.sbanking system is healthy. A deposit insurance system can contribute effectively to the stability of a country.s financial system if it is part of a well-designed safety net.

To be credible, a deposit insurance system needs to be properly designed, well implemented and understood by the public. It also needs to be supported by strong prudential regulation and supervision, sound accounting and disclosure regimes, and the enforcement of effective laws.

A deposit insurance system can deal with a limited number of simultaneous bank failures, but cannot be expected to deal with a systemic banking crisis by itself.

1.4.1.3) Moral hazard

A well-designed financial safety net contributes to the stability of a financial system; however,if poorly designed, it may increase risks, notably moral hazard. Moral hazard refers to the incentive for excessive risk taking by banks or those receiving the benefit of protection. Such behaviour may arise, for example, in situations where depositors and other creditors are protected, or believe they are protected, from losses or when they believe that a bank will not be allowed to fail. In these cases, depositors have less incentive to access the necessary information to monitor banks. As a result, in the absence of regulatory or other restraints,weak banks can attract deposits for high-risk ventures at a lower cost than would otherwise be the case.

Moral hazard can be mitigated by creating and promoting appropriate incentives through good corporate governance and sound risk management of individual banks, effective market discipline and frameworks for strong prudential regulation, supervision and laws. These elements involve trade-offs and are most effective when they work in concert.

Good corporate governance and sound risk management of individual banks help to ensure that business strategies are consistent with safe-and-sound operations, and thus can act as the first line of defence against excessive risk taking. Good corporate governance and sound risk management includes standards, processes, and systems for ensuring appropriate direction and oversight by directors and senior managers, adequate internal controls and audits, management of risks, the evaluation of bank performance, the alignment of remuneration with appropriate business objectives, and management of capital and liquidity positions.

Moral hazard can be mitigated by market discipline exercised by shareholders as well as by larger creditors and depositors who are exposed to the risk of loss from the failure of a bank.

However, for market discipline to work effectively, these groups must have the knowledge required to assess the risks they face. Information should be readily available and be generally understandable by the public. Sound accounting and disclosure regimes are required, as well as ongoing attention to a bank.s soundness by ratings agencies, market analysts, financial commentators and other professionals.

Many countries rely heavily on prudential regulatory and supervisory discipline to mitigate moral hazard and control excessive risk taking. Regulatory discipline can be exercised through sound and effective regulations covering the establishment of new banks, the implementation of minimum capital requirements, the qualifications of directors and managers, sound-business activities, fit-and-proper tests for controlling shareholders, standards for risk management, strong internal controls, and external audits. Supervisory discipline can be exercised by ensuring that banks are monitored for safety and soundness

as well as compliance issues and that corrective actions are taken promptly when problems surface,including the closure of banks when necessary.

Specific deposit insurance design features can also mitigate moral hazard. These features may include: placing limits on the amounts insured; excluding certain categories of depositors from coverage; using certain forms of coinsurance; implementing differential or risk-adjusted premium assessment systems; minimising the risk of loss through early closure of troubled banks; and demonstrating a willingness to take legal action, where warranted, against directors and others for improper acts.

Many of the methods used to mitigate moral hazard require certain conditions to be in place.For example, differential or risk-adjusted differential premium assessment systems may be difficult to design and implement in new systems and in emerging or transitional economies.

Early intervention, prompt corrective action and, when warranted, bank closure require that supervisors and deposit insurers have the necessary legal authority, in-depth information on bank risk, financial resources, and incentives to take effective action. Personal-liability provisions and availability of sanctions can reinforce incentives of bank owners, directors, and managers to control excessive risk, but they depend on the existence of an effective legal system that provides the necessary basis for action against inappropriate behaviour.

Policymakers should consider a country.s conditions and factors that may determine the effectiveness of particular measures for mitigating moral hazard, the commitment and the ability to implement them, and the advancement of a reform agenda to eliminate gaps that may limit their effectiveness.

1.4.2.)Coverage and Limits

The scope of deposit insurance coverage and its limits depend on a country's willingness and ability to balance the goal of achieving financial stability with the introduction of incentives for depositors to exercise some discipline. Deciding what to cover and where to set the limits involves a trade-off between depositor discipline and financial stability.

Limits that are set too low are unlikely to prevent bank runs in the event of financial troubles. However, limits that are set too high restrict the discipline that depositors can exert on banks to control their risk-taking.

A few countries have implemented various forms of coinsurance as a means of instilling more market discipline. Although it was noted that not all coinsurance systems are able to maintain depositor confidence when the financial system is under serious stress, where the coinsurance system is structured to protect depositors up to a certain minimal amountthis can be achieved.

The Study Group did not discuss who should be insured, which instruments (such as foreign currency deposits) should be covered or the level at which the deposit insurance limits should be set. It is recognized, however, that these are important issues that need to be considered when establishing a deposit insurance system.(FINANCIAL STABILITY FORUM-Working Group on Deposit Insurance -June 2000 -International Guidance on Deposit Insurance A Consultative Process page 7.)

1.4.3.1.)Compulsory membership

In general, membership should be compulsory to avoid adverse selection. There are some cases, however, where a strong commitment of banks to participate in a deposit protectionsystem can be observed and broad participation of banks may be achieved without a legal obligation. This can occur if depositors are aware of and

sensitive to the existence of deposit insurance, thus creating strong incentives for banks to be part of a system. In other cases, if depositors are less concerned about deposit insurance or are not aware that coverage is limited to certain banks, then the stronger banks may opt out. Further, in a voluntary system strongbanks may opt out if the cost of failures is high and this may affect the financial solvency andthe effectiveness of a deposit insurance system.

1.4.3.2.) Considerations when granting membership to banks

There are two circumstances that may require different approaches to granting membership to banks. First, when a deposit insurance system is established and second, when membership is granted to new banks in an existing system.

When a deposit insurance system is created, policymakers are faced with the challenge of minimising the risks to the deposit insurer, while granting extensive membership. Generally,two options are available: automatic membership or requiring banks to apply for entry.

Automatic membership for all banks may be the simplest option in the short term. However,the deposit insurer may then be faced with the difficult task of having to accept banks that create an immediate financial risk or that pose other adverse consequences for the deposit insurance system.

Alternatively, banks may be required to apply for membership. This option provides the deposit insurer with the flexibility to control the risks it assumes by establishing entry criteria.It also can serve to enhance compliance with prudential requirements and standards. In such cases, an appropriate transition plan should be in place that details the criteria, process and time frame for attaining membership. The criteria should be transparent.The way that policymakers grant membership in existing deposit insurance systems varies. In

some countries, the licensing or chartering of new banks and the granting of membership in a deposit insurance system are separate functions of different safety-net participants. In other countries the relevant safety-net participants jointly approve new members and in others,membership is automatic with the issuance of a bank charter or license. Whichever option is chosen, appropriate mechanisms are necessary to ensure that membership requests are handled expeditiously and effectively, and that eligible banks meet minimum prudential standards and entry requirements.

1.4.3.3.) Foreign banks

Although domestically incorporated or chartered banks are the principal members of most deposit insurance systems, some countries require foreign-bank subsidiaries and branches to participate in the system as well. Several arguments are made for their inclusion: the stability of the domestic financial system; the goal of providing a minimum level of deposit insurance to all depositors; the notion that foreign banks benefit from a stable domestic financial system and should therefore participate in the deposit insurance system as part of doing business in a country; the desire to minimise competitive issues by placing foreign banks on the same footing as domestic banks; and the diversification that arises from wider membership and expansion of the funding base.

1.4.3.4.) Non-bank financial institutions

Policymakers take different approaches to non-bank financial institutions that offer deposits and deposit-like products. The rationales for expanding membership beyond banks include:the desire not to introduce competitive distortions among different types of institutions offering similar products; the objective of enhancing the stability of the financial system byincluding all institutions that accept deposits or deposit-like

products; and the desire to apply prudential regulatory and supervisory rules to all such institutions.

There are many cases, however, where non-bank financial institutions are excluded frommembership. The most common reasons are that such institutions may not be as relevant as banks to a country.s financial stability, that they may be subject to different regulatory and supervisory standards, and they may have different authorities overseeing their affairs. In such circumstances, policymakers may establish separate protection schemes to cover non-bank financial institutions.

1.4.3.5.) State-owned banks

State-owned banks present unique issues for deposit insurance systems. These banks are usually the beneficiaries of an implicit or full government guarantee that may make their inclusion in a deposit insurance system appear unnecessary. Nevertheless, some countries have chosen to include them in their systems. Some of the reasons are: to facilitate privatisation; to ensure competitive equality with private-sector banks in terms of the level of coverage and premium contributions; to provide a mechanism to bring such banks under the same prudential regulatory and supervisory rules applicable to other banks; and to diversify the deposit insurers risks and increase its funding base. .(Financial Stability Sorum-Septamber 7,2001- GUIDIANCE DEVELOPING EFFECTIVE DEPOSIT INSURANCE SYSTEMS,Pg.16)

1.4.4.) Private or government deposit insurance systems

There are many variations of private and public systems in place. Some form of a banking industry group usually runs private protection systems. These systems areusually not established by legislation, have no legal obligation to pay depositors, have no government involvement in their operations, and have no government back-up support.As a

result, these systems do not expose, by themselves, the government and taxpayers to loss.Private protection systems can function effectively in normal times if failures areinfrequent and minor. In a generalized economic downturn, when the protection system is under stress (for instance, in dealing with a wave of failures or a large failure), the capacity of such a system to absorb losses and its ability to pay depositors may become problematic. These private systems are less likely to maintain depositor confidence in such times. In these circumstances, the government may have to provide a backstop to the protection system, thus exposing the safety net without certain safeguards that would otherwise be in place with a government-backed system. By contrast, there are private deposit insurance systems that have a legislative underpinning. These systems are required to pay depositor claims and usually have access to government assistance, often in the form of interest-bearing loans. Thus, wellstructured private deposit insurance systems with these elements can maintain depositor confidence.

Certain government-backed public systems provide the full faith and credit of the government and are part of the financial safety net. As a result, they are able to maintain depositor confidence even in times of stress. The credibility of such systems, however, is linked to the government's ability to stand behind the assurance that it provides todepositors.

1.4.5.) Funding mechanisms

There is a variety of funding options available to deposit insurers, which range from an *ex-ante* to an *ex-post* basis or some combination thereof. In an *ex-ante* system, the deposit insurer is often able to build a fund so that financial resources are readily available when a failure occurs. A major consideration of an *ex-ante* system is determining the size of the target fund and its investment policies. An important principle of an *ex-ante* system is that

banks contribute to the deposit insurance system by paying premiums before their demise. There is a trend toward the adoption of *ex-ante* systems.

