



Assessment of Operational Functions of the Ethiopian Deposit Insurance Fund

By Mekdes Gizaw

A Thesis Submitted to Addis Ababa University School of Commerce Graduate Program in partial fulfillment of the requirement for the degree of Masters of Science (MSc) in Corporate Finance Specialty in Investment Management

Department of Accounting

Advisor: Dakito Alemu (Associate Professor)

June, 2025

Addis Ababa, Ethiopia

Addis Ababa University
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Statement of Certification

This is to certify that the thesis entitled " Assessment of Operational Functions of the Ethiopian Deposit Insurance Fund", submitted to Addis Ababa University, School of commerce, for the award of Degree of Masters of Science in Corporate Finance specialty in investment management is a bona-fide work that has been carried out by Mekdes Gizaw under my guidance and supervision. Therefore, this is to certify that this work is suitable for submission.

Advisor: Dakito Alemu (Associate Professor)

June 2025

Addis Ababa, Ethiopia

Statement of Declaration

I, Mekdes Gizaw, acknowledge that this thesis, entitled " Assessment of Operational Functions of the Ethiopian Deposit Insurance Fund", is entirely the result of my own independent efforts. I also declare that the sources of all materials used in the research are properly cited. I also confirm that this research has not been submitted for the conferment of any title at this university or any other institution.

Declared by: Mekdes Gizaw

June, 2025

Addis Ababa, Ethiopia

Acknowledgment

First of all, I sincerely thank God for everything. I extend my sincere gratitude to Dakito Alemu (Associate Professor), my thesis advisor, whose expertise and unwavering support were crucial to this research. I also extend my gratitude to all our lecturers who were with us during this course. It was a great experience to be part of this historic batch for the course. I greatly thank you Mr. Zemichael Tesfamariam for keeping us in track and holding the group together and providing insightful comments.

I am also grateful to the Ethiopian Deposit Insurance Fund (EDIF) professionals, banking and micro finance experts who generously shared their insights, enriching this study's empirical foundation.

Finally, I thank my family for their steadfast encouragement throughout this academic journey.

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List of Acronyms

NBE-	National Bank of Ethiopia
IADI-	International Association of Deposit Insurers
EDIF-	Ethiopian Deposit Insurance Fund
IMF-	International Monetary Fund
SPSS-	Statistical Package for Social Science

Abstract

This study is done for assessment of Operational Functions of the Ethiopian Deposit Insurance Fund which was established in 2023 to strengthen financial stability and protect depositors. By Focusing on four core functions of the fund—premium setting mechanism, fund management, fund sufficiency, and public awareness—the research employed a quantitative research approach by collecting data via structured questionnaires from 80 banking, microfinance, and EDIF professionals in Addis Ababa and an interview was done with one of EDIF Director. The researcher used descriptive and narrative analysis methods to analyze the data collected. The results of the descriptive analysis reveals moderate confidence in EDIF’s premium setting mechanism with mean score: 3.24, though concerns persist about its capacity to discourage risky bank behavior. Fund management practices (mean: 3.12) are viewed carefully, with transparency and governance independence flagged for improvement. Fund sufficiency (mean: 3.08) faces skepticism regarding adequacy for crisis response. Critically, public awareness (mean: 3.15) is underdeveloped, with weak communication on coverage limits (mean: 2.47) undermining trust. As per the interview with one of the directors, the EDIF has involved in its operations since its establishment, elaborated why it has employed flat rate of premium settings. Points out its strengths and weaknesses and has planned to by a pay box plus role in the near future to protect the financial sector of the economy and take part in the developing the country’s economy. The study concludes that while EDIF aligns broadly with its mandate, strategic enhancements in risk-based premiums, governance transparency, crisis funding strategies, and public outreach are imperative to strengthen its role in Ethiopia’s financial sector safety. Recommendations include adopting dynamic premium models, proactive disclosure protocols, and nationwide awareness campaigns.

Key Words; Premium Setting, Fund Management, Fund Sufficiency and Public Awareness.

CHAPTER ONE: INTRODUCTION

The research was conducted for assessment of operational functions of the Ethiopian Deposit Insurance Fund. This chapter consisted of the background of the study, statement of the problem, research questions, objectives of the research, significance of the study, scope and, limitations of this study. Terms were defined thoroughly and also included the ways how this study paper was organized.

1.1. BACKGROUND OF THE STUDY

Financial institutions, particularly banks, play a crucial role in connecting savers with borrowers, evaluating risks, implementing monetary policies, and offering payment services, but they are also susceptible to risk (Armour, 2016). If not managed effectively, they may face financial crises that can lead to bank failures (Armour, 2016). Therefore, government intervention and regulation in consumer protection are warranted due to inherent information asymmetries and power imbalances in markets, and consumers should receive protection for their savings to foster public trust in instances of banking crises (Chai, 2018). As these issues become more pronounced, many states have started to implement deposit insurance systems as part of their financial legislation.

The first deposit insurance established in the U.S. Around 1880s with public and private sponsorship and then it failed. In 1924, Czechoslovakia was the first country to form a national deposit insurance. Then by 1933, the United States had established a national deposit insurance named the Federal Deposit Insurance Corporation (FDIC) after the U.S. Great Depression. After commencement of the modern banking in the 14th century, it took a lot of years to establish deposit insurance.

Formal deposit insurance had been in practice since 1934. It has witnessed rapid growth particularly in recent times followed the recent global financial crisis. (IADI, 2021). Currently over 140 countries had some form of explicit deposit insurance scheme in place (WorldBank, 2017).

Deposit insurance has emerged as a cornerstone of modern financial safety nets, adopted widely across national jurisdictions to foster stability and protect depositors. Since the establishment of the Federal Deposit Insurance Corporation (FDIC) in the United States in 1933, more than 140 countries have implemented similar systems (Biresaw, 2018). This global proliferation underscores the recognized importance of deposit insurance as an integral component of the financial safety net, fundamentally designed to prevent systemic crises and safeguard the banking sector (Biresaw, 2021). A deposit insurance system (DIS) refers to the set of specific functions (whether performed by a dedicated legal entity or not) inherent in providing protection to bank depositors, and their relationship with other financial system safety-net participants to support financial stability ((G-SIBs)", 2012). Two broad types of deposit insurance systems identified by (IADI, 2021) were explicit and implicit deposit insurance. Although policymakers have choices regarding how they can protect depositors of deposit-taking financial institutions in their domains, explicit deposit insurance system stands out as the preferred.

According to (Senbeta, 2023) most countries have financial safety nets that include both explicit and implicit deposit insurance. In recent times, explicit deposit insurance has become a more commonly utilized tool by governments to maintain the stability of financial systems and safeguard depositors from significant losses resulting from failures in the financial institutions (<http://www.nber.org/papers/w12862>). Besides implicit measures, many countries have implemented explicit deposit insurance after experiencing bank failures in their financial systems, serving as a safety net for depositors and contributing to overall financial stability (Demirgüç-Kunt, 2007). Even if our country Ethiopia has not experienced bank runs or failures and in the way of liberalizing its financial sector, it has established a deposit insurance system to protect depositors and maintain the health of the financial sector.

As per Establishment and Operation of Ethiopian Deposit Insurance Fund Council of Ministers Regulation No.482/2021, the Ethiopian Deposit Insurance Fund established by the year 2023 with main aim of strengthening the country's financial system through ensuring its safety, soundness and stability, provide protection to depositors so as to maintain the stability of the financial system, introduce as an additional element to the financial sector safety, to make payments to depositors in case of bank and/ micro finance institutions failures and to collaborate

with the NBE, member financial institutions and other stakeholders to minimize risks and play role in the stability of the financial system. (EDIF, 2025)

The EDIF plays a significant role in Ethiopia's financial system safety net, established to provide protection to depositors, boost public confidence and play vital role to the overall stability of the financial sector. With the main task of protecting depositors and maintain financial safety net, the EDIF has opt to align its functions to the IADI core principles which clearly indicates Ethiopia's commitment in implementing international best practices in deposit insurance. As the EDIF is in its infant stage, it has faced major challenges to smoothly ran its operations mainly in areas of funding constraints which incorporates its premium setting mechanism, fund management and fund sufficiency and public awareness. The EDIF implemented flat rate premium collection method which did not account for the risks of the bank's based on their vulnerability.

As per the first and second financial stability reported issued by NBE issued on April 2024 and November 2024 respectively from all the participants of the financial system of Ethiopia, the banking sector is key player by holding 96 percent of the total assets of the sector as of June 2023 and 2024. The report has undergone with comprehensive analysis of the risks and resilience of the banking sector, which clearly indicates the banking sector's impact on the overall financial system performance of the country is high. (NBE, 2024)

On Marched 22, 2024 the EDIF has prepared an awareness creation and dialogue conference at Skylight Hotel with the main aimed of providing awareness of its operations and its major role in stabilization the financial system of Ethiopia and about its existence and again on August 14. 2024 the EDIF has launched a website that could serve as one way of public communication channel to provide information to the public. (EDIF, 2025)

1.2. STATEMENT OF THE PROBLEM

Bank serve the role of intermediation between savers and borrowers. Banks collect short term investments and lend long term finances due to that banks are exposed to risk, so banks are institutions that assess risk, implement monetary policy and also hold on provisions. These natures of banks lead them to different risk of bankruptcy and liquidity problems (Maireg, 2018), (Yagcilar, 2014).

The fact that banks are not risk-free investments leads to the need to have a deposit insurance fund which is necessary to bring financial safety. Most governments have adopted and established deposit insurance long ago. The United States has a history backing to the year 1933 for having established the FDIC (Calomiris, 2023).

Deposit insurance systems (DIS) are major contributors to financial system stability. Their existence benefits financial institutions and societies by reducing the probability of panic-driven bank runs, thereby protecting sound financial institutions from liquidity pressures due to massive withdrawals (IADI, 2021).

In Ethiopia, the Ethiopian Deposit Insurance Fund (EDIF) was established in 2023 to protect depositors, enhance public confidence, and ensure financial sector stability. However, EDIF may face several critical challenges in its coverage limit, premium setting mechanism, fund management and sufficiency and its public awareness aspects. EDIF provides coverage to only Birr 100,000 per depositor per institutions, which is below the current per capita GDP (Birr 133,500 as of 2024 due to currency devaluation). This brings concerns about whether the coverage is sufficient to protect depositors amid economic volatility (NBE, 2024).

