

What's New at IADI?

Volume 1, Issue 4

April 4, 2003

**Second Annual IADI Conference –
Registration information coming soon**

**Jamaica Deposit Insurance
Corporation hosts IADI Caribbean
Regional Meeting**

**Kyrgyz Republic International
Conference and Seminar**

**ARCO Third Non-Performing Assets
Forum in Moscow**

**IADI Asia Regional Committee
Meeting in Tokyo**

**International “Open House” at CDIC
Feature Profile on IPAB (Mexico)**

October 2003 Conference

Planning is well underway for the Second Annual IADI Conference, which will be held in Seoul, Korea on October 23 and 24, 2003. Presentations will cover deposit insurance as an integral part of the financial safety net, strategies to promote effective deposit insurance systems, interrelationships, enterprise risk management and lessons learned from the Asian financial crises.

IADI's Second Annual General Meeting will take place in Seoul on October 22, 2003.

Registration information can be obtained from Kim Utnegaard at kim.utnegaard@iadi.org.

Jamaica Deposit Insurance Corporation Hosts First IADI Regional Meeting

The Chair of the IADI Caribbean Regional Committee, Winston Carr, has called a meeting of this Committee for April 4, 2003 in Kingston. The meeting will cover the Business Plan of this Committee, the role of deposit insurance in the financial safety net, how IADI can assist countries that want to set up, or reform, their deposit insurance arrangements or systems and other topics of interest to countries in the region.

For further information please contact Hannah Dixon at: handix@cwjamaica.com.

Kyrgyz Republic International Conference and Seminar

On the occasion of the 10th Anniversary of the national currency of the Kyrgyz Republic there will be an international conference and seminar held in Bishkek City on May 10-12, 2003. Information on the conference and seminar can be obtained from the National Bank of the Kyrgyz Republic at the following location: www.nbkr.kg.

ARCO Non-Performing Assets Forum

Moscow will be the venue for the "Third International Non-Performing Assets (NPA) Forum" on June 19 and 20, 2003. The Forum is being organized by the State Corporation "**Agency for Restructuring Credit Organisations**" (ARCO). Co-sponsors of the Forum are Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers. The Government and the Central Bank of the Russian Federation are supporting the Forum as well as ARCO in its role as the Forum's organizer. The World Bank and the EBRD are also involved in this initiative.

This Forum follows the first two successful international NPA forums, which were held in Seoul in 2000 and in Beijing (China) in 2001. The main theme of this year's Forum is "**NPA Resolution in Transition Economies**". Specifically, the Forum will investigate: legislation and NPA resolution; methods of NPA resolution; NPA appraisal; globalization of NPA markets; and advisory and support services in NPA resolution.

For further information please contact: forum@gk-arco.ru or forum@tkbservice.ru. Information on the Forum is available at: www.npaforum2003.ru

First Meeting of Asia Regional Committee

On June 26 and 27, 2003 the **Deposit Insurance Corporation of Japan** will host the first meeting of the Asian Regional Committee in Tokyo. It will also hold a workshop that will cover the role of deposit insurance in achieving financial stability, the role of asset management companies and other issues dealing with building and improving deposit insurance systems. The events will be chaired by Hajime Shinohara, Deputy Governor, Deposit Insurance Corporation of Japan.

Further information can be obtained from Masanori Ishizuka at masanori-ishizuka@dic.go.jp.

IADI/EBRD Seminar on Deposit Insurance

Proceedings from the Seminar held on January 29-31, 2003 will soon be available on the IADI Web site. In the meantime, please enjoy the picture gallery which is located at: <http://www.iadi.org/html/Default.aspx?MenuID=117>

Financial Stability Forum

The Financial Stability Forum (FSF), chaired by Andrew A. Crockett, General Manager, **Bank for International Settlements**, met on 24-25 March in Berlin, Germany. Members focused on two broad topics: a review of potential vulnerabilities in the international financial system and progress that has been made in addressing weaknesses in market foundations.

The news release can be found at: <http://www.bis.org/press/p030326.htm>.

