IADI

Sharing Deposit Insurance Expertise with the World

International Association of Deposit Insurers

Transitioning Issues for Deposit Insurance Practitioners
May 7-8, 2002

Conference Proceedings

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS
Transitioning Issues for Deposit Insurance Practitioners
First Annual Conference
May 7-8, 2002

Proceedings from a Conference held at

Bank for International Settlements
Basel, Switzerland

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CANADA DEPOSIT INSURANCE CORPORATION

Table of Contents

Foreword

The Bank for International Settlements was the site for the launch of the International Association of Deposit Insurers (IADI) on May 6, 2002. Following the creation of the IADI, the members elected an Executive Council and agreed on the main parameters of the association during their first annual general meeting. The Secretariat will be based in Basel at the Bank for International Settlements. Information on the IADI can be found at: http://www.iadi.org./

Consistent with the mission statement, “to share deposit insurance expertise with the world”, a distinguished group of deposit insurers and other members of the financial safety net participated in an international conference on May 7-8 in Basel at the Bank for International Settlements. The conference was organized and chaired by John Raymond LaBrosse, Director, International Affairs, Canada Deposit Insurance Corporation and it focused on important transitioning issues for deposit insurance practitioners. There were 22 presentations by experts from 15 countries covering issues such as transitioning from blanket guarantees, moving from flat rate to differential premiums, deposit insurance issues in Africa, the IMF’s/World Bank Financial Sector Assessment Programs, research priorities for deposit insurance practitioners, interrelationships among financial safety net players, the World Bank’s global bank insolvency initiative, legal issues in closing banks and CDIC’s newly launched international questionnaire. A highlight of the conference was a keynote address by Mr. Andrew Crockett, Chairman, Financial Stability Forum, who spoke about the challenges being faced by deposit insurers and other current issues in international finance.

A team of talented writers from the Canada Deposit Insurance Corporation prepared these proceeding. Any errors or omissions, of course, are mine.

John Raymond LaBrosse
Secretary General
International Association of Deposit Insurers
and
Director, International Affairs
Canada Deposit Insurance Corporation

June 19, 2002

Executive Summary

The conference addressed two main themes: transitioning issues relevant to many deposit insurance systems; and the research needs for deposit insurance practitioners.

Deposit insurers from 40 countries used the opportunity of the creation of the International Association of Deposit Insurers (IADI) in Basel to share experiences in dealing with transitioning issues related to the removal of blanket guarantees, the considerations associated with introducing differential premium systems and the prospects and challenges of deposit insurance systems in Africa. There was a strong consensus of the need for more co-operation and information exchange as lessons learned in one system could be very instructive for policymakers and deposit insurers in another jurisdiction. Indeed, the newly formed IADI was seen as an important vehicle to help address this need. As well, in a presentation on the IMF/World Bank Financial Sector Assessment Program, representatives from Mexico, Poland and the Republic of South Africa spoke about their experiences with the program. Mr. Ugolini of the IMF noted that an assessment of deposit insurance systems is undertaken in these programs and there is a need for the international financial institutions to work with the IADI to help develop better criteria to evaluate deposit insurance systems.

The need for more pertinent research for deposit insurance practitioners was underscored in the second part of the conference. Indeed, it was noted that good deposit insurance research could improve our knowledge and contribute to improving the effectiveness of deposit insurance systems throughout the world. Thus, one of the goals of the IADI should be to conduct research from a practitioner's perspective using the resources of its members. In this regard, progress was reported on Canada Deposit Insurance Corporation's *International Deposit Insurance Questionnaire*, which was launched earlier this year. The objectives of the questionnaire are to: (1) gather comprehensive information on all deposit insurance systems in operation throughout the world and to share this information database among deposit insurers, academics and other interested parties; (2) incorporate qualitative and quantitative information from a practitioner's perspective; (3) provide for a wide range of potential responses; (4) utilize the Internet extensively to collect and share information; (5) update country responses on a regular basis; and (6) reduce the need for other deposit insurers to develop their own surveys.

Conference attendees also heard interesting presentations on deposit insurance issues and challenges in Nigeria and Kenya, the complexity of interrelationship issues among financial safety-net players from representatives of Canada, Mexico and the Hong Kong Monetary Authority, the progress that is being made with the World Bank's bank insolvency initiative and they heard a presentation on legal issues associated with closing deposit taking institutions from an expert at the FDIC. Mr. Andrew Crockett, Chairman of the Financial Stability Forum delivered the keynote address on deposit insurance and other current issues in international finance. Copies of the presentations delivered at the conference are available on the Internet at: http://www.iadi.org/FAC_Presentation_2002.htm.

Tuesday, May 7, 2002

Session I – Transitioning from Blanket Guarantees: Updated Cases Studies from Asia and Europe.

Moderator: **Mr. Carlos Isoard**, Member of the Board of Governors
Instituto para la Proteccion al Ahorro Bancario, Mexico

Mr. Hajime Shinohara, Deputy Governor of the Deposit Insurance Corporation (DIC) of Japan, noted that his agency was established in 1971 as a pay-box type organization. From the early 1970s to the late 1980s, the amount of deposit insurance increased from ¥1 Million (approx. US$3,300) to ¥10 Million (approx. US$75,000). Because of difficulties being faced by the financial sector in Japan in the 1990s and following the Financial Research System Council's assessment of the situation in December 1995, a blanket guarantee was introduced in June 1996 to last until the end of March 2001. In 1998, additional laws took effect to promote the stability of the system, focusing on issues to be executed by the DIC, such as capital injection, financial administration of large institutions, etc. Later, the blanket guarantee was extended to the end of March 2002. As of April 2002, most deposits except demand deposits, inter-bank deposits, and foreign currency deposits are covered by a limited guarantee. Demand deposits are scheduled to become subject to limited guarantee in April 2003.