Deposit insurance systems that are funded on an *ex-post* basis, by contrast, rely on the ability of surviving banks to fund losses after they have been incurred. In many cases, the need to pay assessments or levies to deal with failures occurs at an inopportune time, and the funding requirements may impose a financial burden on the industry.

At times both *ex-ante* and *ex-post* mechanisms may need to rely on additional financial resources such as loans or government support. In some countries, deposit insurers alsohave access to financial markets for their funding needs. It is essential that policy-makers consider how the deposit insurance system can deal with failures in normal times and those that may occur in waves during times of stress. Regardless of the funding mechanism, no deposit insurance system can withstand, on its own, a systemic crisis.

When deposit insurance systems are funded through premiums, policy-makers have a choice between a flat-rate premium or some form of differentiated premium based on a bank's risk profile. Many countries are adopting risk-based premiums or some form of a differentiated premium system to help address moral hazard, but there has been limited experience so far.Although a properly designed risk-based premium system can reduce moral hazard,adopting flat-rate premiums in newly emerging or transitional economies may be more appropriate given the potential difficulties involved in the design and implementation of risk-based premiums. These difficulties include finding appropriate and acceptable methods of differentiating institutional risk; obtaining reliable and appropriate data;considering the transparency of the approach; and examining the potential destabilising effects of imposing high premiums on already troubled banks.(FINANCIAL

STABILITY FORUM-Working Group on Deposit Insurance -June 2000 -International Guidance on Deposit Insurance A Consultative Process page 8.)

1.4.6.)Mandates,Powers and Structure

1.4.6.1.) Mandates and powers

A mandate is a set of official instructions or statement of purpose. There is no single mandate or set of mandates suitable for all deposit insurers. Existing deposit insurers have mandates ranging from narrow, so-called .paybox. systems to those with broader powers and responsibilities, such as risk-minimisation, with a variety of combinations in between.

Whatever the mandate selected, it is critical that there be consistency between the stated objectives and the powers and responsibilities given to the deposit insurer.Paybox systems largely are confined to paying the claims of depositors after a bank has been closed.

Accordingly, they normally do not have prudential regulatory or supervisory responsibilities or intervention powers. Nevertheless, a paybox system requires appropriate authority, as well as access to deposit information and adequate funding, for the timely and efficient reimbursement of depositors when banks fail.

A risk-minimiser. deposit insurer has a relatively broad mandate and accordingly more powers. These powers may include: the ability to control entry and exit from the deposit insurance system, the ability to assess and manage its own risks, and the ability to conduct examinations of banks or request such examinations. Such systems also may provide financial assistance to resolve failing banks in a manner that minimises losses to the deposit insurer.Some risk-minimisation systems have the power to set regulations, as well as to undertakeenforcement and failure-resolution activities. Formally

specifying the mandate of a deposit insurer (either in law, in a formal policy statement, an agreement, or by private contract) clarifies the role of deposit insurance within the financial safety net. Clarity of the mandate reinforces the stability of the financial system and contributes to sound governance and greater accountability.As a general principle, a deposit insurer should have all powers necessary to fulfil its mandate.All deposit insurers require the ability to enter into contracts, set appropriate requirements,and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.

1.4.6.2.) Basic structure and operational issues

Regardless of the scope of a deposit insurer.s mandate, there are certain structural and operational issues that must be addressed. One of the first tasks is to determine whether the deposit insurance function should be assigned to an existing organisation or whether aseparate entity should be established.

Assigning the deposit insurance function to an existing entity, (for example adding a department to a central bank), has the advantage of allowing the deposit insurer to draw on staff resources and skills from the larger organisation. However, this approach also has drawbacks. The primary disadvantage is that a larger organisation may have difficulties separating its other responsibilities and interests from the deposit insurance function. Whether or not the deposit insurer is a separate organisation, it is vitally important to set clearly the responsibility and accountability of each safety-net function.

1.4.6.3.) Basic governance arrangements

There are a variety of forms of governance that can be used by a deposit insurance system. The form of governance utilised should reflect the mandate and the degree to which the deposit insurer is legally separated from the other financial safety-net participants.

The governing body of the deposit insurance system should include individuals with the requisite knowledge who understand the organisation.s activities as well as the environment in which it operates, and they should have the authority to make decisions.

The deposit insurer should have access to the input and views of the other safety-net participants and relevant interested parties. Members of the governing body and management of the deposit insurer should be subject to a fit-and-proper test, and they should be free from conflicts of interest.

Governance systems and practices should be developed on the basis of sound strategic planning, risk-management processes, and good internal control and audit systems. The governance structure should be transparent and subject to clear oversight and accountability.Rules specifying corporate governance practices should be developed.(Financial Stability Sorum-Septamber 7,2001- GUIDIANCE DEVELOPING EFFECTIVE DEPOSIT INSURANCE SYSTEMS ,page 19.)

1.4.7.) Conditions for establishing an effective limited-coverage deposit insurance system

The Study Group identified certain conditions that should exist for an effective and credible limited-coverage deposit insurance system to be established. These include:

- a sound legal regime;
- a stable macroeconomic environment and policies consistent with maintaining a safe

and sound banking system;

- a financial system characterized by appropriate regulation and effective supervision;
- compliance with recognized accounting, auditing, and regulatory standards; and
- an effective disclosure regime.

In an ideal world all of these conditions would be present before deposit insurance is introduced; however, in many cases this may not be practicable. Thus, careful attention needs to be placed on when and how a deposit insurance system can be introduced successfully.

1.4.8.) Key attributes of an effective deposit insurance system

Key attributes of an effective deposit insurance system identified by the Study Group are:

- the framework upon which a deposit insurance system is established should explicitly define its benefits, including insurance coverage and limits;
- there should be mandatory bank participation in the deposit insurance system;
- there should be clear mandates and defined roles and responsibilities for the deposit insurer, the regulatory and supervisory agencies, and the central bank (the "agencies"). Arrangements should include an accountability regime and close coordination and the free flow of timely information among the agencies;
- the deposit insurer should have well-defined funding mechanisms in place to quickly meet its obligations to depositors; and

- the public should be informed of the key elements of the deposit insurance systemto instil confidence.

1.4.9.) Public-policy objectives

The first step in designing a deposit insurance system is to identify the public-policy objectives that it is expected to achieve and these objectives must be well understood. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and to protect less-financially-sophisticated depositors. Although the determination of such objectives is the responsibility of governments, the private sector can play a role in their achievement.

The choice of how a deposit insurance system is to be operated depends on many factors that are unique to each country and its governmental and financial systems.

A well-designed and well-understood deposit insurance system contributes to the stability of a country.s financial system by reducing the incentives for depositors to withdraw their insured deposits from banks because of a loss of confidence.

Policymakers should ensure that the authorities and the public view all components of the deposit insurance system as credible. The level and scope of coverage, the speed with which insured deposits are repaid, and the credibility of the underlying guarantee will affect the deposit insurance system.s ability to enhance the stability of the financial system. Public attitudes and expectations play a particularly important role in reinforcing the credibility and the effectiveness of a deposit insurance system.

Deposit insurance protects insured depositors against the consequences associated with the failure of a bank but it is not designed to protect banks from failing. The provision of deposit insurance relieves insured depositors of the difficult tasks of monitoring and assessing the condition of banks and their asset quality. At the same time, deposit insurance contributes to the maintenance of confidence, so that less-financially-sophisticated depositors, or those who find it hard to assess the financial condition of a bank, are less likely to participate in bank runs.

A continuous-improvement process should exist for reviewing the extent to which a deposit insurance system is meeting its public-policy objectives and its mandate. Also, the appropriateness of the mandate, powers and elements that make up a deposit insurance system should be periodically reviewed. In this way, countries can ensure that their deposit insurance arrangements remain consistent with economic and social conditions and lessons learned, and that financial safety-net participants are better able to deal with the challenges they may encounter.

1.4.10.) Strategic Analysis Model – A tool for policy-makers

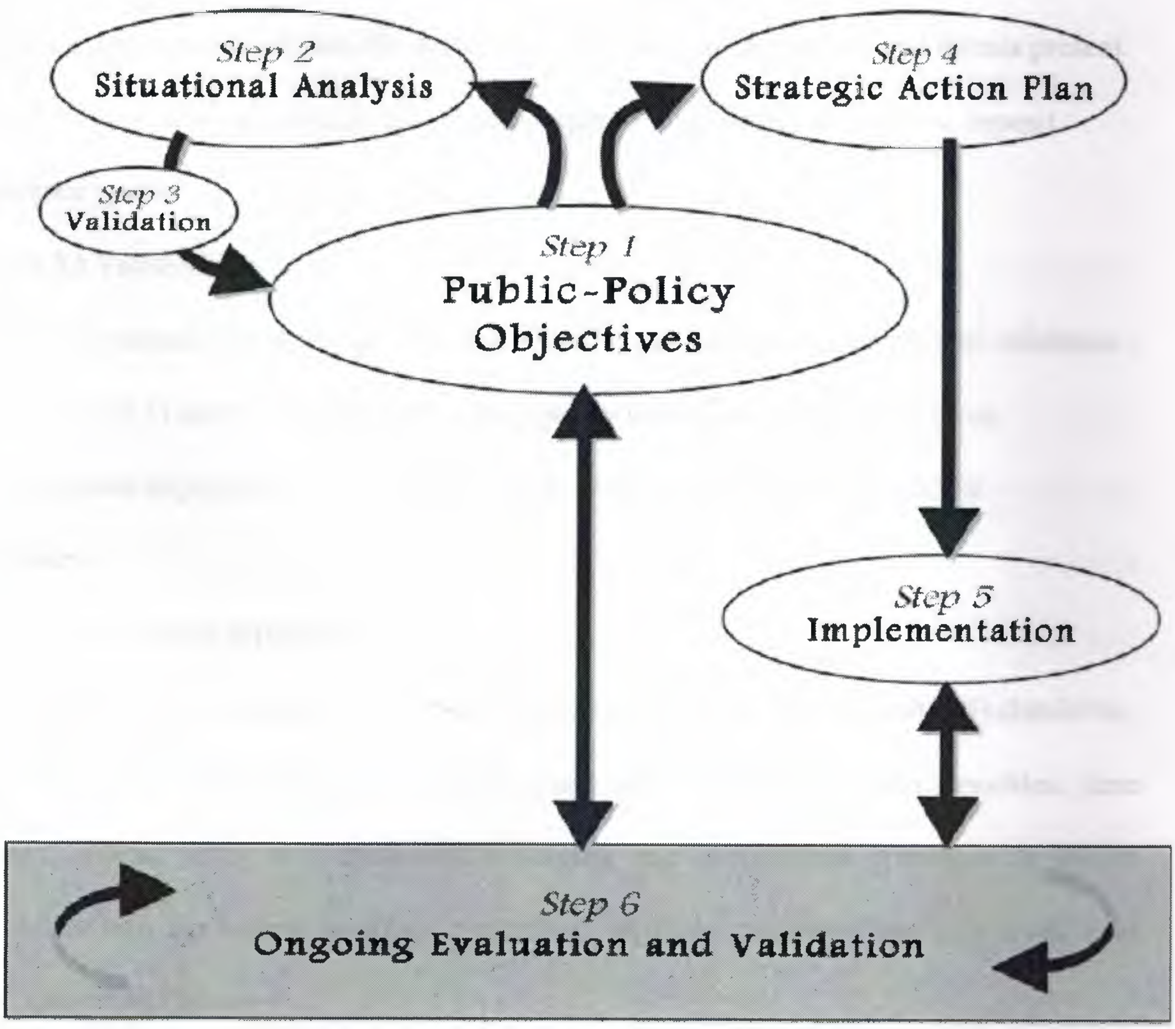
As a tool for assisting policy-makers in determining how to design, implement, and enhance an effective deposit insurance system, the Study Group developed a strategicanalysis model (see figure overleaf). A brief overview of the model follows:

