Proceedings from the 14th IADI Annual Conference

"Crisis Preparedness –Institutional Arrangements and Coordination, Crisis Communication & Contingency Planning"

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Foreword

The International Association of Deposit Insurers (IADI)’s 14th Annual Conference was held on 28-29 October 2015. The event was hosted by the **Malaysia Deposit Insurance Corporation (MDIC)** at the Hilton Hotel Kuala Lumpur, Malaysia, chaired by Mr Jean Pierre Sabourin, Chief Executive Officer of **MDIC** and Chair of the 2015 Annual Conference Task Force.

The Conference was held with the theme **“Crisis Preparedness – Institutional Arrangements and Coordination, Crisis Communication & Contingency Planning”**, and featured presentations by internationally recognized experts and deposit insurance practitioners, regulators, policymakers and academics. The international audience of 380 participants reflected a broad participation of 64 jurisdictions. The event also featured an international exhibition, which was held alongside the Conference to provide IADI’s Members, Associates and Partners with the opportunity to showcase their public awareness initiatives.

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): Oktawiusz Szubart;
- Central Deposit Insurance Corporation (Chinese Taipei): Yvonne Fan, Margaret Chuang, and Fiona Yeh;
- Deposit Insurance Agency (Russian Federation): Nikolay Evstratenko;
- Deposit Insurance Corporation (Trinidad & Tobago): Noel Nunes;
- Instituto para la Protección al Ahorro Bancario (Mexico): Eugenia Kuri and Silvia Chávez;
- Philippine Deposit Insurance Corporation: Zuleika T. Lopez;
- IADI Secretariat: Sanjeeve Sharma, Nikolay Remchukov.

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Secretary General

International Association of Deposit Insurers

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Executive Summary

Welcome Remarks

Tan Sri Datuk Dr Abdul Samad Haji Alias, Chairman of the Malaysia Deposit Insurance Corporation (MDIC), noted that globalisation had brought significant efficiency gains; however, it has also increased vulnerability, magnifying the size and severity of systemic financial crises. He believed that deposit insurers should examine the lessons learned, take stock of the shortcomings and determine how to move forward in consolidating a stabilising role in the financial system. He identified three broad lessons from the recent crisis, namely: (i) national financial legislation and regulatory practices should be strengthened; (ii) a framework should be created to facilitate closer collaboration internationally; and (iii) a comprehensive crisis management plan should be established to better prepare for, preempt and respond to the next financial crisis.

Opening Remarks

Jerzy Pruski, the then President and Chair of the Executive Council of IADI and President of the Management Board of the Bank Guarantee Fund, Poland, presented a picture of where the deposit insurance community is now, compared to where it was in around 2007, based on a snapshot of the current state of the financial stability landscape as the context in which deposit insurance operates. He stressed the need for adequate policy responses to the fresh spillovers identified in the IMF Global Financial Stability Report, adding that, in an environment of many and diverse stresses impacting the financial stability architecture, the deposit insurance community has been rising to the challenge of increasing its contribution to financial stability.

Opening Address

Datuk Nor Shamsiah binti Mohd Yunus, Deputy Governor, Central Bank of Malaysia, focused her presentation on addressing three issues: humility, agility and trust. She highlighted that, in an increasingly unpredictable world, crisis preparedness has become more important. Efforts to date have focused mainly on policy reforms, the supporting infrastructure and institutional arrangements.

However, three issues which are aspects of crisis preparedness that cannot easily be reduced to a pre-defined framework or template for action are also important, but much less discussed. These are humility, agility and trust. Future crises will continue to be fraught with uncertainty and a humbling recognition of our inherent limitations. Policymakers therefore need to proceed with a healthy dose of humility. Moreover, crisis preparedness frameworks need to be flexible and evolve accordingly, thus ensuring that frameworks, instruments and resource rigidities do not become binding constraints to the effective management of future crises.

Session 1: Setting the Tone

The Honorable Sheila Bair, Former Chairman, Federal Deposit Insurance Corporation (FDIC), USA, drawing on her time as Chairman of the FDIC throughout the last financial crisis, and looking back at the period since, she addressed 12 lessons which have not been learned since the crisis.

They are: (1) Regulatory responses to financial crises should be commensurate with their severity; (2) Leverage was the key driver of the financial crisis; (3) Excessive borrowing is particularly toxic when it is short-term; (4) Banks will always try to arbitrage regulation; (5) Safety-net banks should be boring; (6) Things that look and act like banks should be regulated like banks; (7) Small banks did not cause the crisis or contribute to it in any meaningful way; (8) Regulations need to be viewed holistically; (9) Monetary policy contributes to system instability; (10) It is not just consumer inflation that central bankers should worry about; (11) Regulation without market discipline will fail; and (12) Strong deposit insurers are essential to system stability.

Geoffrey Heenan, IMF Resident Representative (Singapore), suggested that the current global environment contains potential hotspots which have a strong probability of creating or re-creating another crisis in the foreseeable future. Under the caption "Triad of Global Policy Challenges", he highlighted three major items that are responsible for these difficulties, namely: (1) emerging market vulnerabilities; (2) weak systemic market liquidity; and (3) advanced economic legacies. These items were thought to have the potential for financial and economic contagion. In short, the hotspots reside in

emerging markets. These markets control 50% of global trades but are experiencing a slowdown in economic growth. More importantly, they were perceived to be in the late stages of the credit cycle with elevated credit/debt. Mr Heenan concluded that the Fondo de Garantías de Instituciones Financieras (FOGAFIN), Colombia, was playing a major role in contributing to financial stability in one of the hotspots – Latin America as an emerging market. In support of this comment, Mr Heenan made an appeal that FOGAFIN should be given the appropriate resources to deliver on its mandate.