Mr. Chiho Kim, Director of the Research Department for the Korea Deposit Insurance Corporation (KDIC) spoke about the Korean experience with explicit depositor protection. In 1996, he noted, the KDIC was established to provide partial deposit insurance of up to KRW20 million (approx. US$25,000) per depositor per bank. In late 1997, ten months into the newly adopted insurance system, the Asian Crisis erupted. Blanket deposit protection was thus temporarily instituted for all insured deposits made between November 1997 and December 2000, in order to deal with the financial instability. It was clearly announced that partial deposit insurance protection would come into effect when the financial system regained strength and stabilized. Financial restructuring was further helped by depositors' power to choose their deposit-taking institutions and many switched to more secure and stable institutions. The number of insured financial institutions decreased dramatically and surveys showed that the number of insured deposits increased. In January 2001 when partial deposit protection was reinstated, the partial deposit insurance was increased to KRW50 million (approx. US$40,000), equal to 5 times the year 2000 per capita GDP. The transition was accomplished smoothly. Blanket coverage will continue until the end of 2003 for settlement-oriented deposit accounts to protect corporations. Also, KDIC made arrangements with the Bank of Korea for short-term loans in case liquidity crunches arise.

Mr. Mileti Mladenov, Chairman of the Management Board of the Bulgarian Deposit Insurance Fund, addressed the experience with blanket guarantees in Bulgaria. Until the early 1990s, when Bulgaria was transitioning from a centrally planned political and economic system to a market economy, concerns over deposit insurance were nonexistent because blanket guarantees were in place. Nevertheless, this changed when the public and the government became exposed to the strong volatility that characterizes a typical market economy.

Because of the 1996 financial crisis, the partial insurance system created in 1995 failed. The crisis called for significantly more money than was available at the time for repayment of guaranteed deposits. In May 1996, the National Assembly adopted the Law on State Protection of Deposits and Accounts with Commercial Banks. That particular law provided for a 100% repayment of individuals' deposits and for 50% of deposits of non-financial companies; it was later amended to include terms for repayment of guaranteed deposits in bankrupt banks. The Law also called for the establishment of a Fund to be managed by the Ministry of Finance.

In 1998, the Law on Bank Deposit Guarantee superseded the previous Law by removing the state protection of deposits with regard to all licensed banks, except the State Savings Bank (SSB) until May 2000. The Deposit Insurance Fund (DIF) manages the new deposit insurance scheme and also educates the public on its policies and operations and on the nature of deposit insurance. The limited guarantee is applicable to all deposits, in local and foreign currencies, by individuals and non-financial institutions, residents or not. The DIF has also made arrangements with other government organizations to promote the exchange of information.

Session II – Transitioning from Flat Rate to Differential Premiums

Moderator: **Mr. George Hanc**, Associate Director
Federal Deposit Insurance Corporation, USA

Up until 1992, Mr. Hanc noted that the FDIC charged a flat rate to its member financial institutions. However, because of a surge in failures in the 1980s, this policy was reassessed and a risk-based premium was introduced instead. This new risk-based premium would be fairer and would encourage some institutions to operate more safely.

Initial premium charges were substantial for all banks and a small spread existed between that charged to the safest institutions and that charged to the riskiest ones. The reason behind this was to recapitalize the bank insurance fund. Once this fund reached its required level (1.25% of insured deposits) in 1995, premiums were lowered and the spread between them became much wider. In 1996, for fear that the fund became "too large", premiums were slightly lowered, but the spreads remained intact. A direct result of legislation was that 92 % of all insured institutions ended up not having to pay any premiums.

The objectives of the reform were met in that deposit insurance funds were recapitalized fast and the system was fairer. Nevertheless, some banks that should have continued paying premiums became almost exempt, and some that should have had heavier premiums ended up paying little although they posed higher risks to the system. Depending on the size of the insurance fund and the financial conditions of banks, the premiums may change periodically. The flexible management of a combined insurance fund with premium credits, rebates or surcharges would avoid excessive build-up of the funds in good times, as well as sudden increases in premium levels in bad times.

Dr. András Fekete-Györ, Deputy Managing Director of the National Deposit Insurance Fund (NDIF) of Hungary, addressed the situation in Hungary. Since 1993, he noted, the NDIF's public policy objectives have not changed much. Mandatory membership, no contribution by the state, a flat-rate premium system (up to 0.2% of yearly insured deposits) subject to increases in case of excessive risk (up to 0.3% of yearly insured deposits), etc., still characterize the Fund. Some differences are that the quick accumulation of the fund is no longer a priority, there are now multiple rates, and risk-minimizing factors have been introduced such as NDIF regulations and by-laws, rating agencies are rating member institutions, etc. As of December 2001, 80% of the 231 member institutions were savings cooperatives.

New risk monitoring methodologies are being developed and utilized, Dr. Fekete-Györ noted. NDIF wishes to put its premium system on a completely new footing at the latest by the date of accession to the EU. With the new system it wants to divide the DIS-specific risk in two alternative ways. As insured deposits increase with a member, this poses additional risk for the insurer arising from the member's increased obligation towards depositors. The other threat to DIS is in the deterioration of the quality of the member's assets. As a consequence, the core risk of a DIS is the prospect of less than full recovery. With the new quantification the NDIF wishes to appraise the liquidation value of each member using recoverable assets *versus* total assets as per the balance sheet. It then determines the reimbursement recovery rate, which comes from the liquidation value divided by the deposit stock. As a result, among other forces, those members will pay higher premiums if, due to the decrease in the value of its working assets, the risk of non-recovery of the potential reimbursement will increase. Based on this rough principle, the NDIF, in consultation with the industry, will assign a rating to each member.

Mr. Hans Jacobson, Chairman of the Swedish Deposit Guarantee Board, reviewed the history of deposit insurance in Sweden and their experince and policies concerning the setting of premiums. Interestingly, premiums are set at two levels - individually and collectively for all banks. The collective premiums are set relative to the target fund of 2.5% of deposits. When the level of the fund is below the target then fees are raised to 0.3% but when the target has been reached then the fees are lowered to 0.1%. By contrast, individual bank fees are set in relation to capital adequacy ratios ranging from 60 to 140% of the collective fee. This system of risk-adjusted fees is designed to influence the individual bank's willingness to take on risks and encourage a sense of fair play.