According to (Anginer, 2014), the risk based premium setting technique is more important for creating fairness and sustainable developments in deposit insurance companies. However, EDIF is not employing premium structure that account for the different risk levels of the banks and microfinance institutions that may lead to inadequate contributions and fund insufficiency to protect deposits in the case of bank failures.

According to Research by (Beck, 2009), the level of public awareness provided by deposit insurance is important in developing trust and confidence in the deposit insurance system. But the level of public awareness session created by the EDIF is limited which affects its ability in meeting its objectives.

These points rise to questions as the effectiveness of the Ethiopian Deposit Insurance Fund in meeting its intended objectives. So, these gaps rise the need to do a research and so far researches of Senbeta Tekle Bekele titled ‘Regulatory Regime Governing Deposit Insurance under the Ethiopian Law: A Comparative Review in Light of International Core Principles’

Perspectives' and a study of Biresaw, Solomon Meseret titled Deposit Insurance Scheme in Ethiopia: Considerations of Design, Legal and Institutional Framework) has been done. These studies did not fully examine the functions of EDIF after it has gone operational. This indicates there exists a research gap as the researcher tried to do assessment of Operational Functions of the Ethiopian Deposit Insurance Fund.

1.3. RESEARCH QUESTIONS

The research covers the subsequent main and sub research questions.

1.3.1. Main research question:

What are the functions of the Ethiopian Deposit Insurance Fund?

1.3.2. Sub research questions

- What method premium setting mechanism is employed by the Ethiopian Deposit Insurance Fund?
- How is the EDIF managing the fund it has collected as premium from its members?
- Is the fund collected sufficient enough to provide the stated protection if failure in financial sector arise?
- What level of awareness creation is done by the EDIF so far?

1.4. OBJECTIVE OF THE STUDY

1.4.1. General Objective

The general objective of this study was assessment of Operational Functions of the Ethiopian Deposit Insurance Fund.

1.4.2. Specific Objectives

1. To examine the premium setting method employed by the EDIF
2. To assess the fund management mechanism of EDIF
3. To examine the deposit insurance fund's ability to protect banks and microfinance institutions with their customers from unnecessary loss
4. To evaluate the effectiveness of EDIF's awareness campaigns done in Addis Ababa using survey data

1.5. SIGNIFICANCE OF THE STUDY

The major contribution or key element of the modern banking is the establishment and management of a limited liability bank where depositors of the bank are the major shareholders. As in time of financial insolvency financial institutions face, the risk has to shift from shareholders to depositors of the bank through providing bank deposit insurance coverage. As the financial sector plays the major role in the country's economy, protecting banks, micro finance institutions and their customers is critical. The current financial instability in the financial sector and economic instability of the country requires the functions of the deposit insurance fund. Deposit insurance plays a vital role in protecting consumers' hard-earned money from unnecessary loss. The study tried to provide accurate information to the public, banks and other related parties about the functions of the Ethiopian Deposit Insurance. Furthermore; the study tried to provide good opportunity to banks and micro finance institutions to boost their deposit through disseminating information well about the functions of the fund. Therefore, the functions of deposit insurance fund or coverage of assets is very important. And also, the study tried to provide a base for other researchers to further study the subject and suggest better recommendations.

1.6. SCOPE OF THE STUDY

This study will benefit banks, the public, authorities and employees of the fund and the government to make adjustments on the laws governing the Ethiopian Deposit Insurance Fund. Due to this the study was delimited to three major scopes like geographical, conceptual and Methodological.

1.6.1. Geographical Scope: The study was conducted in Addis Ababa the capital city of Ethiopia with in banks and micro finance institutions managerial staffs, the employees and authorities of the fund.

1.6.2. Conceptual Scope: The study focused only on the assessment of operational functions of EDIF. It has focused on core functions like Premium Setting, Fund Management, Fund Sufficiency and the level of public awareness created by the EDIF.

1.6.3 Methodological Scope: The researcher purely used qualitative research approach with descriptive research design as there is limited resources and time availability. The study adopted systematic research method to collect data from the selected samples using questioners and one intensive interview of EDIF official.

1.7. LIMITATIONS OF THE STUDY

Any research is not free from limitations. The major limitations of the study were the absence of sufficient related research done in this subject matter in our country to be used as a reference. The second limitations were its limited geographical coverage, the research was conducted here in Addis Ababa, using the results obtained here prohibits the generalization of the results to other areas of the country as the financial sector is scattered all over the country. The third limitation was the results might not be addressed to other industries as the study only focused on the financial sector only.

1.8. DEFINITION OF TERMS

According to Creswell and Creswell (2018) researcher should exhaustively define terms that are to be used in the research proposal. Hence the researcher thoroughly defined all the relevant terms.

1.8.1 Conceptual Definition

The major terms used in this study were conceptually defined as follows

Bank: refers to an entity which takes deposits or funds from the public and lend it to the ones with shortage of funds and which is categorized under the legal framework a deposit taking institution (Anon., 2015)

Deposit insurance agency (DIA): refers to the legal unit accountable to addressing deposit insurance, deposit guarantees or similar deposit protection arrangements. (IADI, 2014)

Deposit Insurance Fund: is a mechanism developed by the government to safeguard deposits of individuals if a bank or financial institution fails. The fund collected by the deposit insurance is

managed by central bank of a country or separate agency that is responsible to the safety of the financial system.

Public Awareness: Public awareness of deposit insurance system (DIS) is important in protecting bank runs and developing consumer confidence. According to (Karas, 2013) public awareness highly affects depositor behaviour, mainly in economic instability

Fund Sufficiency: Fund Sufficiency provides potential solvency, liquidity, performance etc. for Deposit Insurance Fund in achieving its intended purpose (Kusaya, 2023)

Fund Management: As per the (IADI, 2014) the deposit insurance must make readily available funds and all funding mechanisms needed to make on time reimbursement of depositor's claims.

Funding/ Fund Premium: A fund is a collected money kept aside for a specific purpose. Fund or premium can be kept a side for many purposes, in our case the fund is kept side to reimburse claims arising from insurance.

Ex ante funding is the method of premium collection that is done with the main purpose of accumulating a fund to handle future (e.g., reimbursing depositors) and cover the operational and related costs of the deposit insurer (IADI, 2014).

Ex post funding is a system in which the funds needed to cover deposit insurance obligations are only gathered from surviving banks after a bank failure (IADI, 2014).

Public Awareness: Public awareness of deposit insurance system (DIS) is important in protecting bank runs and developing consumer confidence. According to (Karas, 2013) public awareness highly affects depositor behavior, mainly in economic instability

Fund Management: As per the (IADI, 2014) the deposit insurance must make readily available funds and all funding mechanisms needed to make on time reimbursement of depositor's claims.

1.9. ORGANIZATION OF THE STUDY

This study contains five chapters. The first chapter is introduction and which contains background of the study, statement of the problem, basic research questions, objective of the study, significance of the study, hypothesis, limitation and scope of the study. The second chapter deals with review of literature. The third chapter discusses the methodology part. The fourth chapter is about presentation, analysis, interpretation and discussion of the findings and the last chapter consists of summary, conclusion and recommendation parts.

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1. INTRODUCTION

According to (Creswell, 2018), for a quantitative study it is recommended to do a review of the literature that covers units about the literature related to major areas of study. This chapter discusses the theories related to the study and empirical evidences from other studies previously done.

2.2. THEORETICAL REVIEW

2.2.1 Deposit Insurance Definition

Deposit insurance is a financial protection that covers depositors' hard earned money kept in financial institutions fully or partially against the loss of deposits in the event of financial crisis. The system is designed to foster financial stability, mitigate systemic risk, and prevent banking panics. The theoretical rationale is grounded in concepts such as information asymmetry, market failure, and the principal-agent problem (Demirgüç-Kunt, 2021). These theories explain how deposit insurance can enhance confidence in the banking sector and contribute to overall financial system resilience.

According to (Armour, 2016), banks are the backbone of the financial sector for mediating between savers and borrowers, evaluating risks, performing monetary policy and making payment services and subject to risk. If the operation of banks is not well managed, they are vulnerable to risk which amounts to bank failure (Armour, 2016)

According to Chikaliphah and Makina (2019), microfinance is the delivery of financial products and services, primarily lending and savings, to disadvantaged and impoverished households who have no access to commercial banking institutions. As defined by Milana and Ashta (2020), it is the offering of financial products and services (usually loan and deposits) for consumers with low incomes. Microfinance is the supply of financial services to poor individuals who have very small businesses or business initiatives.

According to the International Association of Deposit Insurers (IADI Guidance Papers (2020), deposit insurance is defined as: "A system that is established to provide protection to depositors and banks in the event of failure in financial institutions. The main objective of deposit insurance is protecting depositors hard earned money from unnecessary loss, build public confidence in the financial system and take part in the financial stability of a country. This protection strengthen trust in the financial sector and avoids deposit drawings from banks

Deposit insurance system is a system implemented by different countries that creates financial safety to ensure the stability of banking system and protect bank depositors in case of bankruptcy and bank run (Demirgüç-Kunt, 2007). Deposit Insurance is an important component in keeping confidence in the banking industry and encouraging financial system stability. Based on International Association of Deposit Insurers (IADI, 2021), the major rules governing the establishment of deposit insurance and existing ones has undergone major changes in recent times.

A deposit insurance system is a collection different set of specific functions that abide in providing a protection to banks, micro finance institutions, their depositors and the relationship between other financial system members to keep the financial stability (FSB, 2012). There exist two major types of deposit insurance systems identified as explicit and implicit deposit insurance; the explicit deposit insurance system is mainly employed in different countries.

Explicit deposit insurance is an insurance which is mainly focusing on protecting depositors. As common depositors do not have the capacity to decide on and observe the reliability of the financial institutions, the government has the assignment and capacity to protect them (Chikalipah, 2019). If the financial system has no regulation regarding the deposit insurance, the deposit insurance system is implicit that depends on the observation of the ordinary regulation and supervision of banks which implemented the de facto insurance system for banks (Chai, 2018).

2.2.2 Historical Background and its Evolution

Deposit insurance has most importantly undergone different developmental processes over the past century by becoming the milestone in maintaining the safety of the financial systems in the

world. Deposit insurance has emerged as a cornerstone of modern financial safety nets, adopted widely across national jurisdictions to foster stability and protect depositors. Here the researcher tried to review the deposit insurance system's development worldwide, in Africa and in our country Ethiopia.