1.4.10.1.) Setting out the public-policy objectives

The analysis should begin by listing the relevant public-policy objectives to be attained,preferably in a public-policy paper (Step 1). This analysis should take into account the extent to which the conditions are present in a given country. The policy paper should set out the key attributes and important elements of the system in determining the mandate and the powers to be given to the deposit insurer. As well, the policy paper should outline the role of the deposit insurer within the financial safety net and the deposit insurer's relationship with the other participants in the regulatory and supervisory regime.

Strategic Analysis Model – A Tool for Policy-makers

Designing, Implementing and Enhancing an Effective Deposit Insurance System



(FINANCIAL STABILITY FORUM-Working Group on Deposit Insurance

Strategic Analysis Model – A Tool for Policy-makers Designing, Implementing and Enhancing an Effective Deposit Insurance System-June 2000,page 4)

1.4.10.2.) Situational analysis against conditions

Step 2 should consider the structure (including ownership, extent of competition and size of institutions) and strength of the financial system. The analysis should address the state of the legal regime; the economic environment; the regulatory and supervisory system; the quality of accounting, regulatory and auditing standards; and the disclosure regime.

This analysis should expose the strengths, weaknesses, opportunities and threats present in the environment and identify the changes required to construct an effective deposit insurance system.

1.4.10.3.) Validation

Once the situation analysis has been completed, there should be a review and validation process (Step 3) against the proposed public-policy objectives, as well as the key attributes and important elements of the system. Adjustments should be made if necessary.

1.4.10.4.) Strategic action plan

After the validation phase has been completed, a strategic action plan (Step 4) should be developed. This plan should set out the goals (deliverables) and their priorities, time frames, critical paths, communication strategies, and consultation processes. It should alsodefine how the deposit insurance system will be made operational and how it will deal with transitional issues.

In transitioning from a blanket guarantee, care must be taken to ensure that the bankingsystem is not disrupted. In this regard, policy-makers should have in place contingency plans to deal with any adverse consequences. It is critical that the public understands the planned changes and the time frame within which they will be completed.

1.4.10.5.) Implementation phase and acceptance

Implementation of the deposit insurance system and other necessary changes (Step 5) should be supported by a mechanism to track progress and identify any adjustmentsrequired. The purpose of this phase is to render the system operational and deal with transitional issues. For example, appropriate corporate governance of the deposit insurer(the board of directors, senior management, internal controls, and an accountability regime) will need to be put in place. Also, budgets, funding, and access to information,including information-exchange arrangements, need to be addressed promptly.

1.4.10.6.) Ongoing evaluation and validation

Because of the dynamic nature of financial systems, there is a clear need for ongoing evaluation and validation of the effectiveness of the deposit insurance system, which may require changes after it becomes operational. This continuous-improvement process should incorporate new developments in the financial system and the lessons learned at home and abroad and should allow for timely changes to the system. This continuousimprovement process should include benchmarking against core principles, guidelines and best practices.(FINANCIAL STABILITY FORUM-Working Group on Deposit Insurance June 2000 -**International Guidance on Deposit Insurance A Consultative Process,page 5)**

1.4.11.) Public awareness

In order for a deposit insurance system to be effective, it is essential that the public be informed about its benefits and limitations. Experience has shown that the characteristics of a deposit insurance system need to be publicised regularly so that its credibility can be maintained and strengthened.

A well-designed public-awareness program can achieve several goals, including the dissemination of information that promotes and facilitates an understanding of the deposit insurance system and its main features. Also, a public-awareness program can build or help restore confidence in the banking sector. Additionally, such a program can help to disseminate vital information when failures occur, such as guidance regarding how to file claims and receive reimbursements.

When designing a public-awareness program, it is critical to identify the target audience. Bank employees, especially those in operations, as well as those on the front-line, are important conduits for providing information about deposit insurance.

Care should be taken to select strategies that meet the goals set in the public-awareness program. A public-awareness plan that addresses issues related to failures should be carefully developed before an actual failure occurs. A well-designed public-awareness program helps to counteract the potentially disruptive effects of bank failures and helps maintain confidence in the stability of the financial system.

In countries where public confidence in the banking system is high and awareness of an existing deposit insurance system is very low, special communication strategies need to be developed to ensure that the stated goals are achieved while public confidence is maintained.(Financial Stability Sorum-Septamber 7,2001- GUIDIANCE DEVELOPING EFFECTIVE DEPOSIT INSURANCE SYSTEMS)

SECTION 2) DEPOSIT INSURANCE SYSTEM IN TRNC

2.1) Establishment and Objective Of Fund

By the Saving Deposit Insurance Fund law is established within the structure of the Central Bank s fund which shall be a corporate body to be called Saving Deposit Fund.The object of this law is to have the saving deposited at banks insured,and to protect all rigths of saving deposit holders.

2.2)Administartion and Representation of Fund

The Fund shall be administrated and represented by its board of mangement.The Board of Manegement of the Fund shall consist of six members and shall be composed of the Governor of the Central Bank,two vice Governors of Central Bank,two representatives of the Ministry an done representative of the Northern Cyprus Bank Associations.The Governor of the Central Bank shall be the Chairman of The Board of the Management and shall preside over the meetings.In the absence of the Governor of the Central Bank,Vice Governor of the Central Bank shall preside over the meetings.The remuneration to be paid to the representatives for the management and representation of the Fund shall be determined by the Council of the Ministers.

The Board of the Management of the Fund may be called to meet every other two month and the request of the Chairman least three members A simple majority of members shall consitute the quorum at any meeting,and decisions shall be taken by a simple majority of members.The membership of the representative of Nort Cyprus Bankers Association shall lapse in case his bank is turned over the Fund, as from the time of its turning over.

The Duties,Powers,the method and principle guiding the Proceedings of the Fund Management shall be laid down in a regulations to be made by the Central Bank and approved by the Council of Ministers and published in the Official Gazete.

2.3.)Resources of Fund

1. Resorces of Fund are coprised of the fallowing;

(A)Insurance Premiums;

(B)Deposits,pledges and credits expiring because of limitation of time;

(C)Advences to be made from the budget;

(E)Surcharges on the late payments by banks of legal cash reserves;

(D)Aids to be secured for this purpose from Turkey and other countries;

(F)Penalties to be recovered from banks under the Banking Law of the TRNC;

(G)Income acruing on the assets of the Fund and other incomes.

2.In extraordinary circumstances the Fund may barrow money with prior premissions of the Council of Ministers.

2.4.)Rates of Insurance and Procedures and Principles of Collection

All saving deposits deposited at banks are covered by the insurance of the Fund.Provided that as from 01.01.2004 the amount of the savings deposits to be covered by the insurance of the Fund may be fixed by the Central Bank,such amounts not being less than 20.000 Euros for each account.*

Insurance premiums payable on deposits covered by the ınsurance of the Fund,the dates for their collection and the method and principles regulating their payment,shall be prescribe by regulations to be issued by the Central Bank and published in Official Gazete

Insurance premiums on saving deposits are calculated on the basis of abstracts in accordance with section 33 of Banking Law of the TRNC.The Premium rate applied is %00.25 on the total saving deposits as at each quarterly period.Premium rates %100 over or under this rate may be introduced at the proposal of the Central Bank and by approval of the Council of Ministers.A surcharge under the provisions of the procedure for the recovery of Public Debts Law is payable on premiums not paid when due.

Saving deposits in a bank,belonging to partners holding more than %10(ten percent)of the capital of that bank and to the chairmanand members of its Board of Directors,General Managerand Asistant General Managers,internal external auditors and the parents,spouses and children of the aforesaid persons, are not covered by the insurance of the Fund.

***By resolution dated 12.07.2004,the Board of Management of Central Bank has resolved that the total amount of capital and interest protected by the insurance of the Fund in accounts opened or renewed after 01.09.2004 shall be up to 200.000 Euro;and in accounts opened or renewed after 01.12.2004 shall be up to 100.000 Euro; and in accounts opened or renewed after 01.03.2005 shall be up to 100.000Euro; and in accounts opened or renewed after 01.06.2005 shall be up to 20.000 Euro.**

2.5.)Kinds of Insurance Premiums

Insurance premiums on Turkish Lira savings deposits are paid in Turkish Liras,and on foreign currency savings deposits in US Dollars,Germen Mark,and Euro,and other kinds of foreign currency deposits in equavalent US Dollars.

2.6.)Obligation to Provide Information and Documents

Except in curcumstances relating to the security of the State, and where serious consequances may ensue affecting the fundamental foreign interests of the State and without prejudice to the rules relating to the rights of professinal secrecy,privacey of the family lifeand the right of defence,public bodies are obliged,no withstanding any prohabitive or restrictive provisions contained in any specific law,to provide continously or in an asolated cas,at appropriate periods and in due manner all kinds of information reguested by the Fund,even though such information may be classified as secret,and to produce boks and documents to be demanded;provide thet the obligation to supply such information and documents shall be limited to transactions within the purwiev of this law.

2.7.)Method of Payments

The method and conditions of payments shall be governed by regulations to be made by the Board of the Management of the Fund with the approval of the Council of Ministers and tobe published in the Official Gazete,having due regard to the cash position of the Fund and its capacity for payment.

2.8.)Exemption from Tax, Dues and Charges

Not withstanding any provisions to the contrary in any other law,the Fund is exempt from the payments of any kind of taxes,dues and charges.

