

## What's New at IADI ?

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### Enterprise Risk Management Seminar

The underlying premise of enterprise risk management is that every entity, whether for-profit, or not-for-profit, or a governmental body, exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty the entity is prepared to accept to grow stakeholder value.



International Association of Deposit Insurers

The **International Association of Deposit Insurers** and **Deloitte Touche Tohmatsu** are pleased to announce that a Seminar on Enterprise Risk Management will be held at the Bank for International Settlements on 28-29 April 2004. Leon Bloom, Deloitte's Managing Partner of its Global Financial Services Industry Practice will lead this Seminar. He will be joined by Jean Pierre Sabourin, President and Chief Executive Officer, **Canada Deposit Insurance Corporation** and Danièle Nouy, Secretary General de la Commission Bancaire, Banque de France, who will focus on the state of play of ERM for safety net participants. Industry perspectives will be provided by Herman Mulder, Senior Executive Vice President, ABN AMRO, the Netherlands and Laura Olle, Chief Enterprise Risk Officer, Capital One, USA. Malcolm D. Knight, General Manager; Bank for International Settlements, will provide the keynote speech.

For more information on this Seminar, please contact Kim Utnegaard at: [Kim.Utnegaard@iadi.org](mailto:Kim.Utnegaard@iadi.org). Registration forms and agenda can be downloaded :

Agenda:

<http://www.iadi.org/html/App/SiteContent/Updated%20ERM%20Seminar%20Agenda%2024022004.pdf>

Registration: [http://www.iadi.org/html/App/SiteContent/ERM%20Registration%20Form\\_external.DOC](http://www.iadi.org/html/App/SiteContent/ERM%20Registration%20Form_external.DOC)

## IADI Releases New Training Catalogue

As a part of its mission to facilitate the sharing and exchange of expertise and information on deposit insurance issues through training, the **Training and Conference Committee** of IADI has produced a catalogue of training courses of potential interest to deposit insurers. A copy of the document can be found at the following location:

[http://www.iadi.org/html/App/SiteContent/Training\\_Course\\_catalogue\\_Final\\_Ver\\_06\\_02\\_2004.pdf](http://www.iadi.org/html/App/SiteContent/Training_Course_catalogue_Final_Ver_06_02_2004.pdf).

It will be updated on a periodic basis.

## Executive Council Welcomes New Member

The Chair of the Executive Council and President of IADI is pleased to announce that Mohammed Al- Jafari, Managing Director, **Deposit Insurance Corporation** of Jordan has joined the Executive Council for a term that will run until the next Annual General Meeting. Welcome. Please click on this link to view Mohammed Al- Jafari's biography:

<http://www.iadi.org/html/App/SiteContent/Bio%20Dr%20Mohamad%20Al%20Jafari.pdf>

## IADI Releases Guidance Paper on the Establishment and Design of Deposit Insurance Systems

The **IADI Research and Guidance Committee** formulated a series of questions dealing with the establishment and design of deposit insurance systems. The questions were answered by deposit insurers in a number of countries and the responses are summarized in this paper. A copy of this paper can be found at:

[http://www.iadi.org/html/App/SiteContent/Design\\_Paper\\_Final%20feb%202004.pdf](http://www.iadi.org/html/App/SiteContent/Design_Paper_Final%20feb%202004.pdf)

## APEC Policy Dialogue on Deposit Insurance



Canada Deposit  
Insurance Corporation

Société d'assurance-dépôts  
du Canada

Canada

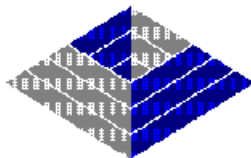
Jean Pierre Sabourin of **Canada Deposit Insurance Corporation** chaired a Policy Dialogue on Deposit Insurance in Kuala Lumpur on 16-18 February 2004. The Policy Dialogue discussed **indemnification** for deposit insurers, **interrelationships** among financial safety net players, and **prompt action and legal trigger mechanisms**. Presenters for the policy dialogue included: Stefan Ingves, **IMF**; David K. Walker, **Canada Deposit Insurance Corporation**; Michael J. Mac Naughton, Borden Lander Gervais LLP; Jay Carfagnini, **Goodmans LLP**; Ju-Hung Lee; **Korea Deposit Insurance Corporation**; John Di Clementi, **Federal Deposit Insurance Corporation**; and J.R. LaBrosse, **IADI**. Also featured on the program were Professor Joe Norton, London University and Christine Cummings, Federal Reserve Bank of New York. Governor Zeti Akhtar Aziz, of **Bank Negara Malaysia** delivered the keynote speech. The Policy Dialogue was hosted by:

**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

The next IADI Newsletter will include a special feature on the Policy Dialogue.

