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Proceedings from the 11th IADI Annual Conference "Deposit Insurers and the Financial Safety Net" London, United Kingdom 24-25 October 2012

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Foreword

The International Association of Deposit Insurers (IADI)'s 11th Annual Conference was held on 24-25 October 2012. The events were hosted by the **Financial Services Compensation Scheme (FSCS)** at the Tower Hotel in London, United Kingdom, chaired by Mr. Mark Neale, Chief Executive of **FSCS** and Chair of the 2012 Conference Task Force.

The Conference was held with the theme **"Deposit Insurers and the Financial Safety Net"** and the program featured presentations by internationally recognized experts and deposit insurance practitioners, regulators, policymakers and academics. The audience of 203 was truly international in scope, with 65 countries and jurisdictions represented at the conference. The conference included an **International Exhibition on Deposit Insurance** with 88 different organizations providing information on their deposit insurance programs or services available from deposit insurers.

I would like to thank many people and organizations that contributed to this summary of the proceedings prepared by an international team of writers organized by the International Relations and Research Office of the Central Deposit Insurance Corporation (CDIC), Chinese Taipei. The following organizations and individuals contributed write-ups and other support to this summary.

- Bank Guarantee Fund (Poland): Romuald Szymczak and Oktawiusz Szubart;
- Bulgarian Deposit Insurance Fund: Roumyana Markova;
- Central Deposit Insurance Corporation (Chinese Taipei): Yvonne Fan, Margaret Chuang, Fiona Yeh and Vanessa Lin;
- Deposit Insurance Corporation (Trinidad & Tobago): Noel Nunes;
- Federal Deposit Insurance Corporation: Gail Verley and Vijay Deshpande;
- Instituto para la Protección al Ahorro Bancario (Mexico): Citlali Vatant;
- Malaysia Deposit Insurance Corporation: Kevin Chew, Chuan Poh and Sejal Jitendra Mehta.

Carlos Isoard

Secretary General

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Executive Summary

Wednesday, 24 October 2012 (Day 1)

Opening Remarks

The conference was opened by **Mark Neale**, Chief Executive, Financial Services Compensation Scheme (FSCS), United Kingdom (UK). Mr. Neale acknowledged contributions made by Mr. Martin J. Gruenberg, President and Chair of the Executive Council of International Association of Deposit Insurers (IADI) and Chairman of the Federal Deposit Insurance Corporation (FDIC), USA, in regard to deposit insurance systems and IADI. He then shared the UK lessons learned as a result of the financial crisis of 2007/2008, stated his views on the essential characteristics of successful deposit insurance regimes, and shared aspects of the public awareness campaign of FSCS and the payout plan.

Welcome Remarks

Martin J. Gruenberg welcomed the participants to IADI's 11th Annual Conference and to celebrate its 10th anniversary. Mr. Gruenberg thanked Mark Neale, CEO of FSCS, and FSCS staff for hosting the conference and meetings. He noted that the theme of this year's conference "Deposit Insurers and the Financial Safety Net" recognized the significant lessons the financial crisis highlighted on the importance of deposit insurance not only to the security of individual depositors, but also to financial stability. He stated that IADI is now recognized as the standard-setting body for deposit insurance by all the major public international financial institutions, including the Financial Stability Board (FSB) of the Group of 20 (G-20), the Basel Committee for Banking Supervision (BCBS), the International Monetary Fund (IMF), and the World Bank.

Opening Address

Greg Clark MP, Financial Secretary to Her Majesty's Treasury, UK, noted lessons from the recent global financial crisis including: the need for a credible regime for the protection of depositors is essential to ensure financial stability; as well as good regulations are an important source of financial stability; and that open and competitive markets can help underpin consumers' confidence in and their good relationship with financial institutions. Mr. Clark expected that the reforms in UK, Europe and around the world in months to come will shape the landscape of financial services sectors.

Bank Resolution – Eurozone Focus

Nathalie de Basaldúa, Head, Financial Stability Unit, European Commission, reviewed the European framework for a more resilient banking system and discussed the proposal for new Capital Requirements Directive (CRD IV) and its key elements regarding capital, liquidity and leverage. She referred to the Bank Recovery and Resolution (BRR) Directive proposal to maintain financial stability, minimize costs to taxpayers, and avoid disorderly insolvency. She continued by introducing the Liikanen Group (European Commission's High-Level Expert Group on Reforming the Structure of the EU Banking Sector) and lastly talked about the Banking Union proposal.

Aerdt Houben, Director, Financial Stability Division, De Nederlandsche Bank, focused on the role of resolution and deposit guarantee schemes in the Banking Union from a country's point of view. Mr. Houben underlined the conditions for European resolution funding: effective resolution regime, including bail-in, to minimize taxpayer costs, and concluded with the steps ahead towards a European deposit guarantee scheme.

Panel 1: Government, Legislation and International Bodies - was moderated by **Jerzy Pruski**, Vice-Chair of the Executive Council of IADI and President of the Management Board, Bank Guarantee Fund, Poland. Mr. Pruski stated that the topics of this panel mainly included the global macroeconomic environment and its impact on financial stability in the aftermath of the crisis, the role played by deposit guarantee schemes, IADI's research papers prepared in response to FSB Peer Review recommendations, and the moral hazard issue.

Philip Turner, Deputy Head of Monetary and Economic Department and Director of Policy, Coordination and Administration, BIS, started his presentation with drawing the linkages among BIS, IADI, the macroeconomic environment and financial stability. Mr. Turner then turned to the connections among the different parts of the financial safety nets, and emphasised the role of international cooperation in light of the lessons learnt from the FSB Peer Review on Deposit Insurance Systems.

Arthur Yuen, Deputy Chief Executive, Hong Kong Monetary Authority, spoke on the issues of the FSB Peer Review and explained that the main objectives of the report were to take stock of deposit insurance systems in FSB member jurisdictions and to draw lessons from reforms implemented in response to the crisis. Mr. Yuen said that the report has shown room for improvement in achieving full and consistent implementation of the Core Principles, highlighting the areas for further research and guidance.

David Walker, Managing Director, Policy and International Department, Canada Deposit Insurance Corporation (CDIC), explained that IADI has been developing guidance papers to address the recommendations of the FSB. Mr. Walker informed all in attendance that drafts of four papers on coverage, payout, moral hazard and public awareness have been completed and the work on the remaining two, namely, funding and multiple deposit insurance systems, shall be conducted in the course of 2013. He added that the papers develop additional guidance in areas where the Core Principles required greater precision to achieve effective compliance with leading practices.

Thomas Hoenig, Member of the Board of Directors, FDIC, USA, said that nowadays we may all recognize the benefits coming from the presence of deposit insurance systems in the financial safety net and the financial system; however, the establishment of a guarantee program is always accompanied by moral hazard. Mr. Hoenig further mentioned three important issues—coverage limit, capital levels and a strong supervisory framework, and concluded by stating that it is appropriate to have the three aspects in mind when introducing and implementing the deposit insurance systems in a broad context.

Keynote speech

Andrew Bailey, Managing Director, Prudential Business Unit, Financial Services Authority (FSA), UK began by pointing out: how the UK went into the crisis with a deposit insurance scheme that was under-developed and incomplete; with inadequate public awareness level; and not properly integrated in the crisis management and resolution framework. Several changes have since been made to address the problems. The aim of the changes is to make the UK arrangements very much like other successful regimes and to provide a simple, clear and effective message to depositors.