Global Stability Report

The **International Monetary Fund's** Global Financial Stability Report has just been released. It provides semi-annual assessments of global financial markets and addresses emerging market financing in a global context. You may download the report from the following location: <http://www.imf.org/External/Pubs/FT/GFSR/2003/01/index.htm>.

Deposit Insurance and the Financial Safety Net

William R. White, the Economic Advisor of the **Bank for International Settlements**, addressed the participants at the IADI/EBRD Seminar on Deposit Insurance for Central Asia, Mongolia and Azerbaijan on January 29, 2003. The presentation focused on the transformation of the financial landscape and the challenges for the financial safety net. Dr. White opened his remarks by noting that we are facing different kinds of problems in a

changing financial landscape, public safety nets, including deposit insurance, are playing an important role in crisis management and that there are indeed “no right answers”. Instead, much of what policymakers must do these days is engage in a tricky but nonetheless important exercise in balancing risks.

Dr. White also spoke about the importance of interrelationships among financial safety net players and noted that moral hazard exists in all parts of the safety net. Thus, what is needed are systems to mitigate moral hazard through creating the right incentives. Certainly, good corporate governance and sound risk management by bank directors and management are key elements.

He then noted that crises are quite common, designing financial safety nets is never easy as the financial landscape is changing, and the design problem is getting harder. Market discipline can be enabled through better information being provided to the public and supervisory discipline through “prompt corrective action” (PCA) leading to early closure and an effective deposit insurance system. He wondered aloud if deposit insurance was necessary if policy makers had tough bank closure regimes.

On his last point it was pointed out in the discussion period that, even with tough closure regimes, a mechanism is needed to reimburse depositors promptly. Failing the existence of that mechanism, mergers would become common place and competition would be reduced. As well, evidence suggests that losses are not necessarily less in systems which use PCA. Discussion also focused on the so-called area of “Lender of Last Resort”. This, it was noted, is a first signal, at least to the deposit insurer, that a bank cannot manage its liquidity and this may suggest that the bank is also not well managed. Clear ‘triggers’ and exit policies for problem banks are, he maintained, effective ways to support supervisory discipline.

Market Discipline: the Evidence across countries and Industries

A conference co-sponsored by the **Bank for International Settlements** and the **Federal Reserve Bank of Chicago** will be held on October 30-November 1, 2003 at the Chicago Fed. The conference will be of interest to financial industry practitioners, regulators, policymakers and academics.

Details will be available soon at www.bis.org/events/index.htm.

CDIC International Survey – Update

Canada Deposit Insurance Corporation has now received responses for the first version of its internet-based International Deposit Insurance Survey (IDIS) Questionnaire. CDIC would like to thank the many deposit insurers that participated.

The purpose of the survey was three-fold. It was designed to gather information from entities that, under law or agreements, provide deposit insurance, depositor protection or deposit guarantee arrangements throughout the world. The information will be shared internationally, and this will help policymakers and practitioners to draw on approaches being used elsewhere to help them in establishing or reforming a deposit insurance system. It will also form a body of qualitative and quantitative data that will be updated on a regular basis in order to facilitate practitioner-focused research.

The survey was primarily conducted between April 1, 2002 and September 30th, 2002. It contains over 160 questions covering 14 areas. The full results from the survey will be available shortly, but here is a sneak preview.

Highlights

The most common policy objectives of the deposit insurance systems surveyed were to protect depositors and contribute to financial stability. Other objectives mentioned included: enhancing the orderly resolution of financial institution failures, protecting payment systems, ensuring that all banks contribute to resolving the cost of failures and financial crisis, and to contribute to the reduction of financial crime.

There are many variations of private and publicly administered deposit insurance systems in place. Government-administered systems were the most common of those surveyed, followed by systems that combine varying degrees of public and private sector characteristics.

Information sharing and coordination of the activities of the deposit insurer and other safety-net players is a high priority for the majority of deposit insurers. Depending on country circumstances, insurers reported using both formal and informal mechanisms to exchange information and coordinate their activities.

