# Proceedings from the Second Annual IADI Conference
# Seoul, Korea
# 23-24 October 2003

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**Foreword**

**Korea Deposit Insurance Corporation** was the host for the Second Annual IADI Conference, which was held in Seoul, Korea from 22-24 October 2003. Consistent with IADI's vision "to share deposit insurance expertise with the world", the Members of the Association invited expert practitioners from around the world to make presentations and participate in the conference. The presentations covered deposit insurance as an integral part of the financial safety net, strategies to promote effective deposit insurance systems, information needs of deposit insurers, new guidance on differential premiums systems, lessons learned from dealing with institutional failures, the results from the **Canada Deposit Insurance Corporation** International Deposit Insurance Survey and future challenges for deposit insurance practitioners. There were also reports delivered from each of the IADI Regional Committees and there was an update on IADI activities. The audience of 140 was truly international in scope as 45 countries were represented at the conference.

These proceedings were prepared by an international team of writers organized by Sun Eae Chun, a Senior Economist in the Research Department of **Korea Deposit Insurance Corporation**. The writers included: Sun Eae Chun and Jaeho Chung of KDIC; Bent Vale, Norges Bank; Renata Cechova, **Deposit Insurance Fund (Czech Republic**); Francis Quek, **Monetary Authority of Singapore**; Kim K.T. Chong, **Hong Kong Monetary Authority**; Yvonne Fan, **Central Deposit Insurance Corporation**; and David Walker and Ray LaBrosse, **Canada Deposit Insurance Corporation**. I take responsibility for any errors that emerged in the editing process.

Copies of the PowerPoint presentations and a picture gallery are located on the Internet at: **http://www.iadi.org./**

John Raymond LaBrosse
***Secretary General***

9 January 2004

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## Welcoming Remarks

*In-Won Lee, President & Chairman, Korea Deposit Insurance Corporation*

**In-Won Lee** said that it was an honour to welcome the participants to the 2003 Annual General Meeting and Conference of the International Association of Deposit Insurers at such a beautiful time of the year in Seoul. He congratulated IADI for its rapid development into a world-class organization within such a very short span of time. He praised the great leadership of Jean Pierre Sabourin as well as the invaluable support of the representatives of the founding organizations that helped bring IADI into reality.

Mr. Lee then turned to the major roles that the **Korea Deposit Insurance Corporation** has played in overcoming the 1997 financial crisis. He explained that all the major financial safety net players in Korea clearly recognized the importance of an effective deposit insurance system in providing financial stability. Korea, he said, was lucky that KDIC had begun operating in early 1997 before the crisis occurred. Thus, it was possible to mobilize and inject a large amount of public funds into ailing financial institutions, while aggressively pursuing a financial restructuring process.

Reflecting on the birth of the **International Association of Deposit Insurers**, Mr. Lee noted that it could not have been timelier because of the increased need for international cooperation in achieving financial stability in every country. Coupled with the need for financial stability and an unprecedented level of integration among financial markets, he stressed that the new era requires a better and stronger path for cooperation and mutual support. He pointed out the necessity of actively sharing information and knowledge with one another and lending support to build sounder financial and prudential regulatory frameworks. In that respect, he noted that IADI has been making great strides in the development of guidelines and methodologies to enhance the effectiveness of deposit insurance systems.

He closed by saying that the conference offers opportunities to explore the role of a deposit insurance systems as a core part of a nation's financial safety net. Lastly, there was a sincere appreciation expressed to all of the people who had worked so hard to organize the conference.

## Opening Session

*Wonkeun Yang, Chair of the 2003 IADI Conference and Executive Director, Korea Deposit Insurance Corporation*

**Wonkeun Yang** formally opened the conference by noting how meaningful a decision it was some eighteen months ago to hold this event in Seoul. This is because Korea had gone through a financially unstable period and the deposit insurance system played an important role in its successful resolution. He was glad to announce that the **Korea Deposit Insurance Corporation**, established in 1996, succeeded in restoring public confidence in the system by applying various methods that were used in the resolution of insolvent financial institutions. He noted that Korea is now approaching the end of the restructuring and privatization process.

During the last decade, he said, there have been a number of unprecedented mega-trends: globalization; deregulation; and consolidation, along with accelerating advances in information technology, which have made financial markets more complex and more volatile than ever before. He hoped that this conference would help deposit insurers cope with such challenges in a more effective manner in the future.

Mr. Yang then explained that the two-day conference was designed in a rather systematic way. On the first day, various challenges would be tackled by decomposing them into particular areas of interest. The morning would cover macro issues of system design, such as governance, interrelationship among supervisors, public confidence and credibility, while the afternoon sessions would discuss mostly micro issues: how to solve the problems in information acquisition, issues relevant to fund management, and guidance on differential premium systems.

On the second day, he noted that insights could be derived on how to cope with such challenges more effectively by taking a more integrated longer term view. Attention would then turn to the lessons learned from dealing with institutional failures with a special focus on the financial crisis in Asia. The following session would touch upon both positive and normative issues such as: what had been done to deal with challenges in the past and present; and what can be done to deal with such challenges in the future.

Mr. Yang noted that the conference program was designed to help one another to share knowledge and expertise. He was confident that all of the moderators, presenters, and discussants, as well as the distinguished speakers, would exert their best efforts to meet that objective.

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Mr. Yang then introduced **Jean Pierre Sabourin**, the Chair of the Executive Council and President of the **International Association of Deposit Insurers**. Recognizing that IADI could only make such rapid progress with the commitment and leadership of Mr. Sabourin, the audience welcomed him as the Keynote Speaker.

## Keynote Address

*Jean Pierre Sabourin, Chair of the Executive Council and President, International Association of Deposit Insurers*

**Jean Pierre Sabourin** thanked the Conference Chairman, Wonkeun Yang, for the tremendous effort, hospitality, and warmth shown by the **Korea Deposit Insurance Corporation** in hosting the conference.

He then comment on the substantial progress that IADI had made in only its first year of operation, growing from the original 35 participants to 49. The purpose of the **International Association of Deposit Insurers**, he underscored, is in bolstering financial stability recognizing that unexpected events can influence whole economies. The challenges are global in nature, but local in impact, sometimes with economic and social problems that are far reaching, and recent episodes of SARS and Mad Cow Disease were cited.

It was recalled that IADI grew out of the deliberations of the Financial Stability Forum Working Group on Deposit Insurance and it has emerged as the international voice of deposit insurers. The achievements for 2002/2003 were many and he cited a few:

- ✓ Mission and Vision statements were adopted;
- ✓ A corporate identity was created;
- ✓ The Head Office was opened at the BIS in Basel;
- ✓ A website was developed;
- ✓ Several "hands on" committees were created; and
- ✓ The Executive Council has been fully engaged in carrying out IADI's objects.

He added that IADI held a very productive seminar with the European Bank for Reconstruction and Development for policy makers from central Asia, Azerbaijan and Mongolia, completed a Discussion Paper on Differential Premiums, prepared a report on an international survey regarding the design of deposit insurance systems, and delivered a number of presentations at international conferences. Mr. Sabourin then welcomed each of the new Members, Associates, Observers and Partners since IADI was formed.

Given the theme of the Conference, Mr. Sabourin then turned to some recent findings of a performance review article that had appeared in the late September issue of *Business Week* magazine. The article – entitled "Reform: Who's Making the Grade" – was particularly timely to the theme of the Conference as he said that it provided a "report card" on post-Enron reform activities of regulators, CEOs, analysts, and investors. The results, he maintained, were interesting.

The highest grade went to the regulators, who scored an "A minus". CEOs got a "D", analysts a "C", and institutional investors a "D", since they've been slow in demanding governance reforms. But, he noted that some might say that these ratings aren't that relevant to us as deposit insurers or to other members of the financial safety net.

Mr. Sabourin said he would like to think that all members of the financial safety net scored an "A", but it is not comforting to see such poor grades assigned elsewhere. We need to do our part in ensuring that member institutions are managing their risks appropriately by following standards of sound business and financial practices that enhance governance and depositor protection. This was not necessarily so easy to do and Mr. Sabourin underscored that the delegates would be hearing more about this issue over the next two days, and in the months to come.

There was a quick review of the conference agenda and mention was made of some upcoming IADI activities. He cited the following:

- ✓ a deposit insurance seminar for The Western Balkans, 8-9 December 2003 with the **European Bank for Reconstruction and Development**;
- ✓ an APEC Policy Dialogue to be chaired by **Canada Deposit Insurance Corporation** and hosted by **Bank Negara Malaysia** in Kuala Lumpur on 16-18 February 2004;
- ✓ a Workshop on Enterprise Risk Management in partnership with **Deloitte & Touche LLP** set for 28-29April 2004 in Basel; and
- ✓ next year's conference, also to be held in Basel, on 27-29 October 2004.

In conclusion, Mr. Sabourin stated that through these various and related activities we are working to achieve the Association's objectives. In doing so, we are building an organization that gives deposit insurers a distinctive voice on the domestic and international stages. He added that we are also seeking to facilitate the enhanced contribution that deposit insurers can make as an integral part of the financial safety net worldwide. By sharing information and lessons learned, by disseminating effective guidance for the formation and improvement of deposit insurance systems, and by establishing extensive and active networks around the world, IADI is doing its part in strengthening international financial stability. These are our goals.