2.9.)Offences and Penalties

Any person contrevening the provisions of this law or regulations, rules or notifications made under this law shall be guilty of an offence and may, on conviction be liable to a fine up to 50,000,000,000Tl (fifty billion Turkish Liras) or to imprisonment up to seven years or to both.The amounts of fine mentioned in this section shall be incresed as January in each year according to the revoluation multiplicant to be laid down under sections 5 6 of the Revaluation of the Capitals and Economic Assets of Business Law.

2.10.)Provisions and Final Provisions

Saving deposits belonging to real persons, and to corporate societies carriying on the business of banking as bankers using the title 'Bank' and to Provident Fund held in banks the management of which were taken over prior to the coming into force of this law ,are covered by the insurance of the Fund.

The accumulated resources of the Fund established under the Savings Deposit Insurance Fund Law now repealed by this law,shall be transfered to the Fund established under this law.Starting from the date of coming into force of this law,saving deposits shall be insured subject to the new definition given to saving deposits.Provided that implementations prior to the coming into force of this law are deemed to be covered by the Saving Deposit Insurance Fund Law.

Saving deposits in banks liquidated under the provisional section 1 of Saving Deposit Insurance Fund Law repealed by this law,are wholly under the cover of the Saving Deposit Insurance Fund Law.

Of persons acting as members of the commitee of management representing depositors whose law from the protection of the Fund,the deposits of only those members of the management commitee who act as representatives of the excluded depositors,and those of their spouses,parents chidrens shall be deemed to bo covered by the Fund,and to be subject to the provisions of this law so long as no court judgements are given against such persons causing the insolvency and liquidation of the bank attributable to decisions taken by them in contravention of legisletion in force, and so long as no decisions is taken for their exclusion from the protection of ther Fund.This law shall be administrated by the Minister responsible for Economic Affairs and this law shall come into force as from the date of its publications in the Official Gazete.

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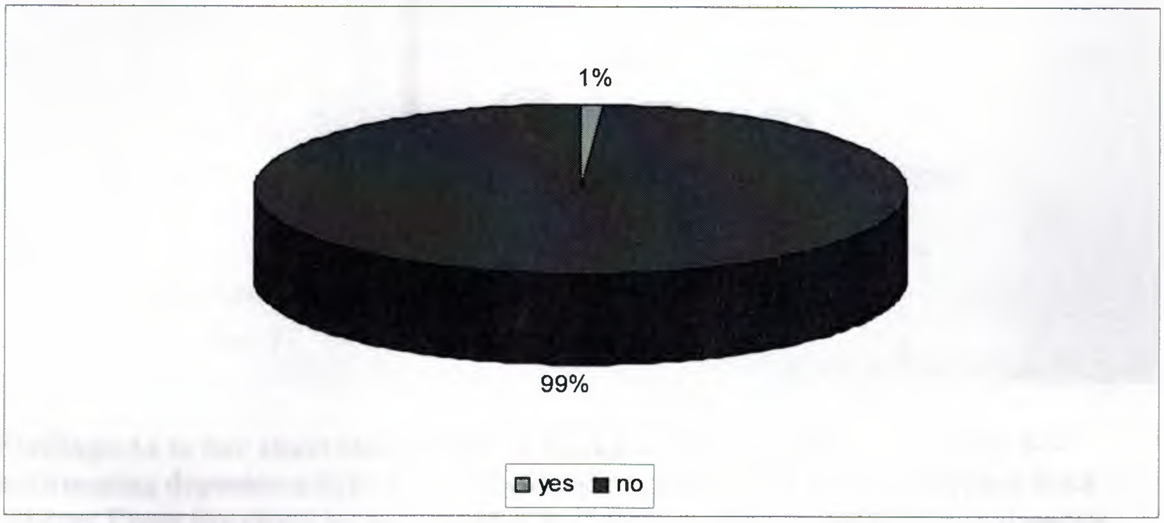
SECTION 3)METHODOLOGY

In this study to evoluate deposit insurance system in TRNC a questionaire was made. Questionaire was found and be made from Asst. Prf.Dr. Okan Şafaklı.The investigation was made between the May 1 and June 1.It had two parts.First part was bank satff and investigation included Yakın Doğu Bank,Iş Bank,Faisal Islamic Bank,Altınbaş Bank,HSBC Bank,Ziraat Bank,Şeker Bank,Türk Bank. For the first part of questinaire was made on 81 bank staff.Seven questions are asked to bank staff.Second part was depositors..Second part of questionaire was made on 100 depositors and 9 questions are asked to the depositors.The purpose of the study was to understand the knowledge of bank staff and depositors about deposit insurance system in TRNC.The results of questionaire were explained by Microsoft Excel.(For brief details questionaire would be found at Appendix A)

SECTION 4) FINDINGS

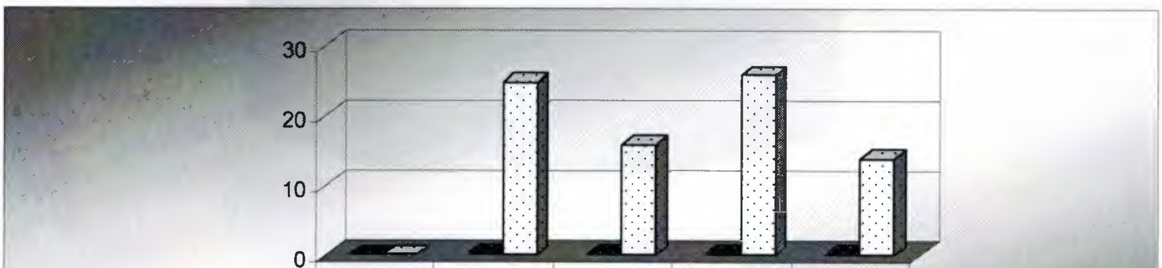
The İnvestigation for bank staff

1)Did you take a course for informating depositors about the Deposit Insurance Fund by the bank directors?



Findings:As in pie chart shown %1 of bank stafftake a course and %99 don't take a course from the bank directors.Banks in TRNC are not educate it's staff to informate its depositors if any question comes for Deposit Insurance System.

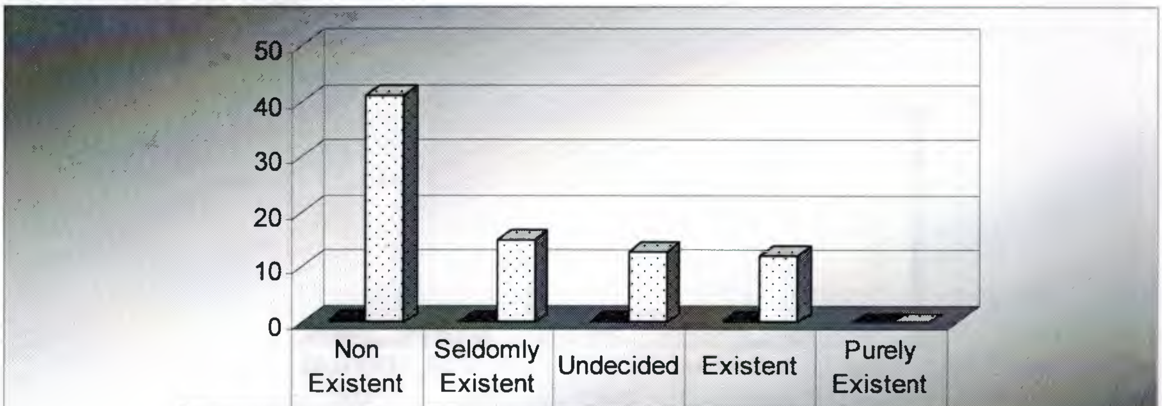
2)Do you have enough knowladge about the basical purposes and other rules of Deposit Insurance Fund?



	Definately Have	Normally Have	Undiceded	Not Have	Extremely Not Have
Seri 1	0	0,308642	0,1975309	0,3209877	0,1728395
Seri 2	0	25	16	26	14

Findings:As in bar chart showed %30 of staff have normally knowladge,%19.75 of staff have undiceded,%32.1 staff not have and finally %17.3 of staff extremely not have knowladge about the deposit insurance.In TRNC bank satff did'nt have knowledge about the deposit ınsurance.

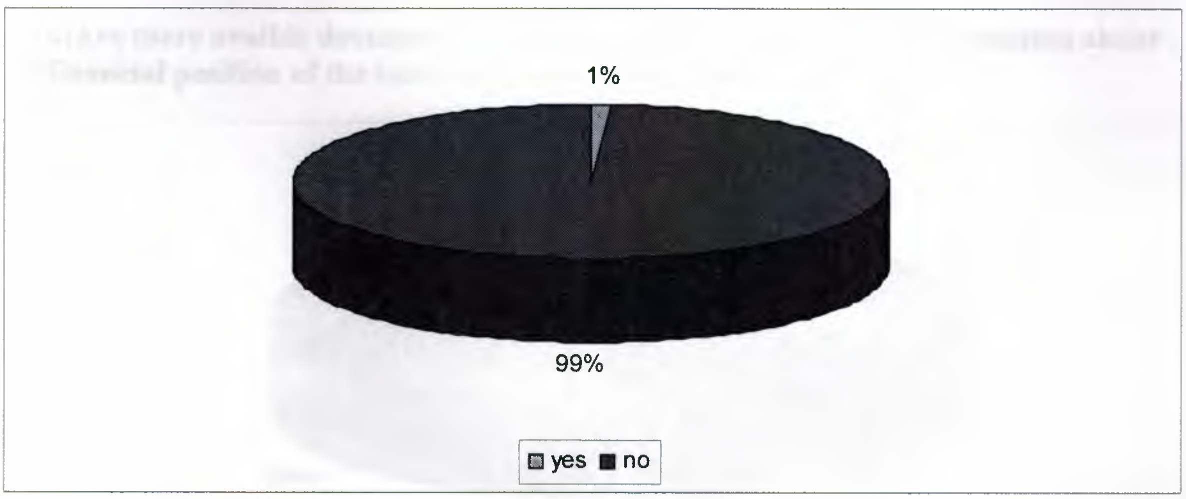
3)Does the bank has a systematic policy for informating it's depositors?