## Member Profile – National Deposit Insurance Fund of Hungary

*A Founding Member of IADI*



NATIONAL DEPOSIT INSURANCE FUND

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### **Overview**

After World War II, the decree law on savings deposits and the rights of depositors was adopted in 1952. This law provided a State guarantee for savings deposits of private persons. In the 1970s, the State guarantee was extended to deposits in foreign exchange accounts. There was no upper limit to the State guarantee nor did the savings deposit have to be registered in order to be guaranteed.

From the beginning of the 1990s, the change in ownership structures of the economy, the multiplication of players in the economy, and the appearance of tens of thousands of new entrepreneurs increased risks in the banking system. Under those circumstances the scope of the State guarantee was too narrow in the social and economic environment which in the meantime had changed to a great extent: it covered neither the deposits of several hundreds of thousands of self-employed business owners, nor those of business associations and other legal persons.

The regulatory, financial, institutional and ownership conditions of the banking system functioning in a market economy were created during the first half of the 1990s. The credit, bank and debtor consolidation programs supported the financial rehabilitation of banks and their corporate clients, both experiencing difficulties in the wake of the change in economic system. The cost to the budget was more than HUF 300 billion (USD 2.7 billion). Consequently, the conditions for privatising banks were created and, with the additional help of financially sound professional investors, the Hungarian banking sector was stabilised within a very short period.

The banking system was cleansed of inherent risks in the first half of the 1990s, enabling the deposit insurance system to launch its operations in July 1993 under ideal conditions by virtue of Act XXIV of 1993. Since 1 January 1997 the regulations on deposit insurance have been incorporated in the Act CXII of 1996 on Credit Institutions and Financial Enterprises.

According to the Act, the tasks of the NDIF are to take measures preventing the freezing of deposits, reimburse insured deposits and represent the interests of depositors and lenders when credit institutions are liquidated. When determining the resolution method NDIF is obliged by law to make calculations on the basis of the least cost principle and to choose the solution with the lowest costs. Performing its tasks, the NDIF may request data from the credit institutions and the Hungarian Financial Supervisory Authority, but may also request information from the National Bank of Hungary.

Credit institutions that wish to collect deposits must become member institutions of the Fund before commencing their activities. Apart from crisis situations, the member institution relationship of the NDIF is restricted to premium payment, rare examinations and a mutual provision of information.

### ***Membership***

On 31 December 2003, NDIF had 218 members: composed of 33 banks, 6 credit co-operatives, 2 building societies and 177 savings co-operatives.

### ***Organisation***

The supreme governing body of NDIF is the Board of Directors. Members of the board are senior officials from the National Bank of Hungary, the Ministry of Finance, the Hungarian Financial Supervisory Authority, the Hungarian Banking Association and the National Federation of Savings Co-operatives as well as the managing director of NDIF.

Being a small organisation - the number of staff is below 20 - the structure is very simple. The highly trained expert staff performs its tasks in virtual groups.

### ***Coverage***

The original coverage limit was HUF 1 million per depositor, per bank. Since January 2003 HUF 3 million<sup>1</sup> (ca. €11,400 or \$14,500) is the upper limit of reimbursement (principal and interest together). The beneficiaries of the deposit insurance scheme primarily have been small depositors. Insurance provided by NDIF covers all registered deposits of customers placed with member institutions. Exceptions are deposits placed by government-run organisations, financial institutions, insurance companies, investment funds, etc. The 10% co-insurance applied since 1 January 2003 should help to limit the moral hazard.