Panel 2: Relationship with Regulators was moderated by **Patrick Loeb**, Managing Director and CEO, Deposit Protection of Swiss Banks and Securities Dealers, Switzerland. Mr. Loeb gave an overview of the concept of the financial safety net and emphasized the importance of maintaining regular and formal interaction between the deposit insurance agencies and other financial regulators.

G. Gopalakrishna, Executive Director, Deposit Insurance and Credit Guarantee Corporation (DICGC), India, noted that each jurisdiction has its unique safety net framework, with varying authorities assigned to each participant. Mr. Gopalakrishna said that a deposit insurer's relationships with other regulators could be informal or formal, embedded in the legislation, or provided for in a MOU. He also described the financial regulatory architecture in India and its challenges.

Michele Bourque, President and Chief Executive Officer, Canada Deposit Insurance Corporation (CDIC), focused on the deposit insurer's relationship with the prudential supervisor and noted that an effective relationship is one that supports both organizations in meeting their respective mandates. Ms. Bourque shared CDIC's experience and highlighted key ingredients that contribute to a successful relationship.

Daniel Barr, Head, Financial Stability & Consumer Protection Department, Swedish National Debt Office, started with a brief history of the Swedish deposit guarantee program. Mr. Barr then presented the present safety net framework in Sweden. The Swedish Stability

Council, built on an MOU among the four financial safety players, provides for exchange of information, coordination and consultation, but has no decision making authorities. In addition, a Nordic Baltic Stability Group has been established based on an MOU among authorities in Sweden, Denmark, Norway, Finland, Estonia, Lithuania, and Latvia for various purposes such as information sharing, burden sharing and crisis management.

Keynote speech

Anthony Browne, Chief Executive, British Bankers Association, UK, emphasized the importance of reestablishing consumer confidence in the banking sector, which was lost as a result of the recent financial crisis. Mr. Browne noted that part of the reason people lost that trust was that the UK's deposit guarantee scheme arrangements at the time didn't provide depositors with the guarantee they needed, and the public did not know when they would recover their money. He said that FSCS is committed to reimbursing customers within seven days of a bank failure and 20 days in the most complex cases, and has conducted a massive public awareness campaign supported by the government and the industry to enhance public confidence. Finally, he mentioned ongoing discussions regarding a pre-funded deposit guarantee scheme.

Panel 3: Relationship with Central Bank was moderated by **Earl Boodoo**, General Manager, Deposit Insurance Corporation, Trinidad and Tobago. Dr. Boodoo commented on the importance of a harmonious relationship that should exist between the central bank/regulator and the deposit insurer. He noted that the issue of efficiency in resolutions and particularly payouts demands a collaborative effort on the part of the central bank/regulator to ensure timely intervention and limit exposures to the deposit insurance fund.

Peter Brierley, Head of Policy, Special Resolution Unit, Bank of England, discussed the relationship among the safety net players and said that in England, the Bank of England plays the lead role, and FSCS is a member of the safety-net. The role of placing a bank in financial distress into insolvency rests with the Bank of England and this act is carried out under a Bank Insolvency Procedure (BIP). He explained the workings of the BIP through the example of Southsea Mortgage and Investment Company Limited, a Havant-based bank that went into insolvency on 16 June 2011.

J. P. Sabourin, Chief Executive Officer, Malaysia Deposit Insurance Corporation (MDIC), focused on the Strategic Alliance Agreement (SAA) between the Bank Negara Malaysia (BNM or central bank) and MDIC. Mr. Sabourin then discussed a template outlining early detection and a timely intervention framework. He commented on the triggers for early intervention and stated the need for safety net players to know their specific roles and when to act. He concluded that, among other things, safety net players have different mandates, but share common goals in order to maintain financial stability.

Rose Detho, Director, Deposit Protection Fund Board, Kenya, noted that central banks and deposit insurance schemes are critical players in the financial safety net and, despite having differing mandates, may have functions that are interrelated, co-dependent or complementary to each other. Ms. Detho then stated that the core objective of central banks and deposit insurers is to instill public confidence and foster financial stability. Their mandates and functions must be consistent with public policy objectives.

Dinner Keynote Speech

Martin J. Gruenberg began his speech by focusing on the advances IADI has made in providing a forum for sharing knowledge and experiences, as well as providing the international standard for effective deposit insurance systems. Mr. Gruenberg stated that IADI developed a set of Core Principles for Effective Deposit Insurance Systems completed in June 2009 in line with the Financial Stability Forum (FSF)'s call and in collaboration with BCBS. Representatives of IADI, BCBS, IMF, World Bank, European Forum of Deposit Insurers (EFDI) and the European Commission (EC) formed a task force to develop and test the methodology, which IADI and BCBS approved in December 2010. IMF and World Bank also officially recognized the principles for use in their Financial Sector Assessment Program (FSAP) Reviews. IADI's collaboration with FSB includes participation in thematic peer reviews of the G-20 countries utilizing the Core

Principles as well as involvement in FSB's Resolution Steering Group. IADI has now been tasked to work in consultation with BCBS and other relevant bodies to produce a set of focused papers. Finally, Mr. Gruenberg commented that as his tenure as IADI President and Chair of the Executive Council comes to an end that it has been a great privilege to help advance IADI's mission and vision in the last five years.

Thursday, 25 October 2012 (Day 2)

Speech

Martin Lewis, Creator of MoneySavingExpert.com, UK, began by mentioning the role of deposit insurers in public awareness. Mr. Lewis noted the importance of mitigating moral hazard and providing confidence to the public. He concluded that, in essence, it is important to reduce the existing complexities in public awareness messages and to make messages clearer. He reiterated the importance of constant communication since it is the only means to provide confidence and safety.

Panel 4: Consumer Expectations and Awareness was moderated by **Fred Carns**, Director, Office, International Affairs, FDIC, USA. Mr. Carns highlighted the importance of the public awareness work in supporting the successful deposit insurance mechanism - which was also the central theme of this panel.

Howard Wang, President, Central Deposit Insurance Corporation (CDIC), Chinese Taipei, shared with the audience his deposit insurance agency's experience in communicating with consumers and promoting public awareness. Mr. Wang then addressed the key success factors of an effective public awareness program including "objectives," "strategy" and the "3Ms": referring to Message, Media and Money. He concluded that for maintaining a high public awareness level, based on CDIC's experience, the secrets are "Keep on Doing" and "Keep on Watching".

José Luis Ochoa Bautista, Executive Secretary, Instituto para la Proteccion al Ahorro Bancario (IPAB), Mexico, gave a brief overview of the deposit insurance system in Mexico and then presented the public awareness and consumer expectation challenges that IPAB currently faces. He concluded that, as a lesson from the recent international financial crisis, savers and consumers have a heightened need and greater expectations for the following from the deposit insurer and the financial safety net: certainty, trust, guarantee, information and financial education - and if required, a prompt reimbursement process.

Andrew Campbell, Professor, International Banking and Finance Law, University of Leeds, UK, explained that consumer expectations and awareness include two components: the awareness of bank depositors - and what their expectations in this regard actually are. Mr. Campbell then presented some background and referenced the United States, EU and UK. He concluded that some of the design features of EU protection schemes lead to consumer doubt about whether they will be able to meet expectations. In his view, the EU needs to adopt new strategies, perhaps a pre-funded pan-European deposit guarantee scheme to find ways to deliver a realistic level of consumer expectation.

