What's New at IADI ?

Volume 2, Issue 10 March 2004

Highlights

Enterprise Risk Management Seminar – Program Information

Interview of J.P. Sabourin by World Insurance Report

Member Profile – Fundo Garantidor de Créditos- Brazil

The International Association of Deposit Insurers

and

Deloitte.

Present:

AN ENTERPRISE RISK MANAGEMENT SEMINAR

28-29 APRIL 2004

"MANAGING RISK MORE EFFECTIVELY THROUGH AN ENTERPRISE RISK MANAGEMENT SYSTEM"

Bank for International Settlements, Basel, Switzerland

Wednesday, 28 April 2004

0900 – 0930	**J.P. Sabourin**	**Chair of the Executive Council and President, International Association of Deposit Insurers**
0930 – 1100	**Leon Bloom**	**Managing Partner, Global Financial Services Industry Practice, Deloitte Touche Tohmatsu**
ERM Foundation Concepts and Practices	Key Messages / Themes: • Designing the ERM organization and governance model for risk • Establishing processes to manage risk enterprise-wide • Improving control across the organization • Defining risk policy including risk appetite • Identifying meaningful risk measures, reporting and enabling technology to support ERM • Raising awareness of risk	

Coffee Break

1130 – 1300	**State of Play Among Financial Safety Net Participants**
	Danièle Nouy, Secretary General, Commission Bancaire, France **Jean Pierre Sabourin, President and Chief Executive Officer, Canada Deposit Insurance Corporation**

1300 – 1430	**Lunch**	**"Walking the Talk"; Malcolm D. Knight, General Manager, Bank for International Settlements**
1430 – 1600	**Industry Perspectives**	**Laura Olle, Chief Enterprise Risk Officer, Capital One, Virginia, USA** **Herman Mulder, Senior Executive Vice President, ABN AMRO, The Netherlands**

Tea Break

1630 – 1700	**Leon Bloom, Managing Partner, Global Financial Services Industry Practice, Deloitte Touche Tohmatsu**	
1900	**Dinner**	

Thursday, 29 April 2004

0900 - 1030	**Building the Infrastructure**	**Leon Bloom and Deloitte Team**
Risk Management Concepts	Key Messages / Themes: • Risk identification, risk assessment, governance • Risk appetite, risk transfer, limits, reporting, capital allocation • Risk strategy, policies, communication, incentive, training	

Coffee Break

1100 - 1300	**Concurrent Sessions**	**Leon Bloom and Deloitte Team**
Advanced Concepts – Risk Management and Culture	Key Messages / Themes: • Risk identification, risk assessment, governance • Risk strategy, policies, communication, incentive, training	
Advanced Concepts – Risk Measurement	Key Messages / Themes: • Risk appetite, risk transfer, limits, reporting, capital allocation	
1300 – 1415	**Lunch**	
1430 - 1630	**Concurrent Sessions**	**Deloitte Team**
Advanced Concepts – Risk Management and Culture	Key Messages / Themes: • Risk identification, risk assessment, governance • Risk strategy, policies, communication, incentive, training	
Advanced Concepts – Risk Measurement	Key Messages / Themes: • Risk appetite, risk transfer, limits, reporting, capital allocation	
1630 – 1730	**Q/A Session**	**Leon Bloom**
1730 – 1800	Wrap-up and Next Steps	**J.P. Sabourin, Chair of the Executive Council and President, International Association of Deposit Insurers**

Registration:

Ms Kim Utnegaard: Kim.utnegaard@iadi.org and Kim.utnegaard@bis.org

Tel. + 41 61 280 99 33 Fax. + 41 61 280 95 54. To obtain a Registration Form please visit the following location :

http://www.iadi.org/html/App/SiteContent/ERM%20Registration%20Form_external.DOC

Interview of J.P. Sabourin by the

WorldInsurance

REPORT

Profile: the International Association of Deposit Insurers

Although the practice of protecting bank deposit accounts against the failure of a financial institution was first introduced in the US more than seventy years ago, the idea of deposit insurance as a risk-differentiated discipline that is geared to deal with regional or global financial crises is much more recent. This new approach is the result of a broader process of change and there is absolutely no doubt that the launch of the International Association of Deposit Insurers (IADI) in May 2002, the first organisation to represent the sector at a global level, was a key factor in the development and wider acceptance of the new thinking.