Eli Remolona, Chief Representative for Asia and the Pacific, Bank for International Settlements (BIS), Hong Kong, shared his perspectives on new developments in the Asian markets. Mr Remolona admitted that, while the region was not at crisis stage, there were certain developments that revealed vulnerabilities. In Mr Remolona's view, the economic environment was unstable and this condition was expected to persist in the foreseeable future. Asset bubbles existed in the region and some of them had already burst. Mr Remolona explained that there were three unlearnt lessons from the 2007/2008 global financial crisis, namely: the continuing protracted low interest rate environment; the increasing build-up of debt in emerging markets; and the fact that debt was mainly short-term toxic debt. Mr Remolona concluded that the situation in Asia was becoming more complicated as claims against Asia were rising.

Session 2: Effective Resolution Framework/Regimes: Institutional Arrangements, RRPs and Coordination

Keynote Address

Christine Cumming, Former First Vice President, Federal Reserve Bank of New York, focussed her address on developing effective recovery and resolution plans. The Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) set out objectives and requirements for recovery and resolution planning for those financial firms designated as Global Systemically Important Financial Institutions (G-SIFIs) by the Financial Stability Board (FSB). An important innovation of the Key Attributes is its requirement that resolution authorities have bail-in powers and its further clarification of how bail-in should work. The FSB has proposed a new TLAC (Total Loss-Absorbing Capacity) requirement to ensure recapitalisation of

failed firms. Prerequisites for successful resolution of a G-SIFI are a shared understanding of the resolution plan, a willingness to act, and trust among the principals of the key resolution authorities and supervisors. If impediments to resolution indicated within the Resolvability Assessment Process (RAP) are addressed, this makes a resolution more feasible.

Piyush Agrawal, Asia Chief Risk Officer, Citibank, shared his views that banks should be conscious of their credit and market risk while sanctioning credit limits. The rise in non-performing assets will increase the cost of capital so banks need to adopt strategies to keep this in check. He also highlighted that safeguarding the balance sheet – by having the conviction to take a contrarian view at a time when the competition is making popular bets – has embedded risk management in the way banks do business.

Richard Hennity, Group Head, Group Corporate Structuring, Global Finance, HSBC, focused his presentation on three regulatory report card stages: General, Pre-Failure, and Post-Failure. He rated various regulatory matters at each stage and provided the rationale. As to the general stage, he stated that while good progress has been made in most areas, there is much work to be done on the consistency of approach and on the resources and expertise of resolution authorities. As regards the pre-failure stage, only three issues – capital, liquidity and recovery plans – have seen good progress, and much work needs to be done on other issues. Regarding the post-failure stage, he emphasised further that there is no clear plan for the provision of emergency liquidity.

Jacob Abraham Thomas Rajan, Head, Group Risk – Enterprise, Malayan Banking Berhad (MAYBANK), described the regulatory reforms implemented by different organisations to respond to various financial crises. He also discussed surviving and thriving in the 'New Normal.' Moreover, he stressed that the principles for effective risk data aggregation should be adhered to, so that the information banks use to drive decision-making captures all risks with appropriate accuracy and timeliness. Mr Abraham further discussed matters which need more focus. First is the fundamental shift in risk culture. Second is the need to improve regulatory collaboration. Lastly, inter-regulatory collaboration across banking sectors should be improved, to enable greater regional financial integration.

Felicity Macdonald, Resolution Planning, Group Treasury Standard Chartered, described how, during bank resolution, the government of the United Kingdom makes sure that the depositors are protected and that critical functions of banks are continued. She also stated that, while global standards have been set, little variations are marginally included in international law-making and in the protection of depositors at risk.

Eva Hüpkes, Advisor on Regulatory Policy and Cooperation, Financial Stability Board, shared her views on the Crisis Management Groups' (CMGs) role in cross-border cooperation and recovery and resolution plans. CMGs are the means to achieve crisis preparedness and contingency planning, so that coordination and communication among key home and host authorities works in a crisis. The jurisdictions represented are the home jurisdictions, as well as those key host jurisdictions where the firm's operations are materially important for the group as a whole. The FSB Key Attributes of Effective Resolution Regimes for Financial Institutions envisage that non-CMG host authorities are given access to recovery and resolution plans and information on measures that could have an impact on their jurisdiction. Effective CMGs are crucial in preparing for and managing crises, and similar arrangements should be considered for other cross-border banks in addition to G-SIBs.

Michèle Bourque, President and CEO, Canada Deposit Insurance Corporation (CDIC), Canada, focused her presentation on Canada's approach to dealing with its own 'too big to fail' problem. She first explained the reasons why no Canadian banks failed during the crisis. While Canada has no G-SIBs, there are six domestic systemically important banks (D-SIBs) in Canada. She highlighted that the concentration of six D-SIBs also meant that the failure of any one of them could cause contagion, and threaten stability and the Canadian economy. In response, the competent financial authorities in Canada have decided to implement the FSB requirements applicable to G-SIBs to the extent possible, going beyond the minimum international requirements. This includes meeting higher than minimum capital ratios, continuing to require a leverage ratio and equipping Canada with a resolution regime. She concluded by saying that, for now, Canada can enjoy what it has accomplished but looking forward, given the difficult economic environment, it needs to remain vigilant.

Session 3: Human Psyche, Crisis Communication and Contingency Planning

Gulnur Muradoglu, Professor of Finance, Queen Mary University, London, and Director of the Behavioural Finance Working Group, presented her thoughts on the cycle of human psychological behaviour anticipated throughout a financial crisis, and the reasons for such behaviour. This was done by examining the last financial crisis and how it became a global crisis, having started as a crisis in a single market sector in one country. She went on to speak of the consequences for Deposit Insurers and how they could be best prepared for such a cycle.

