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Foreword

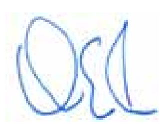
The International Association of Deposit Insurers (IADI) 7th Annual Conference and Annual General Meeting was held on 29-31 October 2008. The events were hosted by the **Federal Deposit Insurance Corporation (FDIC)** at the FDIC Headquarter Facilities in Arlington, VA and Washington, D.C., United States of America. It was chaired by Martin J. Gruenberg, Vice Chairman, **FDIC**, and IADI President and Chairman of Executive Council.

The Conference theme was "**The Role of Deposit Insurance in Promoting Financial Stability and Economic Inclusion**". The program featured presentations by internationally recognized experts and deposit insurance practitioners, regulators, policymakers and academics. The presentations covered new research and guidance for deposit insurers, including the recently issued draft IADI Core Principles for Effective Deposit Insurance Systems. The attendees were provided with an update on **IADI**'s activities and significant accomplishments over the past year. The audience of 250+ attendees was international in scope, as more than 60 countries were represented at the conference. The conference included an **International Exhibition on Deposit Insurance.** About 30 different organizations provided information on their deposit insurance programs, or services available to deposit insurers.

I would like to thank the many people and organizations that contributed to this summary of the proceedings, which was prepared by an international team of writers organized by the International Relations and Research Office of **Central Deposit Insurance Corporation-Taiwan (CDIC)** and the **FDIC**. The following organizations and individuals contributed write-ups and other support to this summary.

- **FDIC:** Barbara Ryan, Scott Dykema, Jack Reidhill, Vijay Deshpande, Christine Blair, Rose Kushmeider, Jason Fincke, Lauren Anderson, Debra Decker, William Piervincenzi, Robin Zaner, and Judith Dupre**,**
- **CDIC-Taiwan:** Yvonne Fan, Margaret Chuang and Fiona Yeh,
- **Instituto Para La Proteccion Al Ahorro Bancario (Mexico):** Lara Sanchez Haydee Lorena;
- **European Forum of Deposit Insurers:** Debora Poli.

Copies of the PowerPoint presentations and a picture gallery are located on the Internet at: **http://www.iadi.org** **or** **http://www.iadi2008annualconference.org/presentation_materials.asp.**



Donald E. Inscoe
Secretary General

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Executive Summary

Day One: Focus on Financial Stability

The focus of the first day of the event was on financial stability. Recent global financial turmoil has led to increased recognition of the importance of establishing effective deposit insurance systems to maintain financial stability and public confidence in the financial system, especially during times of economic uncertainty. Day one included sessions and featured prominent speakers focused on current financial market challenges and implications for financial institutions; the role of deposit insurers in financial crises, past and present; and new research and guidance for deposit insurers, including the recently issued IADI Core Principles for Effective Deposit Insurance Systems. The conference was opened by Martin J. Gruenberg, Vice Chairman, Federal Deposit Insurance Corporation, and President of the International Association of Deposit Insurers (IADI) and Chairman of its Executive Council.

Mr. Gruenberg expressed his honor to host the IADI 2008 7th Annual Conference on the occasion of FDIC's celebration of its 75th Anniversary. Mr. Gruenberg noted that IADI was founded seven years ago in the belief that deposit insurance systems play a critical role in maintaining financial stability, particularly during times of economic stress. He emphasized that IADI's purpose is to bring together the deposit insurers of the world to share technical expertise, undertake research, sponsor training, and develop guidance for the operation of effective systems of deposit insurance. Mr. Gruenberg stated that if anything, recent events have underscored the important role that deposit insurance systems play in maintaining financial stability. It has also underscored the value of having an international association, currently made up of 52 deposit insurers from all regions of the world, to serve as a source of expertise and leadership in deposit insurance. He noted that IADI is currently taking part in a collaboration with the Basel Committee on Banking Supervision and the European Forum of Deposit Insurers (EFDI) to develop International Core Principles for Effective Deposit Insurance Systems which will serve as a benchmark for countries to use in establishing or reforming their national systems of deposit insurance. This collaboration grew out of a recommendation of the Financial Stability Forum Working Group of the G-7 Finance Ministers. He thanked all the participants for attending this meaningful event and then introduced the conference program.

Sheila C. Bair, Chairman of FDIC, delivered the opening address and began by saying that this conference is timely and critical in terms of the current financial turmoil. The global financial crisis has seen great international cooperation that has not been seen since the end of World War II. FDIC has invoked the systemic risk exception and developed some programs to restore the financial system. The deposit insurance system has bolstered confidence by raising coverage where needed and closing failed banks when necessary. The existing international contacts play a vital role in successfully managing problems and IADI is a fine example of an organization that has helped develop these contacts.

Session I: Current Financial Market Challenges and Implications for Financial Institutions was moderated by William R. White, Former Economic Advisor, Head of Monetary and Economic Department, Bank for International Settlements. The panel, comprised of financial market experts, discussed recent global market developments and addressed the implications for financial institutions. The panelists concurred that the global crisis evidenced the vital role that deposit insurers from all over the world play in the future of our financial system.

Svein Andresen, Secretary General, Financial Stability Forum (FSF), stated that the FSF has started to work on a crisis response framework that would: 1) strengthen capital and risk management; 2) adopt transparent accounting practices; 3) change use of credit ratings; 4) change regulatory responses; and 5) develop more robust arrangements for dealing with stress in the system.

Jaime Caruana, Counselor and Director, Monetary and Capital Markets Department, International Monetary Fund, said this was a crisis of confidence and leverage. So far, 43 countries have taken action by protecting depositors, banks and even subordinated debt holders. The financial system was going through a huge problem of de-leveraging, causing the system to consolidate and shrink. There needs to be greater harmonization of the safety net generally to eliminate or contain cross border arbitrage and to agree to a common framework for harmonization, which IADI core principals show the way.

L. William Seidman, former FDIC Chairman and Chief Financial Commentator, CNBC Network, illustrated that within four years from 2004 to 2008, in some financial services, leverage had increased from 12-to-1 to 30-to-1, which could explain the source of the current crisis in the United States. He noted that in the crisis, there have been no insured deposit runs in the United States, so he concluded that deposit insurance is the one policy tool that has worked. He also noted that the solutions to the crisis are increased capital and trust, as credit depends on trust.

Eugene Ludwig, former United States Comptroller of the Currency, highlighted four points in his comments. First, it is not possible to have a safe system that is not sound. A sound system is one with a high level of probity and care. Loss of trust is at the root of the problem. Second, all regulation should start with a view of caring for the customer/consumer. Third, deposit insurance is an important part of the system; it protects depositors but allows innovation. Finally, it is necessary to learn the right lessons, not the wrong lessons.

In his luncheon remarks Paul Volcker, former Chairman of the Board of Governors, United States Federal Reserve System, focused on the crisis and the significant issues and challenges confronting regulators. He emphasized the important role that government intervention plays during times of financial crisis. He also shared observations that the new marketplace has evolved quite radically over the last several years. It now offers very complex financial instruments and has seen the emergence of a new breed of professionals – "Financial Engineers." The resulting picture is less transparent and riskier, and therefore evidences the importance of regulators to understand and proactively address these risks. He noted that there would be a recession in the United States and in other parts of the world, too. The key question and concern was how to build a new effective system of financial regulations and how to achieve active cooperation and coordination among all nations of the world. International cooperation is so critical in dealing with the current crisis and in rebuilding a successful operational global economic structure.

Session II: The Role of Deposit Insurers in Financial Crisis, Past and Present was moderated by J.P. Sabourin, President, Malaysia Deposit Insurance Corporation (MDIC). The panel of experienced deposit insurance practitioners discussed the challenges deposit insurers have faced during financial crises and how they have addressed them. The speakers noted that banking crises have affected deposit insurers in many ways. Despite facing different challenges and options in dealing with a crisis, and facing different policy prescriptions and mandates, they share the common goals of providing liquidity to banking system and building confidence in the ability of the deposit insurance system to protect the public's deposits. The session emphasized the importance of having the tools necessary to meet these objectives.

Adedapo Adeleke, Head, Claims Resolution Department, Nigeria Deposit Insurance Corporation, spoke about Nigeria's experience with crisis during the 1990s and early 2000's, and noted that measures had been taken by the Nigeria Deposit Insurance Corporation (NDIC) in conjunction with the central bank to help avert future crises. The NDIC's ability to discharge its mandate had been enhanced by a strengthened legal framework.

Ridvan Cabukel, Vice President, Savings Deposit Insurance Fund of Turkey (SDIF), explored Turkey's decade-long experience with banking crises between 1994 and 2003. He concluded that deposit insurers should have a process in place that allows for timely compensation of deposit holders to avoid bank runs. Further, to be effective, deposit insurers should have a broad mandate, including a special resolution regime.

Mutsuo Hatano, Deputy Governor, Deposit Insurance Corporation of Japan (DICJ), spoke about Japan's experience weathering economic and financial crisis during the late 1990s. He emphasized that public money to cope with a financial crisis is a public policy decision that is often necessary, but unpopular with the public. If conducted properly and managed appropriately, the injection of public money can be done without cost to the taxpayer. In the case of Japan, the DICJ's capital injection has yielded a return of US $13 billion.

Carlos Isoard, Member of the Board of Directors, Instituto Para La Proteción Al Ahorro Bancario (IPAB), spoke about Mexico's handling of the 1995 banking crisis and the reforms that have been instituted since then. He began by outlining the Mexico's transition from implicit coverage that began in 1981 to the present explicit, limited coverage system and presented an overview of the 1994-1995 financial crisis in Mexico.

Loretta Minghella Chief Executive, Financial Services Compensation Scheme (FSCS), talked about the transformation of deposit insurance in the United Kingdom. Four topics were covered: the history and mandate of the FSCS, past deposit insurance experience, the FSCS role in recent banking defaults and prospects for banking and compensation in the United Kingdom.

John Bovenzi, Chief Operating Officer, Federal Deposit Insurance Corporation, stated that on July 11 of 2008, IndyMac Bank was closed. On July 14, 2008, a new conservator bank, owned and operated by the FDIC, IndyMac Federal Bank, was opened. Mr. Bovenzi was chosen to serve as Chief Executive Officer. His remarks drew on his recent experience at IndyMac Federal and on his experiences with the banking and savings and loans crises in the 1980s and 1990s.

Session III: IADI Core Principles and New Research and Guidance for Deposit Insurers was moderated by András Fekete-Gyor, Deputy Managing Director and Chief Economist, National Deposit Insurance Fund of Hungary (NDIF).

J. Ade Afolabi, Nigeria Deposit Insurance Corporation (NDIC), addressed the draft paper on deposit insurance coverage prepared by the Research and Guidance Committee of IADI. The paper identifies three types of coverage. Blanket coverage, which is used during a systemic crisis, provides coverage to depositors and sometimes other creditors without limit. Full coverage, by contrast, protects only depositors without limit. Limited (or partial) coverage provides some coverage to depositors.