Mr. Ken Mylrea, Senior Director, Insurance, of the Canada Deposit Insurance Corporation outlined CDIC's experience in transitioning from its former fixed-rate premium system to its current differential premiums system. In addition to highlighting some of the key objectives of the new system, the issues that arose in implementing the system and how CDIC addressed those issues using various incentives, he also outlined CDIC's approach in developing and implementing this new initiative. This included: establishing objectives and identifying alternatives for the new system; identifying potential transitioning issues; developing a proposed system to meet the objectives and addressing any transitioning issues; validating the proposed system; and finalizing/implementing the system.

Dr. Salvador Ortiz Fernandez, Assistant Director of Research and Development, Instituto para la Proteccion al Ahorro Bancario (IPAB) spoke about the approach in Mexico. He noted that IPAB currently charges a flat fee to its members but it is working to introduce a differentiated fee system that will be based on guaranteed deposits in the near future. Until the adoption of the Law for the Protection of Bank Savings (LPAB) in January 1999, Mexico operated with a blanket guarantee system. Since then, and up until January 2005, there will be gradual transition to a limited-guarantee system. The slow transition is to allow for optimal results and transparency of the new system. The scope of covered products will diminish every year until 2002. From 2003, the level of coverage diminishes gradually until the year 2005 when the permanent level of 400,000 UDIs per person per institution enters into effect.

The deposit insurance system is intended to promote financial stability and to protect the smaller bank depositors. The differentiated fee system will address fairness issues and will encourage safe and sound banking practices, as the fee will be based on performance and risk. In formulating the system, importance should be given to flexibility so that the model can adapt to changing conditions and to a comprehensive and forward-looking bank rating system to determine the fees payable. The system should be simple and flexible. With amendments to the LPAB, and with all considerations taken into account, the transition to the new system should be done smoothly.

Session III– Deposit Insurance in Africa: Problems and Prospects

Mr. Ganiyu. A. Ogunleye, Managing Director and Chief Executive Officer of the Nigeria Deposit Insurance Corporation (NDIC) spoke about developments in Nigeria. The NDIC, he said, was established in 1988 to insure the deposits of all banks and other deposit-taking financial institutions licensed by the Central Bank of Nigeria (CBN) and to provide financial and technical assistance to those institutions experiencing difficulties. NDIC needed to boost confidence in the banking system, as there were a number of distressed and technically insolvent banks in existence. Prior to the Corporation's establishment, the government provided extensive support to institutions in difficulties to prevent them from failing. Nevertheless, the system of bailing out the banks could not be sustained, especially in a country that was moving from a regulated economy towards a market economy. Deregulation caused competition and growth in the banking industry. Government support shifted from preventing bank failures to protecting depositors through an explicit deposit insurance system (DIS).

Membership to the DIS is compulsory for all licensed banks and deposit-taking institutions. The scheme, which is publicly owned, is funded by members' premium contributions, capital contributions by the owners of the scheme, borrowing facility from the CBN, and special contributions by members. Day-to-day administration is funded by the income earned on the investments of the DIF. Almost all deposits are covered up to 50,000 Naira, which has been increased to 100,000 Naira, subject to amendment of the enabling law by the Legislature. The challenges the DIS currently faces are: inadequate public perception and awareness; discontent with the current coverage even though it recently doubled; discontent with the premium rate which is fixed and considered too high; the Corporation has limited enforcement powers; reimbursement of guaranteed deposits when banks fail is not prompt enough; intractable debt-recovery problems; a slow judicial process; legal challenges to regulatory/supervisory actions/sanctions; and the adoption of universal banking practices.

Current initiatives aimed at improving the system, which include enhancement of the legal framework, introduction of contingency planning for handling systemic banking distress; web-enabled off-site surveillance of banks, enhanced corporate governance through stricter requirement for Board/Management positions and adoption of a code of ethics and professionalism for bankers, introduction of consolidated supervision, and strengthening of relationships between safety-net players are giving hope of a brighter future for an effective DIS.

Mr. James Ogundo, Director, Deposit Protection Fund Board spoke about the situation in Kenya. The primary objective of establishing the Deposit Protection Board, he noted, was for the protection of depositors and the maintenance of confidence in the banking system. A resolution principle for a failed member is to pay in full small depositors and not to rescue failed institutions, their managers, their shareholders or investors, or their employees. The current features include an explicit, clear and well-publicized framework, mandatory participation, limited coverage, access to necessary resources and sharing of information with the supervisor about the soundness of member institutions. Particular areas of attention now are coverage limits, differential premiums, payout delays, recoveries from failed member's assets, the relationship between the DPFB and the central bank and the availability of skilled resources.

Session IV – Financial Sector Assessment Programs

Mr. Piero Claudio Ugolini, Assistant Director, Monetary and Exchange Affairs Department at the International Monetary Fund, discussed the Financial Sector Assessment Program (FSAP). The IMF and The World Bank created this program in May 1999 as a response to the costly financial crises of the 1990s, which contributed to financial instability in many countries. The FSAP will involve the assessment of countries' financial systems, identifying their strengths and vulnerabilities, in order to recognize risk areas and prevent crises. In view of existing resources, some 24 countries will be assessed every year.

In the assessments, core components that are studied are: indicators of financial soundness and structure, and adequacy of safety nets; the capacity of institutions to absorb plausible shocks (stress testing); financial sector standards, codes and good practices; etc. An assessment of the deposit insurance system is also conducted. The findings of the studies are presented in a report to the appropriate national authorities that may decide to publish them or not. In addition, a report is prepared for the Executive Board and the authorities have the option of publishing it.

The FSAP is relatively new, and to further develop and strengthen the program, the Fund and the Bank will build on the experience gained so far. They will focus particularly on the areas where previous participants in the program have identified potential for improvement. Mr. Ugolini expressed an interest in working with the newly formed IADI in developing an approach for assessing the effectiveness of deposit insurance systems.