The first well managed deposit insurance was established in the United States in 1933 named as the Federal Deposit Insurance Corporation (FDIC) with public and private partnership to work on and maintain the bank failures during the Great Depression. The initiative done by the United States is establishing the deposit insurance and responding to the bank failures and restoring depositors' confidence in banks and preventing bank runs (FDIC, 2023).

After the model of FDIC, many countries in the world have established their own deposit insurance schemes, the United Kingdom established its own deposit insurance in the year 2001 as the Financial Services Compensation Scheme (FSCS) and the Deposit Guarantee Schemes Directive (DSGD) has been established by the year 2021 by the European Commission to be implemented in its member states (European Commission, 2012).

According to (Kerlin, Jakub 2015), the concept of deposit insurance soon propagates internationally around the world, pressurizing the design of deposit insurance worldwide.

Nigeria was the first African country to establish a deposit insurance system named the Nigerian Deposit Insurance Corporation (NDIC) in 1988. It has more than 30 years of service in the country. It was the main aim of protecting depositors and promote public confidence in the financial sector of Nigeria (Nigeria Deposit Insurance Corporation, 2020).

Kenya in 1985 established the Deposit Protection Fund Board (DPFB) to provide protection to bank depositors and maintain financial stability (DPFB, 2021). These both countries have longer years of experience in running the deposit insurance system in Africa.

Establishment of Deposit Insurance in Africa evolved through time and over the past two decades, the deposit insurance systems have been adopted in many African countries like Ghana (2005), Tanzania (1994), and Uganda (1994). These systems are often demonstrated based on international best practices and core principles of IDAI but harmonized to meet to local contexts (Anon., 2013).

Ethiopia has established the Ethiopian Deposit Insurance Fund under Proclamation No. 746/2012 in 2023 with the main objective of protecting depositors, boost public confidence and taking part in the financial stability of the country (NBE, 2024).

As per the global financial development report of 2024 issued by the world bank, over 140 countries have established deposit insurance systems, which fit to their specific economic and regulatory settings *Global Deposit Insurance Coverage*" (2024), IDIA

2.2.3 Rationale and Objectives of Deposit Insurance

Banks and other finance companies mainly accept deposits from their customers and lend out to their borrowers by collective means through long term debt to the economy. Here the financial companies mainly assume that withdrawals from these deposits won't pass a certain level at a given time period. Based on this assumption, the financial companies invest their excess cash in other banks. These investments done by the financial companies create burden to the depositors of not getting their deposits at the time they demand in short period of time. And if a great number of depositors demand their deposits at the same time, banks can in no means be liquid enough to meet their customers' demand. Deposit insurance systems are fundamentally rooted in the imperative to maintain financial stability, primarily by preventing bank runs and mitigating their cascading effects. Banks are inherently susceptible to runs because they engage in maturity transformation, funding long-term, illiquid assets (such as loans) with short-term, liquid deposits that are available on demand (Federal Deposit Insurance Corporation (2024) 'Options for Deposit Insurance Reform'). If a significant number of depositors simultaneously demand their funds, and the bank exhausts its limited liquid assets, it is forced to sell illiquid assets prematurely, often at a loss. Should these losses exceed the bank's equity capital, the institution becomes insolvent. Depositors may initiate a run not only out of fear of actual insolvency but also simply because they anticipate others will run, creating a self-fulfilling prophecy that can lead to the bank's failure ((Federal Deposit Insurance, 2024); (World, 2018).

The costs associated with bank failures, particularly those triggered by runs, extend far beyond the individual institution, imposing significant burdens on the broader financial system and the economy. Bank runs can be highly contagious, spreading panic among depositors of different

banks for purely behavioral and psychological reasons (Federal Deposit Insurance, 2024). Furthermore, a single bank's funding stress can transmit to other banks through various asset prices. For example, distressed banks might raise their deposit rates to attract or retain funding, which can increase the equilibrium rate in the market that all other banks must pay, or it can attract funds from other banks, exacerbating liquidity pressures across the system (Federal Deposit Insurance, 2024). Banks facing outflows might also resort to "fire sales" of assets, depressing market prices and impairing the liquidity and solvency of other institutions holding similar assets (Federal Deposit Insurance, 2024). These situations lead to bank run more intensively failure to the financial sector, so in these situations a deposit insurance has three major roles to fulfill.

Financial Stability: The first and most important role of deposit insurance is to protect banks from bank runs. According to the model developed by (Demirgüç-Kunt, 2021), that assures depositors there are funds which are available by deposit insurance companies in times of financial stress. With this the deposit insurance maintains the financial stability of the financial sector.

Confidence in the Financial System: According to (Detragiache, 2002), the main objective of a well-designed deposit insurance system is to enhance public confidence in the financial sector, by providing protection against certain sum of their deposit is safe which in turn reassures savings and influences the financial stability.

Reduction of Systemic Risk: Deposit insurance is a way in reducing the likelihood of widespread financial panic, by protecting and providing safety net for depositors thereby promoting the overall economic stability (Borio, 2002).

2.2.4 Design and Implementation

The design and implementation of deposit insurance systems differs from country to country as it is mainly affected by characteristics like regulatory framework, economic situations and structure of the financial sector and the like. Furthermore, small depositors often lack access to the supervisory information available to large depositors, who can justify the costs of private financial market reports (Federal Deposit Insurance, 2024). Based on these factors, deposit

insurance systems design and implementation elements has two major components, Explicit Deposit Insurance System and Implicit Deposit Insurance System.

According to (Demirgüç-Kunt, 2021) Explicit Deposit Insurance System is a formal and legally established deposit insurance system with clearly defined rules for coverage limits, funding mechanisms and payout procedure. Whereas Implicit Deposit Insurance System, is a system with unwritten government guarantee where depositor protection is discretionary, ad-hoc, and funded by taxpayers during crises (Calomiris, 2023)

Feature	Explicit DIS	Implicit DIS
Legal Basis	Codified in law (e.g., EDIF Proclamation)	No legal framework
Funding	Pre-funded via bank premiums	Taxpayer-funded bailouts
Coverage Clarity	Transparent (e.g., EDIF: Birr 100,000)	Unpredictable
Moral Hazard Risk	Mitigated via risk-based premiums	High (no bank accountability)

2.2.5 Premium Setting Mechanisms

To run its operation and provide depositors with the necessary protection, deposit insurance companies use different types of premium setting mechanism. The main methods of premium setting mechanism applicable as shown below.

Actuarial and Market-Based Approaches Premiums can be determined using actuarial methods, depending on historical data to evaluate probable losses (Cummins, 1988). Alternatively, market-based mechanisms use financial indicators such as credit default swaps or equity market signals to assess risk in real time (Demirgüç-Kunt, 2007).

Risk-Based Premiums: is a system of premium setting mechanism that adjusts the fees paid based on the risk profile of insured institutions. More risk-taking institutions pay higher

premiums showing their higher degree of demanding insurance coverage. Risk based premium is used to connect premiums with actual risk posed by each financial institution (Kane, 2009).

Flat-Rate Premiums: is premium that charges all the insured financial institutions the same rate regardless of their risk profile. Flat-rate premiums minimizes administration but does not consider the different risk levels among institutions (Demirgüç-Kunt, 2012).

Experience-Based Premiums: This premium setting mechanism is determined based past history of the financial institutions regarding on claim and loss experience of the financial institutions or the industry as whole (Hanson, 2011).

Hybrid Systems: Hybrid systems premium setting use the combination of the above three approaches to set a premium based on the financial performance of the banks. A deposit insurance can charge a base premium to all the insured institutions and may add additional risk-based premiums to individuals institutions based on their risk profiles (Berger et al., 2010).

2.2.6 Fund Sources and Uses

As per (IADI, 2014) the deposit insurance must make readily available funds and all funding mechanisms needed to make on time reimbursement of depositor's claims. The cost of deposit insurance is being paid by insured banks, funding to the insurance is provided on ex-ante bases. Funding arrangements of the deposit insurance are clearly defined and governed by law. Funding the deposit insurance is the main responsibility of insured institutions. Deposit insurance may collect start-up of initial deposits from government or donors which in turn should be paid back before any reimbursement of claims is done to the insured institutions.

According to (Garcia, 2000), effective fund management is important in maintaining the solvency and liquidity of the deposit insurance system. Funds are typically invested in safe, liquid assets, such as government securities, to preserve capital and ensure availability during financial crises.

Funding Mechanism: Funds of the deposit insurance can be gathered through two main ways, pre-funded or pay-as-you-go. The Pre-funded systems collect and build up fund overtime in its operation before any financial crisis arise and pay-as-you-go system depends on the banking

sector on ex post levies. Ex-ante or pre-funded models are implemented used in the U.S. and EU, while ex-post models, such as in Canada, assess premiums after bank failures. Here the fund will be collected after the occurrence of the incident or the financial crisis (Borio, 2009).

Regulatory Framework: According to (Laeven, 2008) the rules and regulations governing the deposit insurance system is important to secure the effective and continuity of deposit insurance systems and to deter the unnecessary risk takings the insured institutions.

2.2.7 Fund Sufficiency

Fund Sufficiency provides potential solvency, liquidity, performance etc. for Deposit Insurance Fund in achieving its intended purpose (Kusaya, 2023). Factors manipulating fund sufficiency can mainly persuade in market information irregularity between depositors and banks, risk-based premiums (De Ruig et al., 2022), ex-ante and/or ex-post financing (Nobre et al., 2019; Xu, Song, & Bi, 2020), portfolio of financiers (Ville-pekka, 2013), and sources of fund generation (Oloyede, 2023). Hence, for the funds to be sufficient in terms of both nominal and real values to reach the target fund in for the funds to be enough in terms of both nominal and real values to meet the needed fund in asymmetrical years, the safe target fund required in a normal year, as well as equal premium growth, the Fund balance is mostly measured using the net worth required to maintain a certain risk management objective (Musiyenko, 2023). And then, the required Fund balance is adjusted and converted to the number of months of target operating earnings expected by the operating banks (Zhang, 2023)

Coverage Limits: According to (IADI, 2014), the level of insurance coverage is critical in calculating depositor protection. High deposit coverage limit can boost confidence of depositors but it may aggravate to moral hazard. Here moral hazard in the side of bank executives as the higher level of their deposit is insured, they may take more risk than necessary to get higher profits. Both high and low coverage levels have effect in the effectiveness deposit insurance system, as the low coverage may trigger panic in the side of depositors in times of financial crisis and high coverage may exaggerate moral hazard mainly due to insured institutions intension of involving in more riskier dealings. Having an ideal coverage suitable to each economy is required for the effectiveness of deposit insurance.