Ju-Hyung Lee, Executive Vice President, Korea Deposit Insurance Corporation (KDIC), stated that sound funding arrangements are critical to the design of a deposit insurance system (DIS). Such arrangements ensure that the DIS will be effective and this, in turn, will promote public confidence in the banking system. Funding may be achieved ex-ante, ex-post, or some combination of the two, termed hybrid. Ex-ante systems are the recommended choice, and in particular have been included for newly established systems.

David Walker, Director, Policy and International Affairs, Canada Deposit Insurance Corporation (CDIC) and Chair, IADI Guidance Group, began by noting that IADI had issued a draft set of 21 Core Principles on deposit insurance in February 2008. He gave an introduction and brief history of IADI's development of the Core Principles and summarized each of the Core Principles.

Discussant George Kaufman, John F. Smith, Jr. Professor of Finance and Economics, Loyola University Graduate School of Business, commented on IADI's draft set of Core Principles, noting that the principles are a useful guide for designing a deposit insurance system in normal times. However, in crisis period, the core principles can lose out to "ad-hockery" and blanket coverage on a temporary basis. At such times, it is the Core Principles provide a framework for policy makers to minimize the long-term damage of these actions and ensure a speedy transition back to normal.

Discussant Ilhyock Shim, Economist, Bank for International Settlements (BIS), discussed the banking crisis in relation to the Core Principles. To effectively stem bank runs, the amount of deposits covered and the number of depositors covered are important criteria. Liquidity regulations for financial institutions may be needed. Ilhyock Shim cautioned that prompt corrective action may aggravate a crisis when there is difficulty in recapitalizing a troubled institution. .

The opening of dinner address was delivered by Roberto Moretti, Chairman, European Forum of Deposit Insurers (EFDI). He stated that the loss of depositors'confidence in financial Institutions caused by the present crisis can be compared to Linus without his blanket! Therefore, the IADI and the EFDI and other deposit insurance schemes are the first line of tranquility for the millions of users of banks worldwide. Deposit guarantee schemes on both sides of the Atlantic and around the world need to protect depositors.

Sir Callum McCarthy, Former Chairman, United Kingdom Financial Services Authority, made the keynote address and spoke about the United Kingdom's lessons drawn from this experience. He emphasized that questions of deposit insurance policy have to be seen in the context of the policy towards financial stability as a whole, and as part of the general legal and administrative arrangements for dealing with a failing bank. Perhaps the most important lesson the United Kingdom has learned from the last year is that deposit insurance is not an incidental activity which can be considered through the prism of moral hazard criteria either solely or even principally, but has to be seen as an integral and important part of the design of the overall financial system.

Day Two: Focus on Economic Inclusion

Day two's focus was on Economic Inclusion. Recognition continues to grow of the importance of building inclusive financial sectors to ensure access to financial services by the world's poor and low-income individuals, and the role that the deposit insurers and other financial safety net participants can play in promoting economic inclusion. Day two included sessions and prominent featured speakers focused on the current state of economic inclusion from a global perspective, recent research on economic inclusion around the world, innovative ways of promoting economic inclusion and financial literacy, and the role of deposit insurance in promoting economic inclusion.

Martin J. Gruenberg made the welcoming remarks. Elizabeth Littlefield, Director and CEO, Consultative Group to Assist the Poor delivered the opening address. She empathized the fact that financial stability and economic inclusion, the theme of this year's conference, were mutually enforceable and interwoven. There is a definite link between financial inclusion and economic stability. Although there is a financial crisis, increased financial inclusion in developing countries has assured that there is no critical suffering at this point. Successful factors in developing a good program of financial inclusion include: a back-to-basics approach, know and understand the customers, focus on payment capacity, and payment clarity and transparency. These "light-touch" solutions will bring about financial inclusion, access to credit, and economic stability. If financial institutions understand risk, know their customers, and focus on the basics, they will create long-term value.

Session I: Measuring Economic Inclusion was addressed by Anjali Kumar, Advisor, World Bank-IFC Financial and Private Sector Development Vice Presidency. Her presentation focused on quantitative studies being conducted by the World Bank regarding financial access across 54 countries. She used the studies to demonstrate how financial access can be measured and which variables prove to be the most informative when conducting studies on financial access and inclusion. Going forward, the main issue that surrounds financial access is whether access is actually too easy. Countries will have to look at the issue of easy access versus safe access and decide based on empirical evidence how to balance these two objectives.

Session II: Innovative Ways of Promoting Economic Inclusion was chaired by Michael S. Barr, University of Michigan Law School.

William Knight, former Commissioner, Financial Consumer Agency, Canada, discussed the Canadian model for ensuring inclusion in financial services. A 2007 survey estimates that 96 percent of Canadians have a bank account and that 94 percent have a debit card. It appears that a significant portion of the Canadians without a bank account do not want one. The survey also shows that 60 percent of Canadians find financial information hard to understand. Thus, there is still much work to do on financial literacy.

Mark Napier Mark Napier, Chief Executive Officer, FinMark Trust, South Africa, commented that the perspective from the African continent is far different from that of the developed world. Approximately 80 percent of individuals in the developed world have access to financial services, but in the developing world, 80 percent are excluded from such services. Exclusion within the developing world is not just exclusion from bank accounts, but from all financial services. He also observed that there is a need for more direct forms of financial intervention, such as the Financial Sector Deepening Challenge Fund, through which individuals who propose financial access-related projects compete for money from a common pot.

Brian Pomeroy, Chairman, United Kingdom Financial Inclusion Taskforce, reported that as of 2003, 2.8 million adults in the United Kingdom have no bank account of any kind, including 12 percent of households in which no one had an account. The United Kingdom took important steps in 2005 to promote financial inclusion. As a result, the number of adults in households without a bank account has been reduced by half, and the barriers to account opening have been lowered. The keys to reducing financial exclusion are having a strong political commitment, devising a clear target with the banks, creating appropriate products, engaging community based institutions, and researching the groups most in need of financial services.

Salvatore Pappalardo, Chief Operating Officer, Grameen Foundation, commented that the mission of the Foundation is to enable the poor to integrate into the formal economy. The Foundation is developing the Bankers without Borders program, which leverages the talents of volunteers from the private sector. The program aims to build the capacity of micro financing institutions to manage and scale their organizations and strengthen their access to capital.

Usha Thorat, Deputy Governor, Reserve Bank of India and Chairperson, Deposit Insurance and Credit Guarantee Corporation of India, delivered the luncheon remarks titled Financial Inclusion: Lessons from the Indian Experience. She noted that there are more than 2 billion people worldwide with no relationship with financial institutions. The rate of financial exclusion in India is between 41 percent and 65 percent, depending on the method used to measure access to financial services. To remedy this, 3 or 4 years ago, India began a policy shift to emphasize financial inclusion with a goal of a bank account for each household. She also presented details on some of the financial services that have been successful and the lessons that have been learned.

Session III: International Financial Literacy Initiatives was moderated by Dan Iannicola, Deputy Assistant Secretary for Financial Literacy, United States Treasury.

Bryan Davies, Chair, Canada Deposit Insurance Corporation, and former Chief Executive Officer and Superintendent, Financial Services Commission of Ontario, explained Canada's initiatives on financial literacy and public awareness. A proactive approach began in the 1990's with a three-year target plan aimed at seniors, lower literacy, and large ethonocultural groups.

Jose C. Nograles, President, Philippine Deposit Insurance Corporation (PDIC), discussed the importance of giving knowledge to youth because of the low savings rate in his country. Targeting youth is the only way since they are the potential depositors and savers. The PDIC has signed a Memorandum of

Understanding with the Philippines’’ Department of Education to integrate such measures into the high school curriculum.

Mary O’Dea, Consumer Director, Irish Financial Regulator, Ireland, discussed the fear that is currently hurting the understanding of how consumers perceive the markets and how they operate. Part of this problem is the lack of confidence demonstrated by public commentators. This is why financial education is important and how it can make a key difference in consumers understanding of financial issues.

Manuel Orozco, Senior Associate and Director of Remittances and Development, Inter-American Dialogue, stated that migration is often the result of economic necessity and a coping strategy to take care of families by sending money home. A remittance literacy toolkit for migrants is needed in order to educate them about sending remittances while introducing basics on financial literacy. Also the remittance product should be transparent and the price for remittance affordable.

Session IV: Role of Deposit Insurance in Promoting Economic Inclusion was moderated by Mohammed Al Jafari, General Director, Jordan Deposit Insurance Corporation (JODIC).

Khairuddin Arshad, General Manager, Insurance, Risk Assessment and Monitoring, Malaysia Deposit Insurance Corporation (MDIC), described economic inclusion as the process of overcoming the barriers that prevent people from participating in or contributing fully to the economic system. The Malaysia Deposit Insurance Corporation has focused on the design and scope of the deposit insurance scheme as well as public awareness campaigns in order to try and broaden economic inclusion across the country.

Carlos Isoard, Member of the Board of Directors, Instituto para la Proteccion al Ahorro Bancario, (IPAB) focused on financial access in Mexico and the methods Mexico is using to increase financial inclusion since according to World Bank statistics only 25 percent of the population in Mexico has got access to financial services. Through legislative and educational initiatives, Mexico expects to increase its financial access from 25 percent of the public having access to 50 percent over the next five years.

Robert Mooney, Deputy Director, Consumer Protection and Community Affairs, FDIC, described some of the products and services offered by the FDIC to promote economic inclusion. He emphasized that none of these products and efforts are effective without confidence and fostering this confidence is especially hard in a crisis like the recent one and requires engaging in even more outreach.

Ganiyu Ogunleye, General Manager/CEO, Nigeria Deposit Insurance Corporation (NDIC), discussed the role of deposit insurance and microfinance in promoting economic inclusion in Nigeria. He concluded by noting that microfinance is a powerful tool to promote economic inclusion made more effective when encouraged by deposit insurance and effective regulation.

Hari Nandan Prasad, Chief Executive Officer, Deposit Insurance and Credit Guarantee Corporation of India (DICGC), shared details of India's experiences in promoting economic inclusion and the effects of deposit insurance on those efforts. He emphasized the following points: 1) quick settlement of deposit insurance claims is vital for promoting depositors' confidence; 2) there must be effective triggers for prompt and effective corrective action, provided by the insurer or other regulatory entity; and 3) the danger lies in excessive leveraging, a problem that may be addressed by effective regulation.

Martin J. Gruenberg, Vice Chairman, FDIC, and President and Chairman of Executive Council, IADI provided brief closing remarks, thanked attendees and presenters for their participation and concluded the event.

Day One – October 29 – Focus on Financial Stability

Opening Session

Welcoming Remarks

Martin J. Gruenberg, Vice Chairman, ***Federal Deposit Insurance Corporation (FDIC)***, *President and Chairman of Executive Council*, ***International Association of Deposit Insurers (IADI)***

Martin Gruenberg opened the conference and said that it was an honor to host the IADI 2008 7th Annual Conference in Washington, D.C. on the occasion of the FDIC's celebration of its 75th Anniversary. Mr. Gruenberg noted that IADI was founded seven years ago in the belief that deposit insurance systems play a critical role in maintaining financial stability, particularly during times of economic stress. He acknowledged the presence of the founding President of IADI, Jean Pierre Sabourin, former President of the Canada Deposit Insurance Corporation and current President of the Malaysia Deposit Insurance Corporation. He emphasized that IADI's purpose is to bring together the deposit insurers of the world to share technical expertise, undertake research, sponsor training, and develop guidance for the operation of effective systems of deposit insurance.