Keynote speech

Carol Sergeant, CBE, Member, European Commission's High-Level Expert Group on Reforming the Structure of the EU Banking Sector (Liikanen Group), began with a discussion of the establishment of the Liikanen Group and its mandate. Mr. Sergeant highlighted the main recommendations of the Liikanen Report published on 2 October 2012. He concluded by noting that the Liikanen Report recommendations are complementary to and consistent with the current reforms and proposals. They aim at making banks less risky, more resilient, more transparent, and easier to manage, monitor, supervise and resolve. The recommendations will help to make the system more stable and compatible, and contribute to better outcomes for consumers.

Keynote Closing Speech of the Conference

Paul Tucker, Deputy Governor, Financial Stability, Bank of England emphasized the key role played by the deposit insurer in maintaining financial stability. Mr. Tucker then pointed out the development of resolution regimes for coping with the failure of complex banks and the role of deposit insurance in this matter. He also provided an explanation of the bail-in concept which applies losses upfront based on a valuation rather than at the end of a liquidation of assets. In conclusion, he reiterated that international authorities are committed to maintaining global finance without trying to create a new order that incorporates financial protectionism. FSB's global agenda will significantly reduce, if not remove, the need for some of the balkanizing tendencies.

Closing Remarks

Mark Neale, on behalf of FSCS, expressed his appreciation for all attendees and presenters for their participation and sharing their experience and expertise on all aspects.

Conference Proceedings from the IADI Conference on "Deposit Insurers and the Financial Safety Net"

Wednesday, 24 October 2012 (Day 1)

Opening Remarks

Mark Neale, Chief Executive, Financial Services Compensation Scheme (FSCS), United Kingdom (UK)

Mark Neale began his remarks by acknowledging contributions made by Mr. Martin J. Gruenberg, President and Chair of the Executive Council of International Association of Deposit Insurers (IADI), in regard to deposit insurance systems and IADI. Under Mr. Gruenberg's leadership, IADI has significantly increased in strength. The Core Principles for Effective Deposit Insurance Systems was promulgated in 2009, and provided leading direction in relation to all of the developments of deposit insurance systems.

Mr. Neale shared the UK lessons learned from the financial crisis of 2007/2008. Deposit insurance exists to safeguard depositors as it provides a safety net. A core objective of policymakers and regulators following the crisis is to ensure that banks can fail without causing systemic damage to the rest of the financial service sector and preclude any huge bailout by taxpayers. As a result, regulators and lawmakers are engaged in searching for ways to make failures tolerable rather than unrealistically seeking to abolish them. That search encompasses a number of different avenues, such as structural changes, prudent regulations, arrangement for cost of resolutions to be borne by bond holders instead of taxpayers, to assist banks, building societies or credit unions to fail in an orderly way which does not jeopardize the provision of financial services and the wider economy.

Mr. Neale stated his views on the essential characteristics of successful deposit insurance regimes. The four key attributes are comprehensiveness, visibility, continuity and flexibility. It is vital for consumers to be aware of the protection they enjoy through the FSCS and other schemes. Deposit protection should reassure consumers and help them feel more confident about their financial services products. Mr. Neale said that FSCS had been initially unsuccessful in increasing public awareness of saver protection with an earlier advertising campaign. The new 2013 campaign will predominantly use radio and print advertising, and collaborate with banks, building societies and credit unions to explicitly inform their customers that their savings and deposits are protected by FSCS.

FSCS now pays back the vast majority of people within seven days of a bank failure. FSCS plans new ways for deposit guarantee schemes to secure continuity for consumers. Portable bank accounts might provide an option for transferring accounts to another provider. That would give the consumer uninterrupted service. In conclusion, Mr. Neale mentioned there can be no orderly bank failures unless consumers are protected. This demands comprehensive coverage, flexible arrangements and consumer awareness.

Welcome Remarks

Martin J. Gruenberg, President and Chair of the Executive Council of IADI and Chairman of the Federal Deposit Insurance Corporation (FDIC), USA

Martin J. Gruenberg welcomed the participants to the 11th Annual Conference and thanked Mark Neale, CEO of FSCS, Alex Kuczynski, Karen Gibbons, and their staff for their exceptional hospitality in hosting this year's IADI conference and meetings.

Mr. Gruenberg noted that the theme of this year's conference "Deposit Insurers and the Financial Safety Net" recognized the significant lessons the financial crisis highlighted regarding the importance of deposit insurance - not only to the security of individual depositors, but also to financial stability. He noted that the financial crisis had a transformative impact on the international recognition of deposit insurance. Prior to the crisis, deposit insurance was largely seen as a means for depositor protection. As a result of the crisis, it is now widely accepted that effective systems of deposit insurance are essential to maintaining public confidence and financial stability, particularly during times of stress. As a result of the crisis, it is also now broadly recognized that effective resolution regimes are an integral component of the financial safety net system.

Mr. Gruenberg noted the participants also had the pleasure at this year's conference of recognizing and celebrating IADI's 10th anniversary. He stated that it is worth pointing to the remarkable impact IADI has had during its relatively short history. IADI is now recognized as the standard-setting body for deposit insurance by all the major public international financial institutions, including the Financial Stability Board (FSB) of the Group of 20 (G-20), the Basel Committee for Banking Supervision (BCBS), the International Monetary Fund (IMF), and the World Bank.

During the early stages of the financial crisis, FSB recommended the development of an international set of deposit insurance standards. In response, IADI, together with BCBS, jointly developed and issued the Core Principles for Effective Deposit Insurance Systems in 2009. The Core Principles are designed to serve as a benchmark for jurisdictions to use to strengthen existing and develop new systems of deposit insurance.

A key indicator of IADI's success over the past ten years is the growth of its membership. Since its foundation in 2002, IADI has grown from 26 founding Members to 84 Participants in 2011, including 64 Members, eight Associates and 12 Partners. IADI is now strongly represented in all continents of the world.

Mr. Gruenberg concluded his welcome remarks by recognizing IADI's success over the past ten years and acknowledged the commitment of its membership, the leadership of its Executive Council, and the vision of its founding Members, who in May 2002 developed an initial set of objectives aimed at sharing expertise, experience, and understanding among deposit insurers worldwide.

One such early visionary was the late economist Sir Andrew Crockett, who recently passed away. Sir Andrew was a lifelong public servant who devoted his professional career to the furtherance of financial stability through collaboration and cooperation. Following an esteemed career at the IMF and serving as executive director of the Bank of England, Sir Andrew became General Manager of the Bank for International Settlements (BIS) and served in that capacity from 1994 to 2003. During his tenure at the BIS, Sir Andrew strongly supported its hosting of key international regulatory committees and supported the creation in 1999 of the Financial Stability Forum, which in 2009 became the FSB. He was acutely aware that financial stability relies on collaboration and cooperation among the various financial safety net participants.

IADI benefitted greatly from the support of Sir Andrew from its inception in 2002. In his key role at BIS, Sir Andrew was a strong proponent of IADI and of deposit insurance and its role in the financial safety net. Early on, Sir Andrew emphasized the importance of establishing strong collaborations between deposit insurers and other financial safety net participants. His support led to the early establishment of a strong alliance between IADI and BIS, which has been critical in establishing IADI as a financial standard-setting body and facilitating collaboration with other standard-setting bodies also hosted by BIS, such as BCBS and FSB. Without the support of Sir Andrew, IADI would not be the organization it is today. Mr. Gruenberg asked the participants to reflect for a moment on the accomplishments and contributions of Sir Andrew, his support of IADI, and the key role he played in making IADI the success it is today.