The creation of the IADI was enthusiastically welcomed. Not least by the three main international agencies entrusted with managing global financial stability: The World Bank, International Monetary Fund and the Bank of International Settlements. Indeed, Alan Greenspan, the influential chairman of the US Federal Reserve Board, is a great believer in deposit insurance. Last year he argued the case for the sector in front of the Senate Committee on Banking, Housing and Urban Affairs.

Mr Greenspan said that deposit insurance has played a key – at times even critical – role in achieving the stability in the US banking and financial markets since the creation of the Federal Deposit Insurance Corporation (FDIC) in the early 1930's. "Deposit insurance, combined with other components of our banking safety net (the Federal Reserve's discount window and its payment system guarantees), has meant that periods of financial stress no longer entail widespread depositor runs on bank and thrift institutions. Quite the opposite: asset holders now seek out deposits – insured and uninsured – as safe havens when they have doubts about other financial assets."

But this raises a question. Why, after a nerve-wrecking decade of financial crises in Mexico, East Asia, Russia and Argentina, did an organisation such as IADI, with its obvious ability to contribute to the smooth functioning of the global financial system, only came into being as recently as twenty-two months ago?

Jean Pierre Sabourin, who has led every stage in the formation of IADI, says that the launch of the Association in 2002 was a matter of timing and the result of an increased international interest in improved financial safety nets in the aftermath of the Asian financial crisis. Mr Sabourin, who will complete a two-year term as the first president and chair of the executive council in October, is also the president and the chief executive of the Canada Deposit Insurance Corporation (CDIC).

The Association, he says, owes its existence to a decision in 1998 by the IMF and the BIS to set up the Financial Stability Forum (FSF) to look at areas in the financial system where work can be done to reduce countries' vulnerability to financial instability.

As part of this process, the FSF set up a number of committees or working groups. One of these, set up in 1999, was a study group on deposit insurance which Mr Sabourin was asked to chair. "The task of the deposit insurance study group was to assess whether there was a need for developing guidance on how to put in place and to draw on some important "lessons learned" from the best managed deposit insurance systems around the world. In early 2000, the study group concluded that there was such a need."

A working group, also chaired by Mr Sabourin, was set up in 2000 and this group consulted extensively around the world. Part of its mandate was to come up with guidance that would be applicable to different countries' situations and circumstances. The group worked for about a year and half and met with policymakers in 119 countries (about 450 individuals) in conferences, seminars and outreach sessions and came up with a report which the FSF issued in late 2001. "The message from the deposit insurers that we heard was that it was a very useful exercise which should have been done before". But, the FSF report was completed and there was no platform for deposit insurers to further their understanding of common interests and issues? I stated that once the FSF report was in place, we would look at the possibility of leading a steering group to set up an association of deposit insurers." Inevitably, the years leading up to the actual launch of IADI was taken up by the necessary, but time consuming, process of consultation and consensus building that underpins the legitimacy of any international organisation.

IADI membership

There are currently 85 countries that have a deposit insurance agency or some sort of depositor protection arrangement in place. There are now 34 members in IADI and most of them are national organizations. As well, other organisations participate in IADI's activities on an associate, partnership or observer basis. An associate member can be a ministry of finance, a central bank or a financial supervisor's office which has an interest in deposit insurance, or which is about to put a deposit insurance system in place. There are currently eight organizations that hold associate status. Accountancy and law firms may join IADI as observers and international organizations like the International Monetary Fund, the Toronto Centre, European Bank for Reconstruction and Development and Asian Development Bank are welcome as partners. Unlike members, associates, observers and partners don't have a vote nor may they sit on IADI's executive council.