Mr. Gruenberg stated that if anything, recent events have underscored the important role that deposit insurance systems play in maintaining financial stability. It has also underscored the value of having an international association, currently made up of 52 deposit insurers from all regions of the world, to serve as a source of expertise and leadership in deposit insurance. He noted that IADI is currently taking part in a collaboration with the Basel Committee on Banking Supervision and the European Forum of Deposit Insurers (EFDI) to develop International Core Principles for Effective Deposit Insurance Systems which will serve as a benchmark for countries to use in establishing or reforming their national systems of deposit insurance. This collaboration grew out of a recommendation of the Financial Stability Forum Working Group of the G-7 Finance Ministers.

Mr. Gruenberg explained that the conference was divided broadly into two parts. The first day would focus on financial stability. The second day would focus on the broad international issue of economic inclusion and the important role played by deposit insurance. Mr. Gruenberg noted that this is an issue of particular urgency given the difficult financial conditions that the world is currently confronting.

He took a moment to thank many people who worked so hard to put this ambitious conference together. In particular, He thanked Judy Dupre and Gail Verley of the FDIC's Office of International Affairs; his deputy, Barbara Ryan; and the FDIC's Division of Administration (DOA) led by Arleas Kea and Mike Rubino's group within DOA led by Christine Davis. Then he invited the first speaker, also his good friend and colleague, the distinguished Chairman of the FDIC, Sheila Bair to deliver the Opening Address.

Opening Address
Sheila C. Bair, Chairman, ***FDIC***

Sheila Bair stated that the conference is timely and critical. Many people are losing their homes as a result of unaffordable loans and declining home values. Foreclosures cause prices to decline leading to more foreclosures and subsequent job losses. The FDIC has developed a program to help defaulting borrowers avoid foreclosure. Ms. Bair noted that FDIC took action two years ago on the foreclosure crisis and warned against the sub-prime problem and advocated for more loan workouts. By taking a variety of steps, she stated that the system would be stabilized.

Ms. Bair said that the global financial crisis has seen great international cooperation that has not been seen since the end of World War II. FDIC has invoked the systemic risk exception and developed the Temporary Liquidity Guarantee Program (TLGP) to try and increase liquidity in the financial system and the program seems to be working. She then discussed the highlights of TLGP.

Ms. Bair concluded by stating that deposit insurance is the fail-safe for modern financial systems and FDIC has done well in keeping the financial system stable. The deposit insurance system has bolstered confidence by raising coverage where needed and closing failed banks when necessary. The markets expect to see coordinated efforts when events warrant. The existing international contacts play a vital role in successfully managing problems. IADI is a fine example of an organization that has helped develop these contacts.

Session I: Current Financial Market Challenges and Implications for Financial Institutions

Moderator: *William R. White, Former Economic Adviser, Head of Monetary and Economic Department,* ***Bank for International Settlements***

William White said he would like to ask the panelists to address four questions: 1) What is the nature of the problem?; 2) What are the causes of the problem?; 3) What are the implications? and 4) What to do about policy?

Presenter I: *Svein Andresen, Secretary General*, ***Financial Stability Forum***

Svein Andresen stated that successful crisis management requires a lot of coordination prior to the crisis. However, in this crisis only responses have recently been coordinated. He noted that the Financial Stability Forum has started to work on a crisis response framework that would: 1) strengthen capital and risk management; 2) adopt transparent accounting practices; 3) change use of credit ratings; 4) change regulatory responses; and 5) develop more robust arrangements for dealing with stress in the system. He stated that the Basel Committee on Banking Supervision supports increasing capital requirements; increasing liquidity requirements; and examining overall capital levels to see if a leverage requirement is appropriate. Mr. Andresen commented that liquidity has obviously been a problem and there will be new requirements for managing liquidity risk. Credit risk management problems are evident and accounting is another area that needs improving. The central problem is that accounting standards and asset valuations work well when there are stable markets and easily observed prices but not at all well when markets are illiquid and in turmoil. Mr. Andresen said that there has also been a lot of attention given to the over-the-counter derivatives market and there is good reason to believe that a formal derivatives market will be developed. He also said that there is also a great need to develop supervisory protocols to promote consistent supervisory practices among countries. Another issue is the pro-cyclical nature of the capital requirements. This has been a difficult issue because accounting standards argue against increases in provisioning when losses are low. It is necessary to look again at what limits should be placed on entities that are outside of the regulated sphere.

Presenter II: *Jaime Caruana, Counselor and Director, Monetary and Capital Markets Department,* ***International Monetary Fund***

Jaime Caruana stated that this is a crisis of confidence and leverage. There has been a collective failure to appreciate the level of leverage in our societies. The complexities of the situation are almost unthinkable. So far, 43 countries have taken action by protecting depositors, banks and even subordinated debt holders. There have been large injections of liquidity. The financial system is going through a huge problem of de-leveraging, causing the system to consolidate and shrink. This is causing further problems because this transformation should occur at a more measured, less rapid pace. Mr. Caruana addressed the implications for policies going forward. He stated that the de-leveraging process will require US$2 trillion in assets to move out of the banking system. After the crisis is contained there needs to be greater harmonization of the safety net to eliminate or contain cross border arbitrage; to transition away from the various guarantees; and to agree to a common framework for harmonization. He noted the important role of the IADI core principals highlighting that deposit insurance systems should be fully funded ex-ante systems, rapid deposit insurance payment is essential, public awareness of the system is also important and co-operation is good, but convergence of legal structure is vital. He noted that differences in legal environments need to be appreciated, however many of the differences are based on custom or tradition, rather than legal need.

Presenter III: *L. William Seidman**,** Former Chairman**, FDIC** and Chief Financial Commentator, **CNBC Network***

L. William Seidman stated that the source of the current crisis in the United States can be simply explained. First, it was the 2004 Securities and Exchange Commission's (SEC) decision to change the capital requirements. Up until 2004, the leverage requirement for investment banks was 12-to-1. The industry convinced the SEC to go to a Basel II type system. With that change, within four years, leverage had increased from 12-to-1 to 30-to-1. A large part of the increased leverage went to the assets that have caused the problems. During that period there was no loss experience on sub-prime assets so there was no increased capital for holding those assets. This shows that past experience is worthless when considering capital requirements.

The one real asset left in the United States financial system is core deposits. Even Goldman Sachs converted to a Bank Holding Company to be able to collect core deposits. In banking, the only problem with core deposits is the possibility of a bank run. However, deposit insurance solves that problem. In the current crisis there have been no insured deposit runs, so deposit insurance is the one policy tool that has worked. Deposit insurance is fundamental to a stable financial system. Deposit insurers should feel proud to be part of the system. The solution to the crisis is capital and trust, credit depends on trust.

Capital standards must be raised. Banks should also already hold enough capital to protect against the risks they have identified. In addition, it is important to restore trust and transparency to the system. After pouring money into the system to help stabilize it, the government must develop a new mechanism that provides for a sufficient capital base and a sensible leverage requirement for the system. The way the system treats its customers needs to be fundamentally changed. Customers should be able to trust their financial institutions. There is currently no trust that the government has created a system to benefit the citizens rather than financial institutions. Likewise, a financial system that builds trust through the good regulation is needed.

Mr. Seidman said he would name one more party responsible for the current crisis. In 2004 Fannie Mae decided to package and securitize sub-prime mortgages. It pushed the product to promote home-ownership at the expense of good risk management.

Presenter IV: *Gene Ludwig, Chairman and CEO, **Promontory Interfinancial Network** and Former **United States Comptroller of the Currency***

Gene Ludwig began by saying this is a very important conference because the global crisis is showing how deposit insurers from all over the world are vital to the future of our financial system. He stated that to date four points have been made clear. First, it is not possible to have a safe system that is not sound. A sound system is one with a high level of probity and care. Loss of trust is at the root of the problem. Second, all regulation should start with a view of caring for the consumer. Third, deposit insurance is an important part of the system; it protects depositors but allows for innovation. Forth, it is necessary to learn the right lessons, not the wrong lessons. Mr. Ludwig said that the crisis did not arise because low-income people fooled the system. It arose because banks didn't develop appropriate products for that population. For the system to function, trust must be expanded to all parts of the population, otherwise trust is missing. Thus, trust is built through vital programs like the Community Reinvestment Act.

Luncheon Remarks
Problems of Governance Involving Authority and Resources
Paul Volcker, former Chairman of the Board of Governors, ***Federal Reserve System***

Paul Volcker started off by noting the unprecedented government intervention in the banking sector and financial markets during the recent crisis and complimented the FDIC for performing professionally in the crisis. He stated that major federal intervention was required in the situation because there was not adequate intervention over the last two decades and the necessary balance between regulation and market discipline in the financial markets was lost.

Mr. Volcker observed that the new market place has evolved quite radically over the last several years. It offers very complex financial instruments and has seen the emergence of a new breed of professionals which he called "Financial Engineers." The resulting picture is less transparent and riskier.

He mentioned that the total debt in the United States was about 45% of its GDP in the early 70's; it rose to about 70% during his Chairmanship of the Federal Reserve; and presently it is about 110%. Several culprits were responsible for this unacceptable national debt crisis: regulators with inadequate supervision; credit rating agencies; greed displayed by the financial markets; and the arcane and obsolete accounting standards such as the mark-to-market rule.

Mr. Volcker concluded that there will be a recession in the United States and in other parts of the world too. The key question and concern is how to build a new effective system of financial regulations? Also, how to achieve active cooperation and coordination among all nations of the world that is so critical in dealing with the current crisis and in rebuilding a successful operational global economic structure?

In response to questions from the audience, Mr. Volcker commented that existing global financial organizations such as the IMF and the World Bank are losing strength and becoming inadequate. They are facing massive problems of governance involving authority and resources. They will need to undergo changes in institutional structures, if they want to continue to play a key constructive role in dealing with the financial crisis.

Mr. Volcker felt that the recent government actions in the United States have still not restored full confidence and that the lack of trust goes further than just the financial markets. One recent survey showed that only 20% of the people surveyed think that the United States Government is "doing the right thing."

Finally, he noted that the FDIC has a traditional role in this current crisis plus an expanded role, and it has performed those roles expertly. At the same time, it is necessary to figure out the role of the federal reserve vis-à-vis the Federal Government and Congress in terms of providing financial assistance.

Session II: The Role of Deposit Insurers in Financial Crises, Past and Present

Moderator: *J.P. Sabourin, President,* ***Malaysia Deposit Insurance Corporation***

J.P. Sabourin introduced the panelists which included deposit insurers from four countries (Japan, Mexico, Nigeria, and Turkey) that have past experience dealing with financial crises and deposit insurers from two countries (United States and United Kingdom) currently dealing with a crisis. Noting that banking crises have affected deposit insurers in many ways, Mr. Sabourin asked the panel whether their experiences were relevant for the current global crisis. Despite facing different challenges and options in dealing with a crisis, and facing different policy prescriptions and mandates, he observed that they shared the common goals of providing liquidity for the banking system and building confidence in the ability of the deposit insurance system to protect the public's deposits. The session emphasized the importance of having the tools necessary to meet these objectives.

