

## What's New at IADI?

Volume 1, Issue 5

May 2003



## October 2003 Conference – Register Now!



- **Second Annual IADI Conference – Program and registration information is now available**
- **IADI welcomes Kazakhstan and Albania as Members and Bank of Mongolia as an Associate**
- **Guidance on Differential Premiums – Coming Soon!**
- **ARCO Third Non-Performing Assets Forum in Moscow**
- **IADI Asia Regional Committee Meeting in Tokyo has been postponed**
- **Profile on Philippine Deposit Insurance Corporation**

\*\*\*\*\*

Preparations for the Second Annual IADI Conference are in full swing. The Conference will be held in Seoul, Korea on October 23 and 24, 2003.

The conference will include presentations covering deposit insurance as an integral part of the financial safety net, strategies to promote effective deposit insurance systems, interrelationships among banking safety-net players, guidance on differential premiums and lessons learned from dealing with problem institutions.

Deputy Prime Minister & Minister of Finance and Economy Jin-Pyo Kim has been invited to deliver the Keynote Speech for the Conference. The Preliminary Conference Program can be found at: <http://www.iadi.org/html/>.

Conference fees are US\$500 for Members, Associates and Observers of IADI (US\$750 for all others). Registration information can be obtained from Kim Utnegaard at [kim.utnegaard@iadi.org](mailto:kim.utnegaard@iadi.org).

IADI's Second Annual General Meeting will take place in Seoul at 3 pm on October 22, 2003.

## Here We Grow Again!

The Executive Council is pleased to announce that **CJSC Kazakhstan Deposit Insurance Fund** has become a Member. KDIF was established in November, 1999 under a Decree of the National Bank of the Republic of Kazakhstan and it is a State Corporation which began operations on December 20, 1999. Depositor protection in the Republic of Kazakhstan is provided under the Law on Banks and Banking Activity, which sets out the provisions for the

incorporation of banks. KDIF insures deposits of individuals in participating banks in local and certain foreign currencies. Insured limits in Tenge are KZT400,000 and coverage does not exceed 90% of KZT400,000 Tenge.

The Designated Representative of KDIF is their General Director, Bakhyt Mazhenova. <http://www.online.kz>

As well, the Executive Council is pleased to welcome [Deposits Insurance Agency – Albania](#) as a Member. The Deposits Insurance Agency is the authority responsible for the protection of bank deposits in Albania. It was set up under law No. 8873, on March 29, 2002. “The Insurance of Deposits” was established to enhance stability of the banking system as well as protecting depositors should participating credit institutions be unable to repay depositors funds. The Deposits Insurance Agency is a public entity headquartered in Tirana and is supervised by the Bank of Albania, Parliament and Government. Practically all credit institutions operating in Albania are required to be members of the system.

The Designated Representative is the General Manager, Arain Kraja. Further information on the Albania system can be found at: [www.dia.org.al](http://www.dia.org.al)

With the additions of Kazakhstan and Albania, IADI now has 28 Members.

[Bank of Mongolia](#) has been admitted as an Associate. Bank of Mongolia is in charge of monetary policy and is responsible for improving supervision of the banking system. A draft law is being prepared to implement an explicit deposit insurance system. There exists presently a two level banking system in Mongolia. Since its establishment, the Bank of Mongolia has been undertaking monetary policy aimed at stabilizing the value of the currency and at reducing inflation.

The contact person for the Bank of Mongolia is Alagiin Batsukh. More information on the Bank can be found at: [www.mongolbank.mn](http://www.mongolbank.mn).

With the addition of Bank of Mongolia, IADI now has 9 Associates.

## First Meeting of Asia Regional Committee

Owing to concerns surrounding SARS, the first meeting of the Asian Regional Committee scheduled for June 26, 2003 has been postponed. A new date for the meeting will be selected and announced in due course. The Workshop to be hosted by [Deposit Insurance Corporation of Japan](#) on June 27 has been cancelled accordingly.

## IADI to Develop Guidance on Differential Premiums

In response to widespread interest, IADI’s Research and Guidance Committee has launched work on guidance for differential premium systems. The Business Plan sets out the issues to be addressed by a group of experts from Argentina, Brazil, Canada, France, Hungary, Japan, Jordan, Korea, Mexico, Nigeria, Philippines, Ukraine and the USA.

Comments on the Business Plan (<http://sum.iadi.org/html/App/SiteContent/IADI-Diff%20premium-rp.doc>) should be sent to David K. Walker ([dwalker@cdic.ca](mailto:dwalker@cdic.ca)) who heads the sub-group.

## ARCO Non-Performing Assets Forum

Moscow is the venue for the “Third International Non-Performing Assets (NPA) Forum” on June 19 and 20, 2003. The Forum is being organized by the State Corporation “[Agency for Restructuring Credit Organisations](#)” (ARCO). Co-sponsors of the Forum are Deloitte &

Touche, Ernst & Young, KPMG and PricewaterhouseCoopers. The Government and the Central Bank of the Russian Federation are supporting the Forum as well as ARCO in its role as the Forum's organizer. The World Bank and the EBRD are also involved in this initiative.