Goh Moh Heng, President, Business Continuity Management Institute, Singapore, shared his view on the essential tools that any organisation should utilise to ensure its resilience and business continuity. He stressed the necessity to have in place a business continuity management plan based on the analysis of various possible disaster scenarios, plus a crisis communication plan. He illustrated his position with two case studies that demonstrate the possible reputational consequences of a crisis for a company if not properly and timely addressed. Dr Goh Moh Heng concluded by stating that any deposit insurer should have plans and procedures that it can quickly implement in case of a disaster, as well as a trained crisis response team that is ready to act in such a situation.

J. P. Sabourin, Chief Executive Officer, MDIC, stated that the preceding two presentations provided insights for deposit insurers on four areas, namely public awareness, effective crisis communication, building trust, and the virtues of good corporate governance. Mr Sabourin concluded that financial crises and disasters, both natural and man-made, are occurring with alarming regularity. Effective planning and response, which incorporates crisis communication, are absolutely essential for us to respond and recover quickly. Otherwise, our employees, business continuity and reputation may be compromised.

David Scott, Consultant at EMDE Financial Regulations Advisors, Inc, and formerly from the World Bank, explained how to develop effective contingency planning to avoid uncertainty, confusion and panic during the reimbursement period, which ideally should be completed over a

weekend. He outlined a series of key elements that should be in place when developing effective contingency planning, such as: creating policies and procedures; and having the correct tools, documentation, adequate financing, and human capacity in place to effectively use resolution powers in accordance with the mandate and objectives at hand. Mr Scott also stated that it is important to consider stress scenarios in order to identify gaps and eventually overcome them. He concluded that, whatever business you are in, there should be continuous planning, testing and enhancing of the contingency plans.

Diane Ellis, Director of the Division of Insurance and Research at the Federal Deposit Insurance Corporation (FDIC), USA, explained that, as a result of the financial crisis, the FDIC has found it useful to test new powers in order to assess strategies, identify gaps and challenges, and gain practical experience in their implementation and understanding. In this regard, she mentioned that there are three types of exercise: (1) facilitated discussions; (2) tabletops; and (3) simulations. All three have been carried out by the FDIC as internal exercises, as well as at domestic and foreign level. Ms Ellis subsequently described an inter-agency crisis simulation that took place between the USA and the United Kingdom. The main theme was: How can home and host authorities coordinate to enable home countries to effectively carry out a G-SIB resolution? She concluded by outlining the main keys to success in carrying out crisis simulation exercises.

Session 4: Deposit Insurance and Crisis Preparedness

Lee Yee Ming, General Manager, Policy & International Division, MDIC, went through some salient comments and points made by the speakers at the Conference, and shared her views on these issues. Ms Lee concluded that she could not promise that we had the crisis all figured out but what she could promise was that the path ahead would not be easy, the work would continue, and the hours would be long.

Closing Remarks

J. P. Sabourin, on behalf of the MDIC, expressed his appreciation to all attendees and presenters for their participation, and for sharing their experience and expertise. He stated that it was the MDIC's great pleasure to host the IADI Annual General Meeting and Annual

Conference in conjunction with celebrating its tenth anniversary, in Kuala Lumpur.

Welcome Remarks

Tan Sri Datuk Dr Abdul Samad Haji Alias, Chairman of the Malaysia Deposit Insurance Corporation (MDIC)

Tan Sri Datuk Dr Abdul Samad Haji Alias noted that globalisation had brought significant efficiency gains; however, it had also increased vulnerability, magnifying the size and severity of systemic financial crises. He said that along with the on-going complexity and interconnectedness of today's systems, there are powerful forces at play which will further enhance the speed at which economic episodes unfold. Mr. Samad characterised these forces as a dynamic network fuelled by complex economic and financial feedback loops on one side, and the 'psychology of fear' on the other side.

He then spoke about taking stock of the recent crisis, enumerating three lessons for deposit insurers, namely: (i) the urgent need to strengthen national financial legislation and regulatory practices; (ii) the establishment of a framework to facilitate closer collaboration internationally as financial stability has become a shared responsibility; and (iii) the establishment of a comprehensive crisis management plan, which would detail how policymakers, in charge of fostering financial stability, can prepare, pre-empt and respond to a financial crisis or economic disaster.

Opening Remarks

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

Jerzy Pruski presented a picture of where the deposit insurance community is now, compared to where it was in around 2007. Elucidating on the current state of the financial stability landscape, he stressed the need for adequate policy responses to the newly triggered challenges and fresh spillovers from the Global Financial Stability Report recently published by the IMF. These key responses, according to Mr. Pruski, would be, the introduction of fiscal adjustments, especially in countries heavily reliant on commodities, including the use of micro- and macro-prudential tools to discourage the build-up of excessive imbalances like high leverage and foreign indebtedness in emerging markets; steps to counteract market

illiquidity; and, finally, the enhancement of the financial safety net by involving deposit insurance agencies. He stressed that the evident strengthening of deposit insurance schemes during the crisis showed the important role that they play in ensuring systemic stability and reducing bank risk.

Mr Pruski noted that the credibility of deposit insurers rests on three pillars functioning correctly: coverage limit, adequate funding and timely payout. Mr Pruski stressed deposit insurers do not necessitate a wider mandate than pay-box to be part of the financial safety net, however, he underlined, an expanded mandate gives the deposit insurer a wider range of intervention options in support of financial stability. He continued by saying that as resolution tools can substitute a classic pay-out, there is a role for the deposit insurer in resolution funding, with ex-ante deposit insurance funds being a potential source of resolution funding under certain circumstances.