	Non Existent	Seldomly Existent	Undecided	Existent	Purely Existent
Seri 1	0,5061728	0,1851852	0,1604938	0,1481481	0
Seri 2	41	15	13	12	0

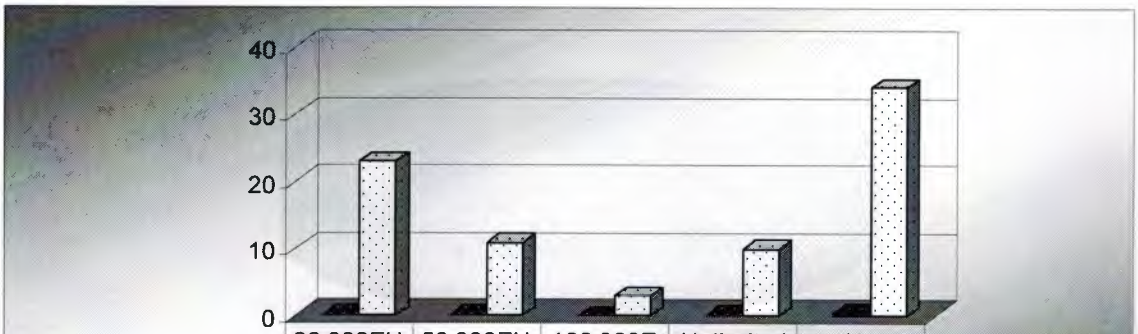
Findings:As in bar chart shown %50 of banks not have a systematic policy for informating depositors,%18.5 have sseldomly existent,%16 have undecided,%14 existent.From the chart we can say that in TRNC banks does'nt have a systematic policy to inform it's depositors.

4)Have the bank brochures and similar documents for informating it's depositors about Deposit Insurance Fund avaible?



Findings:As in Pie chart shown %1 have documents in banks to informate their costumer,and %99 of banks don't have documents to informate it's depositors about deposit insurance fund.

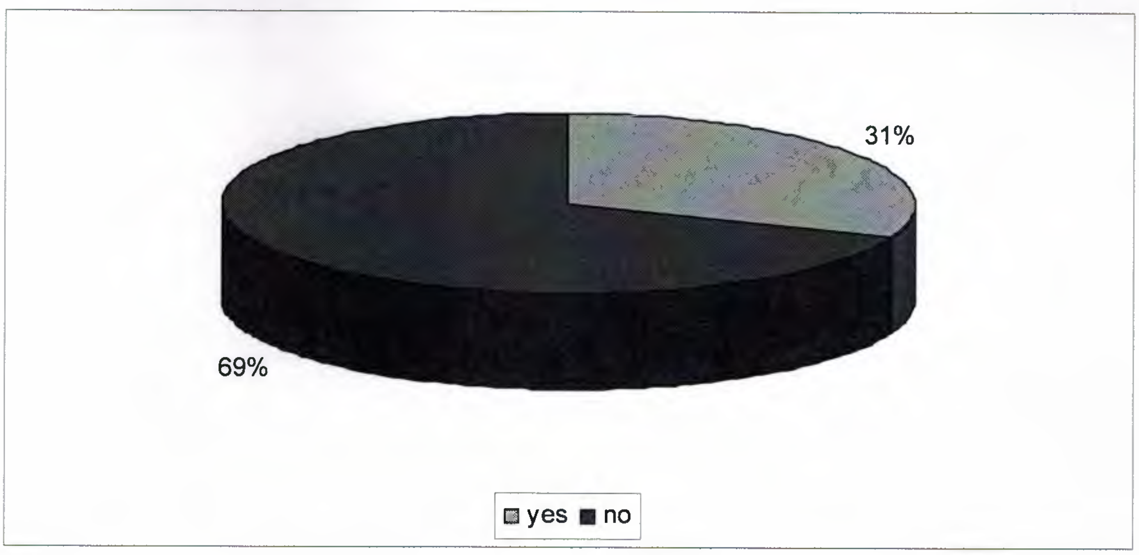
5)What is the maximum price that has insured for Deposit Insurance account which has deposited for today?



	20,000EURO	50,000EURO	100,000EURO	Unlimited Guarantee	No Informatio
Seri 1	0,2839506	0,1358025	0,037037	0,1234568	0,4197531
Seri 2	23	11	3	10	34

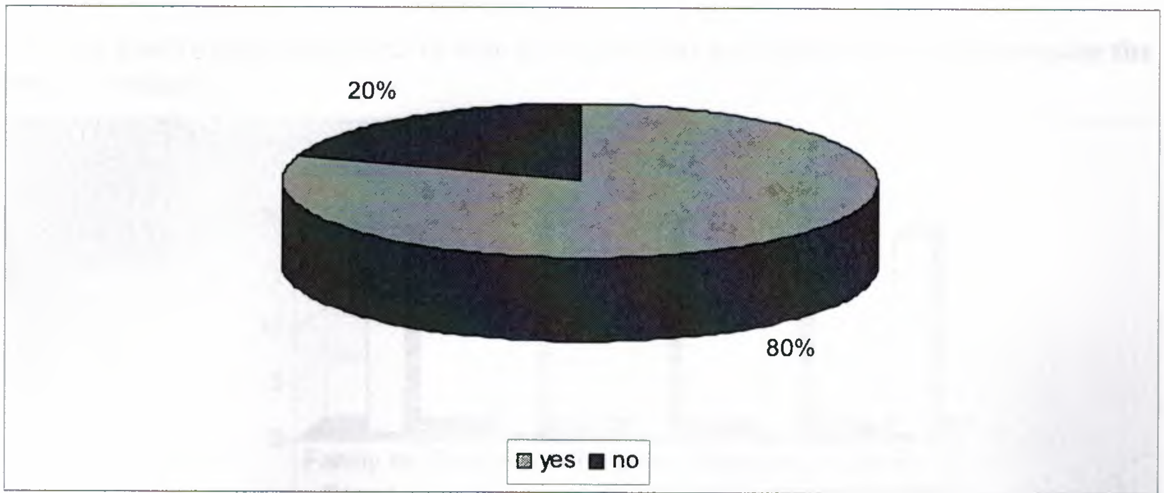
Findings:As in bar chart shown about %28.4 of staff answer 20,000,%13.5 answer 50,000,%3.7 answers 100,000,%12.3 answer unlimited and finally %42 answers no information than it shows in TRNC bank staff realy don't know the right answer because the right answer is 50,000EURO.

6)Are there avaible documents for costumers who want to take information about financial position of the bank in an immediate way?



Findings:As in pie chart shown %31 of banks have documents and %69 don't have documents in the banks to informate depositors.Then in TRNC taking information for the finacial positions of banks is very hard.

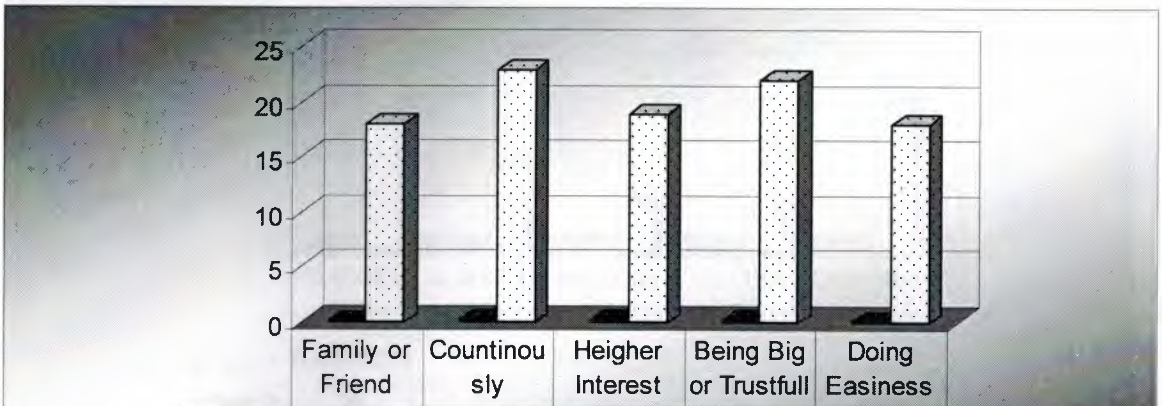
7)If your answer is yes to the sixth question,can we see these documents?



Findings:As in pie chart shown %20 of banks can't show these documents and other %80 can show the documents.We can say that the banks who have avaible in the banks will give information easly to it's depositors in TRNC.

The Investigation for Depositors

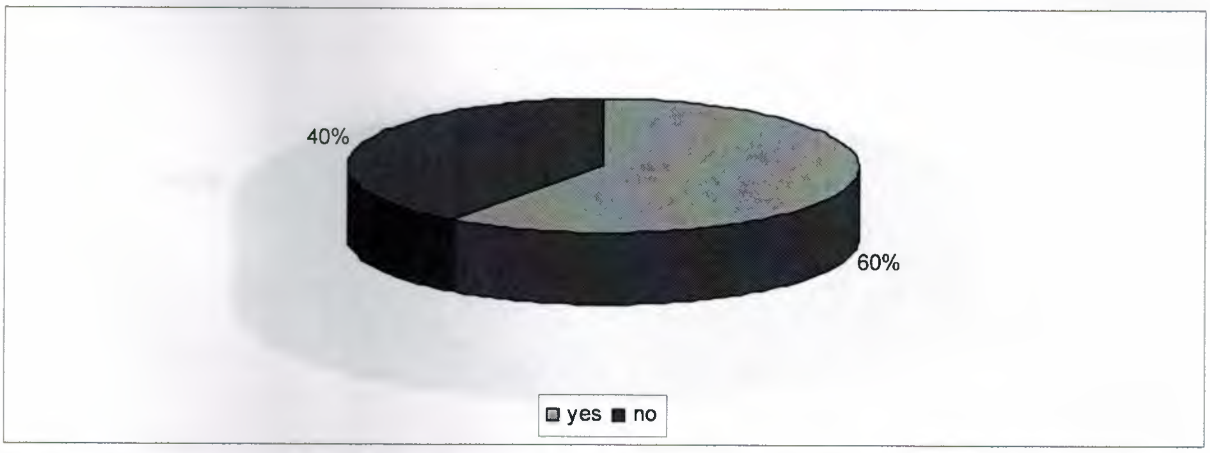
1)When you're depositing due to which factors that are listed below do you make the bank selection?