In order to provide the necessary protection and compensate depositors, deposit insurance companies maintain sufficient amount fund. To do these there are three main techniques employed by the companies.

Target Fund Ratios and Stress Testing According to (Anginer, 2014) fund sufficiency is evaluated by establishing target reserve ratios depending on historical loss data and stress testing scenarios.

Ex-ante vs Ex-Post Funding Ex-ante funding mechanisms is the collection of premium periodically in advance before any financial crisis, and the ex-post schemes, by contrast, raise funds after a crisis occurs, which may outcome in liquidity shortages. Here compensation of depositors may take longer time as the fund will be mobilized after the financial crisis.

Coverage Limits and Payout Thresholds According to (Chikalipah, 2019), limited deposit coverage indicates the balance between depositor protection and controlling moral hazard. More generous coverage may boost excessive risk-taking by banks.

2.2.8 Public Awareness

Public awareness of deposit insurance system (DIS) is important in protecting bank runs and developing consumer confidence. According to (Karas, 2013) public awareness highly affects depositor behaviour, mainly in economic instability. Public trust in financial institutions often associates with how well depositors recognise the coverage and drawbacks of deposit insurance.

According to the International Association of Deposit Insurers (IADI, 2021), an effective DI system must create high level of public awareness to avert unnecessary withdrawals and bank runs, in times of economic downturns. (Demirgüç-Kunt, 2021) model recommend that depositor confidence can stop self-fulfilling bank runs, highlighting the need for awareness movements that explain DI coverage and shortfalls.

Public awareness of Deposit Insurance can be addressed to the public and concerned parties using surveys, experimental methods, and data investigation methods. Surveys are extensively used to instrument to get public sympathy and confidence in deposit insurance systems (Allen et al. (2018). Experiments considered to simulate financial stress test how people can respond to

their awareness of Deposit Insurance as studied by Hirtle (2007). According to (Anginer, 2014) use macroeconomic and banking data to evaluate the systemic firmness associated with deposit insurance awareness.

The effectiveness of a deposit insurance system also hinges on public awareness. Educated depositors are less likely to panic during financial uncertainty, reducing the likelihood of bank runs (Demirgüç-Kunt, 2021). Transparency and effective communication are key. According to (Laeven, 2008) a well-informed public contributes to financial stability.

2.3. EMPIRICAL REVIEW

2.3.1 Previous studies on Premium Setting Mechanism, Fund Management, Fund Sufficiency and Public Awareness of the Deposit Insurance

Deposit insurance systems (DIS) are a vital component of financial safety nets globally, designed to protect depositors, prevent bank runs, and maintain stability within the financial sector. The global financial crisis of 2008-2009 and more recent events, such as the Silicon Valley Bank failure in 2023, have brought renewed attention to the effectiveness and optimal design of these systems. Various studies have been done on deposit insurance in parameters of Premium Setting Mechanism, Fund Management, Fund Sufficiency and Public Awareness of the Deposit Insurance.

2.3.1.1 Premium Setting Mechanism

Studies conducted by (Gropp, 2004) find that flat-rate premiums can generate a moral hazard, where higher-risk banks have tiny incentive to reduce risk. The flat rate does not consider all the parameters in allocating premiums so high-risk banks take advantage of it and involve in more riskier activities to boost their profits. Empirical studies of (Hovakimian, 2003) show that risk-based premiums subsidies to greater financial firmness and decrease the likelihood of bank failures, as banks have a vested interest in maintaining lower-risk profiles (Cole, 2017) confirm that higher premiums rates are applied based traditional models and camels than the accounting-based measures that reacts slowly to deteriorating conditions.

(Anginer, 2014) provided robust evidence that adding systemic risk measures (SRISK, ΔCoVaR) to CAMELS-based models significantly enhanced their ability to predict bank distress. Banks contributing more to systemic risk should pay higher premiums. Schich & Kim (2020 - OECD WP) found cross-country evidence supporting systemic risk adjustments in premiums to internalize the externality of potential failures, though quantification remains empirically challenging.

Research by Magotra (2025) and others (e.g., Bonfim & Santos, 2023) emphasizes that risk-adjusted premiums can reduce moral hazard by discouraging banks from taking excessive risks. By linking premiums to a bank's risk profile, DIS can incentivize sound banking practices, allowing for higher deposit insurance coverage without significantly increasing the likelihood of bank failures. This approach contrasts with flat-rate premiums, which can implicitly subsidize riskier banks.

Kim and Rezende (2020) empirically document a significant pro cyclical effect of deposit insurance premiums on bank lending. They found that increases in premiums during economic downturns can further depress bank lending, particularly for small community banks that rely heavily on deposits for funding. This suggests that while premium adjustments are necessary for fund solvency, their timing and magnitude need careful consideration to avoid exacerbating economic contractions.

2.3.1.2 Fund Management in Deposit Insurance Schemes

Most DIS funds implement a conventional investment method, mainly participating in government bonds and other low-risk assets to reserve capital and liquidity. According to (Detragiache, 2002) shows that varied, low-risk investments help preserve fund stability, particularly during times of economic stress. In countries such as Canada and Japan, DIS funds are managed self-sufficiently with clear rules on permissible investments, contributing to fund stability (Garcia, 2000)

2.3.1.3 Fund Sufficiency and Target Fund Ratios

Empirical studies (Anginer, 2014) suggest that countries with higher target fund ratios encounter fewer financial crises, as they are better equipped to handle losses. Additionally, research shows that a target fund ratio between 1.5% and 2.5% of insured deposits is characteristically tolerable

for handling moderate financial instability, as seen in the U.S. and Canada. Countries that actively screen and regulate their fund levels in reply to economic conditions incline to have more strong banking systems. Barth et al. (2006) found that countries with adequate fund levels tend to have better firmness during economic downturns, as the fund can cover possible losses without needing extra government intervention.

2.3.1.4 Public Awareness of Deposit Insurance

Empirical studies (Hayo, 2014) have shown that awareness is often advanced in countries with well-known and practical communication efforts. Countries like the U.S. and Canada have applied consistent public education movements that clearly outline coverage limits and processes. Conversely, in developing economies, awareness levels are often low, which can lead to destabilizing bank runs during crises. Public awareness movements meaningfully impact depositor assurance. The International Association of Deposit Insurers (IADI, 2019) notes that countries with best levels of public awareness practice fewer withdrawals during crises. Effective campaigns often include partnerships with banks and use of digital media, simplifying compound terms to ensure understanding among diverse demographics.

According to (Demirgüç-Kunt, 2021), the effectiveness of a deposit insurance system also hinges on public awareness. Educated and informed depositors are less likely to panic during financial uncertainty, reducing the likelihood of bank runs (Demirgüç-Kunt, 2021). Transparency and effective communication are key. According to Laeven (2004), a well-informed public contributes to financial stability. However, empirical studies reveal that awareness of deposit insurance coverage and claim procedures is often limited (oannidou, 2010).

2.4. Document Review of EDIF Legal framework

The EDIF was established in 2023 as per the establishment and operation of Ethiopian Deposit Insurance Fund Council of Ministers Regulation No.482/2021 and it has issued a directive for its operational effectiveness titled "Initial and Annual Premium Contribution of Member Financial Institutions Directive No. EDIF/01/2023." for its operation implementation. Here the researchers tried to review the directive in detail in relation to its study subject.

Part 1 of the directive names out the directive as “Initial and Annual Premium Contribution of Member Financial Institutions Directive No. EDIF/01/2023.

Part 2 of the directive defines the terms to be used in this directive and in the operation of its business in the member financial institutions, types of funds to be insured and the financial year of the fund.

Part 3 set out the scope of its application. It is applicable on all the financial institutions licensed by NBE and as per part 4 of the directive these institutions will sign a membership agreement with the fund in the time frame stipulated in the directive. The format of the membership agreement is attached with the directive.

Part 5 is about the initial premium contribution, types of deposits premium will be collected, exceptions to premium collection and time frame of premium collection period. As per the directive the initial premium contribution is set out to be 0.04% of the total deposits of the member financial institutions on the deposit balance of March 2023 and also arranged a payment schedule with 50%, 25% and 25% respectively to be paid out before July 2025. The initial premium will be collected on conventional banking and interest free deposits of the financial institutions and deposited to the respective accounts of the EDIF maintained at NBE.

Part 6 of the directive is about the annual premium contribution of member financial institutions. The financial institutions are obligated to pay 0.3% of the average total deposits computed based on deposit balances of four quarters reported to the National Bank of Ethiopia during the previous financial year. And in this part the deposits on which premium will be collected are also exclusively set out. The annual premium contribution of the financial institutions is paid on 20%, 20%, 30% and 30% bases in the months of September, December, March and July of the financial year. Each financial institution's premium will be computed by the fund and sent to each of them till August and any financial institution which has a complain should lodge its complain with in three working days.

Part 7 of the directive is about penalty. Here any breach done by the financial institutions in its initial as well as annual premium payments will be treated. And in this part, it is clearly stipulated with amounts for each violations and

Part 8 is about its effective date and stated as July 04, 2023. The fund has sent the directive to each member financial institutions along with the Ethiopia Deposit Insurance Fund Membership Agreement/Contract. The fund is currently using this directive to run its operation and so far no revision is made.

CHAPTER THREE RESEARCH METHODOLOGY

3.1. INTRODUCTION

This chapter describes the overall methodology of the research. It shows the research approach, type and design of the research. Sample design, Source of data collections, research instruments to be adopted to collect data and the necessary information that are relevant to achieve the objectives of the study. Methods and procedures of data collection with data analysis tools was presented exhaustively.

3.2. DESCRIPTION OF THE STUDY AREA

The study be conducted in Addis Ababa, Ethiopia which is the home for many local and international Companies. All the private and government banks and also the deposit insurance fund head office is located herd in Addis Ababa.

3.3. RESEARCH APPROCH

According to (Creswell, 2018), research approach are ways and techniques for a research that covers the steps from comprehensive assumptions to specific methods of data collection, analysis and interpretations. Deciding on the type of research approach to be adopted is very critical as the type of research approach to be employed mainly depends on the study subject matter and also affects the whole study purpose.