Opening Address

Datuk Nor Shamsiah binti Mohd Yunus, Deputy Governor, Central Bank of Malaysia

Datuk Nor Shamsiah binti Mohd Yunus focused her presentation on addressing three issues including humility, agility and trust. She first highlighted that in such an increasingly unpredictable world, crisis preparedness has become more important and mentioned much already being done mostly focusing on policy reforms, the supporting infrastructure and institutional arrangements. However, three issues which are aspects of crisis preparedness that cannot easily be reduced to a pre-defined framework or template for action are also important but much less discussed. These are humility, agility and trust.

She pointed out over the course of crises history, policymakers and market participants that were involved in every financial bubble were repeatedly afflicted with the conviction that "this time would be different". The future terrain of crises will continue to be fraught with uncertainty and a humbling recognition of our inherent limitations. Policymakers therefore need to proceed with a healthy dose of humility. The next crisis will be unpredictable, and likely exceed our capacity to control or prevent. In this post-crisis era, we have seen wide ranging policy and institutional reforms in many jurisdictions.

They are important, even critical, to correct past errors and respond to future anticipated challenges. But their implementation, and our reliance on them, should acknowledge the constraints that we face.

Financial crises are inflection points of a cycle which materialise in the least predictable manner. This demands a high degree of agility of policymakers and the financial system to adapt to the new operating reality. Such agility is derived from crisis management frameworks that are well-anchored in clearly defined strategic outcomes and accountability structures, but also flexible enough to respond to a range of conditions. And critically, it requires investing in resources with deep experience and knowledge. Market participants are irrational, infrastructures flawed, economies and financial systems are imperfect, and the political environment is unpredictable. Markets are also prone to excesses, manipulations and fickleness. Therefore crisis preparedness frameworks need to flex and evolve accordingly and ensure that framework, instrument and resource rigidities do not become binding constraints to the effective management of future crises.

She noted that in the panic and chaos during crisis situations, feeble coordination and communication arrangements will falter easily. This can occur even with well-established frameworks and dynamic resource persons at hand. Strong policy frameworks and institutional arrangements only make interagency coordination and communication feasible. But it is entrenched mutual trust, fostered during stable times, that makes them *credible* in challenging times. Trust ensures that collaboration arrangements, secured in good times, remain firm and functional in the face of crises. Trust nurtures confidence and enables reliance on the competence of others. Without trust and symbiotic crisis networks within and across agencies, a crisis framework offers little more than false comfort during crises. She concluded by sharing the work the Central Bank of Malaysia having done to enhance crisis preparedness on various fronts.

Session 1: Setting the Tone

The Honorable Sheila Bair, Former Chairman, Federal Deposit Insurance Corporation (FDIC), USA

The Honorable Sheila Bair shared her views on a series of areas, which since the last crisis, had not been fully addressed, or given the attention they deserved and may even contribute to the prospect of a future crisis. These were highly varied and thought provoking, and included the following:

Regulatory responses to financial crises should be commensurate with their severity. Ms Bair stated that seven years after the crisis, reforms are, at best, only half complete. Although she did acknowledge that Regulators were making efforts to 'stabilise the system' and that the United States (home to several global systemically important financial institutions (G-SIFIs)) was further ahead than most in its regulatory reform. Further, she asserted that there was little change in the way banks did business since the last crisis.

Safety net banks should be boring. Turning toward the business types and innovations that banks practiced, Ms Bair stated there were 'good innovations', such as ATMs and online banking. Conversely, there were 'bad innovations', such as NINJA loans (i.e. no verification required of the borrowers' income, job, or assets). The 'boring banks', she said, performed better before, during, and after the crisis than the more complex ones and their shareholders also did well.

Regulations need to be viewed holistically and that regulation was at cross purposes. Expanding on this, Ms Bair opined that regulation was misplaced in its focus of holding 'a lot' of liquid assets whereas, it should be focussed on capping short term funding and creating liquidity buffers on the liability side of institution's balance sheets. Related to this, she continued by stating the reforms related to Total Loss Absorbing Capacity (TLAC) were 'very, very important'. Indeed, the potential loss to Bond Holders in the event of Bail-In should be made explicit to them.

Ms Bair concluded by expressing that strong Deposit Insurers(DIs) are essential to system stability. DIs should have a role within setting regulatory policy, giving the example of the FDIC having a seat at the

table with the Federal Reserve Bank and Office of the Comptroller of the Currency in setting such policy, including standards for levels of required bank capital. As regards DI mandates, they should have supervisory powers and input to potential resolution, not just pure pay box mandates. This is especially so as DIs are conservative in nature and would be the first to bear losses in the event of a bank's failure.

Geoffrey Heenan, IMF Resident Representative (Singapore)

Geoffrey Heenan suggested that potential hotspots exist in the current global environment which has a strong probability of creating or re-creating another crisis in the foreseeable future. Mr Heenan noted that the hot spots were in fact the emerging markets. To support his arguments, Mr Heenan noted that there was confidence in monetary policy. Mr Heenan posited that he expects that the Federal Reserve will increase interest rates even though there was no immediate need to increase it. This leads to mispricing of assets and volatility. In Europe there is an expected end to quantitative easing policy measures. Mr Heenan wanted to see rotation in economic risk-taking, in particular in the United States. Mr Heenan noted that corporate profitability was declining while corporate debt continues to rise in emerging markets for example in China. Commodities' prices have been weak for some time. The banks in emerging markets were facing an erosion of funding. There is an increase in asset price correlation across many markets. There is a reduction in trading assets which has led to increased warehouse of risks.