So how important is it for IADI to increase its membership? "We understand that not every deposit insurer has the capability or the resources to be a member. IADI is fully funded by the members, associates and observers. It would be nice to have all 85 countries with deposit insurance agencies as members. But for some systems it is a funding issue so we worked hard to set a fee that would provide us with enough revenue to be able to manage the Association, but was not so high as to restrict any system from becoming a member. We are only two years old and some are no doubt waiting to see how we perform. The Association is growing and we will continue to build and more will join as they see the quality of the work and training opportunities that we can deliver." Locating the Head Office in the prestigious Bank for International Settlements was a strategic move as it ties IADI into the inner circle of organizations interested in promoting financial system stability.

It has, indeed, been a very busy two years for IADI. In 2002, it was asked by the European Bank of Reconstruction and Development to put on a deposit insurance seminar for policymakers from central Asia, Mongolia and Azerbaijan and then a workshop for newly established deposit insurers from the Western Balkans. In October last year, the Association held its second annual conference in Seoul which were attended by representatives from 45 countries including countries such as South Africa, China and Australia which do not currently have deposit insurance systems in place.

IADI is working with the Toronto International Leadership Centre for Financial Sector Supervision and the Federal Deposit Insurance Corporation to develop a leadership programme for deposit insurers. In April, the Association will stage an enterprise risk management workshop in Basel in partnership with business consultancy, Deloitte Touche Tohmatsu. Mr Sabourin maintains that the workshop will provide deposit insurers and other financial safety net organisations such as central banks and supervisory authorities with an opportunity to understand the importance of establishing an enterprise risk framework. "It will help us assess and manage risks inherent in our own organisations. Indeed, IADI has opened up this workshop to non-members so that they have the benefit of seeing what a well-functioning and leading-edge international organization can do."

Differential premiums

As things stand, the vast majority of deposit insurance agencies constitute a government-backed system to which local banks contribute at a flat rate and through which the government guarantees bank deposits to a specified maximum amount.

There is increasing interest among countries to consider implementing a differential premium system i.e. charging premiums based on the risk profile of each financial institution rather than a flat rate. There are at present nine countries including the US, Canada and France which operate a differential premium system. It is widely seen as a way of providing banks with the right incentive to avoid excessive risk.

But there are challenges to establishing an effective differential premium system. "It requires substantial data and one has to run the system for a number of years to be able to get the kind of information that is needed and proper criteria needs to be developed. But, in most cases the problem is adequate IT systems and accurate and consistent data among the membership," Mr Sabourin says.

Indeed, IADI will shortly be issuing a paper on differential premiums after its Asian regional committee, hosted by the Deposit Insurance Corporation of Japan in Kyoto, has debated the issue further. The expectation is that over the next few years a number of deposit insurers will adopt a differential premium system.

The CDIC differential premium system distinguishes between quantitative and qualitative factors. "In addition to focusing on capital ratios, we look at such this as profit volatility as a bank with volatile profits represents a higher risk than one with stable profits. We also look at the diversification of a bank's portfolio by industry sectors."

Private systems

There are a few countries with private deposit insurance systems. But, as Mr Sabourin points out, these systems tend to be publicly legislated. For example, the state will specify the kind of accounts and the amounts that are insured. "Governments have learnt that if a bank fails, the public expects it to compensate depositors because banks are chartered and regulated by the government. The public believes that a dollar in a bank is the same as a dollar in their pocket. So no country can allow a financial institution to fail without reimbursing depositors."

Mr Sabourin notes that it is not necessary for all deposit insurance systems to be government supported. "But there are major challenges to private systems in dealing with the failure of large institutions or with a wave of failures. A private system is only as good as the support that it receives. The other major problem with private systems is that they usually lack effective enforcement mechanisms."

But from IADI's perspective, the issue is less whether a deposit insurance system is public or private. "What is important to us is that whatever system is in place is effective and that the public have confidence in it. So much depends on the credibility of who backs the system. Experience tells us that implicit systems do not work. Indeed, the worst situation is when people think they are insured and they are not and that is why public awareness is so important."

Explicit guarantees

IADI, in particular, cautions against blanket deposit insurance guarantees. "That is really not the answer. He argues that some countries have had no choice but to provide blanket guarantees due to a financial crisis. However, in the long run it is the ultimate in moral hazard," Mr Sabourin says. But he notes there is a lot of interest among countries in putting in place an explicit, limited deposit insurance system.