Dr. Salvador Ortiz Fernandez delivered remarks on behalf of **Ms. Ingrid Cerwinka Moeller,** Assistant General Director, Ministry of Finance of Mexico. It was noted that, given all the developments that had taken place in Mexico's financial system, as well as an upcoming financial reform, in December 2000, the Mexican Finance Minister, together with the Central Bank asked the joint World Bank-IMF team to conduct a FSAP. In general, the resulting report recognized the increased resilience of the Mexican Economy and its financial system to shocks. In the first quarter of 2001, an FSAP team visited Mexico to start its assessment and subsequently a financial stability report was published in October 2001. Some of the observations concerning the financial system were: the banking system did not pose a risk to the financial stability of the Mexican economy but that it still had to resume broad-based lending to the private sector; development banks had a number of problems; there were no clear rules for bank closure, etc. With regard to banking supervision, some recommendations were that the banking supervisor move toward greater supervisory autonomy; that the division of labor on banking supervision matters among the Ministry of Finance, the Central Bank, the Deposit Insurer and the Banking Supervisor be more clearly defined; that there be restoration of the supervisor's institutional credibility; and that its corporate governance be strengthened.

In relation to deposit insurance, coverage limitation started gradually in 1999, and is expected to shift completely in 2005. The report favors risk-based premiums and improved bank information systems to determine the guaranteed deposit base. There should also be improved coordination between the IPAB and the Supervisor. The FSAP provided useful insight to Mexican authorities. Nevertheless, they felt that there should be more interaction between the joint team and local authorities during the drafting of the report, and more emphasis should be put on the causes of the country's problems that spark the recommendations, and on a follow-up.

In his presentation, **Mr. Pawel Wyczanski**, Deputy Director, Research Department, National Bank of Poland (NBP) outlined the principal transitioning issues that need to be considered when working with the joint World Bank-IMF team through the Financial Sector Assessment Program. First, a thorough assessment of the current financial system as a whole has to be completed to identify weaknesses and to evaluate the degree of compliance with internationally accepted codes and standards. Second, various safety net players should meet to discuss technical and organizational issues and to gather data. It is important, as well, that there be full cooperation between the players and that there be transparency and accountability in the information that they gather and exchange.

The results and findings from the research and information sharing should address major risk areas and vulnerabilities. In turn, these findings should lead to policy recommendations and legal and institutional changes, which will clearly define the respective roles of the Bank Guarantee Fund and of the NBP as well as the Ministry of Finance, and to improve regulation and its enforcement. There should be extensive follow up of the developments by way of consulting, by creating specialist working groups consisting of representatives of different areas of NBP, by building transition matrices to make forecasts, by drafting quarterly stability reports, by performing stress tests, etc. Some challenges in Poland remain: The European Union Directives and Basel II recommendations still have to be implemented and, there are needs to influence banks to comply and to promote risk management skills.

Mr. André Bezuidenhout, Head, Financial Stability Department of the South African Reserve Bank addressed the FSAP that was undertaken in his country. He noted that regulators in the Republic of South Africa are active in international standards setting processes; the G20, FSF, Basel, etc. The FSAP resulted in a complete assessment of the financial system in South Africa. Regulators and financial firms adopted a philosophy of constructive cooperation and worked closely with the mission team. Mr. Bezuidenhout noted that South Africa also favors full disclosure of the FASP reports because it provides an independent assessment about the vulnerabilities in the financial system, compliance with international standards, and financial sector development needs. Already, the FSAP has benefited the country by improving various aspects of the financial system. However, he felt that the FSAP could still be more focused; should have a more effective follow-up procedure for corrective actions; should have a better testing of *de-facto* versus adopted standards and practices and should compare activities with peer groups.

A proposal to transition to an explicit deposit insurance scheme based on the September 2001 FSF guidance has been prepared in South Africa, and draft law is to be prepared by year end. The law on deposit insurance will establish the system's rules; participation will be compulsory, there will be a flat rate initially, and coverage will be limited. The situational analysis for the transition has been assisted by the FSAP, and areas completed are the legal framework and its enforcement, liquidity management, banking regulation and supervision; and supervision of financial markets and non-bank financial institutions. Areas still to be looked at in planning for the transition to a deposit insurance system are factors such as economic activity, monetary and fiscal policies, and public attitudes and expectations.

Session V – Research Priorities

Dr. Adolfo César Diz, Member of the Board, Seguro de Depositos Sociedad Anonima, Argentina began his presentation by explaining that no matter how much experience one has with deposit insurance there is always more that can be learned by collecting information and conducting research. Good deposit insurance research can improve our knowledge and contribute to improving the provision of deposit insurance throughout the world. Thus, one of the goals of the IADI should be to conduct research from a practitioner's perspective using the resources of its members.

One of the first tasks of the IADI, Dr. Diz suggested, should be to develop a research plan. A working committee of the IADI, chaired by a member of the Executive Council, could be responsible for developing a plan which would assess the research needs of the IADI membership and decide on the priorities. Another important task would be to move forward with work on the CDIC international questionnaire in order to use it to build a database for conducting future research. Some possible research topics could include: detailed analysis of differential premium systems, prompt corrective action intervention frameworks and their implications for deposit insurers; electronic money and banking issues; and the analysis of the relationship between coverage levels and financial system stability.

Keynote Speech: "Deposit Insurance and Other Current Issues in International Finance"

Mr. Jean Pierre Sabourin, the newly elected and first Chairman of the Executive Council and President of the IADI, introduced the special guest speaker**, Mr. Andrew C. Crockett**, Chairman, Financial Stability Forum. Mr. Sabourin took the opportunity to thank Mr. Crockett for the support that he personally has provided to deposit insurers in identifying the need for more international discussions on deposit insurance issues and he thanked the Bank for International Settlements for its support for the conferences that have been held in Basel over the past few years.