Already IADI has clearly surpassed its own high expectations, Mr. Sabourin noted, and it is already acknowledged as a vibrant organization with a strong voice. With everything that has been accomplished he closed by saying that all of it is amazing accomplishment given that IADI was only just a dream eighteen months ago.

## Session I: Deposit Insurance–An integral part of the financial safety net

**Moderator:** *Shinichi Yoshikuni, Chief Representative, Office for Asia and the Pacific, Bank for International Settlements (BIS*).

**Opening Presentation**: Deposit Insurance and Financial System Stability

**Shinichi Yoshikuni** started this session by stating that strengthening financial stability is a core goal of the Bank for International Settlements and this is facilitated by the so-called "Basel Process". This "process" promotes informal and in-depth discussion among policy authorities and practitioners, and it promotes co-operation among various supervisory and macro-prudential forums. The Basel committees, which make up the "process", include: IADI, BCBS, IAIS, IOSCO, CGFS, CPSS, FSI, and the FSF.

The BIS, he said, emphasizes the need to develop appropriate polices to enhance financial stability such as good governance and cooperation among various institutions within a country, and global and regional cross-border cooperation based on international standards. In this regard, the "process" acts as a catalyst for enhancing financial stability through tools such as the Basel Core Principles on banking supervision and the Basel Capital Accord, and by promoting cooperation among the various supervisors and organizations such as IADI.

He ended by asking three questions: first, how should financial stability be assessed in the context of the **International Monetary Fund**/World Bank financial sector stability assessment program? Second, what should the role of deposit insurance be in promoting financial stability? And, three, what should be the appropriate relationship between the various safety-net players? These questions, he noted, would be addressed by the two panelists.

**Presentation I:** Financial Stability Assessments: Implications for Governance Arrangements

> *Stefan Ingves, Director, Monetary and Financial Systems Department,*
> *International Monetary Fund, Washington, D.C.*

Building an effective financial safety net is essential for all countries, noted **Stefan Ingves,** and he defined a financial safety net as including a deposit insurance system, lender of last resort facilities, and a supervisory and regulatory framework which includes an exit policy for troubled institutions. An effective safety net, he noted, is one that contributes to the safety and soundness of a financial system but does not create excessive moral hazard. He reiterated that the work of IADI supports the development of effective safety nets.

Good governance is a critical feature of an effective safety net, Mr. Ingves added. This includes ensuring that there is good governance of financial institutions and good governance on the part of those who oversee the financial system. A country's financial system is only as strong and as sound as the system of governance applying to all stakeholders. How do we achieve a high quality of governance in a safety net, he asked? The key ingredients for success, he said, are: independence, accountability, integrity and transparency. These four components, he explained, are equally important and they must interact together. Mr. Ingves then went on to explain each of these components.

Independence for safety-net providers requires that they be insulated from undue political and industry influences. Independent agencies, he noted, are able to create credible policies and are more effective than entities lacking independence. However, independence must be accompanied by a strong system of accountability to key stakeholders.

Accountability, or how an agency justifies its actions against the mandate assigned to it, can be met, he said, through regular meetings with members of the legislative body, or the government, and by publishing reports on a regular basis.

The integrity of a financial safety net helps safeguard decision-making from various special interest groups. Internal audit systems, legal protection for employees, and conflict of interest codes all contribute to reinforcing integrity.

With respect to transparency, he noted that it is important that the framework and its details are made available to the public as this helps to improve the functioning of the system and unveils poor policies, practices and procedures. Transparency also directly supports independence, accountability and integrity.

The **International Monetary Fund**, Mr. Ingves noted, recently conducted some research on the quality of governance among financial authorities through its FSAP process. The key findings were:

- Advanced countries score better than transition and developing economies in terms of all four components. However, the majority of countries still do not generally accept the idea of an independent bank supervisory agency.
- Advanced and transition economies scored fairly well on transparency. But, he said that less than 60% of countries reviewed have good arrangements for the integrity of their staffs.
- For bank supervisors, political interference is a common and recurring problem, there is a lack of sufficient budgetary resources, and many lack enforcement powers.
- Deposit insurers with broad mandates scored well on accountability and transparency particularly in advanced and transition economies. On independence and integrity more work needs to be done and he noted that the **International Association of Deposit Insurers** could play a useful role in emphasizing the need for integrity arrangements.

And what were the lessons learned? Among the underpinnings of good governance, Mr. Ingves said that assessments of standards and codes play a key role in these determinations and there is a need to improve regulatory governance across the oversight agencies in the financial sector. Of the four underpinnings of good governance, he was most concerned about integrity. The FSAPs drew attention to the fact that sound supervisory practices are rooted in the integrity of bank supervisors and there is an important link here to legal protection of supervisors. Deposit insurance agencies, and in particular those with broad mandates, also need high governance standards because they play a key role in the financial safety net and he noted that several of the newly established agencies practice high degrees of transparency, accountability and integrity.

**Presentation II:** Interrelationships Among Financial Safety-Net Players

*Winston Carr, Chairman, Caribbean Committee, and Chief Executive Officer, Jamaica Deposit Insurance Corporation*

**Winston Carr** began by reminding the audience that a deposit insurance system plays an important role in a country's financial safety net. Interrelationships among financial safety net players can vary substantially depending on the institutional, economic and financial situation of a country. Nevertheless, he noted that information sharing is essential for an effective deposit insurance system in order to avoid potential conflicts of interest and to provide clear definitions of powers and responsibilities.

The more complex the safety net institutional framework, he said, the more relevant the inter-relationship issues becomes. Deposit insurers, in particular, need information: to assess the (financial) condition of the industry and the individual insured institution; to quantify their (risk) exposure; anticipate problems and to effectively deal with them when they actually arise; to manage insurance funds efficiently; and to be accountable for the accomplishment of their mandate.

Thus, Mr. Carr noted that deposit insurers need information on general macro-economic conditions, financial developments and policy decisions affecting the industry. In particular, information is required on individual institutions – e.g. the soundness of individual banks, especially from a forward-looking perspective, and risk exposure information. Finally, special information prior to a failure – e.g. estimates of the total value of assets and distribution by type; and the time frame of the liquidation process – are critical.

Information sharing should be timely, accurate and relevant with due respect given to its confidentiality when required, he said. In addition, appropriate mechanisms are needed to ensure coordination and information sharing. The most important and effective way to promote smooth coordination on the part of financial safety net players is to provide for a clear division of powers and responsibilities among them. In short, he closed by saying that "good fences make good neighbors" and this advice is helpful in articulating the individual roles of financial safety-net players.

## Session II: Strategies to promote effective deposit insurance systems

**Moderator:** *Hans Jacobson, Chairman, Deposit Guarantee Board, Sweden*

**Presentation I:** IADI Country Reports on the Design of Deposit Insurance Systems

*George Hanc, Associate Director, Division of Insurance and Research and Head of Reserach Branch, Federal Deposit Insurance Corporation, and Chair, IADI Research and Guidance Committee*

**George Hanc** presented the results of a survey that IADI had done which focused on the factors surrounding the setting up of deposit insurance systems based on detailed information from thirteen countries. He noted that there was quite a variation in the scope and organisation of the systems in the different countries. Based on the survey, the objectives of deposit insurance systems are to maintain confidence in the banking system, to protect unsophisticated depositors, to ensure orderly disposition of failed institutions, and in one country to attract hoarded currency into the banking system. The survey also showed that the mandates of the deposit insurance agencies vary from just being a "pay box" for depositors, if a bank is closed, through to the power to provide financial support and to help restructure a problem bank, and, in some cases having full supervisory, resolution, and receivership powers.

Coordination of actions by the various safety-net players, he noted, is promoted by having other safety-net players serve on the governing body of the deposit insurer and in other groups, he said. The exchange of information about individual banks is furthered by various means. These could include authorizing the deposit insurer to join the supervisor in bank examinations, or requiring the supervisor to inform the deposit insurer if the condition of a bank is deteriorating.

Membership in the deposit insurance system, it was shown, is legally or effectively compulsory for all responding countries. In most cases, insurance is automatically granted when a banking license is issued by the supervisor, or the central bank, and terminated when the license is revoked, although a few countries gave the deposit insurer separate authority to grant or terminate insurance. With respect to funding, it was found that most systems set up a fund, or reserves, in anticipation of future losses (*ex ante* funding). However, a number of countries have *ex post* funding arrangements whereby premiums are collected to pay for past losses. Most systems, he noted, can borrow from the government or on the market for emergencies or to smooth premium flow. Many countries are seeking to modify their premium systems and the change most frequently being considered is the adoption of risk-based premiums.

Mr. Hanc said that the survey raised a number of other interesting points. For example, when a bank fails, the deposit insurer reimburses insured depositors, generally on the basis of the failed bank's own records; although in some cases, depositors may also have to file claims. Bank secrecy laws in some countries, however, preclude access to the bank's records until the institution is formally closed. Most systems, he said, play some role in resolutions transactions other than deposit payouts. Among the respondents, he noted that four countries have bridge bank authority and six have receivership powers.