### ***Fund ratio***

Fund ratio is the internationally accepted indicator of the asset position of deposit insurers, which, in the case of the NDIF, compares the insured deposits and deposit portions (potential or theoretical reimbursement limit) of member institutions to the liquid asset portfolio of the deposit insurer.

The fund ratio of the NDIF was 0.09% at the end of the first year. Subsequent to that, apart from a sudden stop in 1999, it has increased by an average 0.2% annually. At the beginning of 2002 it reached 1.6%, which provided a good basis for raising the insurance limit to HUF 3 million, as decided in 2002 and accomplished in 2003. The fund ratio remained above 1% subsequent to the increase of the limit. Calculations show that after accession to the EU, when the insurance limit will grow to HUF 6 million (slightly over EUR 22,000), it is likely that this value will remain within the target band of 1-1.5 %.

### ***Asset-management***

Over the past ten years, 92 to 99% of the NDIF's assets were made up of current assets, mainly securities, since it is obliged to keep its liquid assets in government securities. Their book value approached HUF 37 billion by 2002; indeed, the market value of the security portfolio with the recovery of the indemnity paid to Realbank depositors at the beginning of 2003 and the NDIF premiums for the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2003 was more than HUF 44 billion (USD 211 million or EUR 168 million) in the middle of 2003. Nearly three-quarters of the government securities held are made up of Hungarian government bonds while the rest is composed of discounted treasury bills.

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<sup>1</sup> HUF 6 million is valid as of May 1, 2004, the date of the EU accession

### ***Premium policy***

Revenue resources of NDIF are: a one-off admission fee on entry (0.5% of the member's registered capital); annual ordinary and extraordinary payments made by member institutions; borrowings, if needed; and other revenues (including the yield on government securities investments and the recovery from the liquidation). The legal maximum of the regular annual fee is set at 0.2 per cent of the stock of insured deposits as of 31 December of the previous year. The fund has applied three premium rates ranging between 0.05 and 0.005 per cent of the total amount of the insured deposits, depending on the size of each deposit. In 2003, the average premium rate was 0.0021 per cent.

The NDIF is required to pursue a premium policy after acceding to the European Union which, on the one hand, ensures enough funds for the higher coverage and, on the other hand, does not result in any competitive disadvantage for the Hungarian banking system.

### ***Examinations***

The Fund has conducted regular on-site examinations at its member institutions since 1996. The most important goal of on-site examinations is to gain assurance that the registration of depositors at member institutions complies with legal requirements, i.e. whether the reimbursement of depositors could be supported by sufficient data or documentation (client records). During such examinations, the Fund pays close attention to ensuring that its member institutions comply with their obligation to inform their clients of deposit insurance in accordance with legal regulations (client information). During the on-site examinations of premium declarations, the review focuses on the figures underlying the premium base too.

### ***Other information***

NDIF launched a project in 2002 aimed at modernizing the technical background for reimbursement of depositors. The new payout software, based on the latest technology provides a good basis for a quick, credible and transparent reimbursement process.

NDIF celebrated the decennium of its establishment on 21 November 2003. On that occasion a book, describing the major events, including the details of practical experience of the first ten years was presented. The book has been translated into English and is available to all interested foreign visitors on our web site [www.ndif.hu](http://www.ndif.hu)

The presentation was followed by a reception and cutting of a birthday cake (Mr. Dániel Jánossy Managing Director and Dr. András Fekete-Gyor Deputy Managing Director of NDIF).



## **Challenges**

Deposit insurance will transcend the borders of Hungary thanks to European Union accession. In accordance with regulations entering into force relating to credit institution branches coming from abroad the NDIF "monopoly" will cease to exist. The more cross-border branches that are established, the less we can consider the NDIF to be a "national" institution.

The legal regulatory framework for this is essentially in place, but in order for legal provisions not just to give guidance once a problem has occurred, but to become more of a part of a savers' routine when placing their deposits, the amended rules must be communicated to as wide an audience as possible with the upcoming EU accession.

Finally, revising the premium policy is on the agenda, which may give new guiding principles to other deposit insurance tasks, such as risk analysis, cost-minimising crisis management and member institution relations.