Opening Address

Greg Clark MP, Financial Secretary to Her Majesty's Treasury, UK

Greg Clark began his speech by congratulating IADI's 10th Anniversary and commending IADI's role in enhancing the effectiveness of deposit insurance systems in its first decade since its inception.

Mr. Clark pointed out that the recent global financial crisis made it clear that a credible regime for the protection of depositors is essential to ensure financial stability. A financial system doesn't work unless people are confident in the institutions where they place their savings. He also stated that good regulations are an important source of financial stability, open the competitive markets and help underpin consumers' confidence in and their good relationship with financial institutions.

Mr. Clark then noted that it is globally accepted that it's unfair to let problem banks continue to operate and private sectors gain from public resources. Though banks become so large even the government cannot handle them, the principle is that banks must be able to fail and to fail safely without public support. Reforms thus have come up in UK and around the world. For example, the UK government is introducing reforms and recommendations of banking regulations: ring-fencing intends to separate retail deposit-taking entities from investment banking in resolution without interrupting the continuity of core services; recovery and resolution plans ensure that banks prepare in advance to ensure critical and economic functions are maintained in the future crises; bail-in ensures losses will be taken by shareholders and creditors, rather than by taxpayers; and banks can be restructured without interruption of key financial services.

Bank Resolution – Eurozone Focus

Nathalie de Basaldúa, Head, Financial Stability Unit, European Commission

Nathalie de Basaldúa's presentation reviewed the European framework for creating a more resilient banking system. Ms. de Basaldúa first talked about the rapid growth in the European Union (EU) banking sector, in domestic and cross-border terms, during the last decade. She spoke about the financial crisis, the current regulatory reforms, and the proposal for the new Deposit Guarantee Scheme Directive. She noted the ongoing negotiations between the European Parliament and the Council focused on the scope of the Directive, a shorter payout deadline, the deposit guarantee scheme financing and the use of deposit guarantee scheme funds for bank recovery and resolution purposes.

Ms. de Basaldúa then introduced the proposal for new Capital Requirements Directive (CRD IV) and its key elements regarding capital, liquidity and leverage, as well as the Bank Recovery and Resolution (BRR) Directive proposal to maintain financial stability, minimize costs to taxpayers, and avoid disorderly insolvency. She stated that for consistency, the BRR and Deposit Guarantee Scheme Directive will be developed as a package and that agreement on the BRR Directive is expected in 2013. She continued by discussing the

Liikanen Group (European Commission's High-Level Expert Group on Reforming the Structure of the EU Banking Sector), its mandate and the main recommendations in their report published for public consultation on 2 October 2012. Proposals are expected in 2013.

Ms. de Basaldúa last talked about the Banking Union proposal. She noted the need for it and the importance of preserving the single market. She pointed out the key elements of the Banking Union: single supervisory mechanism, single resolution mechanism, and funding arrangements. She stressed that the single supervisory mechanism aimed at higher integration of supervision within the Euro area and also addressed the European Central Bank (ECB) tasks and the role of the European Banking Authority. Non-Euro area countries can voluntary closely cooperate with the ECB. She concluded her presentation by providing the target scenario for when the EU emerges from the crisis.

Aerdt Houben, Director, Financial Stability Division, De Nederlandsche Bank

Aerdt Houben's presentation focused on the role of the resolution and deposit guarantee scheme in the Banking Union from a country's point of view. Mr. Houben first stressed the need for the Banking Union from a national perspective. The lessons learnt from the financial crisis were that large cross-border banks are not resolvable, and that banks may be too big to fail and save for a national government. The financial crisis turned into a debt crisis and showed that sovereigns were not strong enough to support the financial sector and the real economy while the financial sector incurred losses on the sovereign and the real economy. The circuit breaker is the Banking Union. A stable Banking Union can be achieved only through supervision on the EU level; resolution on an EU level and resolution funding on an EU level. The ultimate goal is a European deposit guarantee scheme.

Mr. Houben underlined the conditions for European resolution funding: effective resolution regime, including bail-in, to minimize taxpayer cost. The regime is provided only on a temporary basis and financed by the financial sector. He continued by pointing out the key advantages of a European deposit guarantee scheme. In response to the resistance against a deposit guarantee scheme on the EU level, he noted that a single European deposit guarantee scheme may not be feasible in the short run, but becomes logical once effective European supervision, resolution and balance sheet repair are established.

Mr. Houben concluded with the steps ahead towards a European deposit guarantee scheme: first stage, harmonization of *ex-ante* funding, and introduction of a mandatory lending scheme; second stage, gradual transition to a European deposit guarantee scheme where national deposit guarantee schemes could bear the cost of a first loss tranche; third stage, a single European deposit guarantee scheme where national deposit guarantee schemes remain the point of contact.

Panel 1—

Theme: "Government, Legislation and International Bodies"

Moderator:

Jerzy Pruski, Vice-Chair of the Executive Council of IADI and President of the Management Board, Bank Guarantee Fund, Poland

Jerzy Pruski introduced the panellists and said that Mr. Philip Turner would elaborate on where we are heading in terms of the global macroeconomic environment and its impact on financial stability in the aftermath of the crisis. Mr. Pruski stated that Mr. Arthur Yuen's presentation would provide very useful information and help to better understand the role played by deposit guarantee schemes. Then Mr. David Walker would elaborate on IADI's research papers prepared in response to the FSB Peer Review recommendations, and Mr. Thomas Hoenig would take the floor to elaborate on the moral hazard issue.

Speakers:

Philip Turner, Deputy Head of Monetary and Economic Department and Director of Policy, Coordination and Administration, Bank for International Settlements (BIS)

Philip Turner started his presentation with drawing the linkages among BIS, IADI, the macroeconomic environment and financial stability. Mr. Turner emphasised the two dimensions of BIS: its role in exploring how the macroeconomic environment and the financial system interact, as well as its role in the context of the connections among different elements of the financial safety net. In terms of the macroeconomic environment and financial stability, he identified two risks: the risk of a prolonged period of low growth, particularly in Europe, and the interest rate risk, which arises from governments' anxieties.

Mr. Turner then turned to the connections among the different parts of financial safety nets. He elaborated on the two important issues related to deposit insurance systems, namely, the link with supervisory sanctions on weak banks and the link with central bank lending practices. Regarding the first issue, he elaborated on the on-going debate concerning the balance between prevention and resolution, referring to the example of the FDIC Improvement Act of 1991 and the Spanish experience in the realm of banks' capital structure. He emphasised that either public awareness or consumer protection are essential elements of policies. As regards the second issue, he pointed out that central bank lending is conditional and depends on the collateral and solvency of borrowing banks. He noted that when a crisis deepens, collateral rules relax and the solvency is rather hard to judge. In this respect, he pointed out the link with deposit insurance in the scenario where keeping afloat a bank that is ultimately insolvent may allow a bank's uninsured creditors to flee - and the end result may increase the cost to a deposit insurer. To that end, he said, the international cooperation between central banks in cross-border liquidity provisions should be well-established. As a concluding remark he emphasised the role of international cooperation in the light of the lesson learnt from FSB Peer Review on Deposit Insurance Systems.

Arthur Yuen, Deputy Chief Executive, Hong Kong Monetary Authority

Arthur Yuen spoke on the issues of the FSB Peer Review and explained that the main objectives of the report were to take stock of deposit insurance systems in FSB member jurisdictions and to draw lessons from reforms implemented in response to the crisis. According to Mr. Yuen’s view, the fact that the FSB had decided to conduct its Peer Review on Deposit Insurance Systems in 2011 has demonstrated that the international community attaches great importance to this topic. He noted that the financial crisis has strengthened the mandate of deposit insurers as components of financial safety nets, as the effectiveness of depositor compensation arrangements has become a top priority.