Mr. Crockett's remarks touched on two areas. First, he reviewed recent financial crises and how they have been addressed and then he spoke about the steps that are being taken to help prevent them. It is clear, he noted, that financial crises cannot always be prevented and so attention needs to be focused on how to best deal with them. Two main elements of the current focus are finding mechanisms for better prevention and finding better mechanisms to resolve sovereign-debt crises.

In the prevention area, Mr. Crockett said that there is a need to devise codes, standards and best practices to strengthen financial systems as part of effective financial safety nets. In that regard, he added that deposit insurance arrangements play a very important role. Mr. Crockett was pleased to note that much progress has been made in the definition of standards and that the IMF and The Word Bank in the provision of financial assistance to countries were taking such matters as the use of "best practices" into account.

Mr. Crockett also noted that large funds directed to emerging markets are flowing through private bank's lending and capital market operations. This means that a strategy to tackle financial crises should implicate the private as well as the public sector. There is considerable effort being given to finding a sovereign debt-restructuring framework in order to achieve a better balance between them. One such method might enable the international community to use standstill arrangements, which might involve "haircuts" or re-scheduling similar to bankruptcy procedures that exist in the corporate sector. It should be remembered, of course, that sovereign debt crises are not the same as corporate restructuring as a country cannot be dissolved and its assets be re-distributed. Thus, attention must alternatively or concomitantly be focused on contractual methods with terms and clauses outlining how debtor/creditor disputes will be resolved. The approaches being debated are not expected to deal with current problems in Argentina although a better foundation should result for addressing future problems.

Before closing, his attention turned to the work that is being done on the new capital accord where deposit insurers have a particular interest. The need for a new standard has to be balanced against the fact that banks compete with other organizations that do not bear these same costs. The "15-year old" accord, he noted, needs to be updated, as some banks are more risky than others. The "new" accord has a three-pillar approach. The first pillar focuses on setting minimum capital requirements based on the risk profile of the assets held by an institution. The second gives more weight to the judgment of supervisors while the third creates incentives for the market to judge risk. It was noted that it is taking some time to develop the new Accord and it is hoped that some definitive proposals will be put forward by the end of the year.

Wednesday, May 8, 2002

Session VI – Interrelationships Among Financial Safety-Net Players

Moderator: Mr. Winston K. Carr, Chief Executive Officer, Jamaica Deposit Insurance Corporation.

Mr. John Raymond LaBrosse, Director, International Affairs, Canada Deposit Insurance Corporation led off the presentations in this session. Interrelationships among financial safety net players were emphasized in the FSF Working Group's final report, he said, as a key element to contribute to the effectiveness of a deposit insurance system. First, and foremost, the deposit insurer should have a clear mandate and the responsibilities and accountabilities of all the safety net players should be well defined to avoid confusion and/or conflicts. An effective way to promote smooth coordination on the part of the players is to clearly divide their powers and responsibilities, especially with regard to the closure and liquidation of insured institutions.

The need for close coordination and information sharing among safety net-players is essential, he noted. In many cases, the supervisory authority is the primary source of information. Access to information is important to assess the financial condition of institutions to quantify the deposit insurer's risk exposure accurately, to enable anticipation of financial difficulties, to manage the insurance fund efficiently, and to carry out the deposit insurer's institutional mandate. The requisite information includes: the amount of insured deposits and their size distribution at the failed institution; the total value of the failed institution's assets; etc. Laws and regulation should provide for a strong information-disclosure regime characterized by a high degree of transparency of banks' financial statements and accounting rules. Information sharing and a clear division of labor between safety net players truly enhance the effectiveness of a deposit insurance system. In short, Mr. LaBrosse characterized the interrelationships issue as being "Good Fences Make Good Neighbors".

Mr. Carlos Isoard, Member of the Board of Governors, IPAB, delivered remarks on behalf of **Ms. Ingrid Cerwinka Moeller**, Assistant General Director, Ministry of Finance, Mexico. The design of a financial system safety net and the interrelationships among its players, he said, are key to efficiency and stability. In designing such a safety net, the country's development should be taken into account as well as economic and political factors, international standards and codes and international relations. The structure of a country's safety net is bound to be country specific and dynamic.

For the interrelationship to be optimal the regulatory framework should be clear and so should the mandates. Transparency and accountability, and day-to-day cooperation mechanisms are also important elements. In Mexico, the Ministry of Finance heads three technically independent commissions as well as two independent institutions. The technically independent commissions are: the National Banking & Securities Commission (CNBV); the National Retirement Savings Commission and the National Insurance and Bonding Commission and they are the supervisors and prudential regulators in their fields. The independent institutions, which are decentralized Government entities, are: the National Commission for the Protection and Defense of Financial Services Users, the Ombudsman of Financial Services, and IPAB that manages the explicit limited deposit insurance scheme for banks. The financial safety net also comprises an autonomous central bank, the Bank of Mexico.

The coordination among safety net players is accomplished by several means. One key way is that many Board members have seats in several of the organizations' Boards, which increases interrelationships among the players. The licensing process is another means of coordination since the Bank of Mexico and the CNBV have to express opinions when the Ministry of Finance grants a license for a new bank. Day-to-day cooperation mechanisms include the Financial Information Committee, intended to reduce the regulatory burden on financial institutions, including duplication of information requirements, and the Financial Modernization Committee, whose objectives are to bring about the necessary changes in the financial system to upgrade it to international standards. Current topics being discussed by the players are: effective bank resolution process, revision of mandates, responsibilities and possible duplicities and analysis of international trends.

Each member has to fulfill its mission, not more but not less. In its particular role, a deposit insurance system is not a "cure all" and its mission should be to contribute to the stability of the financial system.

Mr. Edmond Lau, Division Head**,** Banking Policy Department of the Hong Kong Monetary Authority, began his presentation by explaining that the Government of Hong Kong agreed in principle to establish a deposit insurance scheme in April 2001. The main proposed features of the new system are the establishment of an independent deposit insurance board having the role of a "paybox"; mandatory participation by all licensed banks; limited coverage on a per depositor per bank basis and a differential premium system based on the CAMEL ratings of banks.