The full Member Profile on Hungary can be viewed on the IADI website:

<http://www.iadi.org/html/App/SiteContent/Member%20Profile%20Hungary.pdf>

## **What's New in Your World?**

### **Japan**

The **Deposit Insurance Corporation** of Japan is hosting an International Seminar on Deposit Insurance and the Second IADI Asian Regional Committee meeting in Kyoto, Japan on 18-19 March 2004.

As noted in previous issues of this Newsletter, the main theme of the International Seminar will be "Challenges for Deposit Insurers in Post Banking Crisis". The Seminar will feature presentations by international organizations and academics, and deposit insurers focusing on issues such as: (i) Independency of a deposit insurer and its relationship with other safety net players; (ii) Strengthening deposit insurance fund arrangements; and (iii) Risk assessment functions of deposit insurers. In the second session, the issue of differential premiums will be discussed in terms of its potential as a new funding tool after a banking crisis. There will be Q & A session for each of the sessions.

Information on these events can be obtained from Kazumi Inoue, Senior Adviser, International Affairs, **Deposit Insurance Corporation** of Japan at:

[kazumi-inoue@dic.go.jp](mailto:kazumi-inoue@dic.go.jp).

### **Korea**

Won-keun Yang, Executive Director, **Korea Deposit Insurance Corporation**, was invited by the Asia Development Bank (ADB) to take part in the Global Development Network's Fifth Annual Global Development Conference held in New Delhi, India from 28-30 January 2004. The topic he addressed was "Financial Reforms in Asia Since 1997: Lessons and Responses".

After the financial crisis of 1997, many Asian countries (Thailand, Korea, Malaysia and Indonesia) adopted different policies in response. Though India and the People's Republic of China were not directly affected by this crisis, they too have introduced financial sector reforms to mitigate the possible risks of such a crisis in the future. Additionally, there have been some initiatives at the regional level to address this challenge, e.g., high frequency macro-economic and financial monitoring of ASEAN+3 countries. A distinguished panel of experts discussed the lessons from the financial crisis and responses in different Asian countries.



## Russian Federation

On 27 December 2003 the Federal law "On insurance of household deposits in banks in the Russian Federation" entered into force. With the passage of this law, the **Deposit Insurance Agency** was formed and its Board of Directors appointed, Alexander V. Turbanov as the General Director and it approved an organizational structure. There are 10 departments in the new agency and 140 staff.



With this change, the **Deposit Insurance Agency** becomes a Member of IADI in accordance with the new procedures adopted by the Executive Council since **ARCO** is an Observer in IADI.

Picture: Alexander V. Turbanov, Contact: [info@gk-arco.ru](mailto:info@gk-arco.ru)  
General Director of the Deposit Insurance Agency

The basic principals of the Russian Deposit Insurance System are the following:

- Mandatory participation of banks in the deposit insurance system;
- Transparency of deposit insurance system operations;
- The deposit insurance fund will be built up through the collection of regular insurance premiums paid by the banks.

Depositors will get a 100% reimbursement of their aggregate deposits in a failing bank up to a maximum of 100, 000 rubles (about US\$ 3,500). Repayments will be effected within 3 days from submitting a claim by the depositor, but not sooner than 14 days after insurance event date.

The rate of insurance premiums paid by banks will not exceed 0.15% (in the event of a shortage of the fund's resources, the rate of insurance premiums can be increased over an 18 month period to 0.3%). As well, if there is a shortfall, the Russian Federation Government has the right to give to the Agency funds from the federal budget.

A bank already working with household deposits shall be registered with deposit insurance system on the basis of results of special examination by the Bank of Russia

Furthermore, the Bank of Russia may impose a prohibition to attract household deposits for banks not fulfilling deposit insurance system participation requirements.

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The Agency's website is **currently under construction** and it's address will be:  
[www.gk-asv.ru](http://www.gk-asv.ru) .

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*This newsletter was issued on 26 February 2004. Want to share your expertise? To submit articles or items for consideration for a future issue please send them to [info@iadi.org](mailto:info@iadi.org) by 21 March 2004.*