There are mainly three types of research approaches, qualitative, quantitative and mixed approach. Qualitative research approach is used for surveying and understanding of different societal and human problems. Here non numerical data about the study matter will exhaustively be collected from different sources and be analyzed.

Quantitative research approach is an approach that incorporates gathering of numerical data about the study matter and will be analyzed to develop patterns, find averages and make predictions based on the analyzed data.

Mixed Approach is an approach which incorporates both quantitative and qualitative approaches. Both numerical and non-numerical data will be collected and analyzed to provide in depth result using philosophical assumptions and theoretical frameworks (Creswell and Creswell, 2018). This study used quantitative approaches.

3.4. RESEARCH DESIGN

According to Cooper and Schindler (2014), research design is defined as a plan that guides the whole research process by providing structure, answers to the investigation of the research questions and also contains details of the collection, measurement, and analysis of data. Research designs are kinds of questions in the context of quantitative, qualitative and mixed methods approach that guides researchers in set of specific direction for a series of steps to follow in a research study (Creswell, 2018).

According to Bhattacherejee (2012), based on the intended purpose of research, scientific researches can be categorized into three main types: descriptive, explanatory and exploratory. Exploratory research is often undergone in untouched or new areas investigations with the main aim of the researchers to find out the scope and magnitude or extent of a particular phenomenon, problem to give rise to some new ideas by answering for why and how questions. Explanatory research inquires explanations for the problem at hand or the behaviors observed. Descriptive research is intended at aiming to accurately and systematically describe a population, situation or phenomenon by answering questions like what, where and how questions. Here in descriptive research the researcher does not manipulate any variables, it has the choice to use a wide range of research methods to study about one or more variables. Therefore, this study adapted a descriptive research design.

3.5. DATA TYPES AND DATA SOURCES

There are two major types of data sources for research which are primary and secondary data sources. The primary data sources are data sources that the researcher will collect for the first time from respective respondents. On the other hand, secondary data are those data that were gathered by someone else and have been processed through the statistical process. In this research paper, the researcher will adopt primary data source only. Primary data was collected from the sample respondents for the research through self-administered questionnaire and one intensive interview done with one of the EDIF director.

3.6. POPULATION OF THE STUDY

According to Cooper and Schindler (2014), population is an absolute set of people with designated characteristics which the research intends to make sample to be used for the study

matter. The main defining criteria for a population was geographic area. In this research study, as the researcher intends on assessment of the operational functions of the Ethiopian Deposit Insurance Fund. The target population of the study were EDIF employees and management, bank and micro finance institutions finance and accounts department directors and division managers. 31 commercial banks and 55 microfinance institutions are members of the EDIF.

3.7. SAMPLING PROCEDURE

3.7.1. Sample size

Sampling is the process of selecting the group that the researcher will employ in order to obtain the research data. It is the technique of collecting information from the sample. (Cooper, 2014) define sample as class or classification of people that are unbiasedly taken from a large population to draw conclusion about the entire population. It is very necessary to note that the sample drawn will represent the population well enough that the researcher intends to draw conclusion. The total sample size is 93. This includes 62 samples from 31 commercial banks, 22 samples from 11 microfinance institutions whose head office is located in Addis Ababa and based on their location; and 9 from managerial staff and employee of EDIF. The selected microfinance institutions are Yegna, Nisir, Dynamic, Agar, Vision, Leyu, Meklit, Digaf, Peace and Metemame microfinance intuitions.

3.7.2. Sampling Technique

According to (Bhattacharya, 2012), there are two major types of sampling techniques: probability or random sampling and non-probability sampling. In Probability sampling each member of the entire population has a chance to be included in the sample as the chance can be determined accurately. But non probability sampling is a sampling technique where some part of the population has zero chance of being included in the sample. However, non-probability sampling is a technique of selecting sample from the population using subjective or non-random technique. Here the members of the population have no probability of being included in the sample, the sample drawn will be subject to sample basis as it does not consider sampling errors. Even if non probability sampling technique has problems in sampling, researchers cannot innumerate the entire population as a sample due to cost, time constraint, inadequate resources, so the researcher has adopted purposive sampling technique, a sampling technique that draws a sample from the population through subdividing the population in to subpopulations that differ in

important ways and purposefully selecting samples with specific knowledge about deposit insurance.

3.7.3. DATA GATHERING INSTRUMENTS

According to Malhotra et al. (2007), Surveys are the most widely used method of data collection for quantitative research. Using questionnaires to collect data is very effective as it is simple, effective for quantitative data and also of high degree of completion by respondents. We can also use surveys both online and offline to gain response from larger group of respondents. Questionnaires come up with more developed and formulated responses easing the analysis process very much. Responses gathered from questionnaires are more easily analyzed through statistical software tools. In research, using questionnaire will allow the researcher to make the scope of the study under control as the questions are formulated towards the intended purpose only. In addition, it is cost effective to use questionnaire than other forms of data gathering tools. Moreover, respondents are more relaxed to express their pure ideas regarding the subject matter mainly when their anonymity is protected. Finally, data gathered through questionnaire are relatively easier to code, analyze and interpret. The disadvantage of questionnaire is that some people may not read or fully understand questions and also questionnaire does not provide room for respondents to fully disclose their opinions. In this study, the researcher employed both open ended and closed ended questionnaires. Through the open-ended questionnaire, the socio-demographic information of the respondents was collected. The researcher developed the questionnaire in way that is more clear, concise and obvious way to respondents by incorporating all the relevant dimensions of the study topic. In addition to the questionnaire, the researcher has done on intensive interview with one of EDIF officials to have better understanding and first hand information about its operations. So both questionnaire and interview were employed.

3.8. DATA ANALYSIS TECHNIQUE

The data gathered was analyzed using descriptive statistics. Descriptive statistics was employed to categorize sample population characteristics and the overall data that were gathered through the questionnaire. The data analyzed and presented in the form of mean, standard deviation, frequency percentages and bar charts. The data entry and analysis was done by using Statistical Package for Social Science (SPSS) version 26.

3.9. RELIABILITY AND VALIDITY

3.9.1. Validity

Validity and reliability are two main aspects that evaluates the quality of this study. Validity is about the magnitude to which findings of the research accurately demonstrate what is really happening in the situation (Hughey, 1997). In order to ensure the validity of the research, the researcher adopted questionnaire from previous research works. Validity is a measure of the truthfulness of measuring instruments.

3.9.2. Reliability Tests

Reliability in research is the extent to which if a study can be repeated and same results can be gained as the research is not influenced by external sources. It is the degree to which the study measure of construct is dependable. Cronbach's alpha is the most widely applied test of internal reliability (Bryman, 2007). Therefore, the researcher employed Cronbach's alpha to evaluate consistency of variables with the tolerable value of 0.70.

Table 1: Data Reliability Test Results

Case Processing Summary			
		N	%
Cases	Valid	22	100.0
	Excluded ^a	0	.0
	Total	22	100.0
List wise deletion based on all variables in the procedure.			
Reliability Statistics			
Cronbach's Alpha		N of Items	
.887		19	

Reliability test of the questionnaire has been done based on 22 samples and the result gathered through analyzing of the data through SPSS version 26 resulted in 0.887 which is marked good as per the Cronbach's alpha result interpretation and the questionnaire has been used to further collect data and analyzed.

CHAPTER FOUR DATA ANALYSIS, INTERPRETATION AND DISCUSSION

INTRODUCTION

Chapter Four brings the main shift in this research by changing the methodological bases done in Chapter Three to the typical exploration, analysis and interpretation of the collected data. This chapter discloses the output of the data collected in systematic pattern, trends and insights by mainly addressing the research questions and objectives of the study.

By carefully analyzing, presenting and discussing the findings this chapter brings closer the empirical process of data collection with the major literature and scholarly dialogues by addressing the research objectives outlined in the introduction.

This chapter incorporates three main sections. The first part is data analysis section which shows the techniques applied to process the data in qualitative and quantitative data sets using the statistical tool SPSS. Here the validation of the reliability and relevance of the data is done by basing the approach given in the methodological framework of the study. The second section is the presentation of findings by organizing the analyzed data in the forms of tables, graphs and summaries by highlighting the key results and their alignment with the main and specific research questions.

The final and third section of this chapter is the discussion of results. Here the researcher tried to create relation between the findings of the results with existing literatures, similarities, differences and grasp ideal contributions for further study. By the end of this chapter the research has been able to answer the core research questions and developed the base for concluding the study matter by synthesizing the theoretical and practical implications.

To address the research questions, 93 questionnaires were prepared and distributed to respondents, out of these questionnaires 80 were filled and returned, the rest 10 questionnaires were unreturned, and 3 questionnaires were discarded due to missing data, and all questioners are filled and returned. On the interview part, the one done is exclusively included in this study paper. The

4.1. DEMOGRAPHY OF RESPONDENTS

4.1.1. RESPONSE RATE

In this study a total of 93 questionnaires were distributed to the sample respondents and 80 questionnaires were filled and returned. A response rate of 30% is acceptable, in this study however in this study the response rate of the questionnaire was 86% which is sufficient enough to be used and perform analysis.

Table 2:- Response Rate

Number of questionnaire	Number of returned questionnaire	Percentage of returned questionnaire
93	80	86%

Source: Own Survey result, 2025

4.1.2. Sex of respondents

Table 3

Sex of respondents		Frequency	Percent
Valid	Female	16	20.0
	Male	64	80.0
	Total	80	100.0

The survey data on the sex of respondents shows that out of 80 participants, 16 (20%) are female and 64 (80%) are male. Even if the researcher used purposive sampling techniques to gather data, majority of the respondents in the financial institutions on the selected positions are male. It is more dominated by male respondents.

4.1.3. Age of respondents

Age of respondents		Frequency	Percent
Valid	25 to 35	27	33.8
	36 to 45	38	47.5
	46 to 55	13	16.3
	Above 56	2	2.5
	Total	80	100.0

The age distribution of respondents reveals that out of 80 participants, the largest group falls within the 36 to 45 age range, comprising 38 individuals (47.5%). This is followed by those aged 25 to 35, totaling 27 respondents (33.8%). The age group of 46 to 55 includes 13 respondents (16.3%), while only 2 respondents (2.5%) are above 56. This data indicates that the majority of respondents are relatively young to middle-aged professionals, which may influence their perspectives and experiences in the financial sector.