Most of the systems surveyed require that membership be compulsory and be extended to institutions subject to effective supervision and regulation. As well, the level of coverage provided varies widely. Most systems cover core demand and savings deposit products and exclude coverage of non-deposit products and depositors who were deemed capable of ascertaining the financial condition of banks or who had the resources to purchase such information. In most countries, coverage limits were applied per depositor although some applied their maximum coverage limits per bank or across all member banks.

Funding is provided in many ways for deposit insurance systems such as through government appropriations, levies, premiums assessed against member banks, government/market borrowing, or a combination thereof. Most systems charge premiums (*ex ante*) as a way to buildup a fund but retained the authority to charge levies or other charges on their members if required. Other country systems preferred to rely on *ex-post* levies. While flat rate premiums are the most common, differential premium systems are becoming increasingly prevalent. In a large number of cases, deposit insurers are provided with the ability to secure funding for liquidity purposes from governments, its members or directly from capital markets.

Looking Ahead

While the CDIC survey represents a major step forward in the development of an on-line data base, not all the systems contacted were able to respond in a comprehensive and detailed manner. The longer-term success of the survey will depend on an increase in the level of participation. This will ensure that the database will become a valuable tool for practitioners and researchers and a method of increasing awareness about deposit insurance systems throughout the world.

What is happening in your World?

Bulgaria

The **Deposit Insurance Fund (Bulgaria)** is pleased to announce that a new Management Board entered into office on February 3. The Management Board is composed of Bisser Manolov, Chairman; Rumen Simeonov, Vice Chairman; Georgi Petkov, Member; Rossen Vladimirov, Member; and Lalko Doulevsk, Member.

According to the Law on Bank Deposit Guaranty the Management Board of the Deposit Insurance Fund (Bulgaria) consists of five members, whereas the Chairman is designated by the Council of Ministers, the Vice Chairman - by the Central Bank, one member is representative of the Association of Commercial Banks in Bulgaria, and two members are designated jointly by the Chairman and Vice Chairman. The mandate of the previous Management Board expired on January 31, 2003.

Canada

Canada Deposit Insurance Corporation will be holding an “**International Open House**” from May 12 to 16, 2003. Presentations will cover key elements and essential attributes of the Canadian deposit insurance system with a particular focus on structure and organization, funding and legal issues in closure. The program also includes presentations on the Canadian supervisory system by the **Office of the Superintendent of Financial Institutions**.

If you would like to attend please contact David K. Walker at dwalker@cdic.ca.

Philippines

Philippines Deposit Insurance Corporation is pleased to announce that Ricardo M. Tan was appointed President and Chief Executive Officer effective March 3, 2003. Ricardo succeeds Norberto Nazareno who served on the Executive Council and played a major role in founding IADI.

Jordan

Mohammed Said Shahin has been appointed Deputy Governor of the Central Bank of Jordan. The **Jordan Deposit Insurance Corporation** will now be represented by Yasein Al-Jagheer at IADI meetings.

United States

Is deposit insurance reform in the offing? The House of Representatives voted on April 2, 2003 overwhelming in favor of the **Federal Deposit Insurance Reform Act** (H.R. 522). The Bill is designed to increase coverage (to \$130,000), strengthen the system by merging two major insurance funds, and give regulators greater flexibility in handling fluctuations in the fund. The bill next moves to the Senate for consideration.

Financial Stability Forum - Bank for International Settlements

Jean Pierre Sabourin wrote to Andrew A. Crockett on March 25, 2003 on behalf of IADI on the occasion of the completion of his term as The Chairman of the Financial Stability Forum. The Chair of the Executive Council and President expressed a sincere gratitude for Andrew's steadfast support in helping to broaden the debate on deposit insurance issues, as well as promoting the need for a pragmatic approach, which has been a useful tool for policymakers. He added that the work we have accomplished thus far, and intend to do in the future, will assist the design and strengthen deposit insurance systems that preserve the benefits of heightened financial stability while minimizing moral hazard.

Malcolm Knight, the new General Manager of the BIS, noted in his first General Staff Meeting on April 2, 2003 that he intends to promote co-operation with other financial authorities. He said that close links already exist with a number of supervisors, the Basle Committee, International Association of Insurance Supervisors and **IADI**.