The insured limit in the US is currently $100,000 for deposit accounts, but there is a move to raise this to $130,000 and to $260, 000 for certain other accounts. In Canada, the insured limit for deposit accounts is C$60,000.

IADI takes the position that every country should set its own insured limit. "But it is not just the limit itself; there is also the coverage aspect. Whether deposit insurance covers joint accounts, separate accounts. Are you insured for only $60,000 per account or for all your deposits? It is important that the limit be adequate enough so that the public has confidence in depositing their money in financial institutions. And that is different for every country. What is important is that the public understands the benefits and the limitations of deposit insurance system."

CDIC

The choice of Mr Sabourin as the first president of IADI is also a measure of CDIC's leadership role as a provider of advice and assistance in the field of deposit insurance, particularly to developing and emerging economies. In this regard, the Corporation works closely with the Canadian International Development Agency, the Toronto Centre, FDIC and other international agencies.

Mr Sabourin says that the reason that so many countries look to CDIC for help is that the Canadian banking and financial supervisory system is similar to those of many other countries. First of all, the Canadian banking sector is highly concentrated with six large banks playing a dominate role. Second, Canada also has a separate financial regulatory authority which supervises the activities of insurance companies, banks and pension funds. "Practical experience backed up by results from the IMF and the World Bank Financial Sector Assessment Program, consistently show that separate, independent and accountable deposit insurance systems – insulated from undue political and industry influence – have substantially more integrity, transparency and credibility than entities lacking such independence". Unlike the FDIC in the US, CDIC specifically does not assess the capital and operational adequacy of banks. "We rely extensively on the examinations done by the financial supervisor. So there is no duplication of roles. The Canadian deposit insurance system is interventionist but our approach is judgement, rather than rules based. Then there is the size of CDIC. We only have 88 employees. You can pick and choose elements from our governing legislation depending on how policy makers want to set up their deposit insurance system. This makes the Canadian system easy to emulate. So countries, when they look to set up a deposit insurance agency, look to CDIC as a model."

IADI view is that deposit insurance is not a "one size fits all" solution. There are different types of deposit insurance systems. At the one end of the spectrum are the 'pay-box' systems where all the deposit insurance agency does is reimburse depositors once a bank has failed. At the other end of the spectrum are 'risk minimisers' such as CDIC which will also work with an institution to reduce its chances of failure. CDIC does have the powers to intervene and close down an institution before they are totally insolvent.

The future

Mr. Sabourin's vision for IADI over the next five years is for the Association to step up the number and the scope of its assistance and advisory programmes. Specifically, he envisages developing a team of practitioners that would be available through IADI. "A group of experts that understand not only the public policy issues relating to deposit insurance, but also expert practitioners who know how to manage an effective deposit insurance system."

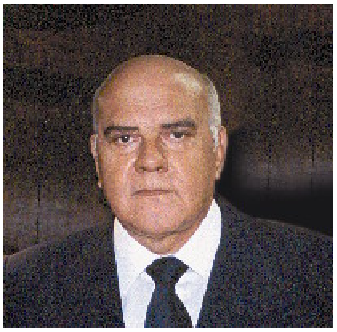
He anticipates that one of the challenges of the future will be dealing with the pressure on IADI to issue deposit insurance standards. But, given the wide variety of deposit insurance systems around the world, the Association has for now restricted itself to issuing guidance. "For us to come up with very specific standards would be difficult for our members. But it will be for them to decide at which point we evolve in that direction. Our members run our organisation."

He is keen to stress that IADI is an association of deposit insurers who have willingly chosen to work closely together and to learn from each other; the things that the Association can accomplish can only be accomplished with the support of the whole membership.

He looks forward to the growing influence of the IADI regional committees for Asia, Caribbean, Latin America, Africa and Eurasia. "These committees are in an excellent position to understand and deal with cross-border issues and to develop targeted training programmes to meet regional needs. Meanwhile IADI will continue to develop our leadership programme and our research committee will continue to be very active in developing guidance to augment the tools available to deposit insurers."