4.1.4. Educational level

Educational level		Frequency	Percent
Valid	Degree	14	17.5
	Master's Degree	65	81.3
	PHD	1	1.3
	Total	80	100.0

The educational level data for the respondents shows that out of 80 participants, 14 (17.5%) hold a degree, while a significant majority, 65 respondents (81.3%), possess a master's degree. Only 1 respondent (1.3%) has a PhD. This distribution indicates a highly educated sample, with the vast majority having advanced degrees. Such a concentration of respondents with master's degrees may influence the perspectives and insights provided in the survey, reflecting a level of expertise and specialization in the financial sector.

4.1.5. Role in financial sector

Role in financial sector		Frequency	Percent
Valid	Banker	56	70.0
	EDIF Managerial Staff	3	3.8
	EDIF Staff	3	3.8
	Microfinance	18	22.5
	Total	80	100.0

The data on respondents' roles in the financial sector indicates that out of 80 participants, 56 (70%) are bankers, signifying a strong representation of this profession. In contrast, only 3 respondents (3.8%) identify as EDIF managerial staff, and another 3 (3.8%) as EDIF staff, both of which are minimal. Additionally, 18 respondents (22.5%) work in microfinance.

4.1.6. Years of experience in financial sector

Years of experience in financial sector		Frequency	Percent
Valid	Less than 5 years	3	3.8
	5 to10years	23	28.7
	10 to15years	29	36.3
	More than 15 years	25	31.3
	Total	80	100.0

The data on years of experience in the financial sector shows that out of 80 respondents, only 3 (3.8%) have less than 5 years of experience. The largest group consists of those with 10 to 15 years of experience, totaling 29 respondents (36.3%). Following closely is those with 5 to 10 years of experience, comprising 23 respondents (28.7%), and 25 respondents (31.3%) have more than 15 years of experience.

4.1.7. Position in the institutions

Position in bank or micro finance institutions					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Director Finance and Accounts	27	33.8	33.8	33.8
	Division Manager Finance	30	37.5	37.5	71.3
	EDIF Managerial Staff	1	1.3	1.3	72.5
	EDIF Staff	13	16.3	16.3	88.8
	MFI Finance Director	9	11.3	11.3	100.0
	Total	80	100.0	100.0	

From the total 80 respondents, 27 of them (33.8%) are bank department directors, 30 respondents (37.5%) are division managers, 1 (1.3%) is EDIF managerial staff, 13 respondents (16.3%) EDIF staffs and 9 respondents (11.3%) are micro finance institutions directors.

4.2. DESCRIPTIVE ANALYSIS

(Field, 2017) used a kind of rule of thumb to create equal intervals for a range of five points Likert scale (that ranges from strongly disagree to strongly agree in the survey questionnaire).

A calculated mean value that ranges from 1 to 1.80 implies strong disagreement, from 1.81 to 2.6, from 2.61 to 3.4, from 3.41 to 4.2, and from 4.21 to 5.00 represented respondents' perceptions of somewhat disagree, neutral, somewhat agree, and strongly agree respectively. The 0.8 served as a boundary for each element of the measurement in the questionnaire. Accordingly, 0.8 was a result found by dividing the difference between the maximum (5) and minimum (1) scores by the maximum score (5) of the questionnaire. In the process of examining the data, the standard deviation was used. Small standard deviations (relative to the value of the mean itself) indicate that data are close to the mean whereas a large standard deviation (relative to the mean) indicates that the data points are distant from the mean. The mean is a poor fit of the data. Standard deviation is a measure of how well the mean represents the data (Field, 2017). Therefore, the interpretation is made using the mean of each variable the mean falls between the two ranges, hence if the mean approaches 1 the interpretation would be the respondents didn't agree on the raised issue or variable and if it approaches 5 the reverse would be true.

4.2.1. Premium Setting

Table 4.2.1 shows respondents' perceptions of the premium setting mechanism employed by EDIF indicate varying levels of agreement on several key aspects. The mean score for the question regarding whether the premium setting mechanism is fair and risk-based is 3.07, with a standard deviation of 1.076, suggesting a moderate agreement. Respondents are slightly more favorable towards the idea that EDIF adjusts premiums based on risk profiles, with a mean of 3.22 and a standard deviation of 1.005. However, opinions are less optimistic about whether current insurance premiums discourage banks from engaging in riskier activities, reflected in a mean score of 2.97 and a standard deviation of 1.067. The belief that EDIF reviews its premiums in a timely manner to adapt to changing economic conditions received the highest mean score of 3.42, indicating a relatively favorable view. Notably, the clarity and communication of the premium rate to banks scored even higher, with a mean of 3.51. Therefore, the average score for premium setting is 3.24, with a standard deviation of 0.570, highlighting a generally positive perception but with area for improvement in certain areas.

Table 4.2.1

Descriptive Statistics			
	N	Mean	Std. Deviation
Do you think the premium setting mechanism employed by EDIF is fair and risk based?	80	3.0750	1.07650
Do you think EDIF adjusts its premium based on the risk profiles of the financial institutions?	80	3.2250	1.00599
Do you think the current insurance premiums set by EDIF discourages banks from engaging in riskier activities?	80	2.9750	1.06706
Do you believe EDIF reviewing its premium timely so as to adjust its fund to the changing economic conditions?	80	3.4250	.93829
Do you agree that the employed premium rate of EDIF is clear and well-communicated to banks	80	3.5125	1.00623
Premium Setting	80	3.2425	.57076

Respondents displayed moderate agreement regarding the fairness and risk-based nature of EDIF's premium setting mechanism, with a mean score of 3.07. While there is some confidence in EDIF's ability to adjust premiums according to risk profiles, concerns linger about whether

current premiums discourage banks from engaging in riskier activities. The highest agreement was for the clarity and communication of premium rates, indicating that transparency is vital in fostering trust. Previous studies favor the risk based premium setting mechanisms as evidenced by

Research by Magotra (2025) indicates that macroeconomic status, bank structure, regulatory frameworks, and political institutions significantly affect deposit insurance coverage. They also highlight different impacts of these factors in developed versus developing countries, suggesting a need for tailored approaches to premium setting. Yoshino and Taghizadeh-Hesary (2015) contribute to the discussion on fair premium rates based on banks' creditworthiness.

Studies by Magotra (2025) and Bonfim & Santos (2023) provide empirical evidence that risk-adjusted premiums effectively reduce moral hazard. By linking premiums to a bank's risk profile (e.g., capital ratios, asset quality, management ratings), DIS can incentivize banks to maintain stronger balance sheets and engage in less speculative activities. This approach aligns with the core principle that those who pose a greater risk should bear a greater cost. The rationale is that if a bank's cost of deposit insurance increases with its risk-taking, it will be less inclined to engage in excessive risk.

According to (Anginer, 2014), how the explicit deposit insurance coverage evolved. Explicit deposit insurance was quite extensive even before the GFC: 78% of countries with high-quality institutions had it in 2005. Even in a set of institutionally comparable countries, the authors find that in most cases, better institutions help mitigate problems associated with deposit insurance. Focusing on developing countries, (Stella, n.d.) show that in weak institutional environments, deposit insurance reduces economic growth and financial development. More importantly, empirical evidence suggests that weak institutional environments can prevent optimal deposit insurance design. In particular, the rule of law and other private and public contracting environment features proved important in deposit insurance adoption and design (Hovakimian, Kane, and Laeven 2003).

4.2.2. Fund Management

Table 4.2.2 demonstrate the views on EDIF's fund management reveal a nuanced perspective. The mean score for the belief that EDIF manages its fund by investing in low-risk assets is 3.32,

with a standard deviation of 0.951, indicating a generally positive view. Respondents also see some effectiveness in balancing growth and risk mitigation, reflected in a mean of 3.18 and a standard deviation of 0.713. However, opinions are less favorable regarding the independence of the governance structure, with a mean score of 3.01 and a standard deviation of 0.754, suggesting concerns about potential political interference. The belief that EDIF provides clear and comprehensive documentation about its fund management practices scored the lowest, with a mean of 2.97 and a standard deviation of 1.124, indicating significant room for improvement in transparency. Therefore, the average score for fund management is 3.12, with a standard deviation of 0.620, reflecting a mixed but generally cautious confidence in EDIF's fund management strategies.

Descriptive Statistics			
	N	Mean	Std. Deviation
Do you think the EDIF is managing the fund by investing it in low-risk assets to make it readily available to safeguard depositors when the need arises?	80	3.3250	.95168
Do you believe the current fund management strategy of EDIF balances growth and risk mitigation effectively?	80	3.1875	.71323
Do you think the current governance structure of managing the fund is independent and free from political interference?	80	3.0125	.75463
Do you think the EDIF gives clear and comprehensive documentations and statements about its fund management practice?	80	2.9750	1.12481
Fund Management	80	3.1250	.62008

The interpretations on fund management were mixed. While there is a general belief that EDIF is managing its funds wisely, concerns about political interference in governance and the clarity of documentation remain. With a mean score of 3.12, respondents exhibit cautious confidence in EDIF's strategies, highlighting areas for improvement, particularly in transparency. The results gained from the analysis are supported by other studies done by different researchers as shown

below. EDIF is investing fund collected as premium in government bonds and Mudarabah interest free account in CBE.

Magotra (2025) conducted a rigorous empirical examination, revealing that government-administered DIS can significantly reduce deposit growth, particularly in developed economies where private administration might be preferred. This suggests that depositors in developed economies may have greater confidence in privately managed funds, or that government involvement may be perceived as a sign of underlying systemic fragility. This finding has important implications for policymakers considering the institutional design of their DIS.

The World Bank (2017) and IMF (2015) guidance emphasizes that sound funding arrangements are essential for prompt reimbursement of insured deposits, meaning funds must be readily available. This implicitly suggests a preference for investments in government securities or other highly liquid instruments that can be quickly converted to cash without significant loss of value during a crisis. The challenge for deposit insurers is to find safe and highly liquid investments, particularly in the current low-interest-rate environment, while still aiming for a reasonable return to grow the fund (World Bank, 2017).

