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Does deposit insurance increase banking system stability? An empirical investigation â˜†

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Abstract

Based on evidence for 61 countries in 1980â€"1997, this study finds that explicit deposit insurance tends to increase the likelihood of banking crises, the more so where bank interest rates are deregulated and the institutional environment is weak. Also, the adverse impact of deposit insurance on bank stability tends to be stronger the more extensive is the coverage offered to depositors, where the scheme is funded, and where it is run by the government rather than the private sector.

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JEL classification

G28; G21; E44

Keywords

Deposit insurance; Banking crises

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