The main theme of this year's Forum is "NPA Resolution in Transition Economies". Specifically, the Forum will investigate: legislation and NPA resolution; methods of NPA resolution; NPA appraisal; globalization of NPA markets; and advisory and support services in NPA resolution. Information on the Forum is available at: [www.npaforum2003.ru](http://www.npaforum2003.ru)

For further information please contact: [forum@gk-arco.ru](mailto:forum@gk-arco.ru) or [forum@tkbservice.ru](mailto:forum@tkbservice.ru).

## IADI/EBRD Seminar on Deposit Insurance

Seminar proceedings from January 29 – 31, 2003 will soon be available on IADI's Web site under the Resources area.

## Benefits of Deposit Insurance

"...deposit insurance has played a key role – at times even critical – in achieving the stability in banking and financial markets that has characterized the nearly seventy years since its inception. Deposit insurance, combined with other components of our banking safety net (the Federal Reserve's discount window and its payment system guarantees) has meant that periods of financial stress no longer entail widespread depositor runs on banks and thrift institutions. Quite the opposite: Asset holders now seek out deposits – both insured and uninsured – as safe havens when they have doubts about other financial assets. Looking beyond the contribution of deposit insurance to overall financial stability, we should not minimize the importance of the security it has brought to millions of households and small businesses with relatively modest financial assets. Deposit insurance has given them a safe and secure place to hold their transaction and other balances". Testimony of Alan Greenspan, before the Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C., 26 February 2003.

## Staying up Nights Reading About the New Basel Capital Accord?

Here are two recent publications on the new Basel Capital Accord.

The first is a consultative paper which is located at: <http://www.bis.org/bcbs/bcbscp3.htm>. Comments are requested by 31 July 2003, and will be helpful to the Committee as it makes the final modifications to its proposal for a new capital adequacy framework. The Committee continues its goal to complete the New Accord by the fourth quarter of this year, with implementation to take effect in member countries by year-end 2006. To that end, work has begun in a number of countries on draft rules that would integrate Basel capital standards with national capital regimes.

The second is a paper released by the Basel Committee on Banking Supervision which is entitled "Quantitative Impact Study 3". This document can be found at: <http://www.bis.org/bcbs/qis/qis3results.pdf>.

## Market Discipline: the Evidence across Countries and Industries

A conference co-sponsored by the [Bank for International Settlements](#) and the [Federal Reserve Bank of Chicago](#) will be held on October 30-November 1, 2003 at the Chicago Fed. The conference will be of interest to financial industry practitioners, regulators, policymakers and academics.

Details will be available soon at [www.bis.org/events/index.htm](http://www.bis.org/events/index.htm).

## What Happens After Supervisory Intervention?

Closures have been used to resolve problem banks in many countries and in a wide range of economic circumstances, yet banking supervisors frequently defer intervention and closure. Avoiding the costs of disruption is the principal argument in favour of extraordinary measures, such as the use of public funds for capitalization or forbearance, as alternatives to closing insolvent banks. Well-planned and implemented closure options can preserve essential functions performed by failing banks, mitigating disruption. Extraordinary measures to avoid closure should be avoided, but may be used in a systemic crisis to preserve some portion of a widely insolvent banking sector. Read more about this topic in a Working Paper issued by the [International Monetary Fund](http://www.imf.org/external/pubs/cat/longres.cfm?sk=16222.0) by visiting the following link: <http://www.imf.org/external/pubs/cat/longres.cfm?sk=16222.0>.

## KDIC and CDIC Sign MOU

To promote friendship and to facilitate cooperation and information sharing suggested by the Asian Regional Committee of IADI, the [Central Deposit Insurance Corporation](#) (CDIC) has formally established a bilateral collaborative relationship with the Korea [Deposit Insurance Corporation](#) (KDIC). The two deposit insurers signed a Memorandum of Understanding in Taipei on March 25, 2003.



KDIC and the CDIC are both founding members of IADI as well as partners in the world deposit insurance information network. The MOU raises the curtain of cooperation and exchange between the two deposit insurers. CDIC President Johnson C.S. Chen and KDIC Vice President Seok-Won Kim

signed the MOU, at the ceremonies hosted by Chin-Tsair Tsay, Chairman of CDIC. In future, the two corporations will formally appoint contact representatives and engage in exchanges of information and personnel.

## What is happening in your world?

### Canada

Canada Deposit Insurance Corporation has postponed its “[International Open House](#)” due to concerns over SARS. CDIC is monitoring the situation closely and they will advise when a new date is chosen.

If you are interested in attending please contact David K. Walker at [dwalker@cdic.ca](mailto:dwalker@cdic.ca).

### Uruguay

Interested in the de-dollarization debate? A recent article by Gerado Licandro and Jose Antonio Licandro looks at the causes and consequences of dollarization on economic activity with an aim at improving the design of economic policy, particularly in the case of Uruguay. You can find this interesting article at the following location: <http://www.iadi.org/html/App/SiteContent/Anatomy%20and%20Pathology%20of%20Dollarization.pdf>.