4.2.3. Fund Sufficiency

Table 4.2.3 indicates perceptions of EDIF's fund sufficiency reveal mixed opinions among respondents. The mean score for the belief that EDIF has accumulated adequate funds to protect depositors in the event of a financial institution failure is relatively low at 2.80, with a standard deviation of 0.877, indicating significant concerns about fund adequacy. However, respondents show more confidence in the current reserve level of total insured deposits as a good practice, with a mean score of 3.28 and a standard deviation of 0.916. The idea that increasing the premium amount is the correct approach to reconstruct the fund after a major bank failure received a mean of 2.93, suggesting some skepticism about this strategy. The perception that EDIF has a tangible plan for ensuring fund sufficiency in times of financial crises scored 3.12, indicating moderate agreement. Respondents also believe that EDIF's financial state is regularly supervised and communicated to stakeholders, reflected in a mean score of 3.28. Therefore, the average score for fund sufficiency is 3.08, with a standard deviation of 0.562, suggesting a cautious but slightly optimistic view regarding the adequacy and management of EDIF's funds.

Descriptive Statistics			
	N	Mean	Std. Deviation
Do you think that EDIF has so far accumulated adequate fund that enable it to protect depositors if a financial institution fails?	80	2.8000	.87728
Do you believe the current reserve level of total insured deposits is a good practice for the fund?	80	3.2875	.91671
Do you believe that increasing the premium amount is the accurate way to reconstruct the fund after a major bank failure?	80	2.9375	.95922
Do you agree that the EDIF has a tangible plan that assures the fund will be sufficient in times of financial crises?	80	3.1250	.81714
Do you believe the EDIF's financial state is recurrently supervised and shared among its stakeholders?	80	3.2875	.82973
Fund Sufficiency	80	3.0875	.56285

Perceptions of fund sufficiency are notably lower, with a mean score of 2.80 indicating worries about whether EDIF has accumulated enough funds to protect depositors adequately. While respondents believe in the good practices surrounding reserve levels, skepticism about strategies to rebuild funds after failures persists. This suggests a need for EDIF to communicate its strategies more effectively and reassure stakeholders about its resilience during crises.

Studies evidenced that at any time of financial crisis in any country under different economic conditions, there will not be enough fund to cover. The World Bank (2021) strongly advocates for credible backstop mechanisms, such as direct lending from the treasury, borrowing from the central bank with government guarantees, or bond issuance by the deposit insurer with treasury guarantees. These mechanisms are crucial because no pre-funded deposit insurance fund, regardless of its size, can be expected to cover the costs of a systemic crisis. The knowledge that such a backstop exists enhances the credibility of the DIS and prevents panic.

According to various studies done, the level of insurance coverage or higher funding has negative impact on the performance of banks as studied by Anginer et al. (2014, cited in Research Gate, 2023) and Hasan et al. (2022, cited in Research Gate, 2023) are among many who argue that an increase in the deposit insurance coverage limit can result in excessive risk-taking by banks, which increases moral hazard and decreases bank stability. The consensus is that while high coverage protects small depositors and prevents runs, it can also diminish depositors' incentives to monitor their banks, potentially leading to increased risk-taking (CGDev, 2024). The objective is often to cover fully smallest and unsophisticated depositors while leaving a sufficient amount of deposits uninsured to incentivize market discipline (World Bank, 2021).

4.2.4. Public Awareness

Table 4.2.4 states statistics on public awareness regarding EDIF indicate a range of perceptions among respondents. The belief that EDIF has effectively informed the public about its existence and functions scores low, with a mean of 2.71 and a standard deviation of 1.081, highlighting significant concerns about communication. Conversely, there is strong support for the idea that public education campaigns can enhance trust in the financial system, reflected in a mean score of 3.52. Respondents also agree that banks play a critical role in helping customers understand EDIF, with a mean of 3.43. However, perceptions regarding the clarity of information provided by EDIF about coverage limits and claims processing are notably low, scoring just 2.47. On a more positive note, the belief that increased public awareness could mitigate the risk of bank runs received a high mean score of 3.60. Therefore, the average score for public awareness is 3.15, with a standard deviation of 0.693, suggesting that while there are positive views on the importance of awareness, significant gaps remain in effective communication by EDIF.

Descriptive Statistics			
	N	Mean	Std. Deviation
Do you believe that EDIF has so far well informed the public about its existence and its functions?	80	2.7125	1.08142
Do you think informing and educating the public about EDIF through campaigns boosts trust in the financial system?	80	3.5250	1.16895
Do you agree that banks play a critical role in helping their customers to understand about the EDIF and its functions?	80	3.4375	1.10056
Do you agree that the EDIF provides clear information for people about its coverage limit and how to process their claims in times of bank failures?	80	2.4750	.92743
Do you agree that having increased public awareness about the EDIF and its functions would make people safe and less probable to be the reason for banks runs?	80	3.6000	1.01383
Public Awareness	80	3.1500	.69319

Public awareness regarding EDIF's operations is another critical area of concern. The low score of 2.71 regarding effective communication highlights a significant gap. However, respondents recognize the importance of public education in developing trust within the financial system. The strong belief that increased awareness could prevent bank runs suggests that improving communication strategies could have broad benefits as supported by the IADI principles.

Enhanced public awareness fosters confidence in the banking system, which is a key element in preventing bank runs and supporting the stability of the financial system (IADI, 2009; World

Bank, 2021). When the public understands that their deposits are protected, they are less likely to panic during times of economic uncertainty, allowing the DIS to perform its critical function.

4.3. Narrative Analysis

Since its establishment, the Ethiopian Deposit Insurance Fund (EDIF) has been operational. It was created to provide a financial safety net for member institutions, protect against bank runs, and mitigate moral hazard.

EDIF commenced operations with a one-time government grant of Birr 200 million and only three staff members. This seed money continues to fund operational expenses like salaries, rent, and other activities. Additionally, EDIF has collected Birr 14 billion in premiums from member institutions as of June 2025. The organization has since grown to 12 employees and is actively building capacity in resources, manpower, infrastructure, and information systems. Future plans include acquiring software to integrate a deposit payout system for efficient crisis response and evolving into a "paybox-plus" role. This expanded role involves supporting member institutions before potential failure through cash flow forecasting and investment decision adjustments.

Currently, EDIF employs a flat-rate premium system, primarily due to insufficient data for risk-based alternatives. Data received from the National Bank of Ethiopia (NBE) lacks the necessary detail for accurate risk grading of financial institutions. Furthermore, EDIF lacks the specialized staffing needed to implement more sophisticated premium models. Consequently, the premium structure remains unadjusted. Major challenges in employing varied premiums stem from inadequate data for both premium setting and potential payouts. The data collected via the NBE is unstructured and incomplete, forcing all members to pay the same rate despite differing risk profiles—a situation causing discontent.

Governance rests with a Board of Directors responsible for policy, while the CEO manages day-to-day procedural activities. Transparency and accountability governing the fund management, the initial government grant covers ongoing operational costs. EDIF maintains accounts at both the NBE (for premium deposits) and the Commercial Bank of Ethiopia (CBE) (for operational expenses). Current investments are in Treasury Bills and CBE Mudaraba savings accounts, with plans to develop more diverse investment strategies. An agreement with the Ministry of Finance and NBE provides a backup plan for payout fund shortages. However, the current fund covers

only 0.1% of total insured deposits, sufficient only for small institutions. EDIF therefore plans to raise the fund to Birr 50 billion. Premium development lacked strategic analysis or scenario planning, relying solely on member-provided data.

Public awareness efforts to date have been minimal. Plans are in place for educational campaigns on regional television (Oromia, Amhara, Tigray) and leveraging member institutions' platforms (e.g., integrating EDIF websites, customer outreach). Long-term strategies include mandating member institutions to incorporate EDIF awareness into their daily operations.

Key strengths include significant achievements despite limited initial resources and staff. Weaknesses involve follow-up deficiencies, a focus on routine tasks, lack of an accounting system, and insufficient strategic focus. Based on this points, the Director recommends to have sharing of experiences with countries experienced in deposit insurance, adopting and implementing a deposit payout system, transitioning to the proactive "paybox-plus" role and taking pre-emptive actions before crises occur.

4.4. DISCUSSION

The findings of the survey provide different view of perceptions among the sample respondents regarding the Ethiopia Deposit Insurance Fund (EDIF) and its functions. The main aspect is the respondents' perception of the EDIF's premium setting mechanism which scored a mean of 3.07 showing moderate agreement. Majority of the respondents have shown some confidence in the ability of the EDIF in adjusting its premium based on risk profiles of the financial institutions with a bit higher mean score of 3.22. The ability of the fund discouraging banks from engaging in riskier activities, gained a mean of 2.97 which triggers a concern and this eventually suggests the need for EDIF to work on its premium setting mechanism to boost risk mitigation.

In terms of fund management, it has scored an average mean of 3.12, indicating thoughtful optimism among the respondents. The EDIF's ability of investing its premium in low risk asset gained better results but the EDIF's governance structure and potential political interference scored a lower mean of 3.01. The transparency of the EDIF in providing on time information and necessary documentation gained the lowest mean score of 2.97 which shows the need for

transparent communication regarding fund management practices to build trust among stakeholders.

The observations of the respondents on fund sufficiency were remarkably concerning, with a mean score of only 2.80 regarding the adequacy of funds to protect depositors. Even though respondents understood the importance of conserving good reserve levels gained a mean score of 3.28 while uncertainty among the respondents about the effectiveness of strategies to rebuild funds after failures, scored a lower mean of 2.93. This suggests the necessity for EDIF to communicate its financial strategies more effectively and on timely manner, reassuring stakeholders of its capacity to manage crises.

Public awareness is the other area that necessitates attention. With a low mean score of 2.71 the public's understanding of the existence of the EDIF and its functions indicates there is exists a communication gap. However, the strong support for public education campaigns (mean score of 3.52) underscores the belief that improving awareness can encourage trust in the financial system. The result suggest that increased public knowledge could alleviate risks like bank runs, with a high score of 3.60 indicating this sentiment.

As per (Stella, 2022), the importance of the deposit insurance system is mainly necessary in times of financial crisis as a tool to keep confidence in the financial industry and protect financial institutions from depositor's panic and bank run. In conjunction with the Central bank's role of lender of last resort, regulation and supervision of banks, deposit insurance system plays a critical role in maintaining financial stability. Deposit insurance as having positive impact on the financial sector, it has also negative effects like moral hazard, adverse selection and principal agent problem. Its effect on the financial industry mainly depends on the characteristics of the banking system aside from other factors such as country's economic development, supervision and legal framework.