For the new system to function properly, Mr. Lau noted that the distinction between the deposit insurer and the HKMA's roles and responsibilities has to be clear. The deposit insurer should function as a "paybox" and should be responsible for collecting premiums, for making compensation payments to insured depositors and for recovering payments from the assets of failed banks. The HKMA should supervise banks and thus promote the general stability and effective working of the banking system. As a lender of last resort (LOLR), it should also provide funding support to solvent but temporarily illiquid banks. There is a rule-based LOLR policy in Hong Kong in which pre-conditions for lending have been codified. LOLR is subject to support limits. Information sharing between the deposit insurer and HKMA should be strongly encouraged to ensure proper functioning of the system.

Session VII – The Global Bank Insolvency Initiative

Sr. José de Luna Martinez, Senior Financial Economist, Bank and Financial Restructuring Department, spoke about The World Bank's bank insolvency initiative. He opened with the remark that banking crises are not so unusual and can be very costly. Problems dealing with failing banks usually arise because of delayed intervention; the Courts may revoke key decisions by the regulator; lack of legal protection of the regulator; etc. The objective of the insolvency initiative is to "build an international consensus on the legal, regulatory and institutional framework for bank insolvency." Countries may participate through their bank supervisory agency, their central bank and/or their deposit insurance agency. International institutions may also participate and he noted that Mr. Sabourin had been an active participant providing a needed perspective on deposit insurance in the first conference that was held in Basel and a regional one that took place in Montevideo.

The initiative organizes global and regional seminars and has a Core Consultative Group. The initiative also has a website and operates global questionnaires and a global database. He noted that they will produce a final report and supporting documents. The main areas of focus of the initiative are: pre-conditions to deal effectively with insolvent banks, bank intervention, bank restructuring, bank liquidation, asset recovery and debt restructuring, depositor protection schemes and systemic banking crises.

Session VIII – Legal Issues in Closing Deposit-Taking Institutions

Moderator: Mr. John Raymond LaBrosse, Director, International Affairs, Canada Deposit Insurance Corporation.

Mr. Claude A. Rollin, Senior Counsel of the Federal Deposit Insurance Corporation identified a number of important reasons behind bank failures. These include poor lending practices, lack of internal controls, insufficient capital, involvement in activities where risk is not fully understood, insider abuse, fraud/major theft and poor government/economic policies. He said no universal model exists for resolving failing banks. Flexibility is critical to success and so is speed as delays increase costs. Additionally, various factors exist; both internal (such as legal and regulatory structures) and external (such as economic conditions) that can affect a Closing Regime Design.

Alternatives to closing an institution could be the formation of a merger; open bank assistance and conservatorship, Mr. Rollin noted. Many questions exist as to who should decide on the closing of an institution (a banking supervisor, a deposit insurance agency, the Courts, etc.) and what should be the basis for making the decision (balance sheet insolvency, liquidity, etc.). Other questions about who qualifies as a depositor; how claims should be settled; what should be insured and how much should be insured also arise. As for disposing of failed institutions' assets, the options are determined by the legal structure of the bank failure regime; the availability of a secondary market for failed bank assets; the quality of the asset; etc.

Mr. Rollin noted that asset disposition strategies have evolved over the years. In the past, most bank failures were handled by purchase and assumption transactions. Deposit liabilities and cash were acquired; FDIC retained most assets and its staff usually disposed of them. Nowadays, assets are mostly disposed of through purchase and assumption transactions with optional loan pools, put options, or loss sharing. Asset management contracts and auctions/sealed bids are more common, as well as securitization and equity partnerships. In concluding his remarks, Mr. Rollin said that legal issues are common across economies but their resolution depends on a variety of economic, cultural and development factors. Explicit choices have to be made in situations of deposit-taking institutions failures.

Session IX – CDIC Questionnaire

Moderator: Mr. John Raymond LaBrosse, Director, International Affairs, Canada Deposit Insurance Corporation.

Mr. David K. Walker, Director, Policy and Economics, gave an overview of the *International Deposit Insurance Questionnaire* that is being undertaken by the Canada Deposit Insurance Corporation and he provided an update on the current results. The objectives of the questionnaire are to: (1) gather comprehensive information on all deposit insurance systems in operation throughout the world and to share this information data base among deposit insurers, academics and other interested parties; (2) incorporate qualitative and quantitative information from a practitioner perspective; (3) provide for a wide range of potential responses; (4) utilize the Internet extensively to collect and share information; (5) update country responses on a regular basis; and (6) reduce the need for other deposit insurers to develop their own surveys. The questionnaire is available on CDIC's web site (http://www.cdic.ca/?id=285). It contains 156 questions and is divided into 14 major sections. Sections 1-7 were sent out in March 2002 to 96 potential respondents. To date, responses have been received from 46 countries and systems. Sections 8-14 will be distributed in June. A final report on the survey results should be ready by October 2002. Mr. Walker ended his presentation with a call to all countries/systems to participate, as the survey will provide major benefits to all deposit insurers.

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS
FIRST ANNUAL CONFERENCE
May 7-8, 2002

Transitioning Issues for Deposit Insurance Practitioners

Chaired by:
Mr.John Raymond LaBrosse, Director, International Affairs
Canada Deposit Insurance Corporation

Tuesday, May 7, 2002

8:30 a.m. Registration

Meeting Room "A"

9:00 a.m. Welcoming Remarks
Mr. John Raymond LaBrosse, Director, International Affairs
Canada Deposit Insurance Corporation

9:15 a.m. **Session I- Transitioning from Blanket Guarantees: Updated Cases Studies from Asia and Europe**

Moderator: Mr. Carlos Isoard, Member of the Board of Governors
Instituto para la Proteccion al Ahorro Bancario, Mexico

Presentations by:

Mr. Hajime Shinohara, Deputy Governor
Deposit Insurance Corporation of Japan

Mr. Chiho Kim, Director, Research Department
Korea Deposit Insurance Corporation

Mr. Mileti Mladenov, Chairman of the Management Board
Bulgarian Deposit Insurance Fund

10:30 a.m. *Coffee Break*

11:00 a.m. **Session II - Transitioning from Flat Rate to Differential Premiums**

Moderator: Mr. George Hanc, Associate Director
Federal Deposit Insurance Corporation, USA

Presentations by:

Dr. András Fekete-Györ, Deputy Managing Director
National Deposit Insurance Fund, Hungary

Mr. Hans Jacobson, Director General
Premium Pension Authority, Sweden

Mr. Ken Mylrea, Senior Director, Insurance
Canada Deposit Insurance Corporation

Dr. Salvador Ortiz
Assistant Director of Research and Development
Instituto para la Proteccion al Ahorro Bancario, Mexico

12:30 p.m. **Session III – Deposit Insurance in Africa: Problems and Prospects**

Presentations by:

Mr. Ganiyu. A. Ogunleye, Managing Director and Chief Executive Officer
Nigeria Deposit Insurance Corporation

Mr. James Ogundo, Director
Deposit Protection Fund Board (Kenya)

1:00 p.m. *Lunch*
Hosted by: Mr. William White, Economic Adviser, Head of the Monetary and Economic Department, Bank for International Settlements

2:30 p.m. **Session IV - Financial Sector Assessment Programs**

Moderator: Mr. Piero Claudio Ugolini, Assistant Director, Monetary and Exchange
International Monetary Fund

Presentations by:

Dr. Salvador Ortiz Fernandez
Assistant Director of Research and Development
Instituto para la Proteccion al Ahorro Bancario, Mexico

Mr. Pawel Wyczanski, Deputy Director, Research Department
National Bank of Poland

Mr. André Bezuidenhout, Head, Financial Stability Department
South African Reserve Bank

4:00 p.m. *Tea Break*

4:30 p.m. **Session V - Research Priorities**

Moderator: Mr. John Raymond LaBrosse, Director, International Affairs
Canada Deposit Insurance Corporation

Presentation by:

Dr. Adolfo César Diz, Member of the Board
Seguro de Depositos Sociedad Anonima*, *Argentina

5:15 p.m. *Session ends*

7:00 p.m. Reception at the Museum Kleines Klingental

7:30 p.m. **Keynote Speech:**
"Deposit Insurance and Other Current Issues in International Finance"
Mr. Andrew D. Crockett, Chairman
Financial Stability Forum

8:00 p.m. *Dinner*

Wednesday, May 8, 2002

8:30 a.m. **Session VI - Interrelationships Among Financial Safety-Net Players**

Moderator: Mr. Winston K. Carr, Chief Executive Officer
Jamaica Deposit Insurance Corporation

Presentations by:

Mr. John Raymond LaBrosse, Director, International Affairs
Canada Deposit Insurance Corporation

Mr. Carlos Isoard (for Ms. Ingrid Cerwinka Moeller), Member of the Board of Governors, ***Instituto para la Proteccion al Ahorro Bancario, Mexico***

Mr. Edmond Lau, Division Head, Banking Policy Department
Hong Kong Monetary Authority

10:00 a.m. **Session VII – The Global Bank Insolvency Initiative**

Presentation by:

Sr. José de Luna Martínez, Senior Financial Economist, Bank and Financial Restructuring Department
The World Bank

10:30 a.m. *Coffee Break*

11:00 a.m. **Session VIII – Legal Issues in Closing Deposit-Taking Institutions**

Moderator: **Mr. John Raymond LaBrosse**, Director, International Affairs, Canada Deposit Insurance Corporation.

Presentation by:

Mr. Claude A. Rollin, Senior Counsel
Federal Deposit Insurance Corporation, USA

11:45 a.m. **Session IX - CDIC Questionnaire**

Moderator: **Mr. John Raymond LaBrosse**, Director, International Affairs, Canada Deposit Insurance Corporation.

Presentation by:

Mr. David K. Walker, Director, Policy and Economics
Canada Deposit Insurance Corporation

1:00 p.m. Conference Ends

ANNEX B

Conference Participants

Name	Organization	Country
Dr. Adolfo César Diz	Seguro de Depositos Sociedad Anonima	Argentina
Mr. Cobia El-Hassar	Bank of Algeria	Algeria
Mr. Philip Bethel	Deposit Insurance Corporation of Bahamas	Bahamas
Ms. Sanja Stankovic	Federal Deposit Insurance Agency	Bosnia and Herzegovina
Mr. Sead Manov	Federal Deposit Insurance Agency	Bosnia and Herzegovina
Mr. Josip Nevjestic	Federal Deposit Insurance Agency	Bosnia and Herzegovina
Mr. Rainer Muller	Federal Deposit Insurance Agency	Bosnia and Herzegovina
Ms. Lisica Branislava	Federal Deposit Insurance Agency	Bosnia and Herzegovina
Mr. Romeo Esangga	Federal Deposit Insurance Agency	Bosnia and Herzegovina
Mr. Antonio Carlos Bueno	Fundo Garantidor de Creditos- FGC	Brazil
Ms. Penka Nedyalkova	Deposit Insurance Fund	Bulgaria
Ms. Roumyana Markova	Deposit Insurance Fund	Bulgaria
Mr. Mileti Mladenov	Deposit Insurance Fund	Bulgaria
Mr. Jean Pierre Sabourin	Canada Deposit Insurance Corporation	Canada
Mr. John Raymond LaBrosse	Canada Deposit Insurance Corporation	Canada
Mr. David Walker	Canada Deposit Insurance Corporation	Canada
Mr. Ken Mylrea	Canada Deposit Insurance Corporation	Canada
Mr. R. Kelly Shaughnessy	Canadian Bankers Association	Canada
M. Normand Côté	Régis de l'assurance dépôts du Québec	Canada
Mr. Frank Brown	Deloitte & Touche	Canada
Ms. Beatriz Arbelaez	FOGAFIN	Colombia
Ms. Lenia A. Georgiadou	Central Bank of Cyprus	Cyprus
Ms. Renata Cechova	Deposit Insurance Fund	Czech Republic
Mr. Viggo Soerensen	The Guarantee Fund for Depositors and Investors	Denmark
Mr. Oscar Armando Perez Merino	Instituto de Garantia de Depositos	El Salvador
Mr. Jaak Tors	Bank of Estonia	Estonia
M. Charles Cornut	Fonds de garantie des dépôts	France
Mr. Dirk Cupei	Bundesverband Deutscher Banken	Germany
Mr. Bjorn Christian Stein	Association of German Public Sector Banks	Germany
Mr. Edmond Lau	Hong Kong Monetary Authority	Hong Kong
Mr. Dániel Jánossy	National Deposit Insurance Fund of Hungary	Hungary
Dr. András Fekete-Györ	National Deposit Insurance Fund of Hungary	Hungary
Mr. Sveinbjorn Haflidason	Central Bank of Iceland	Iceland
Mr. Sumantri Slamet	The Indonesian Bank Restructuring Agency	Indonesia
Mr. Liberato Intonti	Banca d'Italia	Italy
Mr. Winston K. Carr	Jamaica Deposit Insurance Corporation	Jamaica
Mr. Hajime Shinohara	Deposit Insurance Corporation	Japan
Mr. Kazoumi Inoue	Deposit Insurance Corporation	Japan