Though the critical issue was that Emerging Markets were deemed to be in the late stage of the credit cycle carrying an elevated debt level, firms that operate in these markets were experiencing rapidly rising leverage with declining profitability. Further, Mr Heenan noted that these markets were exposed to weaknesses in the foreign exchange markets and more importantly facing declining commodity prices. Accordingly, banks in the emerging markets were holding thinner capital cushions as evidenced by weakening Average regulatory Tier 1 Ratios.

The systemic indicator that followed was reduced market liquidity which carried a higher liquidity risk. The impact of higher liquidity risks represents significant impact on investors such as higher

investment and funding costs. How does this play out in other markets? It tends to lead to higher priced assets signaling a divergence from economic fundamentals. Mr Heenan suggested that there were global vulnerabilities and spillovers from the emerging markets to the advanced economies with exposures related to TLAC and resolvability of non-performing assets in Europe.

To treat with these challenges, Mr Heenan suggested that a collective effort has to be mad by both advanced and emerging economies. In the advanced economies the following measures should be pursued: continue monetary stimulus against downward price pressures (Euro area and Japan); streamline the timing and communication of monetary normalization (USA area); and make banks, corporate architecture stronger. With regards to emerging markets, Mr Heenan posited that efforts should be spearheaded to strengthen economic fundamentals (safeguard investment grade status); introduce prudential policies for corporates and banks; encourage China to adopt a clear policy path towards a more market-based, stable financial system.

Mr Heenan concluded by stating that FOGAFIN contributes to the financial stability by reducing the incidence and severity of bank runs. The resources available to FOGAFIN to finance its mandate are a critical part of its ammunition when banks face an insolvency event. By having sufficient resources FOGAFIN contributes to restore or maintain the stability of the financial system in times of crisis and as such it is critical to set an explicit target funding level.

Eli Remolona, Chief Representative for Asia and the Pacific, Bank for International Settlements (BIS), Hong Kong

Eli Remolona took a que from Mr Heenan’s earlier presentation and shared a view that the economic situation in emerging markets was bumpy and that this is now a “new normal” going forward. Mr Remolona noted that there were vulnerabilities and spill overs from developed and emerging markets while not possessing the crisis magnitude at this time could present challenges in the foreseeable future.

Mr Remolona admitted that some bubbles had burst making reference to stock prices in emerging markets. One that has yet to burst was the USD 9 trillion offshore credit market. Further, when a select

number of Asian countries' borrowings were compared to their GDP, Mr Remolona pointed out that China was not the biggest borrower. Malaysia, Thailand, Korea and Indonesia had significant debt profiles in 2015 relative to 2008. Mr Remolona used some analysis to alert observers to the shift towards carry trades[1] and zai-tech[2] trades.

Mr Remolona admitted that the unlearnt lesson number three (3) was excessive borrowing - the increase in toxic short-term borrowing and that Asia-Pacific was lending more short-term; Euro-Pacific was lending more short-term; Euro-Asia banks were not doing that much business. Mr Remolona conjectured, "looking a bit like the Asian crisis?" Mr Remolona concluded that in Asia there is an added complication reflected in increasing claims on Asia-Pacific markets. While the claims for most developed regions like USA, UK, Eurozone and Switzerland were relatively stable from 2002 to 2014, claims against Asia-Pacific banks were rising steadily for the same period.

Session 2: Effective Resolution Framework/Regimes: Institutional Arrangements, RRPs and Coordination

Keynote Address

Christine Cumming, Former First Vice President, Federal Reserve Bank of New York

Christine Cumming focused her address on developing effective recovery and resolution plans. The objective of recovery and resolution planning is not to preserve a failing financial institution "as is" but to a) limit spillovers within the financial system and the economy; b) preserve critical functions within the financial system; and c) impose costs on shareholders, creditors and the financial (banking) industry rather than the taxpayer.

The Financial Stability Board designates Globally Systemically Important Financial Institutions (G-SIFIs), and the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) sets out objectives and requirements for recovery and resolution

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[1] Carry trade is a strategy in which an investor sells a certain currency with a relatively low interest rate and uses the funds to purchase a different currency yielding a higher interest rate.

[2] Zai-tech trade is the result of a Japanese policy of financial market deregulation whereby the money supply increases and interest rates fall. With low interest rates, there are increased borrowings to invest and purchase stocks, driving their prices and earnings even higher and providing more funds for company's speculative actions.

planning for those financial firms designated as G-SIFIs. Each G-SIFI has a Crisis Management Group (CMG) made up of the lead and major home authorities and major jurisdictions in which the G-SIFI is active. The Cross-Border Crisis Management Group (CBCM) is the forum where the key jurisdictions can bring forward issues of mutual interest for study and for coordinating their approaches.

An important innovation of the Key Attributes is its requirement that resolution authorities have bail-in powers and its further clarifying how bail-in should work. For bail-in to be effective, market expectations must change to incorporate the possibility that debt instruments could be converted to equity, as otherwise bail-in actions can de-stabilize. The FSB has proposed a new TLAC (Total Loss-Absorbing Capacity) requirement to ensure recapitalization of failed firms. It requires banks to issue some specific bail-inable liabilities. Ms Cumming stated there is an agreement that insured deposits should not be bailed in, as well as great reluctance to bail in uninsured deposits.

Ms Cumming highlighted that history suggests some kind of public sector funding may be necessary in resolution. If temporary public sector funding is necessary, it is important that temporary funding be clearly distinguished from capital injections or other medium-term support (“bailout”) and designed to minimize moral hazard. Also, principles that recognize the potential need for temporary public funding should be developed.