From the survey findings he said that all respondents made an effort to inform the public about deposit insurance. In some cases, however, the effort is confined to the maintenance of a website and the publication of pamphlets and annual reports. More extensive efforts in other countries include telephone hot lines, training programs for bank employees, interactive tools to provide individual coverage information, seminars, and a variety of outreach programs.

**Presentation II:** Standard of Sound Business and Financial Practice

*Ronald N. Robertson Q.C., Chairman, Canada Deposit Insurance Corporation*

**Ronald N. Robertson** focused on standards of sound business and financial practices as a strategy to advance effective deposit insurance systems and he drew from some pertinent the experience of Canada Deposit Insurance Corporation. Mr. Robertson noted that mismanagement at the banks was a significant factor in most of the interventions undertaken by **Canada Deposit Insurance Corporation**. This illustrates, he explained, that a pure numerical test is not sufficient to monitor the risk of a bank. Both the Board and senior management have to report annually to CDIC their adherence to standards of sound business and financial practices. Standards, he said, have been in place since 1992 and reflect a view that enforceable standards must be applied to the "directing minds" of member institutions. He underscored that the approach is pre-emptive in nature and an institution that falls below the standards may be charged a higher premium. Thus, there is a strong incentive mechanism in place associated with the financial pain.

CDIC's Standards, Mr. Robertson noted, were modernized recently with an emphasis on active risk management processes embedded in an "in-control" environment. The determination as to whether an institution is "in-control" is generally derived as a by-product of processes already in place – processes that identify and assess significant issues throughout the organization and aggregate results and conclusions for senior management and the board. The Standards are structured to emphasize that ultimate accountability for a financial institution's operations lies with the Board while day-to-day operations lie with senior management.

**Presentation III:** Promoting Confidence in Developing Country's Banking Systems

*Shamsuddeen Usman, Deputy Governor, Financial Sector Surveillance, Central Bank of Nigeria*

**Shamsuddeen Usman** stated that the primary role of a deposit insurance system, in a developing country like Nigeria, is to establish confidence in the country's banking system. This, he noted, is of vital importance to generate economic growth

In many developing countries there is lack of transparency in a bank's operations. This makes it easy for them to conceal the full extent of their non-performing loans. In order to stick to the best international practices, the Central Bank of Nigeria and the **Nigeria Deposit Insurance Corporation** encourage the banks to comply with the present Basel capital requirements. Steps are also being taken, he noted, to follow the new Basel II guidelines that will be implemented internationally in a couple of years.

In a developing country, Mr. Usman said, deposit insurers and financial regulators have to deal with specific local peculiarities like the handling of rumours, inadequate IT facilities compared to the industry, and unreliable data. For the regulators or supervisors to create confidence in the banking system it is essential that they keep their own house in order, and provide leadership by example. Monetary policy and the bank regulation policy have to be transparent, he noted. Also, to earn confidence of the institutions being supervised, he said that former bankers have been appointed to serve in the supervisory division of the Central Bank of Nigeria. In closing he said that economic incentives are also essential; those institutions that comply should benefit financially.

## **Luncheon Presentation:** Managing Risks for Financial Stability

*Jung-Jae Lee, Chairman, Financial Supervisory Commission & Governor, Financial Supervisory Service, Korea*

**Jung-Jae Lee** began his address by recognizing that Korea's deposit insurance system had played a crucial role in restoring financial stability and market confidence in the wake of the financial crisis that hit Korea in 1997. As a result, it was particularly meaningful that Korea had been selected as the venue for a gathering of deposit insurers from all over the world.

Mr. Lee noted that more than one hundred financial crises in some ninety countries had taken place since late 1970s; a frequency almost high enough to suggest that financial crises are an inevitable cost of economic development. With liberalization, deregulation and rapid advances in information technology, both the real and the financial sectors had become increasingly volatile, he noted. Also, the global financial system has become much less predictable than in the past and it frequently is coming under much strain. With the global financial system so volatile and uncertain, maintaining financial institutions sound and the financial system stable have become key pre-requisites for sustainable economic growth. Mr. Lee then focused on four common issues in risk management for financial stability.

The first common issue was the difficulty in measuring and monitoring risks individually as well as in aggregate. Thus, it has become necessary for financial institutions to recognize the limitations of their ability to monitor and manage risks, and exercise prudent risk management, while continuing to strengthen corporate governance structure, and risk-related disclosure requirements.

Secondly, Mr. Lee emphasized the importance of maintaining a balance between the micro and macro aspects of financial supervision. Financial supervisors need to not only focus on financial soundness at the individual firm level, but also pay attention to the overall health and stability of the financial system.

The third issue he raised touched on the difficulties in determining the timing and method of policy responses in times of relatively high potential systemic risks and structural problems in the economy. Mr. Lee argued that policy actions might need to be accompanied by economic stimulative measures in times of crisis, while excessive stimulation might end up not only masking the structural problems, but also putting off policy choices to address the structural weaknesses until the next crisis.

Finally, Mr. Lee stressed the need for close policy coordination and cooperation among financial supervisors, central banks, deposit insurers, finance ministries, and other related authorities. He said it is hard to implement, but nevertheless it would prove to be effective in dealing with the safety and soundness of financial institutions as well as maintaining the financial market stable.

In closing, Mr. Lee said that securing financial stability amid an ever-evolving environment would require responding to risks on the basis of a clear understanding of the relationship among the financial institutions, the financial market, and the macro-economy. It was his hope that the conference would enhance that understanding.

## Session III: Key issues for deposit insurers

**Moderator:** *Bakhyt Mazhenova, General Director, CJSC Kazakhstan Deposit Insurance Fund*

**Presentation I:** How Do Deposit Insurers Get the Information They Need to Do Their Job?

*Ricardo M. Tan, President and Chief Executive Officer,*
*Philippines Deposit Insurance Corporation*

**Ricardo Tan** delivered a presentation on the **Philippine Deposit Insurance Corporation**'s approach to information gathering in relation to its major functions: to insure deposits, to minimize risk to the Deposit Insurance Fund and to be the mandatory receiver and liquidator of banks ordered closed by the Monetary Board.

An important risk minimizing activity of PDIC is bank failure resolution, he noted. This is being undertaken in close coordination with the BSP (the bank supervisor, **Bangko Sentral ng Philipinas**, the central monetary authority), and it requires having the latest information on the condition of a bank.

Mr. Tan explained that once a bank is ordered closed by the Monetary Board, PDIC as the mandatory receiver and liquidator takes over the records and assets of the bank. At this point, immediate payment of insured deposits of legitimate claimants is the primary task. To determine the validity and legitimacy of claims for insured deposits, PDIC examines the deposit records and consolidates those under the same name and capacity. Then, the loan accounts are also examined to allow set-off of any loan balances of depositors against their deposits. Once the master list of insured deposits is complete, a pay-out operation is immediately scheduled to reimburse the claims for insured deposits. The capability to pay promptly is highly dependent on the quality of bank records. Mr. Tan noted that one of the major hurdles to a quick pay out operation is PDIC's inability to promptly access deposit records due to the Deposit Secrecy Law. Thus, PDIC gains access to deposit records for the first time only after the bank is closed.

After a bank is placed under receivership, PDIC evaluates proposals to rehabilitate the closed bank. This, he said, may require a lot of information to see if the proposals are viable options. When a substantial part of the assets are liquidated, a partial distribution of proceeds is undertaken. He noted that information on the costs incurred in managing and selling the assets versus their estimated realizable value is an important gauge in determining when to terminate liquidation activities.

Despite limitations imposed by law, Mr. Tan commented that PDIC has been able to put in place a reliable system for the procurement of information needed in fulfilling its primary functions. Aside from a Memorandum of Agreement (MOA) on information exchange with the BSP, it conducts joint onsite examinations with BSP, whenever warranted. PDIC and BSP are also exploring a means of deputizing PDIC for onsite examination in the second phase of the MOA with the **Bangko Sentral ng Philipinas**.

**Presentation II:** Deposit Insurance Fund Management

*In-Won Lee, President and Chairman, Korea Deposit Insurance Corporation*

**In-Won Lee** discussed the issue of fund management based on the experience of the **Korea Deposit Insurance Corporation**. He noted that KDIC was legally mandated to operate a fund *ex ante* when it was established in 1996. However, when the financial crisis erupted at then end of 1997, the monies needed for insurance claims and financial restructuring far exceeded the value of the Fund. For crisis management, a large injection of public funds was inevitable and funds were mainly raised through the issuance of bonds by KDIC.

Once the financial restructuring was completed, and the loss-sharing arrangement between the government and KDIC finalized, a "New Deposit Insurance Fund (NDIF)" was established. He asserted that a fundamental issue that KDIC faced was sound management of the fund and assessing what target levels could be appropriate for a Fund. He explained that in the target approach, a target for the fund size is predetermined and then insurance premiums are set to maintain the fund at the target. Given the lack of data and short history of the deposit insurance system in Korea, Mr. Lee noted that outside experts advised KDIC to adopt a target of 2% of insured deposit.

Mr. Lee concluded by noting that KDIC is required to make greater efforts to enhance the viability of the fund by minimizing the failure rate and the expected losses from failures. He underscored that KDIC is striving to strengthen their its management systems and enhancing early corrective measures.