	Family or Friend	Countinou sly	Heigher Interest	Being Big or Trustfull	Doing Easiness
■ Seri 1	0,18	0,23	0,19	0,22	0,18
□ Seri 2	18	23	19	22	18

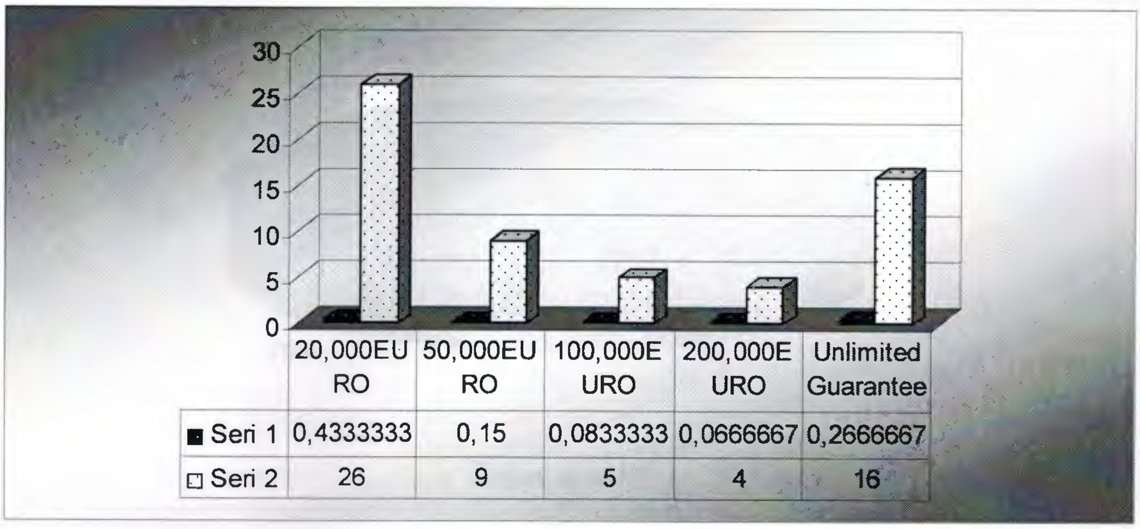
Findings:As in bar chart shown %18 of depositors take advise from family or friend to chose the bank,%23 of depositors chose banks when it's been countinously working bank,%19 heigher interest rates,%22 chose when it's big or trustfull bank and finally %18 chose when banks are give easy loans to custumers.

2)Do you have knowladge about deposit quantity that is guarenteed by the Deposit Insurance Fund while you're depositing?



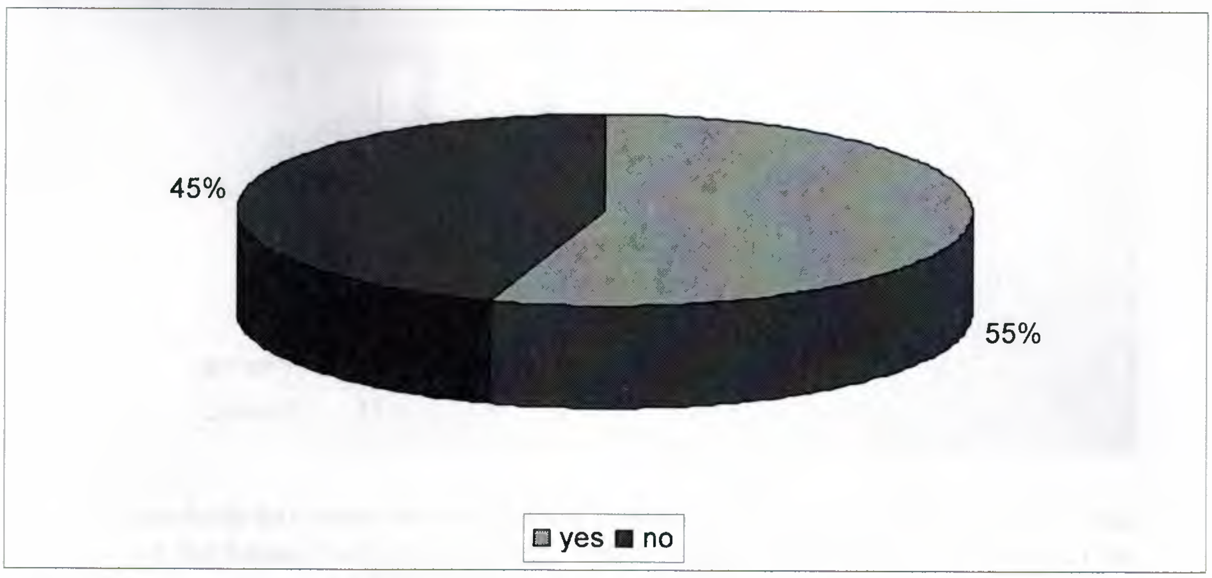
Findings:As in pie chart shown %40 believe that they have not knowladge and %60 believe that they have knowladge about the maximum quantitiy guaranteed by the deposit insurance fund.

3)If your answer yes to second question, what's the maximum deposit quantity that is guaranteed for today?



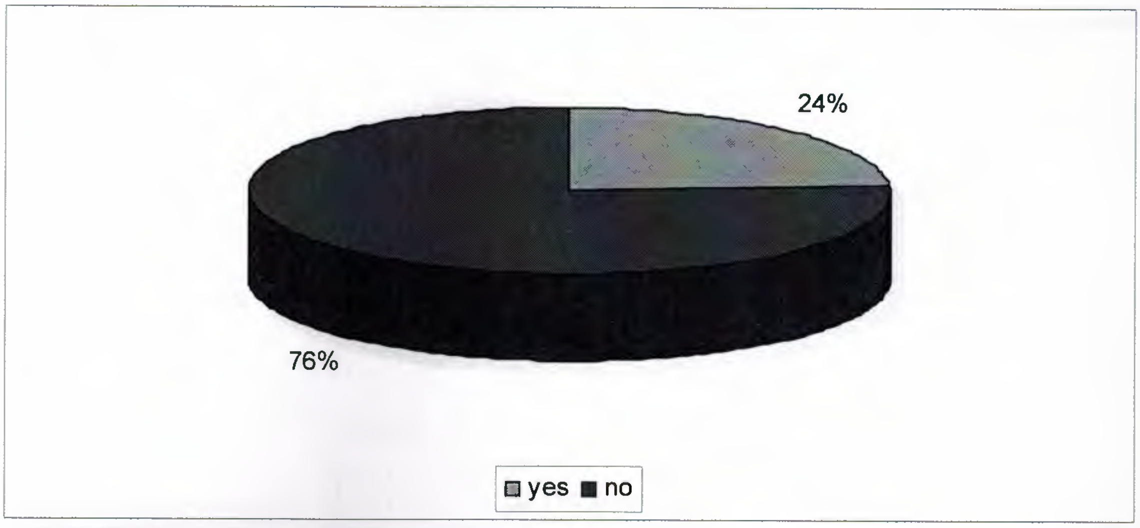
Findings:As in bar chart shown %43 of depositors answer 20,000,%15 answer 50,00,%8.4 answer 100,000,%6.6 answer 200,000 and finally 26.7 answer unlimeted guarantee.Then TRNC depositors who can say that they have know the guaranteed limit also can not know because the right answer must be 50,000EURO.

4)Has your bank being giving information about deposit insurance system while you're depositing?



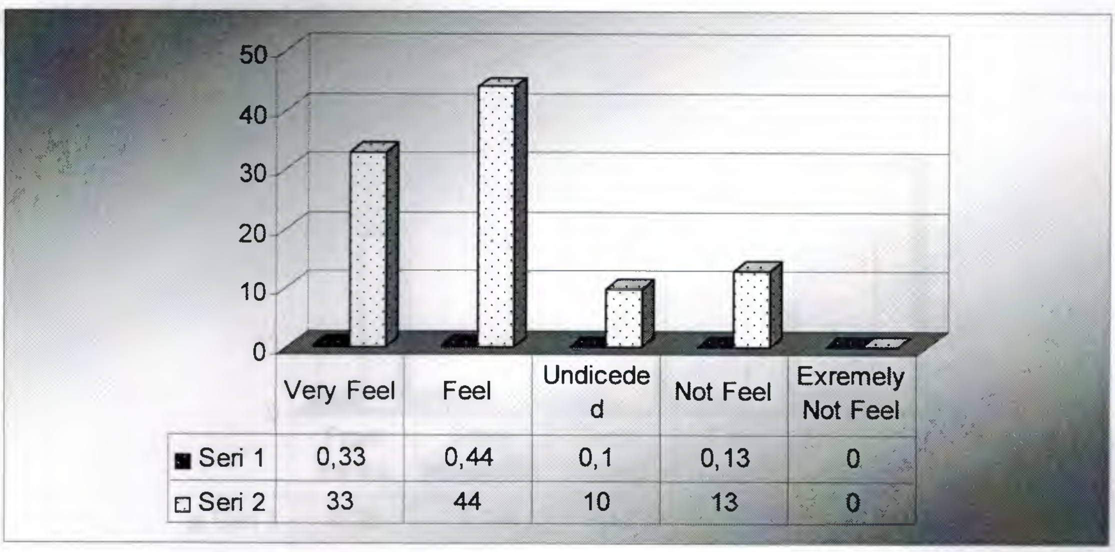
Findings:As in pie chart shown %55 of depositor say their banks give information when they're depositing and %45 say they don't give information about the insurance system.

5)Can you find brochures and similar documents about deposit ınsurance system in your bank?



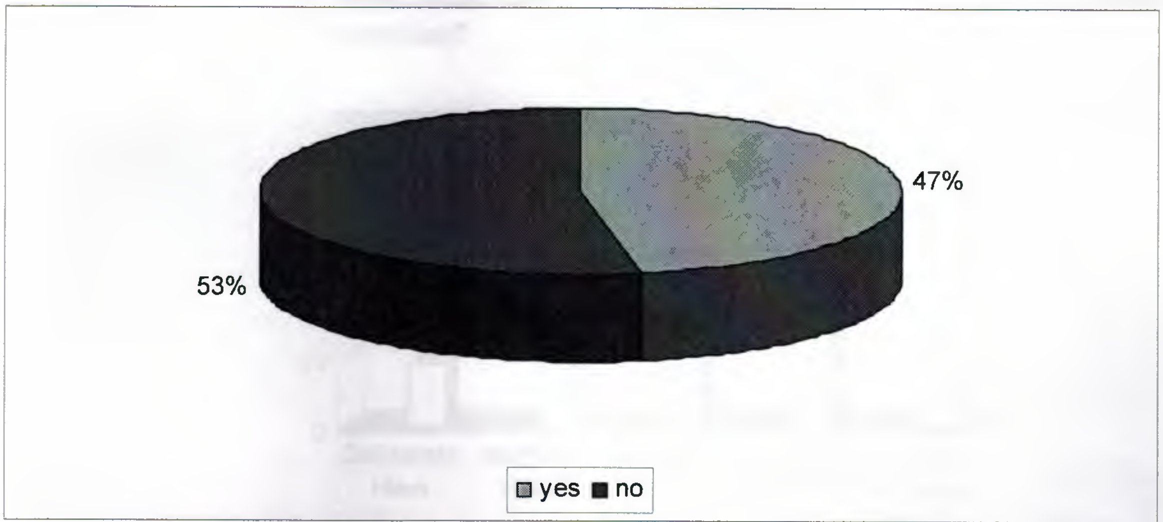
Findings:As in pie chart shown %24 of depositors can find decuments but %76 of depositors can not find any brochures or similar documents about deposit insurance system.And this is the one cause of less information or less knowladge about deposit insurance by depositors.