Ms Cumming concluded by expressing that prerequisites for successful resolution of a G-SIFI is shared understanding of the resolution plan, a willingness to act, and trust among the principals of the key resolution authorities and supervisors. The outcome of the Resolvability Assessment Process (RAP) is a list of impediments to resolution to be set aside. Addressing these findings make resolution more feasible. At the same time, many measures have the possibility of making a firm more “recoverable”. A successfully executed recovery plan is always preferable to resolution. Historical experience suggests that the earlier the identification and proactive actions take place, the better.

Piyush Agrawal, Asia Chief Risk Officer, Citibank

Piyush Agrawal shared that banks should be conscious of their credit and market risk while sanctioning credit limits. Rise in non-performing assets will increase cost of capital so banks need to adopt strategies to keep this in check. He added that banks may have to put up with soaring non-performing asset levels, as grim economic conditions will continue to snip profitability of companies.

Mr Agrawal added that Citibank promotes a risk culture that continuously evaluates their lending decisions within the confines of responsible finance. They actively stress-test their portfolio for risks and seek to hedge these through dynamic risk mitigation. Mr Agrawal also shared that safeguarding the balance sheet by having the conviction to take a contrarian view at a time when competition is making popular bets have embedded risk management in the way they do business.

Richard Hennity, Group Head, Group Corporate Structuring, Global Finance, HSBC

Richard Hennity shared three regulatory report card stages which are the general, pre-failure, and post-failure stages. He rated various regulatory matters at each stage and provided the rationale. For the general stage, areas of political and regulatory commitment, globally consistent standards, understanding financial institutions, and understanding of issues, are all in good progress. There is, however, much work to do in the areas of consistency in approach and resource and expertise of resolution authorities. Between national interests and cross-border cooperation, national interests still prevail.

As for the pre-failure stage, the following areas are in good progress: capital, liquidity and recovery plans. Much work to be done in the areas of G-SIBs designation, resolution strategies, ring-fencing, resolution plans, ex-ante restructuring and financial market infrastructure.

Finally, in the post-failure stage resolution powers and capital stabilization are in good progress, while restructuring and contractual recognition still needs improvement. He emphasized further that there is no clear plan for the provision of emergency liquidity.

Jacob Abraham Thomas Rajan, Head, Group Risk – Enterprise, Malayan Banking Berhad (MAYBANK)

Jacob Abraham Thomas Rajan shared the regulatory reforms implemented by various organizations to respond to various financial crises. He also discussed surviving and thriving in the 'New Normal.' To move towards the right direction, there should first be a regulation of systemically important financial institutions as different parts of this regulation addresses the "too big to fail" problem through requirements for safety and soundness. Moreover, he said that there should be Recovery and Resolution Planning where legislative and regulatory authorities develop systems and controls to reduce the need for bank bailouts and making banks "safe to fail." He also stressed that the principles for effective risk data aggregation should be adhered to so that the information banks use to drive decision-making captures all risks with appropriate accuracy and timeliness.

Mr Abraham further discussed matters which needs more focus. First is the fundamental shift in risk culture, there should be a key driver towards consistent behavior and conduct that is aligned to firm values as supervisors and regulators cannot determine such culture. Second is the need to improve regulatory collaboration. He shared the need to develop and maintain effective collaboration between financial institutions and regulators as a positive relationship between a bank and its regulator is a valuable asset. Lastly, there should be an improvement of inter-regulatory collaboration across banking sectors to enable greater regional financial integration.

Felicity Macdonald, Resolution Planning, Group Treasury Standard Chartered

Felicity Macdonald first said that during bank resolution, the government of UK makes sure that the depositors are protected and that critical functions of banks are continued. She also shared that while global standards have been set, little variations are marginally included in international law-making and in the protection of depositors at risk.

She added that in Europe, banks are required to prepare recovery plans to overcome financial distress. Authorities are also granted a set of powers to intervene in the operations of banks to avoid failing. In cases where banks face failure, authorities are equipped with comprehensive powers and tools to restructure, allocating losses to shareholders and creditors following a clearly defined hierarchy. They

have the powers to implement plans to resolve failed banks in a way that preserves their most critical functions and avoids taxpayers from having to bail them out.

Eva Hüpkes, Advisor on Regulatory Policy and Cooperation, Financial Stability Board

Eva Hüpkes shared her views on the Crisis Management Groups' (CMGs) role in cross-border cooperation and recovery and resolution plans. One of the main lessons of the Great Financial Crisis is that cooperation is extremely difficult to achieve in the heat of a crisis when primitive self-interest comes to the fore. CMGs are the means to achieve crisis preparedness and contingency planning so that coordination and communication in the crisis amongst key home and host authorities works.

The FSB Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) set out a number of specific resolution planning requirements. These include the establishment for each of 30 G-SIBs designated by the FSB of a firm-specific CMG, the development of a resolution strategy and a plan that have been discussed within the CMG, the conduct of regular resolvability assessments to evaluate the feasibility and credibility of the plans. Finally, CMGs also take the lead in the resolvability assessment process (RAP) that requires a discussion at senior level within the CMG of any remaining impediments to resolvability that have been identified.

The jurisdiction represented are the home jurisdiction as well as those key host jurisdictions where the firm's operations are material for the group as a whole. The authorities represented are central banks, supervisors, resolution authorities (main authorities represented), finance ministries, and deposit insurers. Not all those authorities are represented from all CMG jurisdictions. Ms Hüpkes explained the composition of CMGs is generally limited to a handful of key home and host jurisdiction, the majority of hosts will not be represented (need to strike a balance between efficiency and inclusiveness). Whereas homes will lead the development of resolution plans, hosts should participate in that development given that the firm's operations in their jurisdictions are material to the firm.

Key Attributes provide non-CMG host authorities should be given access to recovery and resolution plans and information on measures that could have an impact on their jurisdiction. The FSB Guidance on cooperation and information sharing with Non-CMG Host authorities sets out processes for identifying jurisdictions where operations of a G-SIFI are locally systemic, criteria for assessing a systemic G-SIFI presence in a non-CMG host jurisdiction, classes of information that should be shared, etc.