Mr. Yuen said that the report has shown room for improvement in achieving full and consistent implementation of the Core Principles, highlighting the areas for further research and guidance. In this respect the major recommendations identified by the report included: the adoption of explicit deposit insurance systems, the avoidance of unlimited deposit insurance coverage, as well as ensuring adequate financial resources and prompt payout mechanisms. He also stated that there are some missing gaps in the report such as the lack of information on early interventions and resolutions.

David Walker, Managing Director, Policy and International Department, Canada Deposit Insurance Corporation (CDIC)

David Walker explained that IADI has been developing guidance papers to address the recommendations of the FSB in the following six areas: (i) conducting scenario planning for payout readiness, (ii) the desirability of greater use of ex-ante funding, (iii) developing appropriate mechanisms for public awareness, (iv) monitoring the adequacy of coverage, (v) ensuring effective coordination and coverage in cases of multiple deposit insurance systems, and (vi) addressing moral hazard.

Mr. Walker informed all in attendance that drafts of the four papers on coverage, payout, moral hazard and public awareness have already been completed and the work on the remaining two, namely, funding and multiple deposit insurance systems, shall be conducted in the course of 2013. He added that the papers provide additional guidance in areas where the Core Principles required greater precision to achieve effective compliance with leading practices. Finally, he elaborated in detail on the findings on each of the four research papers which have been completed.

Thomas Hoenig, Member of the Board of Directors, Federal Deposit Insurance Corporation, USA

Thomas Hoenig observed that all may recognize the benefits coming from the presence of deposit insurance systems in the financial safety net and the financial system; however, the establishment of a guarantee program is always accompanied by moral hazard. It is usually explained by the fact that guarantee schemes change the expectations about institution failure and change the behaviors of those who benefit from them and those that are their source.

Mr. Hoenig further mentioned three important issues: (i) to be firm in limiting the coverage either with respect to the institution that should be covered or the activities that should be covered with the insurance of safety net guarantees; (ii) to have a firm capital level based on market knowledge; on one hand not to destroy the lending policy and on the other to have capital once a crisis comes; (iii) to have a strong supervisory framework around those institutions that are receiving benefits from the safety net. He concluded that it is appropriate to have the aforementioned aspects in mind when introducing and implementing deposit insurance systems in a broad context.

Keynote speech

Andrew Bailey, Managing Director, Prudential Business Unit, Financial Services Authority (FSA), UK

Andrew Bailey started off his presentation by recalling his past personal experience in Idaho, where he had first seen how prominently the US banks displayed information about FDIC and how he, then, hoped for a similar approach in UK and how now this is a reality.

Mr. Bailey continued by pointing out how the UK went into the crisis with a deposit insurance scheme that was underdeveloped and incomplete; with an inadequate public awareness level; and not properly integrated in the crisis management and resolution framework. The main reason for this was the unavailability of a statutory resolution framework for crisis as their efforts for dealing with failed banks were more ad-hoc. He then spoke on his first resolution experience with the Bank of England in the 1990s followed by the failure of BCCI, in 1991, due to the fraud where depositors lost their money. However, 16 years later, the run on Northern Rock jolted the mind-set of people about deposit insurance. Just over a year after the run, the UK had another experience with the failure of the Icelandic banks and the problems it created due to their existing branches in the UK. He agreed that the UK learnt its lessons the hard way. However, he believed that the crisis had forced them, finally, to put more emphasis on the importance of having in place a proper resolution regime and well-structured and executed deposit insurance. The key lesson learnt is that deposit insurance is not just about paying out but about the public having confidence that the insurance is in place as such confidence will, inadvertently, affect their behavior.

Since the run on Northern Rock, the UK has instituted 100% deposit insurance up to a defined limit and put in place a statutory resolution regime for failing banks. The key objectives of the regimes are to ensure the continuity of access to crucial financial services and safety of public's deposits. Mr. Bailey further discussed the UK's resolution regime which is able to sell and transfer deposits over a weekend. However, there was a challenge with rapid payout as the technology adopted by the banking system was underdeveloped. This similar problem, faced by Northern Rock after the run, led to the development of the Single Customer View (SCV), which is now rolled out to all banks in the UK. He further stressed that the deposit insurance arrangements in the UK play an important role in the financial stability and resolvability of deposit takers. The ability of FSCS to payout within the targeted seven days to majority of the depositors forms a key part to their approach to the resolution of banks. These developments has brought FSCS, as the deposit insurer, far more into the mainstream of work on resolution planning and also served to heighten public attention, which in turn has allowed FSCS to achieve greater coordination between other important authorities.

Lastly, Mr. Bailey touched on how FSCS can mitigate the risk of future runs if depositors are aware of the insurance scheme. Recently, the requirement became official for deposit-takers to display, prominently, information, posters and stickers on deposit insurance in all bank branches and internet banking sites. There is also transparency to ensure that deposits in branches of banks from elsewhere in Europe, are specified clearly as to who their deposit insurer is and where their deposit insurance comes from, which is essential to preserve the single market concept in Europe. In conclusion, he said that the aim of these changes is to make the UK arrangements very similar to other successful regimes and to provide a simple, clear and effective message to depositors.

Panel 2—

Theme: "Relationship with Regulators"

Moderator:

Patrick Loeb, Managing Director and CEO, Deposit Protection of Swiss Banks and Securities Dealers, Switzerland

Patrick Loeb gave an overview of the concept of the financial safety net and emphasized the importance of maintaining regular and formal interaction between the deposit insurance agencies and other financial regulators.

Speakers:

G. Gopalakrishna, Executive Director, Deposit Insurance and Credit Guarantee Corporation (DICGC), India

G. Gopalakrishna described a basic safety net framework with five key players: the Ministry of Finance, the central bank, the supervisory agency, the deposit insurer and the resolution authority. Mr. Gopalakrishna noted that each jurisdiction has its unique safety net framework, with varying authorities assigned to each participant in the safety net framework. Citing Core Principle 6, he stressed that irrespective of the role of different agencies, building strong relationships among the regulators is critical.

Mr. Gopalakrishna said that a deposit insurer's relationships with other regulators vary depending upon the mandate granted to the deposit insurer and the overall safety net framework. The relationship could be informal or formal; embedded in the legislation or provided for in a MOU. He displayed a chart showing how these varied among the G-20 countries.

Finally, Mr. Gopalakrishna described the financial regulatory architecture in India and the challenges posed by the present system where the DICGC is a part of the Reserve Bank of India (India's central bank). A high-level Financial Sector Legislative Reforms Commission was established in March 2011 to review, simplify and rewrite financial sector legislation. One of its major recommendations is to set up an independent resolution corporation with DICGC absorbed into it. Changes in legislative structure are expected over the next 12-24 months.

Michele Bourque, President and Chief Executive Officer, Canada Deposit Insurance Corporation (CDIC), Canada

Michele Bourque focused on the deposit insurer's relationship with the prudential supervisor and noted that an effective relationship is one that supports both organizations in meeting their respective mandates. Some of the key challenges to this relationship include: (i) incentives are not always properly aligned; (ii) assigned roles may create imbalances of effort and knowledge; and (iii) financial crises generate tension and friction.