Presenter I: *Adedapo A. Adeleke****,*** *Head, Claims Resolution Department,* ***Nigeria Deposit Insurance Corporation***

Adedapo Adeleke spoke about Nigeria's experience with crisis during the 1990s and early 2000's. The Nigeria Deposit Insurance Corporation (NDIC) was established in 1988 with several mandates: deposit insurer, bank supervisor, and distress resolution and liquidation. Forty-nine banks failed between 1994 and 2006. The cause of failure was largely endogenous resulting from abusive ownership structures, weak corporate governance, insider abuse and inept management. The NDIC used open bank assistance, purchase and assumption transactions as well as deposit payouts to handle those banks. Additionally, the Central Bank of Nigeria gave a blanket guarantee to private depositors in some of the closed banks. Inadequate public awareness of the benefits and limitations of the deposit insurance system and inaccurate financial reporting by insured banks were among the challenges faced by the NDIC.

Mr. Adeleke noted that measures had been taken by the NDIC in conjunction with the central bank to help avert future crises. They have strengthened the regulatory regime, introduced risk-based and consolidated supervision, developed a contingency planning framework for handling troubled banks and systemic crises, and issued a code of corporate governance for banks and guidelines for developing risk management frameworks. Overall, the NDIC's ability to discharge its mandate had been enhanced by a strengthened legal framework.

Presenter II: *Ridvan Cabukel, Vice President,* ***Savings Deposit Insurance Fund of Turkey***

(Mr. Ridvan Cabukel substituted for the originally scheduled presenter Mr. Ahmet Ertürk Chairman, Savings Deposit Insurance Fund of Turkey.)

Ridvan Cabukel explored Turkey's decade-long experience with banking crises between 1994 and 2003. He noted several reasons for the banking crises including the liberal granting of bank licenses, a weak regulatory and supervisory framework, political and economic instability, conflicts of interest, regulatory forbearance, a high level of connected lending and misuse of funds and undercapitalization and excessive risk taking. The banking sector also faced contingent effects of the 1998 Russian and 2001 Argentina crises.

Mr. Cabukel commented that after the crisis in 1994 began, Turkey provided a blanket guarantee of deposits to avoid a systemic crisis. The resulting moral hazard weakened the banking sector and more banks failed. During this time, the Savings Deposit Insurance Fund (SDIF) became responsible for managing insolvent banks, whose banking licenses had not been revoked. A process for resolving failed banks was developed: SDIF required bank owners to pay back misused funds, took ownership of failed banks' shares in return for public funds. Failed banks were resolved through merger, and sale of banks, branches, assets and liabilities. Following the 2000-2001 crisis, the SDIF received strengthened resolution powers.

Mr. Cabukel concluded the presentation with the lessons for deposit insurers. One lesson is that deposit insurance corporations should have a process in place that allows for timely compensation of deposit holders to avoid bank runs. Another is that, to be effective, deposit insurers should have a broad mandate, including a special resolution regime.

Presenter III: *Mutsuo Hatano, Deputy Governor,* ***Deposit Insurance Corporation of Japan***

Mutsuo Hatano spoke about Japan's experience weathering economic and financial crisis during the late 1990s. While other Asian countries suffered because of capital flight, Japan's financial crisis was rooted in problem real estate loans driven by a dramatic decline in domestic real estate prices. The simultaneous failure of several banks led the Japanese financial authority to introduce four special measures to confront the financial crisis. They were: 1) a blanket guarantee of deposits (1996), 2) a public capital injection (1998), 3) the temporary nationalization of banks (1998), and 4) the purchase of non-performing loans from "sound" financial institutions (1999). Mr. Hatano focused his remarks on the injection of public capital into the banking system.

The passage of two related laws facilitated the use of public funds. The Deposit Insurance Corporation of Japan (DICJ) played a key role. Funding came from government guaranteed bonds issued by the DICJ, which are called DICJ bonds or borrowings from banks. The DICJ was authorized to use those funds to purchase preferred stocks or subordinated bonds from the bank or extend subordinated loans to them. The DICJ faces certain constraints when it disposes of public assets, stocks and bonds, acquired from troubled banks: it must not damage the financial soundness of the bank, have a negative effect on the market or increase the cost to the public. In total, the DICJ injected approximately US$113 billion into 37 banks over the course of the crisis. The DICJ retains the ability to inject public funds.

The steady decline in the non-performing loan ratio since its peak in 2001 can be attributed, in part, to the emergency measures, including the capital injection. Mr. Hatano concluded his presentation with three points. First, using public money to cope with a financial crisis is a public policy decision that is often necessary, but unpopular with the public. Second, the introduction of such policies must be carefully timed if they are to be effective and avoid excessive moral hazard. Finally, if conducted properly and managed appropriately, the injection of public money can be done without cost to the taxpayer. In the case of Japan, the DICJ's capital injection has yielded a return of US$13 billion.

Presenter IV: *Carlos Isoard, Member of the Board of Directors,* ***Instituto Para La Proteción Al Ahorro Bancario, Mexico***

Carlos Isoard spoke about Mexico's handling of the 1995 banking crisis and reforms that have been instituted since that time. He began by outlining the Mexico's transition from implicit coverage that began in 1981 to the present explicit, limited coverage system and presented an overview of the 1994-1995 financial crises.

Contributing factors of the 1994-1995 financial crises included a nationalized banking system, an inadequate supervisory and regulatory framework, the sharp devaluation of the peso and increased interest rates, short-term foreign exchange obligations and an undercapitalized banking system. The crisis resulted in a decline in real GDP of over 6% and an estimated fiscal cost of 17% of GDP.

In response, the government introduced short-term measures including liquidity support in dollars and capital support, debtors relief programs, and depositor support programs that provided access to funds. Majority foreign capital was also allowed in the banking system and a conservatorship program was established for insolvent banks. For the long-term, the government modernized the supervisory/regulatory framework and accounting and disclosure standards. The blanket guarantee was eliminated through a gradual, seven-stage coverage reduction program. The gradual transition to explicit, limited coverage was timed to be completed when banks became fully compliant with international capitalization standards in 2005. Deposit insurance and financial services consumer protection agencies (IPAB and CONDUSEF) were created.

IPAB has a mandate to resolve banks and manage the deposit insurance system, manage debt, assets and asset sales from the 1995 crisis and from resolved banks. Mr. Isoard noted the IPAB has benefited from recent improvements to the regulatory environment, including prompt corrective action tools, new bank resolution tools (P&A, bridge bank), systemic risk tools, and enhanced coordination and information sharing among authorities. A new banking insolvency law and micro processes for executing bank resolutions should be completed late 2008.

In closing, Mr. Isoard said banks are public trust entities, the distinctive feature of deposit insurance is that it fosters stability by providing certainty to depositors. In the Mexican crisis, depositors, debtors and otherwise-sound banks were assisted; coordination between authorities of the safety net was key. Time is essential and regulation must keep up while ensuring industry competitiveness.

Presenter V: *Loretta Minghella*, *Chief Executive*, ***Financial Services Compensation Scheme, United Kingdom***

Loretta Minghella spoke about the transformation of deposit insurance in the United Kingdom. Four topics were covered: 1) the history and mandate of the Financial Services Compensation Scheme (FSCS), 2) past deposit insurance experience, 3) the FSCS role in recent banking defaults and 4) prospects for banking and compensation in the United Kingdom.

In operation since 2001, the FSCS is accountable to the Financial Services Authority (FSA). The FSCS provides compensation for insured deposits as well as insurance, investments, advice and arranging by insurance intermediaries and mortgage businesses. It is funded by the industry on an ex-post basis.

The run on Northern Rock Bank was the first in the United Kingdom for over 100 years. Several factors contributed to the run: a lack of public awareness about the FSCS and general deposit insurance provisions, a system of coinsurance, and the lack of timely compensation (compensation required within 3 months under the European Commission rules). Under the coinsurance system, deposit insurance coverage was provided in full on the first £2,000 and at 90 % on the next £33,000. In October 2007, the coinsurance provision was eliminated and the limit was raised to £50,000. (Increases in coverage are being discussed by the FSA and the European Commission.)

As the financial crisis unfolded, the United Kingdom government chose not to institute a blanket guarantee of all deposits. Instead, a “soft guarantee” that adds coverage beyond the FSCS limits has been provided in individual cases. Three failures handled by the FSCS that involved a soft guarantee were discussed.

As part of United Kingdom reform efforts, the FSCS is looking forward to new arrangements. Among these are the ability to fund resolution methods in addition to depositor payouts, rules requiring banks to have readily available information on deposits, sharing of information with the FSA and the ability to borrow from the National Loans Fund. Resolutions will be based on gross payments (no set-off) and the claims process will be streamlined providing payouts within seven days. Several challenges lie ahead, including pre-funding, risk-based premiums, improved public awareness and enhanced relationships among United Kingdom safety net players.

Presenter VI: *John Bovenzi, Chief Operating Officer*, ***Federal Deposit Insurance Corporation***

John Bovenzi stated that on July 11 of 2008, IndyMac Bank was closed. On July 14, 2008, a new conservator bank, owned and operated by the FDIC, IndyMac Federal Bank, was opened. Mr. Bovenzi was chosen to serve as Chief Executive Officer. His remarks drew on his recent experience at IndyMac Federal and on his experiences with the banking and savings and loans crises in the 1980s and 1990s.

When IndyMac reopened on that Monday, many anxious customers formed lines outside the bank’s branches. Some were fully insured, others uninsured, and still others were unsure about their insurance status. The mood was one of anxiety and uncertainty. FDIC learned some important lessons from that closing experience. The public must be well informed about the deposit insurance rules and those rules need to be as simple as possible. The FDIC must be able to accurately determine insured and uninsured deposits in a timely manner. It is important to quickly stabilize the operations of the conservatorship to prevent unnecessary disruptions and minimize anxiety.

In response to that experience, the FDIC has introduced improvements including expanding its efforts to educate the public about deposit insurance and simplifying some of its complex coverage rules. The systems used to calculate insured and uninsured deposits in a timely manner are being modernized and the largest banks are required to standardize their deposit information. Finally, a portion of funds were advanced to uninsured or potentially uninsured IndyMac

Bank depositors, which helped minimize disruptions to those depositors and the local economy.

Throughout the current financial crisis, FDIC Chairman Sheila Bair has been at the forefront of efforts to prevent unnecessary foreclosures. At IndyMac Federal, the FDIC developed a systematic loan modification program that benefits both the bank and the homeowner. The key to the program is that a decision to modify loans rather than to proceed with foreclosure must make good business sense. That is, it must maximize the return to creditors, keep families in their homes and help stabilize our financial system.

IndyMac will turn out to be the most costly bank closing in the FDIC's history, in part because its non-deposit liabilities were virtually all secured, leaving only the FDIC and uninsured depositors exposed to losses. To help correct this situation, the FDIC has since modified its risk-based premium structure so that banks that have a large portion of their liabilities secured will pay higher deposit insurance premiums.