6)Do you feel a necessity of getting information about the financial positions of the banks while you're depositing?



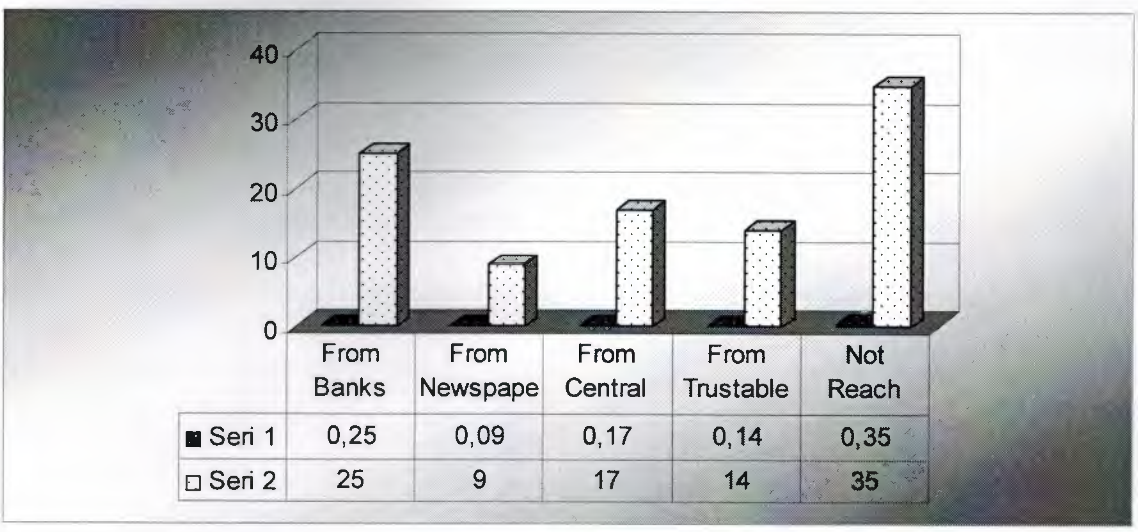
Findings:As in bar chart shown %33 of depositor very feel to know the financial position of the banks,%44 are normally fell,%10 are undiceded,%13 not feel.This shows the depositors in TRNC want to know the financial positions of the bank which they want to deposit them Money.

7)Can you reach enough information about the financial conditions of the banks that are related to the subject?



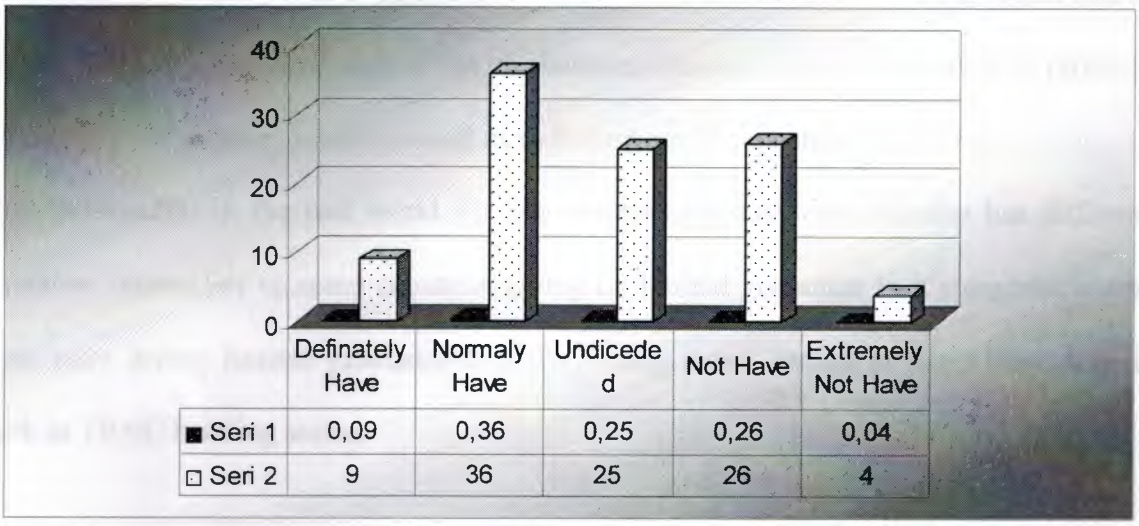
Findings:As in pie chart shown %47 of depositors reach enough information,and %53 of depositors beleive that they can not reach information about financial conditions of banks.

8)How can you reach the necessary information that is related with the financial conditions of the banks?



Findings:As in bar chart shown %25 of depositors reach information from the banks,%9 from the newpaper declaration,%17 of depositors from central bank,%14 of depositors from trustable fiends and finally %35 of depositors beleives that they do not reach enough information.

9)Do you have enough information about subject of which banks are less risky(more reliable)while you're depositing?



Findings:As in bar chart shown %9 definately have enoug information ,%36 normally have enoug information,%25 undicided,%26 not have enough information and finally %4 extremely not have enoug information about the chosing which banks are more risky.

SECTION 5)CONCLUSION AND RECOMMENDATIONS

Firs aim of the study was to understand the deposit insurance system in the world and in TRNC. **Deposit insurance:** one of the mechanisms employed by governments to promote the stability of banking systems as well as to protect small depositors from losses due to bank failures.But in the real world it's not too easy.Because each country has different ınsurance system.For eg.some countries giving un limited guarantee to it's depositors and some ones giving limited guarantee.This may bring moral hazard problem.How does it work in TRNC banking sector.

To evaluate the system in TRNC Questionaire was made.(questionaire would be found at Appendix A).In our qustionarire study shows that %49 of responded said that they do not enough information about deposit insurance system.

When we look at the bank side there is not any proper study on this subject.Questionaire showed that %68 of responded said that banks dont have sufficient systematic policy for deposit insurance system and in another question banks can not inform depositors for deposit insurance system.%99 of responded said that there is no any brochures or any other documents to inform it's depositors.

Also bank staff can bring disadvantages to the banking sector.Because they didnt have enoug information about the insurance system.In TRNC deposit insurance is 50,000 but just %15.6 of respondent know the right amount and other part %85.4 answered wrong amount.

Second part of questionnaire was made on depositors; study showed that many depositors didnt have enough information about banking services.% 60 of respondents said that they are informed well about deposit insurance system; but just % 15 of respondents know the right amount in TRNC banking sector. These findings showed that depositors have not enough information about deposit insurance systen in TRNC.

After examining all above questions there is a need a public awareness program in TRNC banking sector.

Recommendations:"

Public information and awareness often everlooked in the design of deposit insurance system.In order for a deposit insurance system to be effective,it's essential that the public be informed about the benefits and limitations of the system.

The need for public information and awareness stems from the uniqe intermediary role played by depository institutions.A public awareness program can be design to achieve several objectives;

First,a well design program can disseminate information to promote confidance and facilitate understanding of the concept of the deposit insurance and the main fatures of a countries deposit insurance system.

An effective programme also can help to restore and promote confidence in the financial sector.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.

Thirdly an effective programme can help do disseminete 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.

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.

From the basic objectives of the public awareness programme we can see that the weak points or the weakneses of TRNC's deposit insurance system can be resolved by an effective public awareness programme.Then to be effective programme it must be knew and must be reached target audiences. . One of the most important audiences is the staff of depository institutions, especially operations and front-line staff. 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.And this will be solved a problem in costumer base which were talked in conclution part.(from the depositor base.)

The Depositors and Bank Staff will be informed in such ways:

Comminications Techniques or Strategies: 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. 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

Guest Lectures and Presentation: 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.

Print and Broadcast-Media Covarage: 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.

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

By using such ways TRNC Banking Sector(include both of banks and also depositors)will be well informed.And the problems of deposit insurance system in TRNC which was talked in conclution part can be easily solved.If depositors believe banks then banks were attract as many new depositors and also investors.Then banks become more preferable and this brings economic wealth and also economic growth. .

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APPENDIX:

<u>*Appendix A*</u>

QUESTIONNAIRE

The İnvestigation for bank staff

1)Did you take a course for informating depositors about the Deposit Insurance Fund by the bank directors?

☐ Yes ☐ No

2)Do you have enough knowladge about the basical purposes and other rules of Deposit Insurance Fund?

☐ Definately Have ☐ Normally Have ☐ Undecided ☐ Not Have ☐Extremely Not Have

3)Does the bank has a systematic policy for informating it's depositors?

☐ Non Existent ☐ Seldomly Existent ☐ Undecided ☐ Existent ☐ Purely Existent

4)Have the brochures and similar documents for informating it's depositors about Deposit Insurance Fund avaible?

☐ Yes ☐ No

5)What is the maximum price that has insured for Deposit Insurance account which has deposited for today?

☐20,000EURO ☐50,000EURO ☐100,000EURO ☐Unlimited Guarantee ☐No Information

6)Are there avaible documents for costumers who want to take information about financial position of the bank in an immediate way?

☐ Yes ☐ No

7)If your answer is yes to the sixth question,can we see these documents?

☐ Yes ☐ No

The Investigation for Depositors

1)When you're depositing due to which factors that are listed below do you make the bank selection?

☐Family or Fried Advise ☐Contiuously Working Bank ☐Higher Interest Rates ☐Being Big or Trustable ☐Easy With Credit Services

2)Do you have knowladge about deposit quantity that is guarenteed by the Deposit Insurance Fund while you're depositing?

☐ Yes ☐ No

3)If your answer yes to second question, what's the maximum deposit quantity that is guaranteed for today?

☐20,000EURO ☐50,000EURO ☐100,000EURO ☐200,000EURO ☐Unlimited Guarantee

4)Has your bank being giving information about deposit insurance system while you're depositing?

☐ Yes ☐ No

5)Can you find brochures and similar documents about deposit ınsurance system in your bank?

☐ Yes ☐ No

6)Do you feel a necessity of getting information about the financial positions of the banks while you're depositing?

☐Very Fell ☐Fell ☐Undecided ☐Not Feel ☐Extremely Not Feel

7)Can you reach enough information about the financial conditions of the banks that are related to the subject?

☐ Yes ☐ No

8)How can you reach the necessary information that is related with the financial conditions of the banks?

☐From Banks ☐From Newspaper ☐From Central Bank ☐From Trustable Relatives
☐No Information

9)Do you have enough information about subject of which banks are less risky(more reliable)while you're depositing?

□Definately Have □Normally Have □Undecided □Not Have □Extremely Not Have

Figure 1.

Source: Caprio and Klingebiel (1999).