Finally, he stresses that deposit insurance should not be regarded as the only solution. "It is only one element in the process of promoting financial stability. You have to also have a sound financial sector with an effective regulatory and supervisory system in place with appropriate oversight because governance matters and sometimes good governance matters a lot."

Member Profile – FUNDO GARANTIDOR DE CREDITOS (Brazil)



Dr. A.C. Bueno de Camargo Silva
Chief Executive Officer of the FGC

São Paulo Central Railroad Station, restored and inaugurated on January 25, 2004, for the celebration of the 450th anniversary of São Paulo foundation.
By Casa da Photo

A Founding Member of IADI

FGC
Fundo Garantidor de Créditos

Rua Dr. Eduardo de Souza Aranha,
387 – cj. 31- 3.º andar
CEP 04543-121 – São Paulo – SP
Brazil

E-mail: fgc@fgc.org.br
Site : www.fgc.org.br
Phone: + 55 (11) 3842-5626
Fax : + 55(11) 3848-9695

Since the 1990's there has been a global trend to establish formal deposit guarantee systems. The rationale has been an increasing concern with the stability of financial systems. This is reflected in the implementation of additional instruments for monitoring and control, as well as the consequent creation of financial system safety nets. Lender of last resort facilities, efficient regulation and supervision, appropriate legal structures and the direct protection of depositors through a guarantee system are elements of these safety nets designed to maintain a solid, healthy banking system.

Brazil has followed that trend. In August 1995, through the National Monetary Council determination established under Resolution 2,197 "the constitution of a private non-profit entity is authorized, in order to manage a protection mechanism for creditors against financial institutions."

In November 1995, the Statutes and Regulations of the new organization were approved and Resolution 2,211 of 16 November 1995 established the "Fundo Garantidor de Créditos – FGC", introduced a deposit guarantee system in Brazil. Resolutions 3,024 and 3,161 amended and consolidated the Statutes and Regulations of the FGC.

The FGC is a non-profit civil association, incorporated as a private legal entity, regulated by laws. The purpose of the FGC is to guarantee credits held against member institutions in cases of adjudication of the institution's intervention, extrajudicial liquidation or bankruptcy; and recognition by the Central Bank of Brazil (BACEN) of the state of insolvency of the institution. Its head office is located in the city of São Paulo, SP – Brazil.

The FGC was established with the important mission of stemming financial crises, carrying out the following functions:

1. Avoiding a systemic banking crisis;
2. Promoting the stability of the financial system; and
3. Protecting small depositors.

The costs of the guarantee to be provided by the FGC are funded with resources arising from:
a) members' ordinary contributions; and
b) service fees arising from the issuance of NSF checks.

The member institutions of the FGC are Multiple Banks, Commercial Banks, Investment Banks, Development Banks, "Caixa Econômica Federal" (Federal Savings Bank), Consumer Credit Companies, Mortgage Companies and Savings and Loans Associations.

The FGC's characteristics are:

1. **Limited Coverage -** is set forth per person or per account up to the amount of R$ 20,000.00 (or US$ 6,700.00);
2. **Compulsory Membership -** all financial institutions are required to become members of the FGC;
3. **Explicit Protection -** the FGC observes legal rules which specify criteria and limitations related to its protection of the National Financial System (Resolution 3,024 dated 24 October 2002 amended by Resolution 3,161 dated 18 December 2003);
4. **Private System -** the private status of the FGC which was established by a Resolution of the National Monetary Council granting it legal powers, has been a significant factor in relation to its consolidation as an independent institution; and
5. **Ex-Ante Private Funding Mechanism -** monthly contributions (0.025% on insured deposits) are made by the member institutions who provide an adequate level of resources to fund the needs of the FGC under normal circumstances.

The FGC is managed by a Board of Directors and an Executive Director's Office. The Board of Directors is formed by the chairmen of the largest banks operating in Brazil. It is composed of three to nine members and an equal number of alternates. They can be reappointed by the General Assembly. In addition to the Board of Directors, the FGC has a Fiscal Council, composed of three members and an equal number of alternates, who are elected to a three-year term at a General Meeting, with the possibility of reelection.