In his concluding remarks, he noted that the FDIC's experience with IndyMac underscores the importance of having adequate tools, such as conservatorships and bridge banks, for resolving failed banks. And because no two financial crises are alike, Mr. Bovenzi emphasized that regulators, including deposit insurers, need broad powers, creativity and flexibility in order to address financial crises in a timely and successful manner.

Session III: IADI Core Principles and New Research and Guidance for Deposit Insurers

Moderator: *András Fekete-Gyor, Deputy Managing Director and Chief Economist*, ***National Deposit Insurance Fund of Hungary***

András Fekete-Gyor opened the session by stating that deposit insurance coverage is the hottest political issue in much of the world at this time. He then introduced the first panelist.

Presenter I: Deposit Insurance Coverage
J. Ade Afolabi, ***Nigeria Deposit Insurance Corporation***

J. Ade Afolabi stated that because of the current world-wide financial crisis, members of the Subcommittee on Coverage are taking another look at this paper. The coverage issue encompasses both the type of deposits (scope) and the amount of funds (level) that are insured. These, in turn, determine the potential liability of the deposit insurance agency. The paper identifies three types of coverage. Blanket coverage, which is used during a systemic crisis, provides coverage to all without limit. Full coverage, by contrast, protects only depositors without limit. Limited (or partial) coverage provides some coverage to depositors.

The coverage limit should be sufficient to maintain depositor confidence and ensure a free flow of funds into the banking system. It should also protect the majority of depositors. To determine the appropriate level, consideration should be given to the cultural behavior of depositors (what they believe is necessary to achieve the goals of the deposit insurer) to coverage limits in other countries in similar phases of financial system development, and to funding (what can be supported). Recent experience has shown co-insurance to be ineffective.

To determine what deposits to cover, consideration should be given to the ease of determining ownership, the relative importance of the different deposits, and the nature and purpose of the deposits. Whatever is covered should be clearly defined by statute.

Recent events have demonstrated that the interconnectedness among nations may be higher than was expected and that emphasis on a particular objective has implications for coverage. Objectives seem to have shifted to the point of preferring a more robust scope and level of coverage.

Presenter II: Funding of Deposit Insurance Systems
Ju-Hyung Lee, Executive Vice President, ***Korea Deposit Insurance Corporation***

Ju-Hyung Lee stated that sound funding arrangements are critical to the design of a deposit insurance system (DIS). Such arrangements ensure that the DIS will be effective and this, in turn, will promote public confidence in the banking system. Funding may be achieved ex-ante, ex-post, or some combination of the two, termed hybrid. Ex-ante systems are the recommended choice, particularly for newly established systems.

With an ex-ante system, a pool of funds is readily available to meet the needs of the DIS. In addition, an ex-ante system ensures that all member institutions, including those that will fail, contribute to the system. It may also avoid the pro-cyclical effect of calling on member institutions to pay for deposit insurance in time of crisis.

The DIS may fund itself through private sources, public sources, or a combination of the two. Private sources, the member institutions themselves, are the main source of funding in most countries. Public sources may make initial contributions to a fund, either outright or through a loan. In addition, a back-up source of funding should be identified. In most cases, this will be through a government agency, most likely either the Treasury or the Central Bank. In some cases, an international organization or a private source will provide back-up funding for the DIS. Having a back-up source of funding can ensure prompt reimbursement of depositors in case of a bank failure. Such funding will usually be repaid through a special assessment or from the proceeds of the bank liquidation.

To support its needs, either ex-ante or ex-post, the DIS must assess premiums on member institutions. This will involve the choice of an assessment base, most commonly insured deposits, and a rate. Whether a flat-rate or risk-adjusted premium is charged, there must be information systems to support the system. A fund should be sufficient to meet the requirements of the DIS while considering the ability of the industry to pay the premiums. A well-designed system can contribute to the integrity of the financial system and help to maintain financial stability.

Presenter III: IADI Core Principles
David Walker, Director, Policy and International Affairs, ***Canada Deposit Insurance Corporation*** *and Chair,* ***IADI Guidance Group***

David Walker began by saying that IADI issued a set of 21 Core Principles on deposit insurance in February 2008. Mr. Walker gave an introduction and brief history of IADI's development of the principles and then discussed each.

IADI began development of core principles from its inception. The purpose of establishing core principles is to enhance the effectiveness of deposit insurance systems. The principles are designed to be reflective of and adaptable to a broad range of country circumstances, settings, and structures. They draw heavily upon the practical experience of deposit insurers and cover a broad range of issues insurers currently face.

With the turmoil that is gripping the financial sector of many countries, deposit insurance issues have become more important. Countries with well-designed systems have weathered the crisis better than those with poorly designed or no deposit insurance systems. Attention is focused on the need for a set of international principles for deposit insurance systems by which national deposit insurance arrangements can be reviewed. The Basel Committee on Banking Supervision has established a joint committee with IADI to develop such a set of principles. IADI's core principles are the basis for this endeavor.

Discussant I: *George Kaufman, John F. Smith, Jr. Professor of Finance and Economics,* ***Loyola University Graduate School of Business***

George Kaufman commented on IADI's set of core principles, noting that the principles are a useful guide for designing a deposit insurance system in normal times. However, in crisis period, the core principles lose out to "ad-hockery" and blanket coverage on a temporary basis. At such times, it is the role of the core principles to minimize the long-term damage of these actions and ensure a speedy transition back to normal. In systems that cannot provide quick access to funds for insured and uninsured depositors there is an incentive to delay closure of troubled institutions. This can result in an increase in the resolution cost once an institution is closed.

Discussant II: *Ilhyock Shim, Economist****, Bank for International Settlements***

Ilhyock Shim discussed the banking crisis in relation to the IADI Core Principles. With respect to the banking crisis, two approaches are available, a micro-prudential approach or a macro-prudential approach. The micro approach focuses on the individual institution while the macro approach looks at the industry level and is concerned with systemic effects. During crises, macro-prudential perspectives become more important.

The question was raised whether deposit insurers have a macro-prudential perspective. To answer this question, Mr. Shim examined the core principles. The designation of a target reserve ratio is important; whether it incorporates feedback effects through asset markets and the economy and the default correlations. The availability of backup financing also determines whether deposit insurers will have a role in resolving a crisis.

To effectively stem bank runs, the amount of deposits covered and the number of depositors covered are important criteria. Liquidity regulations may be needed. Also, prompt corrective action may aggravate a crisis when there is difficulty in recapitalizing a troubled institution.

The core principle on cross-border issues provides very specific recommendations and very general principles on funding and coverage. Mr. Shim asks whether there are any guiding principles or more concrete suggestions for acting in a cross-border situation.

Dinner Address
Opening Remarks: *Roberto Moretti, Chairman****, European Forum of Deposit Insurers***

Roberto Moretti began by saying what a great honor and a great privilege to be here this evening. He especially thanked the Chair and members of Executive Council of IADI for the very kind invitation sent to him to attend these days of meetings. The motto of IADI which appears on its website is "Sharing Deposit Insurance Expertise with the World". This is the same mandate as that of EFDI. Mr. Moretti stated that approaches to deposit protection and deposit expertise differ widely across the globe; but, in this moment of severe financial and economic crisis, common approaches and sharing expertise among Deposit Guarantee Schemes have become critical. He stated that the loss of depositor confidence in financial institutions caused by the present crisis is like Linus being left without his blanket. IADI, EFDI and other deposit insurance schemes are the first line of tranquility for the millions of users of banks worldwide; and as deposit guarantee schemes on both sides of the Atlantic and around the world, Linus must be given back his blanket.

Keynote Address: *Sir Callum McCarthy, Former Chairman,* ***United Kingdom Financial Services Authority***

Sir Callum McCarthy began by saying that he was both grateful and surprised to have been invited to speak at such a distinguished conference. He addressed the United Kingdom lessons drawn from this experience. These lessons encompass both quite practical issues, the details that make all the difference between a run on a bank being contained or a run developing, as well as questions of the design of a deposit insurance scheme within the larger context of dealing with financial stability questions.

He then stated the outline of the deposit insurance scheme which existed last August when the problems around Northern Rock began to become acute. The United Kingdom scheme ensured that the depositors in banks were guaranteed 100% recovery of the first £2000 loss, and 90% recovery of the next amount up to £35000 so that the maximum guaranteed was the rather strange total of £31700. However, it was a scheme which was not well understood by the British public. The general perception, if one existed at all, was that the scheme covered the amount that you had in your account, whereas in fact it covered the loss a depositor might face.

In the light of the Northern Rock experience, the United Kingdom government has introduced a 100% guarantee of an initial sum, which was first raised to £35000 and has subsequently been raised again to £50000. Also, all banks are required to have much better practical arrangements to deal with mounting anxieties: broader internet bandwidth and capacity so that they can deal with a peak which is a multiple of the average website traffic; the ability to divert staff from other activities to answering customer inquiries when these rise; the staffing up of branches to enable increased withdrawals to occur without lines developing.

He addressed that unless the present circumstances become the new norm, sooner rather than later the question about how to reestablish the balance between stability and moral hazard would need to be further discussed. When striking that balance, there will be many practical lessons to be able to apply. He also put the emphasis on the legal powers available to the authorities to resolve a failing bank. These in a United Kingdom context have been discussed in a White Paper published earlier this year and will no doubt be much discussed as the legislation goes through parliament.

Finally, he emphasized that questions of deposit insurance policy have to be seen in the context of the policy towards financial stability as a whole, and as part of the general legal and administrative arrangements for dealing with a failing bank. Perhaps the most important lesson the United Kingdom has learned from the last year is that deposit insurance is not an incidental activity which can be considered through the prism of moral hazard criteria either solely or even principally, but has to be seen as an integral and important part of the design of the overall financial system.

Day Two – October 30 – Focus on Economic Inclusion

Welcoming Remarks – *Martin J. Gruenberg, Vice Chairman,* ***FDIC*** *and President and Chairman of Executive Council,* ***IADI***

Opening Address
A Global Perspective on Economic Inclusion
*Elizabeth Littlefield, Director and CEO****, Consultative Group to Assist the Poor***

Elizabeth Littlefield began with an emphasis on the fact that financial stability and economic inclusion, the theme of this year's conference, were mutually enforceable and interwoven. The stability of national financial systems will remain front and center in the public discourse over the next few months. But the developing world may have something to teach richer countries about financial safety and effective inclusion. The developing world has not been hit by the financial crisis to the same degree as clients in richer countries because a great percentage of accounts are in insured depository institutions.

Ms. Littlefield next described developments in global microfinance. Global microfinance was initially seen as a small and charming niche. But in the past twenty years organizations and governments have gotten down to the serious business of building economic inclusion. High repayment rates by microfinance clients have fueled rapid growth. Commercial and state banks are getting involved in an ever-increasing array of financial products. Consequently, most microfinance clients receive financial services through regulated institutions not non-governmental organizations (NGOs). Such institutions tend to be efficient, have a strong return on equity, and are well-managed. On the governmental side, changes in laws have enabled the poor to have access to the financial system and have protected the assets of the poor. As major banks have noticed this investment opportunity, they have begun to place greater focus on services designed for the poor, such as cell phone banking. Such developments provide large opportunities for regulatory innovation as these services cut across many industries.