Ms. Bourque shared CDIC's experience and highlighted five key ingredients that contribute to a successful relationship: (i) clearly articulated roles and contributions to the public policy objectives; (ii) formalization of the coordination mechanism in the law or MOU, with high transparency; (iii) frequency of contact through statutory and non-statutory coordination mechanisms; (iv) reciprocity in information sharing and providing "Heads Up"; and (v) setting an appropriate "Tone at the Top" with the leader clearly demonstrating cooperation and communication.

Daniel Barr, Head, Financial Stability & Consumer Protection Department, Swedish National Debt Office

Daniel Barr started with a brief history of the Swedish deposit guarantee program. It was established in 1996 as an independent government authority; however, in 2008, it was merged with the Swedish National Debt Office and now has a simple pay box function with a small staff of just two. It does have several resolution tools such as: capital injection, guarantees, loans, and temporary public ownership.

The present safety net framework includes the Ministry of Finance (overall regulation), Sveriges Riksbank (liquidity support), the Financial Supervisory Authority (supervision) and the Swedish National Debt Office (deposit guarantee). Built on an MOU among these four agencies is the Swedish Stability Council. It provides for exchange of information, coordination and consultation but has no decision making authorities.

A Nordic Baltic Stability Group has been established based on an MOU among authorities in Sweden, Denmark, Norway, Finland, Estonia, Lithuania, and Latvia. Several working groups focus on information sharing, burden sharing, and resolution tools. Crisis management exercises are also conducted. Mr. Barr concluded by comparing the advantages and disadvantages of being an independent agency versus being a part of a larger organization.

Keynote speech

Anthony Browne, Chief Executive, British Bankers Association, UK

Anthony Browne emphasized the importance of reestablishing consumer confidence in the banking sector, which was lost as a result of the recent financial crisis. Mr. Browne referenced, in particular, the case of Northern Rock. The confidence was lost in a single day as the public realized that the bank system could fail to keep depositors' money safe. Part of the reason people lost that trust was that the UK's deposit guarantee scheme arrangements at the time (such as coinsurance) didn't provide depositors with the guarantee they needed, and the public did not know when they would recover their money.

Mr. Browne noted the public needs to know not just that their savings are protected, but that if things do go wrong, they will get their money back quickly. FSCS is committed to reimbursing customers within seven days of a bank failure and 20 days in the most complex cases. He pointed out that this has been made possible by the banks implementing a "Single Customer View" so they can quickly find out the amount of each depositor's covered deposits in the event of a bank failure. Banking analysts believe that British banks are now among the safest in Europe.

However, Mr. Browne emphasized the importance of not only making banks safe again, but of reassuring the public to know that they are safe. Therefore, a massive public awareness campaign was launched, led by FSCS and backed by the government and the industry. Finally, Mr. Browne noted that the government should never again have to guarantee deposits or bail out banks. FSCS is totally industry-funded, as it should be, but it is not pre-funded. Funding is planned under the Deposit Guarantee Schemes Directive, which envisages pre-funding by the industry. However, he commented that within the British Bankers Association, they do not believe that pre-funding is necessary and advocate strong arguments against it, including big administrative costs, affecting the ability of banks to lend to business and the need of liquidity backing to cover the failure of the largest banks. This needs to be planned and is being discussed.

Panel 3—

Theme: "Relationship with Central Bank"

Moderator:

Earl Boodoo, General Manager, Deposit Insurance Corporation, Trinidad and Tobago

Earl Boodoo introduced the panelists and gave a brief outline of their backgrounds and the specific areas that each panelist would speak about. Additionally, Dr. Boodoo commented on the importance of a harmonious relationship that should exist between the central bank/regulator and the deposit insurer. He noted that the issue of efficiency in resolutions and particularly in payouts demands a collaborative effort on the part of the central bank/regulator to ensure timely intervention and limit exposures to the deposit insurance fund.

Speakers:

Peter Brierley, Head of Policy, Special Resolution Unit, Bank of England

Peter Brierley introduced that in the relationship among the safety net players, the Bank of England plays the lead role and FSCS is a member of the safety-net in England. They meet at specific times to discuss matters of common interest. There is a document called the Cooperation Protocol between the Bank of England and FSCS which was introduced in December 2009. Mr. Brierley mentioned that this document sets out key areas of interaction especially during a crisis.

The role of placing a bank suffering financial distress into insolvency rests with the Bank of England and this act is carried out under a Bank Insolvency Procedure (BIP). Under BIP, the roles played by FSCS include conducting a payout or transfer of deposits to another active bank, plus sitting on the liquidation committee with the Bank of England and the Financial Services Authority. FSCS remains a major creditor in the insolvency process.

Mr. Brierley went on to explain the workings of BIP through the example of Southsea Mortgage and Investment Company Limited, a Havant-based bank that went into insolvency on 16 June 2011. He noted that Southsea and FSCS worked together to ensure that the depositors were paid within seven days. This example supported the need for a Single Customer View of the bank records. Such a view permits faster calculations for a payout going forward.

J. P. Sabourin, Chief Executive Officer, Malaysia Deposit Insurance Corporation (MDIC)

J. P. Sabourin's comments focused on the Strategic Alliance Agreement (SAA) between the Bank Negara Malaysia (BNM or central bank) and MDIC. Mr. Sabourin noted that it is included in the law. He made further comments with regard to the scope of SAA in particular on the exchange of information, consultation and collaboration and the sharing of resources.

Mr. Sabourin noted that the main intent of the document was to formalize the interrelationship between MDIC and BNM in promoting and contributing to public confidence in financial system stability. He mentioned a few of the Guiding Principles relevant to SAA, namely, transparency and openness in dealing with issues as well as minimizing unproductive duplication of efforts and costs.

Mr. Sabourin then went on to discuss a template outlining their early detection and timely intervention framework. He commented on the trigger for early intervention and stated the need for the safety net players to know their specific roles and when to act. The institutions on the watch list were the ones that specific attention would be placed upon - and that should be monitored closely by the central bank/regulator that has to intervene once the non-viability trigger is struck. In summary, he noted, among other things, that safety net players have different mandates, but share common goals in order to maintain financial stability.

Rose Detho, Director, Deposit Protection Fund Board, Kenya

Rose Detho noted that central banks and deposit insurance schemes are critical players in the financial safety net and, despite having differing mandates, may have functions that are interrelated, co-dependent or complementary to each other. Hence, she argued that both agencies must put in place collaboration and coordination mechanisms. Ms. Detho also stressed that their roles and responsibilities must be clearly defined, formally specified, and supported by a legal framework to minimize conflicts and duplication of efforts.

Ms. Detho stated that the core objective of central banks and deposit insurers is to instill public confidence and foster financial stability. Their mandates and functions must be consistent with public policy objectives. In addition, some facilitative forums must be established, such as financial stability committees and contingency planning and crisis preparedness committees.

Dinner Keynote Speech

Martin J. Gruenberg, President and Chair of the Executive Council of IADI and Chairman of the Federal Deposit Insurance Corporation (FDIC), USA

Martin J. Gruenberg began his speech by focusing on the advances IADI has made in providing a forum for sharing knowledge and experiences, as well as providing the international standard for effective deposit insurance systems. Mr. Gruenberg also shared his appreciation to the many dedicated staff at IADI Secretariat, FDIC and IADI members during his tenure as President of IADI.

Mr. Gruenberg stated that in the early onset of the financial crisis in 2008, the Financial Stability Forum (FSF), the predecessor to FSB of the G-20 countries, recognized that establishing international standards was necessary if countries at all stages of development were to develop or improve their deposit insurance systems in a consistent way. IADI heeded FSF's call and, in collaboration with BCBS, undertook an effort to develop a set of Core Principles for Effective Deposit Insurance Systems completed in June 2009.