**Presentation III:** Transitioning Issues for Systems with State-Owned Banks

*Valeriy I. Ogiyenko, Chief Executive Officer, The Household Deposit Insurance Fund, Ukraine*

**Valeriy Ogiyenko's** presentation focused on transitioning issues of deposit insurance systems for nations with state-owned banks. In Ukraine, he noted, the participants in the deposit insurance system are the banks registered at the State Register of Banks maintained by the National Bank of Ukraine and those having a Banking Licence.

Mr. Ogiyenko then explained that participation in the Fund is mandatory and there are two possible types - participants and temporary participants. The participants are banks that meet the established standards in areas such as the capital adequacy ratio while temporary participants are banks that fall short of the standard.

It was noted that there are two state-owned banks in Ukraine and only one of them is a member of the deposit insurance system. Since the state-owned banks are regarded as receiving implicit, or a blanket government guarantee, their participation is often considered redundant. Nevertheless, he said, there were several reasons why the state-owned banks should be participants. The reasons he cited were to facilitate privatization efforts and to provide a level playing field with the private banks. It would also bring them under the same regulatory rules as those applicable to other banks, increase the financial base of the deposit insurance system and diversify its risks, etc. There is a good chance, he said, that the other state-owned bank will join.

Mr. Ogiyenko stated that the problem of the state-owned banks' participation in a deposit insurance system should be considered in the context of the general financial safety net of the nation. A state which is in the process of establishing a system should put measures in place to upgrade the financial condition of its banks to a generally accepted level of all the member banks before they join the system.

## Session IV: IADI Guidance on differential premiums

**Moderator:** *Charles C. Okeahalam, Managing Director, Africa Growth Holdings (Pty) Ltd., South Africa*

**Presentation by:** IADI Guidance on Differential Premiums

*David K. Walker, Director, Policy and International Affairs, Canada Deposit Insurance Corporation*

**David Walker** presented the results of the work of the **International Association of Deposit Insurers**' Subcommittee on Developing Guidance for Differential Deposit Insurance Premium Systems. The main conclusions and suggestions in the working paper were:

- The first step in designing a differential premium system is to identify the objectives that it is expected to achieve. The primary objectives of most differential premium systems, he said, are to provide incentives for banks to avoid excessive risk taking and introduce more fairness into the premium assessment process.

- There are a wide variety of approaches to choose from for differentiating risk among banks for premium setting purposes. However, whatever approach is used, it should be effective at differentiating banks into appropriate risk categories, utilize as wide a variety of relevant information as possible and be well accepted by the banking industry and safety-net participants.

- Third, a balance needs to be struck between requiring necessary information for the classification of banks into premium categories and any concerns that the demands of the system might be unduly burdensome on the banks. In cases where the deposit insurance entity does not directly gather information, but relies on the regulator or supervisor, agreements between these safety-net participants should be considered. It is highly desirable that formal agreements be in place to ensure that information required for the differential premium system is collected, verified and transmitted on a timely basis.

- The use of audited information can help contribute to the accuracy of the differential premium system and reduce unnecessary administrative and reporting burdens on banks.

- With respect to deciding on the number of premium categories, the objective should be to have an appropriate number of categories -- given the size and number of banks -- while at the same time ensuring there is a meaningful distinction between premium categories to act as an incentive for banks to improve their risk management.

- In determining premium rates to apply to the categories, rates should be set to ensure that the funding requirements of the deposit insurance system are met and to provide effective incentives for the sound risk management of banks.

- A well-managed transition process can help contribute to the success and acceptance of a differential premium system. An effective transition plan should set out the transitioning objectives, responsibilities, resource requirements, timetable and deliverables. The plan should be communicated to all interested parties prior to the beginning of the process.

- The use of a transition period for banks and the deposit insurance entity can help facilitate the transition process. Generally, the more complex the differential premium system assessment criteria, the more demanding are its information requirements and there is a greater adjustment period required.

- The bases and criteria used in a differential premium system should be transparent to banks and all other participants.

- Designers of differential premium systems (as well as all other financial safety-net participants) need to determine the appropriate balance between the desire to promote accountability, market discipline and sound management through disclosure and the need to ensure confidentiality.

- Given the potential financial impact of differential premium rates for banks, it would be expected that banks might wish to provide amended information or even disagree with or contest their assigned scores. While ensuring that the system is transparent and well accepted by industry may lessen the potential for disagreements, it is prudent to consider the importance of a formal process to review potential disagreements and resolve disputes.

- Lastly, differential premium systems need to be regularly re-assessed on their effectiveness and efficiency in meeting their objectives. And, if necessary, up-dated and/or revised to meet changing conditions or requirements.

Mr. Walker then invited the panellists to make their presentations.

**Panelist 1:** The Approach in Brazil

*Antonio Carlos Bueno de Camargo Silva, Chief Executive Officer, Fundo Garantidor de Créditos, Brazil*

**Antonio Carlos Bueno de Camargo Silva** explained the general characteristics of the Brazilian deposit insurance system and commented on why a differential premium system was not introduced earlier in Brazil. The factors cited were: the need to stabilize the economic situation and promote solid, sound, and a highly capitalized banking system; improvements were needed in banking supervision effectiveness; and there was a need to build-up reserves of the fund before the adoption of a differential premium system.

Falling interest rates urged the necessity to decrease premium level of 0.3% per year, which had become a large burden on the banking system, noted Mr. Bueno. The gradual reduction of premiums began in 2003 and, after a three-year period, he said that it will be replaced by differential premium system. Annual premiums will be fixed at 0.005% a year and risk sensitive premiums additional to that will vary from 0% to 0.005% per year. Criteria to evaluate the risk will be based on both quantitative and qualitative variables. As banking supervision is performed by the central bank, he noted that the Fund will rely on supervisory information to determine the rating system. The determination of the financial institution classification is just the first stage, except for major banks, he noted, as they are usually classified by independent rating agencies.

**Panelist 2:** The Approach in Turkey

*Neslihan Özdemir, Deputy Head, Finance Department, Savings Deposit Insurance Fund, Turkey*

**Neslihan Özdemir** summarized the development of the Turkish deposit insurance system. She noted that the Turkish banking system overcame the crisis but it involved 20 interventions at a cost of 12% of GDP. After regaining stability, a limited guaranty system was announced and it is to be introduced in mid-2004 with a one-year transition period.

Premiums for the system will be based on a combination of flat and differential rates. Risk-based premiums, she said, are divided into five risk categories: capital adequacy; foreign exchange position; connected lending; classified loans; and free capital. The premium category is disclosed only to the management of individual bank.

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In the question and answer session, Mr. Walker responded to a question on how the structure and concentration of a banking system can influence the number of risk categories. He explained that in Canada, where the banking system is highly concentrated, the number of risk categories is low to ensure a meaningful distinction between them.

Mr. Bueno added that in Brazil the concentration of banking system is also very high with many specialized banks and foreign bank branches. The risk for the deposit insurer, he said, seems to be low today. As the classification of criteria used to assess the risk of individual institutions are in process, the number of risk categories has not been set so far.

On a question on the optimal time for introducing differential premium system, Ms. Özdemir said that in Turkey they saw a reasonable level of risk and economic and banking sector stabilization as the right time to change the system. In Brazil, Mr. Bueno explained that the maximum level of the fund reserves were revised to 2% of insured deposits and that the level is sufficient enough to deal with any pay-out except for four of the biggest banks that are deemed to be “too big to fail”. Given the state of the economy and the need for banking sector stability plus reasonable fund reserves they now feel that they are at about the right point for a change.

**Dinner Keynote Speech:** Managing the Financial Crisis and Financial Reform in Korea

*Jin-Pyo Kim, Deputy Prime Minister & Minister of Finance and Economy, Korea*

After congratulating Jean Pierre Sabourin and Lee, In-Won for their efforts in organizing the conference, **Jin-Pyo Kim** delivered a speech entitled "Managing the Financial Crisis and Financial Reform in Korea".

Mr. Kim began by enumerating the various measures that the Korean government has undertaken after the financial crisis of 1997. The government, he said, had injected sizable funds into weak financial institutions, and took steps to improve the way in which financial institutions were managed. To win such support, the government established three principles. First, the restructuring cost must be minimized. Second, loss-sharing must be fair between all the stakeholders, including shareholders, management, and staff. And third, moral hazard must be avoided, and financial institutions receiving public funds must be put through a strict self-restructuring process.

The government also overhauled the financial regulatory and supervisory system by consolidating various financial supervisory authorities into the Financial Supervisory Commission, and its implementing arm, the Financial Supervisory Service. At the same time, to tighten prudential regulation of financial institutions, the government introduced a prompt corrective action framework.

Realizing that Korea had become overly dependent on banks, and capital markets were not so well developed prior to the crisis (one of the contributing factors of the crisis), he explained that the Korean government has also undertaken numerous steps to develop capital markets.
In addition to adding measures to enhance corporate governance such as introducing outside board directors, auditing committees and a cumulative voting system. He stressed that a key lesson from the Korean case is that it is very important to tackle structural issues, especially in the financial sector, early and with determination.