A Profile on an IADI Member

Starting with this issue, we will profile an IADI Member so that you can better understand the nature of other deposit insurance systems. The Institute for the Protection of Savings (IPAB) of Mexico generously agreed to start off the series.



Feature Article

Overview of IPAB

IPAB is a decentralized public entity of the Mexican federal government created to provide depositors with an explicit and limited deposit insurance system and to regulate the execution of bank assistance programs. IPAB protects depositors by defining institutional guidelines and policies in the areas of deposit insurance and bank resolutions, both aimed at providing certainty and stability to the Mexican financial and payments systems.

The Law for the Protection of Bank Savings, which regulates the IPAB's operation, provides it with legal personality and its own patrimony. These characteristics procure a reasonable degree of operating and decision-making independence.

In addition to the above, IPAB has worked on the resolution of operations whose objective was to help bank debtors and bankers comply with their obligations after the 1995 crisis. These include the conclusion of pending bank support programs and the liquidation of insolvent banks. Thus, IPAB's balance sheet contains mostly crisis-related assets and liabilities which it liquidates, refinances or restructures in order to contain and, when possible, reduce its debt in real terms. As of December 2002, IPAB's total assets amounted to MXP 163.3 billion⁽¹⁾ (approx. USD 15.8 billion), while its liabilities totaled MXP 804.1 billion (approx. USD 80 billion). As a consequence, its financial position is equivalent to MXP a negative 640.8 billion (approx. USD 62.1 billion).

Mexico has a tradition of protecting deposits at banks. Until 1999, this coverage was practically unlimited. However, since this date, insurance is subject to a seven-stage coverage reduction program that ends on January 1st, 2005. The objective is to produce a smooth transition away from unlimited coverage toward an explicit and limited guarantee, mostly of bank deposits. The program is set to come into full-effect in line with the adoption of Basle Committee capitalization standards and with the upgrading of the regulation and supervision framework to ensure the system's readiness for limited coverage.

IPAB is guided by a governing board composed of independent and *ex-officio* individuals. Ex-officio members are the heads of the Ministry of Finance, of the Bank of Mexico (central bank) and of the National Banking and Securities Commission (banking and securities supervisor). Independent members are nominated by the Executive and ratified by Congress. The execution of guidelines and strategies is managed by an Executive Secretary and 429 employees.

Main Features:

- Obligatory membership for all banks to avoid adverse selection and deposit runoffs.
- Possibility of adjustment of fees to risk.
- Coverage limit expressed in units indexed to inflation.
 - 2003 = 10 million UDIs (approx. USD 3 million)
 - 2004 = 5 million UDIs (approx. USD 1.5 million)
 - Beginning in 2005 = 400,000 UDIs (approx. USD 120,000)
- User-financed, government-run system with minimum deposit insurance fee of 0.4% assessed on a proxy of total bank liabilities.
- Resolution options include liquidation and open bank assistance.



(1) = 1/ 1 billion = 1,000 million.

Interview of Jean Pierre Sabourin

The Chair of the Executive Council and President of IADI was interviewed by “**The Financial Regulator**” on March 25, 2003. When Neil Courtis asked what the most effective deposit insurance was, the response was “the most effective systems are those that have a mandate that is fully supported by the necessary powers. For example, if a deposit insurer is a risk minimizer, then it needs powers to fulfill that mandate. One needs the powers to intervene in the affairs of an institution or take prompt corrective action in conjunction with the supervisor”.

Visitors to IADI Head Office



On January 31, 2003 Kim Utnegaard, Office Manager, was pleased to receive a visit from Roumyana Markova, **Deposit Insurance Fund (Bulgaria)**, Valeriy Ogiyenko, **The Household Deposit Insurance Fund (Ukraine)**, Josef Tauber, **Deposit Insurance Fund Czech Republic** and Haijime Shinohara, **Deposit Insurance Corporation of Japan**.



Roumyana Markova also made a special presentation of a proof coin of the first Bulgarian Euro to Secretary General Ray LaBrosse to commemorate the opening of the new office.

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This newsletter was issued on April 5, 2003. Want to share your expertise? To submit articles or items for consideration for the next issue please send them to info@iadi.org, by May 15, 2003.