Ms. Littlefield then mentioned how the recent economic crisis has affected economic inclusion. While previous crises, e.g. currency, export/import crises, had little effect on the poor, microfinance has connected the poor with mainstream markets. If there is a medium- or long-term global recession, it will be deeply punishing to the poor. Ms. Littlefield identified three areas of risk that affect economic inclusion. First, as to the poor as a credit risk, microfinance clients have high repayment rates even in tough times due in part to successful risk management and client management techniques. Second, because of the liquidity crunch, there is a refinancing risk i.e. it has become harder and more costly for microfinanciers to raise money. Lastly, there is regulatory risk. Policymakers should understand that there are no quick fixes and that there is no tradeoff between financial access and economic stability. Additionally, governments should avoid activist policies and injurious regulations such as interest rate caps and subprime credit schemes that undermine the competitive market.

Ms. Littlefield concluded by emphasizing four points. There is a definite link between financial inclusion and economic stability. There is a financial crisis but because of increased financial inclusion in developing countries, there is no critical suffering at this point. Successful factors in developing a good program of financial inclusion include: a back-to-basics approach, know and understand the customers, focus on payment capacity, and payment clarity and transparency. These "light-touch" solutions will bring about financial inclusion, access to credit, and economic stability. If financial institutions understand risk, know their customers, and focus on the basics, they will create long-term value.

Session I: Measuring Economic Inclusion

Anjali Kumar, Advisor, ***World Bank-IFC Financial and Private Sector Development Vice Presidency***

Anjali Kumar's presentation focused on quantitative studies being conducted by the World Bank regarding financial access across 54 countries. In particular Ms. Kumar used the studies to demonstrate how financial access can be measured and which variables prove to be the most informative when conducting studies on financial access and inclusion.

Ms. Kumar discussed the benefits of financial access and why studies on this topic are important. According to Ms. Kumar's research, improved financial access has both private and social benefits. Financial access can lead to higher growth and increased allocative efficiency, as well as reduced income inequality and poverty, and financial access achieves these results by providing credit resources, allocating credit to the marginally highest returns, enabling participation in payment networks, and mobilizing savings.

Two categories were discussed for developing variables to measure financial access—demand (user) side variables and supply (provider) side variables. The advantage to using demand side variables is that such variables provide correlates as to who has access and they can target access information relative to income, education, poverty and occupation. The downside to using demand side variables is that such studies can be costly and time consuming.

The most recent supply side study that has been conducted by the World Bank, *Banking the Poor*, has looked at 54 poor countries to determine (1) how many people have access to banking services and (2) what variables matter for gaining access to banking services. The findings of the study showed that the following variables are key components in relation to how many people in a country have a bank account: income, complexity (i.e., the number of documents to open an account, loan application processes), cost, quality and convenience, special schemes such as basic banking and special savings vehicles, mobile technology, retail payment services, and transparency. Based on the information gathered from financial access studies, the information can be used not only to improve financial access in developing countries, but it can be used to understand the causes of financial exclusion in developed countries.

Going forward, the main issue that surrounds financial access is whether access is actually too easy. Countries will have to look at the issue of easy access versus safe access and decide based on empirical evidence how to balance these two objectives.

Session II: Innovative Ways of Promoting Economic Inclusion

Moderator: *Michael S. Barr, Professor of Law,* ***University of Michigan Law School***

Michael S. Barr began with the observation that financial access is a question of whether the financial services made available are helpful to the users. Financial access can increase growth and incomes of the poor but the mechanisms for improving these outcomes are not well specified. Mr. Barr stated that the legal infrastructure necessary to assure fair functioning of the markets includes a minimum level of regulation; including creditor rights, property rights and a system of justice. Laws matter, but they do not create social interactions. Institution building is as or more important.

Anti-discrimination laws may result in expansion of financial services by barring non-economic factors in offering those services. However, anti discrimination law deals with racial, ethic or gender discrimination, but does not get at hierarchical and social economic problems. Laws, such as those requiring firms to explain their products to consumers and to publicly reveal their patterns of lending, also enhance access; as do affirmative obligations that require financial institutions to engage in certain types of activities, such as providing basic banking accounts. Product regulation, such as usury laws may also diminish access and harm product innovation. Behaviorally informed regulation must take accounts of how humans actually act, recognizing that the motivations are not purely rational, and take account of human failings (such as difficulty of understanding compound interest).

Presenter I: *William Knight, former Commissioner,* ***Financial Consumer Agency (Canada)***

William Knight discussed the Canadian model for ensuring inclusion in financial services. A 2007 survey estimates that 96% of Canadians have a bank account and that 94% have a debit card. But it appears that a significant portion of the Canadians without a bank account do not want one. The percentage of economic inclusion in Canada is due to social factors, including the creation of the Financial Consumer Agency of Canada in 2001 for the purpose of enhancing account access. The Canadian government adopted as a basic principle that every citizen has a right to a bank account. The government implemented a regulation setting out requirements for opening accounts and providing that if a bank denied an account request, it must provide a letter setting out its reasons. While voluntary codes also play an important role, if the banks do not comply with the codes it is understood that the voluntary codes will be succeeded by regulations and legislation. Mr. Knight commented that Canada has done about as well as it can in making bank accounts available. However a 2007 survey shows that 60% of Canadians find financial information hard to understand. Thus, there is still much work to do on financial literacy.

Presenter II: *Mark Napier, Chief Executive Officer****, FinMark Trust (South Africa)***

Mark Napier commented that the perspective from the African continent is far different from that of the developed world. Approximately 80% of individuals in the developed world have access to financial services, but 80% are excluded from services in the developing world. Exclusion within the developing world is not just from bank accounts, but from all financial services. He challenged those lending to Africa to go outside their comfort zones and enter the underbanked markets. He noted, however, that it is difficult to introduce regulation that would make outside investors comfortable without entirely tying up the limited resources of the financial systems existing in underdeveloped countries. FinScope, a survey tool developed by FinMark Trust to measure financial access to a country, segments economies into small business markets, and seeks development of appropriate products based on that segmentation. Mr. Napier noted that the voluntary approach to financial access had not got quite enough teeth and momentum, and that legislation is needed as a backup to voluntary approaches. He also observed that there is a need for more direct forms of financial intervention, such as the Financial Sector Deepening Challenge Fund, through which individuals who propose financial access-related projects compete for money from a common pot.

Presenter III: *Brian Pomeroy, Chairman,* ***United Kingdom Financial Inclusion Taskforce***

Brian Pomeroy opened by reporting that as of 2003, 2.8 million adults in the United Kingdom have no bank account of any kind, including 12% of households in which no one had an account. Low-earning individuals were borrowing at rates of 175% per annum and more. Many poor people were unable to get basic household insurance and had little incentive to save. The United Kingdom took three important steps in 2005 to promote financial inclusion. First, it reached agreement with banks on the shared goal of reducing the number of unbanked. Second, it established the Financial Inclusion Taskforce to advise on and promote financial inclusion. Third, it established the Financial Inclusion Fund, now totaling 250 million pounds. As a result, the number of adults in households without a bank account has been reduced by half, and the barriers to account opening have been lowered. One means of lowering the barriers is through training bank staff to be more welcoming of new accounts. While many with low incomes save nothing, there is evidence that they can save if the product and incentives are right. In 2010 the United Kingdom will be introducing a scheme under which the government matches savings for two years. Pilot schemes have demonstrated that 40% of individuals will continue saving past the period of the program. The United Kingdom's goal is to reduce individual self-exclusion resulting from lack of awareness, of trust and of self confidence in dealing with financial institutions. Ways of reaching hard-to reach groups are being sought, such as through the "now lets talk money" campaign being conducted through trusted intermediaries. The keys to reducing financial exclusion are having a strong political commitment, devising a clear target with the banks, creating appropriate products, engaging community based institutions, and researching the groups most in need of services.

Presenter IV: *Salvatore Pappalardo, Chief Operating Officer,* ***Grameen Foundation***

Salvatore Pappalardo commented that the mission of the Grameen Foundation is to enable the poor to integrate into the formal economy. Currently seventy 70% of the poor are women and one billion people live on less than US$1 a day. The majority of the poorest remain untouched by microfinancing and technology. The Grameen Foundation looks for market driven solutions that achieve both financial and social results, such as through microfinancing institutions. The estimated demand for capital is approximately US$300 billion, but the supply is only about US$4 billion. About 90% of microfinancing goes to the top tier institutions. While the most efficient microfinancing institutions are non-regulated, the financial market looks only to the regulated institutions. Technology is a key to expanding access. Mobile phone penetration is now at 3.4 billion and growing quickly and broadband wireless is becoming an increasingly important focus. The Grameen Foundation is developing the Bankers without Borders program, which leverages the talents of volunteers from the private sector. It is hoped that by acting to support both financial and non-financial skill-based activities they will have a transformative effect on microfinancing institutions. The program aims to build the capacity of microfinancing institutions to manage and scale their organizations and strengthen their access to capital.

Luncheon Remarks
Financial Inclusion: Lessons from the Indian Experience

Usha Thorat, Deputy Governor, ***Reserve Bank of India*** *and Chairperson**,*** ***Deposit Insurance and Credit Guarantee Corporation of India***

Usha Thorat presented her address via video and apologized for not appearing at the conference in person during this difficult and turbulent time for deposit insurers. She began the substantive portion of her address by defining financial inclusion as access to timely and affordable financial services. She noted that there are more than 2 billion people worldwide with no relationship with financial institutions. The rate of financial exclusion in India is between 41% and 65%, depending on the method used to measure access to financial services. To remedy this, 3 or 4 years ago, India began a policy shift to emphasize financial inclusion with a goal of a bank account for each household. Accounts should have low transaction costs and offer the availability of low cost credit, either in the form of a credit card or overdraft protection. To bring in depositors who have soured on banks because of past defaults, she suggested a one time settlement scheme for small defaulted loans.

Ms. Thorat emphasized that India's approach is decentralized, allowing policy makers to learn lessons and expand the program over time. She then presented details on some of the financial services that have been successful and the lessons that have been learned:

- In India, branchless banking works. Using a variety of channels, including wireless communications technologies and biometric scanners, banks can establish agents to provide banking services in otherwise unserved areas.
- These same technological solutions can be used to distribute government payments to individuals in a way that minimizes agency risk and promotes efficiency.
- The technology that allows these services can be powered by alternative energy sources like solar. This, in turn, has additional benefits, including increased availability of solar power systems. One enterprising institution offered loans for the purchase of such systems.
- Small, cooperative lending groups lead to increased financial inclusion and have been vary successful at providing financial services to women. These groups start small, engaging in microfinance and may become affiliated with banks as they grow. They encourage women to save and allow them to borrow.
- Urban Cooperative Banks (UCBs) often serve people who tend to avoid commercial banks. They accept deposits even from nonmembers and

offer deposit insurance. Ms. Thorat drew attention to the fact that, like the cooperative lending groups, UCBs have made inroads among women.