In his closing, Mr. Kim mentioned that Korea intends to build on its achievements and aims to eventually become the financial hub of Northeast Asia. Korea, he said, intends to move towards its goal by raising the standard of financial regulation and supervision to higher levels.

## Session V: Lessons learned from dealing with institutional failures

**Moderator**: *András Fekete-Györ, Deputy Managing Director, National Deposit Insurance Fund of Hungary*

**Presentation I:** Resolving Institutional Failures in Japan

*Hajime Shinohara, Deputy Governor, Deposit Insurance Corporation of Japan*

**Hajime Shinohara** provided an overview of Japan's experience in dealing with the failures of deposit-taking institutions in Japan during the 1990s and then he described the major developments and changes in the country's deposit insurance framework.

The **Deposit Insurance Corporation of Japan** ("DICJ"), he said, introduced a blanket guarantee on deposits in 1996 as the condition of Japan's financial system deteriorated and it became evident that Japan was not prepared for depositor payouts on a massive scale. As the resolution of failed institutions proceeds, Japan plans progressively to reduce the blanket guarantee. From April 2002 to March 2005, deposits in savings and current accounts will continue to enjoy a full guarantee, while coverage for other deposits such as time deposits and bank debentures will be limited to ¥10m. From April 2005, coverage of all deposits other than payment and settlement deposits will be limited.

Japan will also improve its bank resolution process under the Civil Rehabilitation Law ("CRL"). Under that law, institutions in financial difficulty with a good prospect for recovery may be re-organised under a judicial process. The financial supervisor will appoint a financial administrator, who will assess the amount of financial assistance the institution needs. The cost will then be considered by the DICJ before a financial assistance package is agreed upon between the DICJ and the failed institution. The resolution process normally takes place over the weekend, he said, to minimise disruption to the financial system and depositors.

**Presentation II:** Globalization & Market Failure: Macro Policy Response

*Pongsak Hoontrakul, SASIN Graduate Institute of Business, Chulalongkorn University, Thailand*

**Pongsak Hoontrakul** spoke about Thailand's transition from the financial crisis of the late 1990s and assessed the progress of Thailand's financial reforms as well as its robustness of the recent economy recovery.

The previous Thai government, he noted, attempted to cope with the financial crisis of 1997 by introducing an austerity programme and expediting more market based mechanism to clear the overhang debt problem. However, the economic and political reforms entailed painful adjustments and were rejected by the Thai people, who elected the present government in an unprecedented landslide victory under PM Thaksin in early 2001.

The Thaksin government, he said, instituted a programme to alleviate the pain of the crisis and to stimulate the domestic economy through credit-based stimulus leading to a consumption- based recovery in 2001. By 2002-03, the Thai economy had recovered from some strong Asian regional "public pump priming" and booming consumer spending. In particular, food industry exports enjoyed a windfall benefit from the SARS concern that emerged in China. Inflation is now low, exports have grown strongly and the Thai stock market has also surged.

Although the short-term prospects for the Thai economy are good, he said that it is uncertain if the current programme of economic stimulus is sustainable. Public debt and off-balance sheet guarantees on new government initiatives have risen significantly due to high public spending and generous state-directed lending. The latter has also crowded out private-sector lending, where private banks are still saddled with high non-performing loans. The economic recovery has also removed the urgency for crucial financial and corporate reforms. Despite much talk, he maintained that the current economic policy directed toward the small and medium enterprises, which have traditionally been the backbone of the Thai economy, remains unfertile.

**Round Table Panel Discussion**

**Panelist 1:** *Chin-Tsair Tsay, Chairman of the Board, Central Deposit Insurance Corporation*

**Chin-Tsair Tsay** addressed the Taiwan experience in overcoming the financial crisis. Taiwan's financial system, he noted, has been awash with funds since 1990 and loomed under urges for financial liberalization. In the face of a strong demand to open up the financial market, the Taiwan government licensed sixteen new private commercial banks. Mr. Tsay said that as the financial market was not able to expand its scale in time and offer enough new type financial products, the results were an over-banking problem and fierce competition. Consequently, community financial institutions were the first to experience operational difficulties but the system lacked an exit mechanism. Furthermore, due to some enterprises' overseas investment losses through the Asian financial crisis, a slide in real estate prices and the global economic recession, the financial system faced operating difficulties and non-performing loans increased dramatically in some financial institutions.

Mr. Tsay noted that the Taiwan government conducted a series of financial reforms to prevent the occurrence of a systemic financial crisis. The measures taken included: making participation in the deposit insurance system compulsory; revising related laws to strengthen financial supervision and resolution mechanisms; appropriating a budget to handle problem financial institutions; and providing a three-year blanket guarantee. So far, 44 community financial institutions have exited from the financial market.

In conclusion, Mr. Tsay indicated that, according to Taiwan experience, forming an independent agricultural financial sub-system may segregate the financial crisis and a mandatory deposit insurance system can help resolve financial distress. He also suggested that financial supervision and efficiency be enhanced before financial liberalization; once there is a systemic crisis, the government's early intervention is important and corporate restructuring and financial reform should be promoted simultaneously.

**Panelist 2:** *Héctor Tinoco, Member of the Board of Governors*
*Instituto para la Protección al Ahorro Bancario, Mexico*

**Héctor Tinoco** spoke about the lessons learned from dealing with institutional failures in Mexico. Mr. Tinoco explained that their crisis was attributable to long-standing problems in the banking industry dating from the 1982 expropriation and a re-privatization in 1992-1993, inadequate supervision and regulation, and it was also triggered by the December 1994 peso devaluation and the ensuing economic contraction in 1995. In order to resolve the crisis, the Mexican Government deployed debtor relief programs and depositor support programs to assist bank debtors and to deal with system-wide under-capitalization of banks. Other policies they adopted included the following: blanket guarantees; permitting foreign investment in the banking system; and there were a series of reforms in the supervisory and regulatory framework.

Mr. Tinoco noted that the strategy seems to have worked though at a substantial fiscal cost that is yet to be determined. Confidence was preserved in the Mexican financial system as no depositor lost money. There were no bank runs, he noted, and the banking sector eventually re-capitalized through a series of mergers and acquisitions by foreign-based banks, leading to a new banking sector reconfiguration. Furthermore, a new policy of limited coverage for deposit insurance was put in place and **Instituto para la Proteccion al Ahorro Bancario** (IPAB )was established in 1999.

Before closing, he emphasized the importance of an adequate regulatory and supervisory framework, the need for diversified banking resolution alternatives, effective coordination, information sharing and clear mandates among safety net players, and the need for an implementation of prompt corrective actions and an early warning system.

Mr. Tinoco ended with the following piece of advice: "Quick actions avoid greater loss of fiscal revenues in times of crisis."

**Panelist 3**: *Bent Vale, Head of Research, Norges Bank*

**Bent Vale** reviewed the history of the Norwegian banking crisis from 1988 to 1993. The first bank failure since War World II happened in 1988, he said, and during the next two years there were failures of small and medium sized banks. Then, in 1991 and 1992, three of the four largest banks in Norway failed or were about to fail and the government recognized the emergence of a systemic crisis. The reasons for the crisis outlined by Mr. Vale were deregulation of credit markets since 1984 that resulted in banks' high growth in lending without paying attention to adverse selection, the deepest recession since World War II, and a fixed exchange rate regime with associated high real interest rates.

Mr. Vale then noted that as the banks' own guarantee funds were effectively depleted and unable to rescue the big failing banks, the Government Bank Insurance Fund was established in 1991. The Fund provided loans on special terms to the banks' own guarantee funds, and rendered conditional capital injections directly to the distress banks as "the owner of the last resort." The Norges Bank, on the other hand, acted as lender of last resort. Additional general support to the banking industry was also provided by the government. Asset management companies or "bad banks" were not part of the Norwegian resolution..

The Norwegian crisis was over by 1993, noted Mr. Vale. Neither depositors nor money market lenders lost money (with a few exceptions at a small bank before the systemic crisis), and bank runs and a severe credit crunch were effectively avoided. When handling problem banks in Norway, he emphasized that the original shareholders' equity was the first line of defence and it was wiped out before banks' own guarantee funds, the second line of defence, stepped in. The government provided only the last line of defence and acted as the bridge bank through temporary capital infusions into the troubled banks during the systemic crisis.

## Special Session: Deposit insurance: present and future

**Moderator:** *James "J" R. Hambric III*, Director, Barents Group, BearingPoint, Inc., Indonesia

**Presentation I:** Future Challenges for Deposit Insurance Practitioners

*Wonkeun Yang, Executive Director, Korea Deposit Insurance Corporation*

**Wonkeun Yang** delivered a presentation entitled "Future Challenges for Deposit Insurance Practitioners." Mr. Yang pointed out that there had been three major changes in the financial market environment all over the world: globalization, deregulation, and the information technology (IT) revolution. It has become both possible and necessary for firms to develop new ways to compete. This, he noted has resulted in mega-mergers and universal banking, utilizing economies of scale and scope and E-banking and financial engineering, utilizing development in information technology.