Smaller banks are riskier because they draw depositors with higher deposit rates, which lowers the effectiveness of the deposit insurance scheme, according to Lakstutien_e et al. (2011). On the other hand, O'Hara and Shaw (1990) highlight the detrimental effects of the "too big to fail" theory, which shields the biggest banks even in the absence of a deposit insurance scheme. The biggest banks are encouraged to take risks by this type of government protection. After doing

extensive research in both developed and developing nations between 1970 and 2010, (Calomiris, 2023) came to the conclusion that banks with riskier assets tend to have healthy deposit insurance.

Therefore, these findings underscore the importance of transparency, effective communication, and proactive engagement with both the public and financial institutions. Addressing these concerns could not only improve perceptions of EDIF but also enhance its effectiveness in safeguarding depositor interests in a rapidly changing financial landscape.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

The last chapter of this study reviews the main findings, conclusions and provider recommendations for further study of the subject matter by other researchers.

5.1. SUMMARY OF MAJOR FINDINGS

The purpose of this study was to assess the functions of the Ethiopian Deposit Insurance Fund: A Focus on Premium Setting, Fund Management, Fund Sufficiency and Public Awareness. The researcher has collected data through questionnaire and analyzed it in SPSS version 26.

Majority of the respondents have shown favorable perception with mean score of 3.24 towards the EDIF's premium setting mechanism. Overall the premium setting mechanism employed by the EDIF is majorly accepted by most respondents which highlights EDIF's strength in adaptability and transparency of its premium setting mechanism. EDIF fund management practice has got higher and low mean rate ranging from 3.32 for investing in low risk assets to the worst of 2.97 for providing clarity and comprehensive fund management document showing the need for transparency and communications. Respondents moderately agree with EDIF's balance between growth and risk mitigation (mean = 3.18), reflecting a belief in strategic fund stewardship.

The summary of results for the fund sufficiency practice of EDIF shown a result with overall mean value of 3.08 indicating there is concern about the adequacy of the accumulated funds to provide protection to depositors in times of financial crisis and bank runs. The respondents moderately agree that there is tangible plan by EDIF to safeguard the financial institutions. The findings of the results on public awareness functions of the EDIF shows diverse perceptions with an overall mean score of 3.15 showing moderate agreement on the need of public awareness and showing concern about its current communication effectiveness.

5.2. CONCLUSIONS

The analysis of respondents' perceptions towards premium setting mechanism of the EDIF shows relatively positive view indicating the premium set by EDIF is somewhat fair and risk based with concern of its effectiveness in discouraging risky behaviors.

The data presents a carefully optimistic view of EDIF's fund management practices. EDIF has been perceived as prudent in its investment strategies and its key weaknesses lie in independency of its governance and lack of transparent communications. The relatively low standard deviation across most items indicates consistent perceptions among respondents, reinforcing the need to address transparency and governance concerns systematically.

Regarding the fund sufficiency of the EDIF, from the responses gathered from the respondents, it indicates that they are not fully convinced the so far collected fund is enough to tackle back crisis and reward depositors. They moderately believe that EDIF has a plan to avert financial crisis with the lack of communicating those plans well to its stakeholders. As per the data gathered and analyzed, the major weakness of EDIF is lack of proper communication but the respondents believe that public trust should create through both the EDIF its self and financial institutions to get better benefit on financial stability and confidence creation among the depositors.

5.3. RECOMMENDATIONS

Based on the summary of analysis and conclusions drawn, the researcher forwards the below listed recommendations

- EDIF should reconsider its premium setting methodology taking in to account of risk behaviors of the financial institutions
- Revise its current premium structure to ensure fairness among the financial institution's to make disciplinary actions towards risker institutions and reward for safe ones
- Provide clear and timely communication regarding its premium to develop intuitional trust and operational clarity.
- Establish a systematic review process that adapts to changing financial and economic conditions, maintaining the relevance and fairness of premium structures over time.
- EDIF should improve its transparency and communicate its fund management strategies to its stakeholders through public disclosures periodically.
- EDIF should strengthen its governance structure by ensuring it is free from political interference.

- Continue prioritizing low-risk investment strategies while ensuring that growth is not sacrificed unnecessarily. Communicating the rationale behind this balance can further reassure stakeholders.
- Engage with banks, financial institutions, and the public to gather feedback and provide insight into fund management decisions, helping to build trust and transparency.
- Consider conducting an independent actuarial review to determine the optimal size of the fund and implement a clear funding roadmap to reach it.
- Explore diversified strategies for post-crisis fund replenishment, including temporary government support, bond issuance, or risk-based special levies.
- Develop nationwide media and digital campaigns explaining EDIF's purpose, coverage limits, and claims processes in simple, accessible language.
- Require or encourage banks to distribute EDIF informational materials to their customers through websites, mobile apps, and branch-level communication.
- Incorporate EDIF education into financial literacy programs, workshops, and public seminars to build awareness across demographics.
- Use law enforcement on its member financial institutions to incorporate the fund's websites with theirs.
- Provide accurate and reliable data by the financial institutions to EDIF on timely manner.
- Incorporation EDIF public awareness campaigns by the member financial institutions in their daily operations to boost public confidence.

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Appendices
Addis Ababa University
College of Business and Economics
School of Commerce

Greetings!

Dear Respondent,

My name is **Mekdes Gizaw**, I am a graduate student at Addis Ababa University School of Commerce undertaking a study for my thesis requirement for Masters of Science in Corporate Finance Speciality in Investment Management.

Research Title: - Assessing the functions of the Ethiopian Deposit Insurance Fund: A Focus on Premium Setting, Fund Management, Fund Sufficiency and Public Awareness

This questionnaire is developed to gather data from employees and management of Ethiopian Deposit Insurance Fund (EDIF) and Finance Department Directors and Division Managers of Commercial banks. Due to the importance of your role in this paper, you have been purposefully chosen to participate in the study. Your valuable response will be applied for this research only and be handled with at most confidentiality; this study will not classify specific responses.

Please make sure that you provide your response accurately and if you find any problem regarding the questions don't hesitate to contact me on my e-mail address behabtumekdes@gmail.com

Part I: General Information

Note: - For the subsequent questions, please choose one answer that best describes your current state and mark it as (√).

- 1) What is your gender? Male ☐ Female ☐
- 2) Which is your age category? Below 25 ☐ 35 ☐ 5 ☐
- 46-55 ☐ e 56 ☐

3) What is your current educational level?

Diploma ☐ Degree ☐ Master's degree. ☐ PHD ☐

4) What is your role in the financial sector?

☐ Banker

☐ Ethiopian Deposit Insurance Fund Managerial Staff

☐ Ethiopian Deposit Insurance Fund Staff

5) If you are a banker, please specify your bank and your job position?

6) How many years of experience do you have in the financial sector?

☐ Less than 5 years

☐ 5–10 years

☐ 10–15 years

☐ More than 15 years

Part 2: Research Questions

Below are five-point Likert Scale questions developed to gain your opinions on the study matter. Please make a tic mark (✓) on your answer that most reveal your response.

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

S.N	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Premium Setting						
1	Do you think the premium setting mechanism employed by EDIF is fair and risk based?					
2	Do you think EDIF adjusts its premium based on the risk profiles of the financial institutions?					
3	Do you think the current insurance premiums set by EDIF discourages banks from engaging in riskier activities?					
4	Do you believe EDIF reviewing its premium timely so as to adjust its fund to the changing economic conditions?					
5	Do you agree that the employed premium rate of EDIF is clear and well-communicated to banks					
2. Fund Management						
6	Do you think the EDIF is managing the fund by investing it in low-risk assets to make it readily available to safeguard depositors when the need arises?					
7	Do you believe the current fund management strategy of EDIF balances growth and risk mitigation effectively?					
8	Do you think the current governance structure of managing the fund is independent and free from political interference?					

9	Do you think the EDIF gives clear and comprehensive documentations and statements about its fund management practice?					
3. Fund Sufficiency						
10	Do you think that EDIF has so far accumulated adequate fund that enable it to protect depositors if a financial institution fails?					
11	Do you believe the current reserve level of total insured deposits is a good practice for the fund?					
12	Do you believe that increasing the premium amount is the accurate way to reconstruct the fund after a major bank failure?					
13	Do you agree that the EDIF has a tangible plan that assures the fund will be sufficient in times of financial crises?					
14	Do you believe the EDIF's financial state is recurrently supervised and shared among its stakeholders?					
4. Public Awareness						
15	Do you believe that EDIF has so far well informed the public about its existence and its functions?					
16	Do you think informing and educating the public about EDIF through campaigns boosts trust in the financial system?					
17	Do you agree that banks play a critical role in helping their customers to understand about the EDIF and its functions?					
18	Do you agree that the EDIF provides clear information for people about its coverage limit and how to process their claims in times of bank failures?					
19	Do you agree that having increased public awareness about the EDIF and its functions would make people safe and less probable to be the reason for banks runs?					

Thank You for your Cooperation!!

Interview Questions

1. How has the role of EDIF evolved since its establishment?
2. In your view, how effective has EDIF been in fulfilling its core mandate?
3. Are there any additional roles EDIF plans to assume in the future?
4. EDIF uses flat rate method to determine the premium rates for member banks, could you elaborate on why this method was chosen?
5. How frequently are premium rates reviewed or adjusted?
6. What challenges does EDIF face in setting a fair and adequate flat premium rates?
7. What are the anticipated future challenges or developments in deposit insurance premium setting?
8. How does EDIF manage the collected premiums? Are there specific investment guidelines or restrictions?
9. Could you explain the governance structure around fund management decisions?
10. How does EDIF ensure transparency and accountability in its fund management practices?
11. Based on current data, do you believe the collected fund is sufficient to cover potential bank failures?
12. Has EDIF conducted any stress testing or scenario analysis to evaluate its capacity to handle large-scale bank failures?
13. What strategies are in place to increase the fund in times of systemic risk?
14. How do you assess the current level of public understanding of deposit insurance in Ethiopia?
15. Are there specific target groups (e.g., rural populations, youth) that EDIF focuses on in its awareness campaigns?
16. What role do member institutions play in disseminating deposit insurance information to customers?

Final/Wrap-up Questions

1. In your opinion, what are the biggest strengths and weaknesses of EDIF at present?
2. What recommendations would you suggest to improve EDIF's effectiveness in achieving its objectives?
3. How do you see the future of deposit insurance evolving in Ethiopia?

Interview done with Ato Chala Beyene Kitessa, Chief Fund Management and Deposit payout office, EDIF Head Office, AA on July 08, 2025