Ms Hupkes concluded by expressing that effective CMGs are crucial for preparing for and managing crises. Similar arrangements should be considered beyond G-SIBs for other cross-border banks. There is a need to reach out beyond CMG membership to ensure adequate cooperation with systemic hosts. Deposit insurers are at the front line in resolution and as such they participate in a number of CMGs.

Michèle Bourque, President and CEO, Canada Deposit Insurance Corporation (CDIC), Canada

Michèle Bourque focused her presentation on Canada's approach to deal with its own too big to fail problem. She first explained why no Canadian banks failed during the crisis which could be attributed to good government policy, strong regulations including close working relationship between safety-net partners, the strong domestic retail franchise of its largest banks, and a good dose of prudence within the Canadian banking system. Ms Bourque mentioned that in Canada there were no global systemically important banks, or G-SIBs, but there were six domestic systemically important banks – D-SIBs, representing over USD 3 trillion in assets equivalent to 90% of CDIC's members' assets and well over 80% of insured deposits.

Ms Bourque highlighted the concentration of six D-SIBs also meant that the failure of any one of them could cause contagion, and threaten stability of the Canadian economy. In response, the financial competent authorities in Canada have decided to implement the FSB requirements applicable to G-SIBs, to the extent possible, going beyond the minimum international requirements. Those requirements included meeting higher than minimum capital ratios, continuing to require a leverage ratio and equipping Canada with a resolution regime. Ms Bourque mentioned that the supervisory approach in Canada is principles-based complemented by rules. For

example, there are no legislative requirements for banks to prepare recovery plans requested by supervisors but the banks all produce them and update them annually. As to resolution plans, initially CDIC prepared them but now the banks are to prepare their own resolution plans and submit them to CDIC.

Ms Bourque stated that the Canadian approach in terms of resolution does appear to rely heavily on moral suasion for optimal results. Though for now, Canada can enjoy what it has accomplished, but looking forward, given the difficult economic environment, it needs to remain vigilant. She concluded by sharing with the audience the last slide with the words "challenges are what tomorrow is made of".

Session 3: Human Psyche, Crisis Communication and Contingency Planning

Gulnur Muradoglu, Professor of Finance, Queen Mary University, London, and Director of the Behavioural Finance Working Group

Gulnur Muradoglu began her presentation by carefully examining the financial crises that have occurred in the United States (both 1929 and 2007), the United Kingdom and Europe, with specific emphasis on Greece. She noted that the triggers and transmission methods for each crisis are different. For example, in the United States, the cause was widely said to be the high leverage of home owners and the defaulting in repayment of those loans. In turn, this affected the United Kingdom, due to its internationalisation and the importance of the financial sector to its economy. Whilst with Greece, there were increases in wages and declines in exports leading to large increases in government debt.

However, Ms Muradoglu asserted that, even though the triggers and transmissions methods differed, the way in which the human psyche worked in processing these triggers/events was the same. She went on to describe the cycle of market emotions travelling the following path: optimism, excitement, thrill, euphoria, anxiety, denial, fear, depression, panic, capitulation, despondency, hope, relief, optimism. She then mapped how each cycle stage related to a crisis, e.g. 'thrill' (upwards trend) with an investor feeling good about their investment, or 'denial' (downward trend) with an investor denying that things were getting worse.

Ms Muradoglu then turned to what Deposit Insurers could do to avert/ prepare for the emotional cycle, stating the focus should be on avoidance of fear, by communicating better and building up trust. Ways she suggested of achieving this were based on increasing knowledge of stakeholders via, for example, financial literacy programs, designing tools that meet depositor expectations, and awareness programs relaying the role and previous successes of the Deposit Insurer.

Goh Moh Heng, President, Business Continuity Management Institute, Singapore

Goh Moh Heng shared his vision of essential tools that any organization should utilize to ensure its resilience and business continuity. He pointed out that any company can face various types of crisis including technological and organizational, internal and external crisis. Every organization should identify the types of crisis/disaster that can threaten its viability or reputation. Dr Goh Moh Heng also described essential elements of a sound business continuity management framework.

Dr Goh Moh Heng then explained the main threats to the continuity of a business and major components of the business continuity plan. He stressed that such a plan should include measures for prompt IT recovery, description of possible scenarios and obstacles to its timely implementation, supply chain business continuity plan and crisis communication plan.

Dr Goh Moh Heng concluded by stating that any deposit insurer should have plans and procedures that it can quickly implement in case of a disaster as well as a trained crisis response team that is ready to act in any crisis situation.

J. P. Sabourin, Chief Executive Officer, MDIC

J. P. Sabourin stated that the deposit insurer's business is all about depositor confidence. And depositor confidence is a key component to financial stability. A crisis can inflict irreparable damage and being prepared requires putting in place appropriate policies, standard operating procedures and funding arrangements. There are four areas that deposit insurers can learn from the above two presentations, namely, public awareness, effective crisis

communications, building trust, and the virtues of good corporate governance.

Mr Sabourin then emphasized that there are strong reasons to explore new ground breaking research on policy issues, taking cognizance of behavioural insights, to avoid issuing less effective or misguided policies. A deeper understanding of the interactive mechanism between human behaviour and the decision making process could lead to better policy designs that would enable better protect consumers, reinforce market discipline and help protect the stability of the financial system. In future it may be also possible to develop more robust policy models for building public trust. Where behavioural economics can take us may matter profoundly.