As a result of competitive pressures, large complex financial organizations began to emerge through mega-consolidation processes *via* mergers and acquisitions, and there were formations of financial holding companies. Developments in IT and financial engineering also helped firms to develop the tools necessary for the management of large complex financial organizations. The issue of credibility, associated with "too-big-to-fail", became a more serious problem with the emergence of large complex financial organizations. This has made the role of prudential and preventive supervision all the more important.

Mr. Yang recognized that these developments have enhanced the allocation of financial resources through more tightly connected networks of global financial markets. However, he said that they have also increased the speed and magnitude of contagion so much that the management of systemic risks is currently beyond the control of any individual nation. To meet the new challenges more effectively, it has become necessary to foster international cooperation by forming strategic alliances among deposit insurers. For this purpose, Mr. Yang proposed an institutional build-up, equipped with various measures for reinsurance and mutual insurance to cut off the spread of financial instability across nations. In his view, this would significantly reduce global systemic risk by reducing the risk of contagion.

**Presentation II:** International Deposit Insurance Survey Results and Work Going Forward

*David K. Walker, Director, Policy and International, Canada Deposit Insurance Corporation*

**David Walker** addressed the results of the **Canada Deposit Insurance Corporation** International Deposit Insurance Questionnaire. He noted that 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.

Mr. Walker noted that the information is being shared internationally, and this will help policymakers and practitioners draw on approaches being used elsewhere to help them in establishing or reforming a deposit insurance system. And, 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, he said, was primarily conducted between 1 April 2002 and 30 September 2002 and an update took place in the summer of 2003. It contains over 160 questions covering 14 areas of deposit insurance. Out of the approximately 78 limited explicit deposit insurance systems currently in place, or about to be implemented, around the globe, submissions (full or in part) were received from 48 country systems. The following is a brief summary of the survey results (the full reports and individual country summaries are available at: www.iadi.org):

Objectives, Mandates & Powers

The most common policy objectives of the deposit insurance systems surveyed are to protect depositors and contribute to financial system stability (35 out of 48 responses). 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.

Deposit insurer mandates vary significantly from country to country. They range from relatively narrow "pay box" mandates concentrating on the reimbursement of depositors of failed institutions to systems with broader mandates including risk assessment, risk management, failure resolution and direct regulation and supervision.

From the information provided, Mr. Walker said that there appears to be a trend towards wider mandates and powers being accorded to deposit insurers. The examples he cited were Taiwan, Korea, Mexico, Peru and Japan.

Structure and Organization and Governance Arrangements

The survey revealed many different types governance structures among deposit insurers. Legally separate organizations, relying on a board of directors or governing committee, were quite numerous, although a number of countries opted for setting up their insurer as a department of the central bank, supervisor or government.

There are many variations of private and publicly administered deposit insurance systems in place. Government administered systems tend to be the most common of those surveyed, followed by systems which combine public and private characteristics.

Human Resources & Infrastructure

The ability to attract and retain qualified employees is a key challenge for most deposit insurers. According to the survey results, this challenge is met either through the use of dedicated employees, access to the human resources of other financial safety-net participants and/or reliance on outside service providers. In most systems, employees of the insurer receive some form of statutory indemnification and legal protection.

Information Sharing & Interrelationships between Safety-Net Players

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. Formal agreements were the most popular method to accomplish coordination.

Membership

Most of the systems surveyed require that membership in the deposit insurance system be compulsory and be extended to institutions subject to effective supervision and regulation.

Coverage

The level of coverage provided varied widely. Most systems covered core demand and savings deposit products and excluded 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. Co-insurance is in use in nine of the systems surveyed (e.g. U.K., Chile, Poland).

Funding & Fund Management

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. The majority of systems charge premiums (*ex ante*) as a way to build up a fund but retain the authority to charge levies or other charges on their members if required. A minority of systems (5 out of 48) prefer to rely solely on *ex-post* levies.

While flat rate premiums are the most common form of application, differential premium systems are becoming increasingly prevalent. In a large number of cases, the deposit insurer was provided with the ability to secure funding for liquidity purposes from governments, its members or directly from capital markets.

Reimbursing Depositors

Most systems attempt to reimburse depositors as quickly as possible. Reimbursement periods varied considerably depending on the quality and security of bank deposit records.

Public Information & Awareness

A feature common among many insurers was the requirement that member institutions be responsible for providing information to the general public. A number of deposit insurers take additional steps to directly communicate to the public through public awareness campaigns and other initiatives.

Risk Assessment & Intervention

Reflecting differing mandates and powers, the deposit insurers surveyed have varying roles in risk assessment and intervention. These range from highly developed risk assessment and intervention regimes to systems relying on other safety-net players for these services.

Failure Resolution

An important function of roughly half of the insurers surveyed, particularly those with risk minimizing mandates and associated powers, was that they have a direct role in resolving problem institutions and failures. The extent to which deposit insurers can intervene and resolve failures satisfactorily depends on the objectives of the deposit insurance system and the powers accorded to the insurer and other financial system safety net players.

Claims, Recoveries & Estate Management

Many deposit insurers play a role in the claims and litigation advanced by the failed bank or the receiver/liquidator against directors, officers, auditors and other parties related to the bank failures.

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

## Closing Session

The final session contained two parts. The first included a Regional Chairs Panel while the second contained an update on IADI activities by the Secretary General.

### Regional Chairs Panel

**Jean Pierre Sabourin** presided over a panel of Chairs from the IADI Regional Committees. He reminded the delegates of the objectives of the work of the Regional Committees and invited each of the chairs to give an account of their recent activities, update the conference participants on their work plans and identify issues common in their region.

**Hajime Shinohara,** chair of the Asian region, reported that the regional meeting scheduled for June 2003 was cancelled due to SARS. This committee was active on the membership side as **Deposit Insurance of Vietnam** joined as a Member and the **Monetary Authority of Singapore** was welcomed as an Associate member. Issues that concern the region are how to enlist non-member deposit insurers to join the Association. The next regional meeting will be combined with an international seminar hosted by the **Deposit Insurance Corporation of Japan** and it will be held in March next year.

**Winston Carr,** chair of the Caribbean Region, reported that Barbados is studying the implementation of a deposit insurance system. In addition, the Region is working with countries that have explicit deposit insurance systems to encourage them to become members of IADI and helping Barbados with their study. One of the main issues that the Caribbean Region is addressing is the identification of needs of stakeholders so that those critical areas of interest can be identified and greater focus can be given to them in the activities of the Committee.

**Valeriy Ogiyenko**, chair of the youngest regional committee, the Eurasia Committee, reported that the member countries in the region comprise Ukraine, Kazakhstan and the Russian Federation. A bi-lateral meeting was held between **The Household Deposit Guarantee Fund** (Ukraine) and **CJSC Kazakhstan Deposit Insurance Fund** in August 2003 to share practical experiences and consider areas of mutual interest for the two systems; the meeting resulted in a desire to pursue future co-operation. The main issue facing the Eurasia Region is to how to expand the connections to other countries in the region and undertake multilateral co-operation between countries within the region.

**Ganiyu Ogunleye**, chair for the Africa Committee, reported that the Committee reviewed applications from Tanzania and Zimbabwe and they are now members of IADI. Prospective candidates for membership include the Algeria Deposit Insurance Agency and Uganda. Mr. Ogunleye noted that Namibia, Lesotho and Swaziland are all in the process of establishing deposit insurance systems and an effort is being made to bring them into the Association at an opportune moment. A training programme for deposit insurers in Africa is being planned for February 2004 and it will likely be held in Kenya. The next regional meeting will take place in May or June 2004. He closed by noting that the main issues facing deposit insurers in African countries are mainly legal in nature as they share similar legal frameworks.

**Carlos Isoard**, chair of Latin America Committee, reported that a conference call was held on 10 April 2003 to discuss the development of a business plan and dates for future meetings. The

Committee has recommended to the Executive Council that the applications from **Fondo de Garantías de Instituciones Financieras** of Colombia and the **Fondo de Garantía de Depósitos y Protección Bancaria** of Venezuela both be accepted as Members..

This committee has maintained a liaison with the Bank for International Settlements and the Inter-American Development Bank. The latter expressed an interest in playing a role in the coming regional committee's meeting. A contact list of Latin American and Spanish-speaking countries' safety-net players has been developed The next regional meeting will be held in Mexico at the beginning of 2004 and one of its main objectives will be to invite more institutions to join the regional committee and IADI.

Mr. Sabourin thanked the panelist and noted that the Chairs will be accountable for their initiatives as there will be an opportunity at the next IADI Conference to report on the progress that each of them has made.

**Update on IADI Activities**

The Secretary General provided an update on the activities of the International Association of Deposit Insurers. Before he addressed the accomplishments of the past year, **Mr. LaBrosse** provided a profile on the organizations involved with the **International Association of Deposit Insures**. He outlined the requirements for Members, Associates, Observers, and Partners and said that IADI represents a wide variety of deposit insurance systems. In this regard, a number of deposit insurance systems have been in existence for several decades and they have a wealth of experience that has been derived from practitioner-focused lessons learned. He was pleased to note that there is growing interest in the Association and a number of deposit insurers gathered in Seoul expressed an interest in joining IADI and conferences like this help show the value of joining the Association.