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Table 1. Deposit Insurance Around the World : Design of Explicit Deposit Insurance

Countries	Date Enacted / Revised	Coverage Limits US$ or ECU	Coverage Ratios Limit/gdp per capita	Co-insurance Y=Yes N=No	Permanent Fund	Annual Premiums % of insured deposits unless otherwise noted	Source of Funding P= Private, O=Official J=Joint	Administration
Argentina	1979/1992/ 1995	30000	3	N	Y	risk-based, 0.36 to 0.72	P	P
Austria	1979/1996	$24,075 but coinsurance for businesses	1	Y	N	pro rata, expost	J	P
Bahrain	1993	5640	1	N	N	ex post	P	J
Bangladesh	1984	2123	6	N	Y	0.005	J	O
Belgium	1974/1995	15,000 ECU until year 2000	1	N	Y	0.02 + 0.04 of insured liabilities	J	J
Brazil	1995	17000	4	N	Y	0.3	P	P
Bulgaria	1995	1784	1	N	Y	risk based to 0.5	J	J
Cameroon	1999	5336	9	N	Y	risk based: 0.15% of deposits + 0.5% of net non-performing loans	J	J
Canada	1967	40770	2	N	Y	0.33 max	J	O
Central African Rep.	1999	3557	13	N	Y	risk based: 0.15% of deposits + 0.5% of net non-performing loans	J	J
Chad	1999	3557	15	N	Y	risk based: 0.15% of deposits + 0.5% of net non-performing loans	J	J
Chile	1986	demand deposits in full and 90% coinsurance to UF 120 of $3,600 for savings deposits	1	Y	N	none	O	O
Colombia	1985	in full untill 2001, then coinsurance to $5,500	2	Y	Y	0.3	P	O
Croatia	1997	15300	3	N	Y	0.8	J	J
Czech Rep.	1994	coinsurance to $11,756	2	Y	Y	commercial banks 0.5, savings banks 0.1	J	O
Denmark	1988/1998	20000 ECU	1	N	Y	0.2 (maximum)	J	J
Dominican Republic	1962	coinsurance to $13,000	7	Y	Y	0.1875	J	J
Ecuador	1999	in full to year 2001		N	Y	0.65	n.a.	O
El Salvador	1999	4720	2	N	Y	risk-based, 0.1 to 0.3	J	O
Equatorial Guinea	1999	3557	3	N	Y	risk based: 0.15% of deposits + 0.5% of net non-performing loans	J	J
Estonia	1998	coinsurance 90% of $1383, but 20,000 ECU in year 2010	0	Y	Y	0.5 (maximum)	J	J
Finland	1969/1992/ 1998	29435	1	N	Y	risk based: 0.05 to 0.3	J	P
France	1980/1995	65387	3	N	N	on demand but limited	P	P
Gabon	1999	5336	1	N	Y	risk based: 0.15% deposits + 0.5% net non-performing loans	J	J
Germany	1966/1969/ 1998	private: 30% of capital; official coinsurance 90% to 20000 ECU	1	Y	Y	official is 0.03 but can be doubled	P	P
Gibraltar	1998	lesser of 90% coinsurance or 20,000 ECU		Y	N	administrative expenses and expost contributions	P	J
Greece	1993/1995	20,000 ECU	2	N	Y	decreasing by size: 1.250 to 0.025	P	J
Hungary	1993	4,165 ECU or $4,564	1	N	Y	risk based to 0.3	J	J
Iceland	1985/1996	20,000 ECU	1	Y	Y	0.15	P	O
India	1961	2355	6	N	Y	0.05	J	O
Indonesia	1998	Blanket guarantee						
Ireland	1989/1995	coinsurance 90% to 15,000 ECU	1	Y	Y	0.2	P	O
Italy	1987/1996	125000	6	N	N	risk adj., expost 0.4 to 0.8 of protected funds	J	J
Jamaica	1998	5512	2	N	Y	0.1	J	O

Countries	Date Enacted / Revised	Coverage Limits	Coverage Ratios	Co-insurance	Permanent Fund	Annual Premiums	Source of Funding	Administration
Japan	1971	$71,000, but in full until March 2001		N	Y	0.0048 + 0.036	J	J
Kenya	1985	1750	5	N	Y	0.15	J	O
Korea	1996	$14,600, but in full until the year 2000		N	Y	0.05	J	O
Latvia	1998	$830 until year 2000	0	N	Y	0.3	J	O
Lebanon	1967	3300	1	N	Y	0.05	J	J
Lithuania	1996	$6,250 then coinsurance	2	Y	Y	1.5	J	O
Luxembourg	1989	coinsurance 90% to ECU 15000 thru 1999, then to ECU 20000	0	Y	N	ex post	P	P
Macedonia	1996	coinsurance 75% to $183	0	Y	Y	1.5%, risk-based 1% to 5%	J	J
Malaysia	1998	Blanket guarantee						
Marshall Islands	1975	100000		N	Y	risk-based, 0.00 to 0.27	P	O
Mexico	1986/1990	in full except subordinated debt until 2005		N	Y	0.3 (max 0.5) plus 0.7 as needed	J	O
Micronesia	1963	100000		N	Y	risk-based, 0.00 to 0.27	P	O
Netherlands	1979/1995	20,000 ECU	1	N	N	expost	J	O
Nigeria	1988/1989	$588(at market exchange rate), $2435 (at official exchange rate)	2	N	Y	0.9375	J	O
Norway	1961/1997	260800	8	N	Y	0.005 of assets and 0.01 of total deposits	J	P
Oman	1995	coinsurance 75% to $52,630	9	Y	Y	0.02	J	O
Peru	1992	21160	9	N	Y	risk-based from 0.65 to 1.45	J	J
Philippines	1963	2375	3	N	Y	0.2	J	O
Poland	1995	1,000 ECU, then 90% coinsurance for the next 4,000 ECU	0	Y	Y	not more than 0.4	J	O
Portugal	1992/1995	15,000 ECU, coinsurance to 45,000 ECU	1	Y	Y	risk-based, 0.08 to 0.12 + more in emergencies	J	O
Republic of Congo	1999	3557	5	N	Y	risk based: 0.15% of deposits + 0.5% of net non-performing loans	J	J
Romania	1996	3600	2	N	Y	risk-based: 0.3 to 0.6	J	J
Slovak Republic	1996	7900	2	N	Y	0.1 to 0.3 for banks	J	J
Spain	1977/1996	15,000 ECU through 1999, then 20,000 ECU	1	N	Y	maximum of 0.2	J	J
Sri Lanka	1987	1470	2	N	Y	0.15	J	O
Sweden	1996	28,663 ECU, $31,412	1	N	Y	risk-based, 0.5 now, 0.1 later (future date is not available)	J	O
Switzerland	1984/1993	19700	1	N	N	on demand	P	P
Taiwan	1985	38500	3	N	Y	0.015	J	O
Tanzania	1994	376	2	N	Y	0.1	J	P
Thailand	1997	Blanket guarantee						
Trinidad & Tobago	1986	7957	2	N	Y	0.2	J	O
Turkey	1983	in full		N	Y	risk-based 1.0 to 1.2	J	O
Uganda	1994	2310	8	N	Y	0.2	J	O
Ukraine	1998	250	0	N	Y	0.5 plus special charges	J	O
United Kingdom	1982/1995	larger of 90% coinsurance to $33,333 or 22,222 ECU	1	Y	N	on demand	P	P
United States	1934/1991	100000	3	N	Y	risk-based, 0.00 to 0.27	J	O
Venezuela	1985	7309	2	N	Y	2	J	O

Source: Demirguc-Kunt and Sobaci, "Deposit Insurance Around the World: A Database," World Bank Economic Review, forthcoming. Full data base available at: **http://www.worldbank.org/research/interest/confs/upcoming/deposit_insurance/home.htm**

Glossary of Terms

adverse selection - The tendency for higher-risk banks to opt for deposit insurance and lower-risk banks to opt-out of deposit insurance when membership in a deposit insurance system isvoluntary.

bank run - 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 guideline to which other items or processes can be compared.

blanket guarantee - A declaration by the government that all deposits and perhaps other financial instruments 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 pre-specified portion, less than 100 percent of their deposits.

collateralisation - The taking of a mortgage, pledge, charge or other form of security by a creditor over one or more assets of a debtor.

contagion - The spread of an individual bank run to several other financial institutions.

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

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

differential premium/risk-adjusted differential premium - A levy on a bank assessed on the basis of that bank.s risk profile.

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

***ex-ante* funding** - The accumulation of a fund to cover deposit insurance claims in anticipation of the failure of a member bank.

***ex-post* funding** - An assessment levied after the failure of a member bank to provide funds to cover deposit insurance claims.

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

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

foreign bank . A foreign-bank subsidiary is incorporated as a separate entity in the host country. A foreign-bank branch, on the other hand, is an extension of the foreign bank itself into a host country. Foreign-bank branches and subsidiaries may be subject to different rules and supervised differently by a host country.

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 to the system than all other resolution alternatives, including the liquidation of the failed bank.

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 deposit accounts will be paid up to a specified limit.

mandate - A mandate is a set of official instructions or statement of purpose of a firm.

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 a bank.

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

netting/netting arrangements . This refers to the reduction of an accountholder's insured deposits by the amount of outstanding loans in a failed institution or 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 depositors.

purchase-and-assumption transaction (sales) - A resolution method in which a healthy bank or group of investors assume some or all of the obligations, and purchase some or all of the assets of the failed bank.

receiver - The legal entity that undertakes the winding down of the affairs of an insolvent bank.

recovery - The amount of net collections of a bank.s assets.

regulatory discipline - Governs the establishment of new banks; qualifications of directors and managers; business activities; change of control; and standards for risk-management, internal controls, and external audits.

risk minimiser . A deposit insurer with the powers to reduce the risks it faces. These powers may include the ability to control entry and exit from the deposit insurance system, assess and manage its own risks and may conduct examinations of banks, or request such examinations.

set-off - Rrefers to situations where the claim of a creditor in an insolvent bank (for example,a deposit) is deducted from a claim of the bank against the creditor (for example, a loan).

situational analysis . An examination that policymakers undertake to assess factors such as:the state of the economy; current monetary and fiscal policies; the state and structure of thebanking system; public attitudes and expectations; the state of the legal, prudential regulatory and supervisory; accounting and disclosure regimes.

supervisory discipline - Requires that banks are monitored for safety and soundness as well as compliance issues and that corrective actions are taken promptly, including the closure of a bank when necessary.

suspense account . A suspense account is used when not enough information is available to post a transaction with the right offset. For example, dividends and interest are .paid. to a trust account on their payable date even if all of the money from depositors and paying agents is not received on time.

systemic risk . A risk that has implications for the general health of the financial system and can have serious adverse implications for financial stability and overall economic conditions.