The Core Principles made for an excellent beginning, but jurisdictions still needed specific guidance on how to apply them. The next step was to develop a methodology, a road map or blueprint, which nations could use in applying the principles to their individual circumstances and institutional settings. Representatives of IADI, BCBS, IMF, World Bank, the European Forum of Deposit Insurers (EFDI) and the European Commission formed a task force to develop and test the methodology, which IADI and BCBS approved in December 2010.

This collaborative effort reached a major milestone in early 2011, when FSB of the G-20 nations approved a revision of its Compendium of Standards to include the Core Principles among its 12 Key Standards for Sound Financial Systems. IMF and World Bank also officially recognized the principles for use in their Financial Sector Assessment Program (FSAP) Reviews, which they conduct to assess the adequacy of national systems of financial regulation.

Deposit insurance, as spelled out by the core principles, is now an integral part of FSAP process. Just as the process of developing and issuing the Core Principles and methodology led to opportunities for collaboration with our global partners, further opportunities for collaboration have sprung from these initiatives and continue to blossom. Mr. Gruenberg noted how important this collaboration and cooperation is for IADI, how it serves to strengthen IADI and facilitate its responsive leadership role, and how it lays the groundwork for IADI's future and continued growth.

IADI's collaboration with FSB included participation in thematic peer reviews of the G-20 countries utilizing the Core Principles. IADI members were part of the Steering Committee and also supported FSB staff in conducting the Review. The results of that peer review were released in early 2012 and FSB made two major recommendations. First, FSB recommended that IADI update its guidance that pre-dated the financial crisis, in consultation with BCBS and other relevant bodies where appropriate. Second, FSB recommended that IADI develop additional guidance to address areas where the Core Principles may need more precision to achieve effective compliance or to better reflect leading practices. IADI has now been tasked to work to produce a set of focused papers to update existing guidance to address such areas.

IADI is also participating in a special working group of FSB's Resolution Steering Group (ReSG) that was created to draft an Assessment Methodology for FSB's Key Attributes of Effective Resolution Regimes for financial institutions, which were endorsed by the G-20 Finance Ministers in November 2011. The Key Attributes set out the core elements that FSB considers necessary for an effective resolution regime and includes the ability to manage the failure of large, complex and internationally active financial institutions in a way which minimizes systemic disruption and avoids the exposure of taxpayers to the risks of loss.

Mr. Gruenberg mentioned that earlier this year IMF Executive Board adopted a new policy area for FSAPs on Crisis Resolution and Deposit Insurance under which deposit insurance systems can be included as one of the standards assessed in FSAPs. In light of this development, IADI recently entered into an agreement with the IMF and the World Bank on a program of collaboration on FSAP reviews of deposit insurance systems. The agreement entails on-going collaboration and communication between IADI and IMF and World Bank. IADI is now in the process of implementing this agreement and participation of IADI representatives in FSAPs is expected to begin during the first half of 2013.

These efforts will continue to remain a key priority for IADI going forward as well as developing a technical assistance capacity to assist deposit insurers with operational challenges, and expanding support for research on deposit insurance issues.

Finally, Mr. Gruenberg thanked each member of IADI's Executive Council and IADI's membership for their dedication and support of IADI's mission and goals. He commented that as his tenure as IADI President and Chair of the Executive Council comes to an end what a great privilege it has been to help advance IADI's mission and vision in these last five years. Mr. Gruenberg stated, "It has truly been a rewarding experience for me to have served with so many dedicated deposit insurance leaders from around the world. I express my deep gratitude to all IADI Members and wish the Association continued prominence, growth and success."

Thursday, 25 October 2012 (Day 2)

Speech

Martin Lewis, Creator of MoneySavingExpert.com, UK

Martin Lewis began by mentioning the role of deposit insurers in public awareness. Deposit insurers need to work hard so that consumers are informed. From Mr. Lewis' point of view, in the case of Northern Rock, the situation would have been better if, on Friday September 14^{th}, 2007, the competent authorities had gotten together and informed consumers of the situation.

Mr. Lewis noted the importance of mitigating moral hazard and providing confidence to the public. The system can be the strongest and soundest; however, if there is no confidence, then it is worthless. People need to understand if their savings are protected and who protects them. He pointed out that there must be certain logic in order for the people to understand. When consumers put their savings in a bank, they need to be able to immediately know that their money is protected by FSCS and the British government. In addition, he observed a financial literacy problem, in particular the existing confusion regarding what is protected and what is not (savings, investments and retirement funds).

Mr. Lewis' concluding message was that, in essence, it is important to reduce the existing complexities in public awareness messages and to make things easy. It is as important to be able to tell the people about something that cannot affect them, as well as something that possibly will affect them; and people need to know how the system works in advance, before it becomes a problem. He reiterated the importance of constant communication since it is the only means to provide confidence and safety.

Panel 4—

Theme: "Consumer Expectations and Awareness"糎

Moderator:

Fred Carns, Director, Office, International Affairs, Federal Deposit Insurance Corporation (FDIC), USA

Fred Carns started by highlighting the importance of public awareness in building up successful deposit insurance mechanisms, which was also the central theme of this panel. He then introduced and welcomed panelists that consisted of one scholar from IADI Advisory Panel and two practitioners from deposit insurance agencies to share their insights on this issue.

Speakers:

Howard Wang, President, Central Deposit Insurance Corporation (CDIC), Chinese Taipei

Howard Wang shared with the audience the CDIC's experience in communicating with consumers and promoting public awareness. Mr. Wang first addressed the key success factors of an effective public awareness program include "objectives," "strategy" and 3Ms, referring to Message, Media and Money. The major objectives of public awareness programs are to help deposit insurers fulfill their policy objectives, enhance depositor's confidence, and accordingly contribute to financial stability. The mandate and objectives of deposit insurance systems cannot be achieved if depositors are unaware of its existence. He stated that a long-term strategy should be built before launching public awareness programs. The strategy needs to be continuously reviewed, at least annually, to ensure it fits the objectives of public awareness programs as well as the objectives of deposit insurance systems.

Mr. Wang further emphasized that once the objectives and strategy are set, “3Ms” need to be taken into consideration when designing public awareness programs. Managing public expectation by providing positive messages and by simple and easy language is crucial. Choosing appropriate media for different target groups is also essential. Money is another consideration. The budget for deposit insurance public awareness programs is determined on the basis of the desired level of visibility and recognition to be achieved and the strategy for doing so. Fully utilizing free service channels provided by government or insured institutions can increase the exposure without considering the budget limit.

Mr. Wang concluded that for maintaining a public awareness level, based on CDIC’s experience, the only secret is “Keep on Doing,” because people’s memories are short. “Keep on Watching” is also needed, including watching the trend, and watching the situations, because consumer’s expectations and the financial environment keep changing. He said that the other challenge is maintaining a strong brand in the mind of consumers. To do so, it is necessary to keep the deposit insurance systems and their functions effective.

José Luis Ochoa Bautista, Executive Secretary, Instituto para la Proteccion al Ahorro Bancario (IPAB), Mexico

José Luis Ochoa Bautista began by giving a brief overview of the deposit insurance system in Mexico. Mr. Ochoa described the financial safety net and explained the challenges that financial safety net players must resolve in relation to public awareness, including emerging technologies and their impact on banking, the development of a social media strategy and mechanisms that allow it to adapt as fast as new technologies develop. As such, he indicated, a financial safety net must always have appropriate coordination mechanisms and established roles for each member; and it must minimize information sharing problems, testing actual readiness via simulation exercises.