Name	Organization	Country
Mr. Mohammed Said Shahin	Deposit Insurance Corporation	Jordan
Mr. James O. Ogundo	Deposit Protection Fund Board	Kenya
Mr. Chiho Kim	Korea Deposit Insurance Corporation	Korea
Mr. Sun-Eae Chun	Korea Deposit Insurance Corporation	Korea
Mr. Sun Young Kim	Korea Deposit Insurance Corporation	Korea
Mr. In Won Lee	Korea Deposit Insurance Corporation	Korea
Mr. Raimundas Zilinskas	Deposit Insurance Fund	Lithuania
Ms. Liljana Bozinovska	Deposit Insurance Fund Skopje	Macedonia
Mr. Chee Long Chung	Bank Negara Malaysia	Malaysia
Mrs. Nor Shamsiah Yunus	Bank Negara Malaysia	Malaysia
Mr. Carlos Isoard	Instituto para la Proteccion al Ahorro Bancario	Mexico
Dr. Salvador Ortiz Fernandez	Instituto para la Proteccion al Ahorro Bancario	Mexico
Ms. Ingrid Cerwinka	Ministry of Finance	Mexico
Mr. Erik Smid	De Nederlandsche Bank	Netherlands
Mr. Rotimi Ogunleye	Nigeria Deposit Insurance Corporation	Nigeria
Mr. Ganiyu A. Ogunleye	Nigeria Deposit Insurance Corporation	Nigeria
Mr. Einar Kleppe	The Norwegian Savings Banks Guarantee Fund	Norway
Mr. Odd Solheim	The Norwegian Commercial Banks Guarantee Fund	Norway
Mr. Ole-Jorgen Karlsen	Banking, Insurance and Securities Commission of Norway	Norway
Ms. Lene Elisabeth Andersen	Banking, Insurance and Securities Commission of Norway	Norway
Mr. Ricardo Flores	Peruvian Deposit Insurance Fund	Peru
Mr. Juan Klingenberger	Peruvian Deposit Insurance Fund	Peru
Mr. Norberto Nazareno	Philippine Deposit Insurance Corporation	Philippines
Mr. Alberto V. Reyes	Central Bank of Philippines	Philippines
Mr. Pawel Wyczanski	National Bank of Poland	Poland
Mr. Ryszard Bartkowiak	Bank Guarantee Fund of Poland	Poland
Mr. Andrei Pekhterev	Agency for Restructuring Credit Organizations	Russia
Mr. Nikolay N. Evstratenko	Agency for Restructuring Credit Organizations	Russia
Mr. André Bezuidenhout	South African Reserve Bank	South Africa
Mr. Christopher Cyril Malan	The National Treasury	South Africa
Mr. Per Swahn	Swedish Deposit Guarantee Board	Sweden
Mr. Hans Jacobson	Swedish Deposit Guarantee Board	Sweden
Mr. Andrew Khoo	Basel Committee Secretariat, BIS	Switzerland
Mr. Andrew Crockett	Bank for International Settlements	Switzerland
Mr. Jason George	Bank for International Settlements	Switzerland
Mr. Josef Tosovsky	Bank for International Settlements	Switzerland
Mr. Pierre Panchaud	Bank for International Settlements	Switzerland
Mr. Pierre Cailleteau	Financial Stability Forum	Switzerland
Dr. Benedikt A Suter	Lenz Caemmerer Bender	Switzerland
Mr. Hao-Chang Lien	Central Deposit Insurance Corporation	Taiwan
Mr. Chin-Tsair Tsay	Central Deposit Insurance Corporation	Taiwan
Mr. Taweesakdi Manakul	Ministry of Finance	Thailand
Mr. Worawut Wesaratchakit	Bank of Thailand	Thailand
Ms. Ruchukorn Sangsubhan	Bank of Thailand	Thailand
Mr. Junior Frederick	Deposit Insurance Corporation	Trinidad and Tobago
Ms. Selda Yavuz	Banking Regulation & Supervision Agency	Turkey
Mr. Valeriy I. Ogiyenko	The Household Deposit Insurance Fund	Ukraine
Mr. Myhailo Tyutyunnyk	The Household Deposit Insurance Fund	Ukraine
Mr. George Hanc	Federal Deposit Insurance Corporation	USA
Mr. Claude Rollin	Federal Deposit Insurance Corporation	USA

Name	Organization	Country
Mr. Piero Ugolini	International Monetary Fund	USA
Sr. Jose De Luna Martinez	The World Bank	USA
Mr. Anthony Sinclair	Deloitte Emerging Markets	USA

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