Mr Sabourin finally addressed that financial crises and disasters, both natural and man-made, are occurring with alarming regularity. Effective planning and response, which incorporates crisis communication are absolutely necessary to respond and recover quickly from it. Otherwise, deposit insurer's employees, business continuity and reputation may be compromised.

David Scott, Consultant at EMDE Financial Regulations Advisors, Inc, and formerly from the World Bank

David Scott explained the steps and key elements that are necessary for developing effective contingency planning in the business of deposit insurance. He emphasized that protracted reimbursement periods lead to media questions, uncertainty, confusion and panic; which can be mitigated if the reimbursement process is completed over a weekend. In order to achieve this, it is important to be prepared for a range of possible scenarios. As such, the main objective of contingency planning is preparedness for a bank failure. In this sense, policies, procedures, tools, documentation, financing, human capacity should be in place to effectively use the powers and the established mandate and objectives of the deposit insurer. Mr Scott mentioned that the first step should be to define objectives, such as planning depositor reimbursement over a weekend and avoiding a moratorium. In this sense, contingency plans take into account these issues and help ensure that the necessary powers and resources are in place and indicate how to use them.

Afterwards, Mr Scott mentioned that the scope of the plan should

include the following key elements: 1) policies for when and how to use powers; 2) procedures for coordinating with supervisory authorities, pre-failure preparations, taking control, payout and deposit transfer and communications; 3) tools such as spreadsheets, checklists, and flowcharts; 4) documentation such as contracts, forms, notices, and media statements; 5) financing for having liquid assets, liquefiable assets, and back-up funding; and 6) human capacity such as agency staff, bank staff, and external experts.

Lastly, Mr Scott stated that it is important to analyze the available key elements in order to identify the gaps and afterwards establish priorities to fill them. In addition, he emphasized the importance of testing the contingency plans through simulation exercises, considering different scenarios and expanding the scope of the plans, where necessary. He concluded that whatever business you are in, there should be continuous planning, testing and enhancing of your contingency plans.

Diane Ellis, Director of the Division of Insurance and Research at the Federal Deposit Insurance Corporation (FDIC), USA

Diane Ellis explained that as a result of the financial crisis, the FDIC has found it useful to test new powers acquired as a result of recent financial reforms in order to assess strategies, identify gaps and challenges, and gain practice in their implementation and understanding. In this regard, there are different types of crisis simulation exercises available, which include the following: 1) facilitated discussions: this type of exercise is guided by a neutral third party who encourages networking, collaboration, and relationship building by framing issues, problems, and common areas of concern; 2) tabletops: are used for identifying gaps and assessing, evaluating, testing, and confirming processes and procedures for new ways of doing business, and 3) simulations: are used to examine new processes, procedures, and sequences of events by having decision-makers simulate alternate future environments to help define what is known and what is not known.

Ms Ellis summarized the internal exercises the FDIC has carried out which include tabletop exercises for the topics of SIFIs resolution and communication and a facilitated discussion for a living will review. In the case of domestic exercises, there have been tabletop exercises

and facilitated discussions for topics that range from qualified financial contracts, funding, three keys appointment process (which is the process for appointment of a SIFI), hedge funds and systemic risk, interagency principals, financial market utilities and international issues. Regarding foreign exercises, all have been with counterparts from the UK since eight G-SIFIs are headquartered in the US and four in the UK. The UK - US Principal Level Exercise's main theme was how can home and host authorities coordinate to enable home countries to effectively carry out a G-SIB resolution.

According to Ms Ellis, the exercises have helped to identify critical issues, including cross-border issues related to derivatives and resolution, and to establish follow up work in the form of additional exercises. They have also helped to affirm common understanding of key resolution issues and eliminated misperceptions of authorities and strategies, among other key outcomes. Lastly, Ms Ellis mentioned that the keys to success in the exercises are to have a clearly defined objective with an appropriately narrow scope and that there should be key facts and parameters to guide the conversation. Moreover, an expert should participate guiding the conversation and there must be good time management and pre-established deadlines in addition to robust written materials and discussion topics. In addition, participants should be given sufficient amount of time to prepare and discuss the materials and subject beforehand.

Session 4: Deposit Insurance and Crisis Preparedness

Lee Yee Ming, General Manager, Policy & International Division, MDIC

Lee Yee Ming went through some salient comments and points made by the speakers of the conference, and spoke about her views on these issues. Ms Lee highlighted that Ms Bair's points on 12 unheeded lessons from the crisis should be thoroughly considered, and it is our obligation to take prompt actions before the will to act fades. She then pointed out that potential vulnerabilities and spillovers both in the advanced economies and the emerging markets should not be seen as independent events, rather they are a part of a connected sequence of financial disturbances that have hit the global economic and financial system over the past decade.

Regarding the recovery and resolution planning, its framework and

the resolvability assessment will require shared understanding, willingness to act and trust as pre-requisites for successful resolution. The real value of such a huge undertaking – both on the banks' part, as well as on the part of the regulatory authority – lies in the process. She also acknowledged that time to reach destination is also important. She then talked about developing an effective contingency plan and the practical application of an inter-agency crisis simulation and called out to IADI to consider these areas of research in future.

Ms Lee concluded by saying that she cannot promise that we have crisis all figured out but what she can promise are: the path ahead will not be easy; the work will continue; the hours will be long. In our relentless pursuit for financial stability and public confidence, these are required commitments that will benefit generations to come, to be made.

Closing Remarks

J. P. Sabourin, Chief Executive Officer, MDIC

J. P. Sabourin on behalf of MDIC, expressed his appreciation to all attendees and presenters for their participation and sharing their experience and expertise. He mentioned that it was MDIC's great pleasure to host the IADI Annual General Meeting and Annual Conference in Kuala Lumpur, in conjunction with the celebration of the MDIC's tenth anniversary.