Mr. Ochoa then presented the public awareness and consumer expectation challenges that Mexico currently faces. He indicated that according to a survey conducted a year ago, only a few respondents knew that Mexico has a deposit insurance system in place and that it is managed by IPAB. He explained that, in response, IPAB decided to launch a comprehensive public awareness strategy. With the campaign strategy, IPAB looks to communicate clear and simple messages with celebrities in different media, to promote IPAB's name and new slogan ("*with the IPAB, your money is safe*"), to inform about the benefits and coverage of deposit insurance and the safety provided to depositors' money in banks. Furthermore, he pointed out the need to ensure budget allocations to build and maintain a long-term public awareness strategy. Finally, he discussed the right timing to launch a media campaign and pointed out the importance of distinguishing between the right communication strategy to handle a crisis versus in normal times.

Mr. Ochoa concluded that, as a lesson from the recent international financial crisis, savers and consumers need and expect the following from the deposit insurer and the financial safety net more widely: certainty, trust, guarantee, information and financial education, and if required, a prompt reimbursement process. Also, he noted, well-designed information exchange and coordination mechanisms among financial safety net players, the right timing, and a social media strategy for a quick institutional response are essential. He emphasized that public awareness and financial education should be an ongoing effort, regardless of the political and economic environment.

Andrew Campbell, Professor, International Banking and Finance Law, University of Leeds, UK

Andrew Campbell first explained that consumer expectations and awareness include two components: the awareness of bank depositors regarding the actual levels of protection they are provided with, and what their expectations in this regard actually are.

Mr. Campbell then presented some background by referring to the United States, where the level of awareness of the amount of protection has been high since the birth of FDIC in 1933. Even though there have been many bank failures in the US since the 1930s, depositors know and trust the deposit insurance system and have a realistic approach regarding the protection it provides. By contrast, he said that formal depositor protection is relatively recent in EU. Before the crisis, it was evident that awareness of deposit protection was very low throughout EU, particularly given that there had not been bank failures for a long time. Bank failure was not on the radar. As such, in September 2007, the UK witnessed its first significant bank run since Victorian times. Even when consumers became aware of the existence of a deposit protection scheme, weaknesses in design (low coverage, co-insurance and delay in payouts) intensified the bank run. The UK government, like many others, was then forced to announce a blanket guarantee to stop the run.

Mr. Campbell concluded that some of the design features of EU protection schemes lead to consumer doubt about whether they will be able to meet expectations (for example, a blanket guarantee), and the existence of blanket guarantees during the crisis makes it difficult to get consumers to believe that schemes will have limits, especially when the schemes are not pre-funded. In his view, EU needs to adopt new strategies, perhaps a pre-funded pan-European deposit guarantee scheme, as it is being discussed, to find ways to deliver a realistic level of consumer expectation. Finally, he pointed out that much has been achieved, but more still needs to be done.

Keynote speech

Carol Sergeant, CBE, Member, European Commission's High-Level Expert Group on Reforming the Structure of the EU Banking Sector (Liikanen Group)

Carol Sergeant began with the establishment of the Liikanen Group and its mandate. The Group performed in-depth assessment of the EU banking sector structure and business models, effectiveness of on-going/in plan reforms and their potential value, held meetings with bankers, investors, customers, academics, supervisors from around the world, and received 83 responses during the formal consultation in May 2012.

Ms. Sergeant presented the main recommendations of the Liikanen Report published on 2 October 2012: First, a mandatory separation of proprietary trading and other high-risk trading from core commercial banking; Second, an additional separation of other operational activities - depending on the adequacy of recovery and resolution plans; Third, a more specific designation of bail-in instruments as a resolution tool and key market discipline; Fourth, a review of capital requirements on trading assets and real estate financing; and Fifth, strengthening banks' governance, control and accountabilities.

Ms. Sergeant concluded by noting that the Liikanen Report recommendations are complementary to and consistent with the current reforms and proposals. They aim at making banks less risky, more resilient, more transparent, and easier to manage, monitor, supervise and resolve. The recommendations will help to make the system more stable and compatible and contribute to better outcomes for consumers.

Keynote Closing Speech of the Conference

Paul Tucker, Deputy Governor, Financial Stability, Bank of England

Paul Tucker started off his address by emphasizing the key role played by the deposit insurer in maintaining financial stability. Mr. Tucker then went on to point out how important it was for the general public to understand the system in place and have confidence in it, especially during a bank failure. UK's bank supervisors are further driving this point by requiring deposit takers to advertise information on deposit insurance at branches, ATMs and key webpages, while FSCS will ensure that it is able to make payout within seven days. He also spoke briefly on a few types of resolution processes such as liquidation and payout, purchase and assumption and bridge bank, and their effects on depositors, the value of the bank in question and the financial system itself.

Mr. Tucker's presentation then transitioned into the development of resolution regimes for coping with the failure of complex banks and the role of deposit insurance in this matter. He provided examples of how the FSB's Key Attributes were adopted largely by the US via the introduction of the Dodd Frank Act, and how Europe was on the verge of doing the same via the draft directive on recovery and resolution. In addition, Mr. Tucker also mentioned that the broadly common statutory framework will help both home and host authorities to work on resolution planning. He pointed out that the Crisis Management Groups are now in place for nearly all global systemically important financial institutions (G-SIFIs) while firm-specific cross-border cooperation agreements are also being developed.

However, FSB realized that more guidance on developing resolution regimes is needed. Firstly, there are plans to elaborate on how the Key Attributes should be applied to central counterparties, insurers and the client assets held by prime brokers, custodians and others. FSB will also be issuing a consultative paper on resolution planning, in particular, resolution strategies. The paper will cover three areas: recovery triggers and stress scenarios used in recovery planning; possible framework for national authorities to use when identifying critical functions and support services of firms that need to be sustained in distressed conditions; and development of resolution strategies and operational resolution plans.

Mr. Tucker continued by providing an explanation of the bail-in concept which applies losses upfront based on a valuation rather than at the end of a liquidation of assets. As such, it prospectively avoids an unnecessary destruction of value. He provided examples on how this concept can be applied for both bail-in for single point of entry resolution and multiple point of entry resolution, and how deposit insurers can be bailed-in without diluting the protection of insured deposits. He also stressed that work is underway on how to operationalize this strategy and the importance of active cooperation among home and host authorities on this matter.

Mr. Tucker's final remarks summarized the efforts that are underway for the recovery and resolution planning. Firstly and foremost, it is necessary to identify the preferred resolution strategies for the key groups and then to put in place the detailed and operational planning. In FSB, they are putting in place a process where the most senior officials will talk to each other to reassure themselves on the resolvability of G-SIFIs. On the domestic front, the Bank of England has been working very closely with FDIC on how they would operationalize resolution strategies in a cross-border setting. In conclusion, he reiterated that international authorities are committed to maintaining global finance without trying to create a new order that incorporates financial protectionism. FSB's global agenda will significantly reduce, if not remove, the need for some of the balkanizing tendencies.

Closing Remarks

Mark Neale, on behalf of FSCS, expressed his appreciation for all attendees and presenters for their participation and sharing the experience and expertise on all aspects. It was FSCS's great pleasure to have IADI celebrate its tenth anniversary in London and he wished IADI the successful second decade to come.