- Finally, Ms. Thorat noted that financial literacy needs to be emphasized in order to foster financial inclusion. Successful programs have been bank-run, are targeted at young people, and include summaries of the services offered, the applicable charges, and customer redress mechanisms.

Session III: International Financial Literacy Initiatives

Moderator: *Dan Iannicola, Deputy Assistant Secretary for Financial Literacy**, United States Treasury***

Dan Iannicola stressed that consumers confidence in the markets has been called into question. The markets must be kept calm and credit highly regulated but educating consumers on lenders is essential. Mr. Iannicola talked about the six stages of financial literacy: prediscovery; awareness; early engaging - learning and writing about the issues; adoption – educating one's population – more resources and media attention; improvement – more resources must flow – coordination more important than ever; and mastery – proven systems must be put in place.

Panelist I: *Bryan Davies, Chair,* ***Canada Deposit Insurance Corporation****, and former Chief Executive Officer and Superintendent,* ***Financial Services Commission of Ontario***

Bryan Davies explained Canada's initiatives on financial literacy and public awareness. The intervention began by describing the nature of Canada's financial system, with jurisdictional responsibilities split at the national and provincial levels. As one of five financial safety net participants, the Canada Deposit Insurance Corporation's focus is on increasing awareness of deposit insurance, while the Financial Consumer Agency of Canada is primarily responsible for financial literacy at the federal level. Actors at the provincial level also contribute to financial literacy efforts; coordination among the number of actors is needed. Mr. Davies closed his remarks by detailing the strategy for 2008, which aims to generate sustained awareness and interest to find more about deposit insurance from all Canadians in general, with those with over 50 years of age being especially sought. In addition to the use of the aforementioned media, ongoing efforts also include public relations, outreach activities and quarterly polling. To September 2008, polling results show that awareness of CDIC totals 51%, while awareness of the coverage limit is only 31%. In relation to the role of insured entities, the evolution in their awareness activity has been from informing on what is not covered to informing on both covered and non covered products, to the current environment, where institutions must comply with the Information Bylaw in an effort to prevent the communication of false information while them to engage in more proactive efforts to inform the public. The final part of the presentation showed institutional public awareness video clips.

Panelist II: *Jose C. Nograles, President**, Philippine Deposit Insurance Corporation***

Jose C. Nograles discussed about the objectives of the Philippines' financial education program, which is targeted to young adults, while noting country-specific challenges that must be overcome in order to generate an effective public awareness impact. Mr. Nograles outlined the key points of the intervention and provided background on the PDIC, which was established in 1963. The main objectives of the PDIC's work on financial literacy are to raise awareness of the PDIC while providing educational content to the youth segment of the population on issues of saving ethics and financial knowledge. The challenges facing awareness initiatives in the Philippines are of a geographic nature as well resource related. The Philippines geography of more than 7 thousand islands imposes particular limitations to traditional delivery methods. In light of the challenges posed, he described the need for innovation and coordination. He closed his remarks by noting the initial positive feedback received from teachers, the media and parents, as well as lessons learned in the form of the need to collaborate, for sustainability and for evaluation. The presentation ended with the showing of institutional public awareness video content.

Panelist III: *Mary O'Dea, Consumer Director**, Irish Financial Regulator, Ireland***

Mary O'Dea explained Ireland's approach on the important themes of consumer confidence and financial education in the context of the ongoing crisis and of consumers' confusion over the financial language that accompanies current events: liquidity, sub-prime, write-downs, etc. She then discussed the fear that is currently hurting the understanding of how consumers perceive the markets and how they operate. Part of this problem is the lack of confidence demonstrated by public commentators. This is why financial education is important and how it can make a key difference in consumers understanding of financial issues. Ireland's Financial Regulator has undertaken several steps in the area of financial education; raising awareness of costs, risks and benefits of financial products; using itsyourmoney.ie as a key channel; getting the word out through a social marketing campaign; and instruction by supporting and advocating for the teaching of personal finance in high school.

Panelist IV: *Manuel Orozco, Senior Associate and Director of Remittances and Development**, Inter-American Dialogue***

Manuel Orozco stated that migration is often the result of economic necessity and a coping strategy to take care of families by sending money home. Migrant life is difficult and migrants are disenfranchised at all levels. Financially, their stock of assets is fragile and families receiving remittances also exhibit fragile stocks. Both migrants and their families have poor financial access, yet they accumulate saving. A remittance literacy toolkit for migrants is needed in order to educate them about sending remittances while introducing basics on financial literacy. Also the remittance product should be transparent and the price for remittance affordable.

Session IV: Role of Deposit Insurance in Promoting Economic Inclusion

Moderator: *Mohammed Al Jafari, General Director,* ***Jordan Deposit Insurance Corporation***

Mohammed Al Jafari focused on the role deposit insurance plays in promoting economic inclusion and ways of fostering public awareness and inclusion around the world by specifically looking at the experiences of Malaysia, Mexico, the United States, Nigeria and India.

Presenter I: *Khairuddin Arshad, General Manager, Insurance, Risk Assessment and Monitoring****, Malaysia Deposit Insurance Corporation***

Khairuddin Arshad spoke first on the general nature of economic inclusion and why economic inclusion is important. Mr. Arshad described economic inclusion as the process of overcoming the barriers that prevent people from participating in or contributing fully to the economic system. These barriers can include lack of awareness and understanding, accessibility of products and services, and confidence in the system at large. Mr. Arshad stressed that economic inclusion is important because it can lead to the achievement of sustainable and balanced economic growth and it promotes public confidence, which fosters economic stability. The Malaysia Deposit Insurance Corporation has focused on the design and scope of the deposit insurance scheme as well as public awareness campaigns in order to try and broaden economic inclusion across the country. In designing the deposit insurance scheme, the Corporation has focused on establishing a clear mandate and providing incentives for sound risk management. The Corporation has designed a five year program to increase public awareness and education. In establishing the awareness program, the Corporation has collaborated with various stakeholders such as the central bank and financial associations within the country. These initiatives are aimed at increasing economic inclusion in Malaysia and providing stability to the Malaysian economy.

Presenter II: *Carlos Isoard, Member of the Board of Directors,* ***Instituto para la Proteccion al Ahorro Bancario, Mexico***

Carlos Isoard focused on financial access in Mexico and the methods Mexico is using to increase financial inclusion since according to World Bank statistics only

25% of the population in Mexico has got access to financial services. In order to increase financial use and access in Mexico, the country has aimed to lower entry barriers to the financial system, increase mobile and basic banking systems, increase transparency and consumer protection through legislation, and promote financial education through the National Strategy for Financial Education, CONDUSEF, and private banks. Mexico has experienced successes particularly in the area of basic banking systems and increased competition through the use of credit unions and correspondents. These entities have broadened the country's banking network by providing services to clients in rural and marginalized regions.

Mexico has recently undertaken legislative initiatives to ease licensing requirements and increase the approved activities for credit unions and to increase transparency and consumer protection. The new law for credit unions has improved the authorization scheme, broadened the catalog of permissible operations, provided for foreign investment in credit unions and enhanced the supervisory framework. This law has had the desired effect of easing access to the financial system for many Mexicans. The recently enacted Law of Transparency and Financial Services Reordering of June 15, 2007 has provided for greater transparency in relation to banking costs and commissions; increased clarity in the operations and services offered by banking entities; and established procedures to change or terminate contractual relationships.

In relation to financial education, the Federal government of Mexico has implemented the following programs: National Strategy for Financial Education; BANSEFI; CONDUSEF; and PROFECO. These programs aim to provide a communication strategy using the media to inform consumers about financial services; promote the Mexican consumer protection agency (CONDUSEF); introduce financial education materials in Mexican elementary schools; institute financial literacy campaigns in the workplace; and provide workshops for the public.

Through legislative and educational initiatives, Mexico expects to increase its financial access from 25% of the public having access to 50% over the next five years. By 2012, the government expects that credit to the private sector will exceed one third of Mexico's GDP; the share of the population that uses financial services will be 50%; and credit provided by development banks will be 7% of GDP.

Presenter III: *Robert Mooney, Deputy Director, Consumer Protection and Community Affairs,* ***FDIC***

Robert Mooney described some of the products and services offered by the FDIC to promote economic inclusion. First among these is deposit insurance. The regulations insured institutions are required to follow foster safe and sound banking practices and consumer protection. This promotes confidence in depositors because they know their money is safe and that they will be treated fairly. Mr. Mooney emphasized that full economic citizenship in the United States requires good relations with banks. He also highlighted the Alliance for Economic Inclusion (AEI). AEI is an FDIC program, currently operating in 11 cities, that brings together banks, non-profit organizations, and others to develop and provide services to the unbanked. Products include basic savings and checking accounts, responsible mortgage lending, affordable small dollar loans, and low cost remittance products. Mr. Mooney next drew attention to the Community Reinvestment Act (CRA). As a condition of their deposit insurance, banks are required to contribute to the economic lives of people in their local communities. Banks can earn CRA credit by offering free tax preparation services for the poor, promoting micro-enterprises, running school bank programs, or promoting safe and sound lending practices by counseling consumers. The FDIC is also monitoring a small dollar loan program that may serve as a low cost alternative to pay day loans. If the program is successful in the 31 test institutions, it may be rolled out nationwide. Mr. Mooney spoke next about Money Smart, FDIC's financial education program. So far, over 1.5 million people have used it, resulting in over 250,000 new bank relationships, increased savings and responsible credit use, and improved consumer confidence. Finally, Mr. Mooney discussed homeownership preservation. Since many of individuals in danger of foreclosure got their loans from non-regulated institutions, they may not have meaningful banking relationships. The FDIC is spearheading efforts to create a team of "economic first responders," made up of clergy, non-profit organizations, community bankers and others who can help steer individuals at risk of home foreclosure into services that can help them save their homes. Mr. Mooney emphasized that none of these efforts is effective without confidence. Those who are new to the American banking system and those who have had bad experiences in the past need special attention. Fostering this confidence is especially hard in a crisis like the recent one, and requires engaging in even more outreach. Mr. Mooney finished by presenting several public service announcements featuring Financial Advisor Suze Orman and FDIC Chairman Sheila Bair.

Presenter IV: *Ganiyu A. Ogunleye, General Manager/CEO****, Nigeria Deposit Insurance Corporation***

Ganiyu Ogunleye discussed the role of deposit insurance and microfinance in promoting economic inclusion in Nigeria. He began by noting that there is a huge opportunity for growth in financial services in Nigeria. Nearly two-thirds of the population relies on the informal sector, including non-governmental organizations (NGOs), credit unions, and friends. The informal sector poses a threat to the formal financial system. Nigeria opted to try to bring people into the formal system by establishing a broad network of microfinance banks to provide diversified services to the poor, to enhance economic development, and to render payment services to government in rural areas. Mr. Ogunleye described a number of regulatory incentives to help the fledgling microfinance banks.

Included among these are special tax exemptions, and liquidity support provided through a Rediscounting and Refinancing Facility. He noted also that state governments are required to allocate a portion of their annual budgets to micro-finance activities. Mr. Ogunleye then turned to the role of deposit insurance in the Nigerian scheme. A special fund was created and deposit insurance coverage was extended to licensed microfinance banks. Importantly, the Deposit Insurance Corporation instituted a public awareness program to educate depositors and instill confidence. Mr. Ogunleye concluded by noting that microfinance is a powerful tool to promote economic inclusion made more effective when encouraged by deposit insurance and effective regulation.