The structure and focus of each of the Standing and Regional Committees was enumerated and Mr. LaBrosse noted that the Executive Council had earlier that day created an Audit Committee under the chairmanship of Junior Fredrick. As well, the Executive Council approved application of the **Deposit Protection Board (Zimbabwe)** as its 33rd Member and **Goodmans LLP**, an internationally recognized law firm headquartered in Toronto, was admitted as an Observer.

Mr. LaBrosse then listed each of the major events that IADI would be undertaking in 2004 noting that the list was somewhat under-represented since several regional meetings would also take place. To assist the Participants in IADI, a calendar of events will soon be added to the Web site so that all would be better informed.

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**Wonkeun Yang** was called upon to bring the Conference to a close. Mr. Sabourin and Mr. LaBrosse used that occasion to express the sincere thanks of IADI to Mr. Yang and the entire International Team of the **Korea Deposit Insurance Corporation** for their untiring support and dedication to making the conference an overwhelming success.

## Farewell Dinner

*Seok-Won Kim, Vice President, Korea Deposit Insurance Corporation*

At the closing dinner that he hosted, **Seok-Won Kim** expressed his sadness as we had to part with one another just as our friendships were beginning to bloom. He added that he shall miss all of the participants and that the conference reiterated the need for international cooperation among deposit insurers to maintain financial stability. In this regard, **Korea Deposit Insurance Corporation** was pleased to have been able to help provide such a forum for many constructive and beneficial discussions. He remarked that this gathering reaffirmed the common goals of the participants and proved their eagerness to come together to help one another in achieving financial stability of each country as well as that of the world.

# List of Participants

| Name | Organization | Country |
|---|---|---|
| Arian Kraja | Albanian Deposit Insurance Agency | Albania |
| Choab El-Hassar | Bank of Algeria | Algeria |
| Philip Bethel | Deposit Insurance Corporation of Bahamas | Bahamas |
| Anea Adderley | Deposit Insurance Corporation of Bahamas | |
| Lisica Branislava | Deposit Insurance Agency of Bosnia Herzegovina | Bosnia Herezegovina |
| Rainer Mueller | Deposit Insurance Agency of Bosnia Herzegovina | |
| Sanja Stankovic | Deposit Insurance Agency of Bosnia Herzegovina | |
| Sead Manov | Deposit Insurance Agency of Bosnia Herzegovina | |
| Joseph Nevjestic | Deposit Insurance Agency of Bosnia Herzegovina | |
| Antonio Carlos Bueno Silva | Fundo Garantidor de Créditos | Brazil |
| José Irenaldo Leite de Ataíde | Banco Central de Brazil | |
| Bisser Manolov | Bulgarian Deposit Insurance Fund | Bulgaria |
| Roumyana Markova | Bulgarian Deposit Insurance Fund | |
| Jean Pierre Sabourin | Canada Deposit Insurance Corporation | Canada |
| David Walker | Canada Deposit Insurance Corporation | |
| Ronald N. Robertson | Canada Deposit Insurance Corporation | |
| David Winfield | The Toronto Centre | |
| Normand Côté | Régie de l'Assurance-Dépôts du Québec | |
| Beatriz Arbeláez Martinez | FOGAFIN | Colombia |
| Juan Pablo Córdoba Garcès | FOGAFIN | |
| Josef Tauber | Deposit Insurance Fund Czech Republic | Czech Republic |
| Renata Cechova | Deposit Insurance Fund Czech Republic | |
| Charles Cornut | Fonds de garantie de dépôts | France |
| Mauro Grande | European Central Bank | Germany |
| Kim KT Chong | Hong Kong Monetary Authority | Hong Kong SAR |
| Yoshikuni Shinichi | Asia and Pacific Office of the BIS | |
| András Fekete Györ | National Deposit Insurance Fund | Hungary |
| Dániel Jánossy | National Deposit Insurance Fund | |
| Noorul Siddiqui | Deposit Insurance & Credit Guarantee Corporation | India |
| Brahj Busan Tiwari | Reserve Bank of India | |
| Salasra Satria | Ministry of Finance | Indonesia |
| Satria, Helen Joni | Ministry of Finance | |
| Firdaus Djaelani | Ministry of Finance | |
| Darmin Nasution | Ministry of Finance | |
| James R. Hambric | Barents Group, BearingPoint | |
| Winston Carr | Jamaica Deposit Insurance Corporation | Jamaica |
| Lewis Everett | Jamaica Deposit Insurance Corporation | |
| Noboru Matsuda | Deposit Insurance Corporation of Japan | Japan |
| Hajime Shinohara | Deposit Insurance Corporation of Japan | |
| Hideaki Suzuki | Deposit Insurance Corporation of Japan | |
| Kazumi Inoue | Deposit Insurance Corporation of Japan | |
| Kazu Hiro Sakamaki | Deposit Insurance Corporation of Japan | |

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|---|---|---|
| Hisashi Kamochi | Bank of Japan | |
| Yassein Al Jaghbeer | Deposit Insurance Corporation of Jordan | Jordan |
| Bakhyt Mazhenova | CJSC Kazakhstan Deposit Insurance Fund | Kazakhstan |
| Eunice Kagane | Deposit Protection Fund Board, Bank of Kenya | Kenya |
| In-Won Lee | Korea Deposit Insurance Corporation | Korea |
| Seok-Won Kim | Korea Deposit Insurance Corporation | |
| Bang-Kil Son | Korea Deposit Insurance Corporation | |
| Wonkeun Yang | Korea Deposit Insurance Corporation | |
| Yeon-Soo Yoo | Korea Deposit Insurance Corporation | |
| Ki-Jin Kim | Korea Deposit Insurance Corporation | |
| Sun Eae Chun | Korea Deposit Insurance Corporation | |
| Jaeho Chung | Korea Deposit Insurance Corporation | |
| Chiho Kim | Korea Deposit Insurance Corporation | |
| Seungsung Suh | Korea Deposit Insurance Corporation | |
| Jong-Hyo Hong | Korea Deposit Insurance Corporation | |
| Jong-Goo Kang | Korea Deposit Insurance Corporation | |
| Ralph Byun | Korea Deposit Insurance Corporation | |
| Jung-Jae Lee | Financial Supervisory Service, Korea | |
| Jin-Pyo Kim | Ministry of Finance and Economy | |
| Jae-Sun Kwak | Bank of Korea | |
| Nor Shamsiah Yunus | Bank Negara Malaysia | Malaysia |
| Kamil Noordin | Bank Negara Malaysia | |
| Lee Foong Mee | Bank Negara Malaysia | |
| Carlos Isoard | Instituto para la Protección al Ahorro Bancario | Mexico |
| Héctor Tinoco | Instituto para la Protección al Ahorro Bancario | |
| Alagiin Batsukh | Bank of Mongolia | Mongolia |
| R.Sodkhuu | Bank of Mongolia | |
| M.Dalaikhuu | Bank of Mongolia | |
| D.Baaa | Bank of Mongolia | |
| Ganiyu Ogunleye | Nigeria Deposit Insurance Corporation | Nigeria |
| Sule Ayoola | Nigeria Deposit Insurance Corporation | |
| Kingsley Elekenachi | Nigeria Deposit Insurance Corporation | |
| Shamsuddeen Usman | Central Bank of Nigeria | |
| Lekh Nath Bhusal | Nepal Rastra Bank | Nepal |
| Mahena Raj Panday | Nepal Rastra Bank | |
| Bent Vale | Norges Bank | Norway |
| Ricardo Tan | Philippine Deposit Insurance Corporation | Philippines |
| Fe Barin | Monetary Board Philippines | |
| Ricardo P. Lirio | Bangko Sentral ng Pilipinas | |
| Adam Pawlikowski | National Bank of Poland | Poland |
| Tomasz Obal | National Bank of Poland | |
| Mikhael Sukhov | Bank of Russia | Russia |
| Chumaev Alexander | ARCO | |
| Francis Quek | Monetary Authority of Singapore | Singapore |
| Low Kwok Mun | Monetary Authority of Singapore | |
| Charles Okeahalam | Africa Growth Holding (Pty) Ltd | South Africa |
| Hans Jacobson | Swedish Deposit Guarantee Board | Sweden |
| Per Swahn | Swedish Deposit Guarantee Board | |
| J.R. LaBrosse | International Association of Deposit Insurers | Switzerland/Canada |
| Kim Utnegaard | International Association of Deposit Insurers | Switzerland |