The Executive Director's Office can be staffed by up to three members, one being the Executive Director and the others with no specific title. They are all appointed by the Board of Directors. Those appointed to the Executive Director's Office must have their names submitted to the Central Bank of Brazil which will approve them in the event they fulfill the conditions set forth in the regulations relating to personnel positions in financial institutions and other institutions authorized to function by the Central Bank of Brazil.

As part of its continuous efforts to maximize resources, the FGC out sources the operational services of the Departments of Accounting, Human Resources and General Services.

This year the FGC is celebrating nine years of existence. A positive balance of its performance during this period of banking distress is evident. Being created in the midst of the 1995 financial crisis, the FGC has been consolidated into a sound and efficient institution, capable of facing a diversity of problems to protect the Brazilian economy from the costs that a systemic financial crisis might have generated.

What's New in Your World?

Korea Deposit Insurance Corporation

Kim, Gi Don has been appointed Director of the Research Department at the Korea Deposit Insurance Corporation.

The National Treasury, (Republic of South Africa)

Nkosana Mashiya joins The National Treasury add he is now in charge of deposit insurance related matters.

IADI Eurasia Regional Meeting and 2 day Conference

"Deposit Insurance as an element of Banking Sector Stability"

Hosted by the Deposit Guarantee Fund (Ukraine)
25 – 27 May in Kiev, Ukraine
More details will follow.

IADI Africa Regional Meeting and 2 day Conference

"Deposit Insurance in Africa: Issues, Challenges and Prospects"

Hosted by the Nigerian Deposit Insurance Corporation
21 – 23 June in Abuja, Nigeria
More details will follow.

International Monetary Fund:

Here is a recent publications of interest:

What Lies Ahead for Asia's Emerging Markets? Speech by David Burton, Director of the Asia and Pacific Department, IMF http://www.imf.org/external/np/speeches/2004/032304.htm

Bank for International Settlements

Here are references to some recent speeches and publications:

The financial system and the global recovery: what lies ahead? - Speech by Malcolm D Knight, General Manager, Bank for International Settlements, at the Annual Congress of the Swiss Society for Economics and Statistics/ International Money and Finance/ Basel, 18 March 2004

http://www.bis.org/speeches/sp040318.htm

The BIS Quarterly Review of March 2004 is available at http://www.bis.org/publ/r_qt0403.htm. The issue gives an overview of international banking and financial market developments, for which the "BIS consolidated banking statistics" for the third quarter of 2003 (http://www.bis.org/press/p040130.htm) are – amongst others - a valuable source of information. The Quarterly also contains a number of "special features" that address "Household debt and the macroeconomy", "What drives housing price dynamics", "Twin peaks in equity and housing prices", and "The Danish mortgage market".

A Working Paper on **"Bank lending and commercial property cycles**: some cross-country evidence", is available at http://www.bis.org/publ/work150.pdf

The latest report from **the Committee on Payment and Settlement Systems** (CPSS), "Recommendations from Central Counterparties", prepared by a joint CPSS/IOSCO Taskforce (http://www.bis.org/publ/cpss61.htm).

On **Banking Supervision**, the latest BIS Review (http://www.bis.org/review/review.htm) also contains a speech by Spanish Governor J. Caruana on "The new Accord and where we stand today"(http://www.bis.org/review/r040305c.pdf).

Finally, a press release from the **Central Bank Counterfeit Deterrence Group (CBCDG)** on the new "Counterfeit Deterrence System", available at http://www.bis.org/press/p040309.htm, might also be of interest.

Editor: John Raymond LaBrosse
Secretary General
International Association of Deposit Insurers
Tel: +1 (613) 947-0270 (Ottawa, Canada)
+41 (61) 280-99 33 (Basel, Switzerland)
E-mail: **Ray.LaBrosse@iadi.org**
www.iadi.org

*This newsletter was issued on 26 March 2004. Want to share your expertise? To submit articles or items for consideration for a future issue please send them to **info@iadi.org** by 15 April 2004.*