## Jamaica



Jamaica Deposit Insurance Corporation offices have recently moved – here is a look at their new building. JDIC is located at 30 Grenada Crescent, Kingston 5, Jamaica W.I. Their Web site is [www.jdic.org](http://www.jdic.org).

## Payments and Settlements Systems – Update

The [Committee on Payment and Settlement Systems](#) (CPSS) periodically publishes - under the aegis of the Bank for International Settlements (BIS) - reference works on payment arrangements in various countries, widely known as Red Books. This fifth edition of the Red Book is a further step towards increasing our understanding of the way payment systems (including securities settlement systems) work in the countries represented in the CPSS.

Properly functioning payment systems enhance the stability of the financial sector, reduce transaction costs in the economy, promote the efficient use of financial resources, improve financial market liquidity and facilitate the conduct of monetary policy. In recent years, issues relating to the economic efficiency and financial risks of all types of payment arrangements have come to the fore.

Here is the link to find out more: <http://www.bis.org/publ/cpss53.htm>.

## Member Profile

To keep you informed about deposit insurance arrangements in other countries, each Newsletter will profile an IADI Member. In this issue, we look at the [Philippine Deposit Insurance Corporation](#), a founding Member of IADI.



The Philippine Deposit Insurance Corporation (PDIC) is a government corporation established in June 1963 under Republic Act (RA) 3591. PDIC's role as envisioned by the Congress is to encourage savings in banks and draw idle funds into the banking system, protect insured deposits in the event of bank closures, help promote a sound and stable banking system, and foster public confidence in the banking system.

RA 3591 was last amended by RA 7400 in 1992 and it expanded PDIC's authority and regulatory powers to include independent examination of banks(1). The law also made PDIC the mandatory receiver/liquidator of banks ordered closed by the Monetary Board. Furthermore, the power to grant financial assistance to banks in danger of closing was also expanded to include assumption of liabilities in addition to making deposits, the purchasing of assets or the making of a direct loan. The Law RA 7400 also increased the deposit insurance coverage from P40,000 to P100,000 per depositor.

As a deposit insurer, PDIC collects semi-annual assessments from member-banks (the current rate is 1/5 of 1% of total deposits) and it may terminate as well as reinstate the insured status of banks under certain conditions. As co-regulator of the banking system, PDIC conducts

(1)-In 2000, the enactment of the General Banking Act repealed PDIC's power to conduct independent examinations of banks.

offsite examination of banks, it may issue cease and desist orders against banks following unsafe and unsound banking practices, undertake failure resolution activities in coordination with the Bangko Sentral ng Pilipinas (BSP); and provide financial assistance to distressed banks.

The maximum deposit insurance coverage (MDIC) is P100,000 (roughly US\$1,905 at the present exchange rate of P52.50 : US\$1) per depositor which fully insures almost 25 million deposit accounts, representing about 92% of total deposit accounts in the Philippine banking system (27.02 million). As of December 2002, total insured deposits amounted to P445.5 billion out of P2.339 trillion of total deposits. Likewise, as of year-end 2002, there were 909 insured banks consisting of 42 commercial banks, 94 thrift banks and 773 rural banks.



As a receiver/liquidator, PDIC takes control, manages and administers the affairs of the closed bank, and determines whether the bank may be rehabilitated and resume business with safety to its depositors, creditors and the general public; or its assets liquidated. Prior to liquidating the assets of a closed bank, PDIC files with the relevant court a petition for assistance in

liquidation. PDIC converts the assets of the closed bank into cash and makes a distribution of such cash and other assets to creditors of the closed bank under the rules on concurrence and preference of credits specified by the Civil Code of the Philippines.

PDIC is actively pursuing significant amendments to its Charter to strengthen operational and financial capabilities in order to help it fulfil its mandates. These include, among others, the proposed increase of the MDIC from P100,000 to P200,000 per depositor and the restoration of PDIC's examination power. This will be done in close coordination with BSP to effectively perform its role in protecting deposits through effective supervision and monitoring of banks. Thus, it will complement the powers of BSP and assist BSP in the early detection of problems of distressed banks to prevent further deterioration and eventually, closures.

The PDIC, an independent government financial institution attached to the Department of Finance, is governed by a five-member Board of Directors composed of the Secretary of Finance as the ex-officio Chairman; PDIC President and CEO as Vice-Chairman; the Governor of the central bank as an ex-officio member; and two representatives from the private sector. The President of the Philippines appoints the PDIC President and two private sector representatives for a term of six years.

## IADI Chair and President Meets New BIS General Manager



J.P. Sabourin met Malcolm Knight, the new General Manager of the Bank for International Settlements during his recent visit to Basel

## Visitors to IADI Head Office



Members of the Executive Council are shown features of the IADI Web site during a working lunch on April 25, 2003.

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

This newsletter was issued on May 20, 2003. Want to share your expertise? To submit articles or items for consideration for the next issue please send them to [info@iadi.org](mailto:info@iadi.org), by June 5, 2003.