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|---|---|---|
| Chin-Tsair Tsay | Central Deposit Insurance Corporation | Taiwan |
| Wen-Hsian Lai | Central Deposit Insurance Corporation | |
| Yvonne Y Fan | Central Deposit Insurance Corporation | |
| Juinn-Jian Chen | Central Deposit Insurance Corporation | |
| Simon Matafu | Deposit Insurance Board Tanzania | Tanzania |
| Josiah M Munzani | Deposit Insurance Board Tanzania | |
| Pongsak Hoontrakul | Chulalongkorn University Bangkok | Thailand |
| Ruchukorn Sansubhan | Bank of Thailand | |
| Junior Frederick | Deposit Insurance Corporation | Trinidad & Tobago |
| Binnur Berberoglu | Banking Regulation and Supervision Agency | Turkey |
| Neslihan Özdemir | Banking Regulation and Supervision Agency | |
| Justine Bagyenda | Bank of Uganda (through MEFMI) | Uganda |
| Valeriy Ogienko | The Household Deposit Insurance Fund | Ukraine |
| Mikhailo Tyutyunnik | The Household Deposit Insurance Fund | |
| Stefan Ingves | International Monetary Fund | USA |
| George Hanc | Federal Deposit Insurance Corporation | USA |
| Robert Demler | US Dept of Treasury, Metrica Inc. | USA |
| Neda Matic | US Dept of Treasury, Metrica Inc | |
| Romulo Henriquez | Fondo de Garantía de Depósitos Y Protección Bancaria | Venezuela |
| Do Khac Hai | Deposit Insurance of Vietnam | Vietnam |
| Nguyen Manh Dung | Deposit Insurance of Vietnam | |

## *Wednesday, October 22, 2003*

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|---|---|
| 12:00 p.m.<br>2:30 p.m. | Meeting and Working Lunch of the Training and Conference Committee |
| | Presentation<br>"Developing Leaders in Deposit Insurance Organizations"<br>David J.S. Winfield, Executive Director,<br>The Toronto International Leadership Center for Financial Sector Supervision |
| 3:00 p.m. | IADI Second Annual General Meeting |
| 5:00 p.m. | AGM Ends |
| 6:30 p.m. | **Welcoming Reception** |
| 7:00 p.m. | Keynote Speech by In-Won Lee, President & Chairman,<br>Korea Deposit Insurance Corporation |
| 7:30 p.m. | Dinner |

## *SECOND ANNUAL IADI CONFERENCE*

### *Effective Depositor Protection: Enhancing Governance Arrangements*
***October 23~24, 2003***

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*Chairman: Wonkeun Yang*
*Executive Director, Korea Deposit Insurance Corporation*

*Location:*
*Crystal Ballroom*

*Lotte Hotel*
*Seoul, Korea*

### *Thursday, October 23, 2003*

8:30 a.m. Registration
8:45 a.m. Training Session (for interpreters)

Grand Conference Room (Third Floor)

9:00 a.m. Opening Session
Wonkeun Yang
Chair of the 2003 IADI Conference

9:10 a.m. Keynote address
Jean Pierre Sabourin
Chair of the Executive Council and President,
International Association of Deposit Insurers

**9:30 a.m.** ***Session I: Deposit Insurance – An Integral Part of the Financial Safety Net***

*This session will focus on financial stability assessments and the implications for deposit insurance arrangements as an integral part of the banking system safety net. There will also be a special presentation on interrelationships among financial safety net players.*

Moderator: Shinichi Yoshikuni, Chief Representative,
Office for Asia and the Pacific, Bank for International Settlements

Presentation 1: Financial Stability Assessments: Implications for Governance Arrangements
Stefan Ingves, Director, Monetary and Financial Systems Department,
International Monetary Fund, Washington, D.C.

Presentation 2: Interrelationships among Financial Safety-net Players
Winston Carr, Chairman, Caribbean Committee, and Chief Executive Officer,
Jamaica Deposit Insurance Corporation

10:30 a.m. Coffee Break

**11:00 a.m.** ***Session II: Strategies to Promote Effective Deposit Insurance Systems***

*This session will discuss what was learned from the IADI country reports on deposit insurance system design, examine CDIC's Standards of Sound Business and Financial Practices and then focus on strategies to promote confidence in developing countries banking system*.

***Moderator: Hans Jacobson, Chairman, Deposit Guarantee Board, Sweden***

Presentation 1: IADI Country Reports on the Design of Deposit Insurance Systems
George Hanc, Associate Director, Federal Deposit Insurance Corporation and
Chair, IADI Research and Guidance Committee

Presentation 2: Standards of Sound Business and Financial Practice
Ronald N. Robertson Q.C., Chairman, Canada Deposit Insurance Corporation

Presentation 3: Promoting Confidence in Developing Country's Banking Systems
Shamsuddeen Usman, Deputy Governor, Financial Sector
Surveillance, Central Bank of Nigeria

***12:30 a.m***. ***Luncheon Presentation: "Managing Risks for Financial Stability"***
**Jung-Jae Lee, Chairman, Financial Supervisory Commission &**
**Governor, Financial Supervisory Service, Korea**

1:00 p.m. *Lunch*

**2:30 p.m.** ***Session III: Key Issues for Deposit Insurers***

*This session will examine information needs of deposit insurers, management of funds of deposit insurers and transitioning issues for systems with sate-owned banks.*

Moderator: Bakhyt Mazhenova, CJSC Kazakhstan Deposit Insurance Fund

Presentation 1: How do deposit insurers get the information they need to do their job?
Ricardo M. Tan, President and Chief Executive Officer
Philippines Deposit Insurance Corporation

Presentation 2: Deposit Insurance Fund Management
In-Won Lee, President and Chairman,
Korea Deposit Insurance Corporation

Presentation 3: Transitioning Issues for Systems with State-Owned Banks
Valeriy I. Ogiyenko, Chief Executive Officer
The Household Deposit Insurance Fund, Ukraine

3:45 p.m. Coffee Break

***4:15 p.m. Session IV - IADI Guidance on Differential Premiums***

*This session features the guidance that is being developed and approaches now being taken in Brazil by Fundo Garantidor de Créditos and in Turkey by the Savings Deposit Insurance Fund*

Moderator: Charles C. Okeahalam, Managing Director, Africa Growth Holdings (Pty) Ltd., South Africa

Presentation by: David K. Walker, Director, Policy and International, Canada Deposit Insurance Corporation.

***Round Table Panel Discussion***

Panelist 1: Antonio Carlos Bueno Silva, Chief Executive Officer,
Fundo Garantidor de Créditos, The Approach in Brazil

Panelist 2: Neslihan Özdemir, Deputy Head, Finance Department
Savings Deposit Insurance Fund, Türkiye

5:30 p.m. Session ends

7:00 p.m. Reception

7:30 p.m. Keynote Speech:
"Managing Financial Crisis and Financial Reform in Korea"
Jin-Pyo Kim, Deputy Prime Minister & Minister, Ministry of Finance and Economy, Korea

Introduction by Jean Pierre Sabourin

8: 00 p.m. Dinner

***Friday, October 24, 2003***

7:45 am Breakfast Meeting of the Executive Council
(Restricted attendance)

**9:00 a.m.** ***Session V: Lessons Learned from Dealing with Institutional Failures***

*This session will provide an opportunity for experts to share their experiences and lessons learned in dealing with institutional failures. A panel will discuss what was done, what were the results, what might have been done better in retrospect and what role can regional co-operation play in dealing with financial system problems.*

Moderator: András Fekete-Györ Deputy Managing Director, National Deposit Insurance Fund of Hungary

Presentation 1: Resolving Institutional Failures in Japan
Hajime Shinohara, Deputy Governor, Deposit Insurance Corporation of Japan

Presentation 2: Globalization & Market Failure: Macro Policy Response
Pongsak Hoontrakul, SASIN Graduate Institute of Business, Chulalongkorn University, Thailand

***9: 45 a.m. Round Table Panel Discussion***

Panelist 1: Chin-Tsair Tsay
Chairman, Central Deposit Insurance Corporation
Panelist 2: Héctor Tinoco,
Member of Board of Governors, Instituto para la Proteccion al Ahorro Bancario, México
Panelist 3: Bent Vale,
Head of Research, Norges Bank

10:45 a.m. Coffee Break

**11:15 a.m.** ***Special Session "Deposit Insurance: Present & Future"***

*This session will include remarks by Wonkeun Yang of the Korea Deposit Insurance Corporation and David Walker of Canada Deposit Insurance Corporation.*

Moderador James "J" R. Hambric III, Director, Barents Group, BearingPoint, Indonesia

Presentation 1: Future Challenges for Deposit Insurance Practitioners
Wonkeun Yang, Executive Director
Korea Deposit Insurance Corporation

Presentation 2: International Deposit Insurance Survey Results and Work Going Forward
David K. Walker, Director, Policy and International,
Canada Deposit Insurance Corporation

***12:15 p.m.*** ***Regional Chairs Panel***

Chairs will update the attendees on work plans and future meetings and describe the approach that is being taken in the particular regions.

Moderator: Jean Pierre Sabourin
Chair of the Executive Council and President

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|---|---|
| Asia | Hajime Shinohara |
| Caribbean | Winston Carr |
| Africa | Ganiyu A. Ogunleye |
| Eurasia | Valeriy I. Ogiyenko |
| Latin America | Carlos Isoard |

1:00 p.m. *Lunch*
Update on IADI Activities
John Raymond LaBrosse, Secretary General

1:55 p.m. Closing Remarks
Wonkeun Yang

2:30 p.m. Pick up at Lotte Hotel

Guided Tour of Changdekgung Palace
Return to Lotte Hotel
6.15 p.m. Pick up at Lotte Hotel

6:30 p.m. Reception and Farewell Dinner hosted by Seok-Won Kim,
Vice President,
Korea Deposit Insurance Corporation
Korean Traditional Music, KDIC Grand Ballroom

***Saturday, October 25, 2003***

*Delegates Depart*