Presenter V: *Hari Nandan Prasad, Chief Executive Officer,* ***Deposit Insurance and Credit Guarantee Corporation of India***

Hari Nandan Prasad shared details of India's experiences in promoting economic inclusion and the effects of deposit insurance on those efforts. Mr. Prasad began by emphasizing the importance of economic inclusion - providing the benefits of economic growth to the underprivileged is good in for its own sake, but also produces increased demand for goods and services, leading to faster economic growth. One way to foster economic inclusion, or participation in economic growth, is to promote financial inclusion, ensuring that everyone has access to financial services. Mr. Prasad stressed the importance of bringing the financially excluded into the formal financial sector for the sake of their financial stability. Currently, the excluded pay more for basic services and incur more risk at the hands of fly-by-night operators for the benefit of access to uncollateralized credit. Bringing them into the formal sector can reduce their costs and risks, and allow them to save and to have access to affordable credit.

Mr. Prasad also stressed the importance of deposit insurance to promote the confidence of the excluded and those who recently have entered the formal banking system. The Deposit Insurance and Credit Guarantee Corporation (DICGC) insures 93% of all deposit accounts in India at commercial banks, local area banks, regional rural banks and co-operative banks.

Following up on a number of topics in Usha Thorat's luncheon talk, Mr. Prasad shared the details of several initiatives, including microfinance. Foremost among these are the Self Help Group bank linkage program. This program allows women's groups who have pooled their money for microfinance investment to deposit their funds at insured depository institutions. The banks they are linked to make unsecured loans to the Self Help Groups, allowing them to expand their microfinance activities. Another initiative has been to extend insurance coverage to Urban Cooperative Banks. These banks tend to cater to smaller depositors. Mr. Prasad also mentioned several sorts of non-banking institutions that promote financial inclusion. Among these are non banking financial companies and primary agricultural co-operative credit societies. Both engage in microfinance, but neither is insured by DICGC.

Mr. Prasad ended his talk by emphasizing three points. The first is that quick settlement of deposit insurance claims is vital for promoting depositors' confidence. The second is that there must be effective triggers for prompt and effective corrective action, provided by the insurer or other regulatory entity. Finally, he noted that microfinance is an effective tool for promoting financial inclusion that need not be looked upon with suspicion. Lending to sub-prime borrowers is not, in itself, a threat to financial stability. Insofar as it improves the lot of borrowers, it actually enhances it. The danger lies in excessive leveraging, a problem that may be addressed by effective regulation.

Session V: Update on IADI Initiatives and Closing Remarks

Martin J. Gruenberg, Vice Chairman, FDIC, and President and Chairman of Executive Council, IADI provided brief closing remarks, thanked attendees and presenters for their participation and concluded the event.

Annex: Conference Program

Day One: Focus on Financial Stability

Welcoming Remarks:
Martin J. Gruenberg, *Vice Chairman*, **Federal Deposit Insurance Corporation** and *President and Chairman Executive Council*, **IADI**

Opening Address:
Sheila C. Bair, *Chairman*, **Federal Deposit Insurance Corporation**

Session I: Current Financial Market Challenges and Implications for Financial Institutions

- Moderator: William R. White, *Former Economic Advisor, Head of Monetary and Economic Department,* ***Bank for International Settlements***
    - Presentation I: "Successful Crisis Management"
        - Svein Andresen, *Secretary General,* ***Financial Stability Forum***
    - Presentation II: "Deleveraging: What are the Implications for Policy""
        - Jaime Caruana, *Counselor and Director, Monetary and Capital Markets Department,* ***International Monetary Fund***
    - Presentation III: "Restoring Trust and Transparency to the System"
        - L. William Seidman, *Former Chairman,* ***FDIC*** *and Chief Financial Commentator,* ***CNBC Network***
    - Presentation IV: "Loss of Trust is the Root of the Problem"
        - Eugene Ludwig, *Chairman and CEO,* ***Promontory Interfinancial Network*** *and Former Comptroller**, United States Comptroller of the Currency***

Luncheon Remarks:

- Keynote Speech: "The New Marketplace and Government Intervention"
    - Paul Volcker, *Former Chairman,* ***Board of Governors of the United States Federal Reserve System***

Session II: The Role of Deposit Insurers in Financial Crises, Past and Present

- Moderator: J.P. Sabourin, *President,* ***Malaysian Deposit Insurance Corporation***
    - Presentation I: "Financial Crisis in Nigeria "
        - Adedapo A. Adeleke, Head, *Claims Resolution Department,* ***Nigeria Deposit Insurance Corporation***
    - Presentation II: "Banking Sector Restructuring in Turkey and the Savings Deposit Insurance Fund's Role "

        - Ridvan Cabukel, Vice President*,* ***Savings Deposit Insurance Fund of Turkey***
    - Presentation III: "The Role of Deposit Insurance in a Financial Crisis: Japan's Experience"
        - Mutsuo Hatano, *Deputy Governor,* ***Deposit Insurance Corporation of Japan***
    - Presentation IV: "IPAB's Contribution to Financial Stability"
        - Carlos Isoard, *Member of the Board of Directors****, Instituto Para La Proteccion Al Ahorro Bancario*** *(Mexico)*
    - Presentation V: "The Financial Services Compensation Scheme's Experience"
        - Loretta Minghella, *Chief Executive,* ***Financial Services Compensation Scheme****, United Kingdom*
    - Presentation VI: ""Lessons from IndyMac Bank Closing "
        - John Bovenzi, *Chief Operating Officer,* ***FDIC***

Session III: IADI Core Principles and New Research and Guidance for Deposit Insurers

- Moderator: András Fekete-Gyor, *Deputy Managing Director and Chief Economist,* ***National Deposit Insurance Fund of Hungary***
    - Presentation I: "Deposit Insurance Coverage"
        - Ade Afolabi, ***Nigeria Deposit Insurance Corporation***
    - Presentation II: "Funding of Deposit Insurance Systems"
        - Ju-Hyung Lee, *Executive Vice President,* ***Korea Deposit Insurance Corporation***
    - Presentation III: "IADI Core Principles for Effective Deposit Insurance Systems"
        - David Walker, *Director of Policy and International Affairs,* ***Canada Deposit Insurance Corporation***
    - Discussant I:
        - George Kaufman, *John F. Smith, Jr. Professor of Finance and Economics,* ***Loyola University Graduate School of Business***
    - Discussant II:
        - Ilhyock Shim, *Economist,* ***Bank for International Settlements***

Dinner Address:

- Opening Remarks: "Giving Linus Back His Blanket"
    - Robert Moretti, *Chairman,* ***European Foreman of Deposit Insurers***
- Keynote Speech: "Lessons Learned in the United Kingdom"
    - Sir Callum McCarthy, *Former Chairman,* ***United Kingdom Financial Services Authority***

Day Two: Focus on Economic Inclusion

<u>Welcoming Remarks</u>:
Martin J. Gruenberg, *Vice Chairman*, **Federal Deposit Insurance Corporation** and *President and Chairman Executive Council*, **IADI**

<u>Opening Address: A Global Perspective on Economic Inclusion</u>
Elizabeth Littlefield, *Director and Chief Executive Officer* ***Consultative Group to Assist the Poor (CGAP)***

<u>Session I: Measuring Economic Inclusion</u>
- o Anjali Kumar, *Advisor,* ***World Bank-IFC Financial and Private Sector Development Vice President***

<u>Session II: Innovative Ways of Promoting Economic Inclusion</u>
- Moderator: Professor Michael Barr*,* ***University of Michigan Law School***
    - o Presentation I: "Economic Inclusion in Canada"
        - ▪ William Knight*, former Commissioner,* ***Financial Consumer Agency***
    - o Presentation II: "South Africa's Limited Resources and the Development of Appropriate Products"
        - ▪ Mark Napier, *Chief Executive Officer,* ***FinMark Trust***
    - o Presentation III: "United Kingdom's Efforts to Reduce the Number of the Unbanked"
        - ▪ Brian Pomeroy*, Chair of the* ***United Kingdom Financial Inclusion Task Force***
    - o Presentation IV: "Building Sustainable Businesses in Emerging Markets"
        - ▪ Salvatore J. Pappalardo, *Chief Operating Officer,* ***Grameen Foundation*** USA

<u>Luncheon Remarks:</u>
- Keynote Speech: "Financial Inclusion: Lessons from the Indian Experience"
    - o Usha Thorat, *Deputy Governor,* ***Reserve Bank of India*** *and Chairperson,* ***Deposit Insurance and Credit Guarantee Corporation of India***

<u>Session III: International Financial Literacy Initiatives</u>
- Moderator: Dan Iannicola, *Deputy Assistant Secretary for Financial Literacy,* ***United States Treasury***
    - o Presentation I: "CDIC Public Awareness Mandate and Activities"

        - Bryan Davies, *Chair,* ***Canada Deposit Insurance Corporation****, and former Chief Executive Officer and Superintendent of the* ***Financial Services Commission of Ontario***
    - Presentation II: "The PDIC Financial Literacy Project for Students"
        - Jose C. Nograles, *President,* ***Philippine Deposit Insurance Corporation***
    - Presentation III: "Ireland's Approach to Financial Education"
        - Mary O'Dea, *Consumer Director****, Irish Financial Regulator***
    - Presentation IV: "Toolkit on How to Open a Bank Account"
        - Manuel Orozco, *Senior Associate and Director of Remittances and Development,* ***Inter-American Dialogue***

<u>Session IV: Role of Deposit Insurance in Promoting Economic Inclusion</u>

- Moderator: Mohamed Al Jafari, *General Director,* ***Jordan Deposit Insurance Corporation***
    - Presentation I: "The Role of Deposit Insurance in Economic Inclusion – Malaysian Experience"
        - Khairuddin Arshad, *General Manager, Insurance, Risk Assessment and Monitoring,* ***Malaysia Deposit Insurance Corporation***
    - Presentation II: "Mexico Actions for Economic Inclusion"
        - Carlos Isoard, *Member of the Board of Directors,* ***Instituto para la Proteccion al Ahorro Bancario***
    - Presentation III: "Role of Deposit Insurance in Promoting Economic Inclusion – United States Experience"
        - Robert Mooney, *Deputy Director, Consumer Protection and Community Affairs,* ***Federal Deposit Insurance Corporation***
    - Presentation IV: "Economic Inclusion: The Nigerian Example"
        - Ganiyu A. Ogunleye, *General Manager/CEO****, Nigeria Deposit Insurance Corporation***
    - Presentation V: "The Role of Deposit Insurance in Promoting Economic Inclusion – India Experience"
        - Hari Nandan Prasad, *Chief Executive Officer,* ***Deposit Insurance and Credit Guarantee Corporation of India***

<u>Session V: Update on IADI Initiatives and Closing Remarks</u>

Martin J. Gruenberg, *Vice Chairman*, **Federal Deposit Insurance Corporation** and *President and Chairman Executive Council*, **IADI**