International Association of Deposit Insurers

What's New at IADI ?

Volume 2, Issue 7 January 2004

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Policy Dialogue on Deposit Insurance

Canada Deposit Insurance Corporation Société d'assurance-dépôts du Canada

Canada

Jean Pierre Sabourin of **Canada Deposit Insurance Corporation** will chair a Policy Dialogue on Deposit Insurance in Kuala Lumpur on 16-18 February 2004. This APEC Policy Dialogue will discuss indemnification for deposit insurers, interrelationships among financial safety net players, and prompt action and legal trigger mechanisms.

All deposit insurers are welcome to this unique event. Presenters for the policy dialogue include: Stefan Ingves, IMF; Ronald N. Robertson Q.C. and David K. Walker, **Canada Deposit Insurance Corporation**; Michael J. Mac Naughton, Borden Ladner Gervais LLP; Jay Carfagnini, **Goodmans LLP**; In-Won Lee; **Korea Deposit Insurance Corporation**; John Di Clementi, **Federal Deposit Insurance Corporation**; and J.R. LaBrosse, **IADI.** Also featured on the program will be John R.V. Palmer, **Monetary Authority of Singapore**, Professor Joe Norton, London University and Christine Cummings, Federal Reserve Bank of New York. Governor Zeti Akhtar Aziz, of **Bank Negara Malaysia** will deliver the keynote speech. The Policy Dialogue is hosted by:

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

For more information on this Policy Dialogue, please consult www.apecsec.org.sg or contact David Walker at dwalker@cdic.ca.

Policy Dialogue on Financial Disclosure

The Reserve Bank New Zealand and the Ministry of Finance of Chile are co-chairing a policy dialogue on financial disclosure on 18-20 February 2004 also to be held in Kuala Lumpur.

GOBIERNO DE CHILE
MINISTERIO DE HACIENDA

RESERVE BANK
OF NEW ZEALAND

The Policy Dialogue on Financial Disclosure is intended to advance the importance of high quality financial disclosure and the role that it plays in APEC economies. For more information, please contact mortlockg@rbnz.govt.nz.

"Save the Date" - Enterprise Risk Management Seminar – 28-29 April 2004

The International Association of Deposit Insurers and Deloitte Touche Tohmatsu will be holding a Seminar on Enterprise Risk Management on 28-29 April 2004. The next IADI Newsletter with have more details on this Seminar.

Staying up Late Worrying About Moral Hazard?

You may find a paper prepared by Reint Gropp and Jukka Vesala, staff members of the European Central Bank, entitled "Deposit Insurance, Moral Hazard and Market Monitoring" of interest. It analyses the relationship between deposit insurance, debt-holder monitoring, and risk taking. In a stylised banking model the authors show that deposit insurance may reduce moral hazard, if deposit insurance credibly leaves out non-deposit creditors. Testing the model using European Union bank level data yields evidence consistent with the model, suggesting that explicit deposit insurance may serve as a commitment device to limit the safety net and permit monitoring by uninsured subordinated debt holders. They also find that credible limits to the safety net reduce risk taking of smaller banks with low charter values and sizeable subordinated debt shares only. However, the authors also find that the introduction of explicit deposit insurance tends to increase the share of insured deposits in banks' liabilities. The document can be found at the following location:

http://www.iadi.org/html/Default.aspx?MenuID=114

Proceedings from the Third Annual IADI Conference

Korea Deposit Insurance Corporation

The proceedings from the Second Annual IADI Conference hosted by the **Korea Deposit Insurance Corporation** are now available at the following location: http://www.iadi.org/html/App/SiteContent/Pdf%202003%20IADI%20Conference%20Proceedings-Final.pdf

Stefan Ingves and Lee, In-Won at the Second Annual IADI Conference in Seoul

Member Profile – Bulgarian Deposit Insurance Fund

A Founding Member of IADI

BULGARIAN DEPOSIT
INSURANCE FUND

The National Theatre, Sofia

The **Bulgarian Deposit Insurance Fund** (BDIF) is an independent public institution established in January 1999 under the Law on Bank Deposit Guaranty. That law provides for the Fund's basic functions: insuring bank deposits and repaying the insured amount of deposits in the event of a bank failure, determining and collecting premiums from banks and investing its assets. With the adoption of the Law on Bank Bankruptcy at the end of 2002, BDIF's mandate was broadened by new powers in the administration of bank bankruptcy proceedings.

Deposit insurance in Bulgaria has undergone several stages. In early 1996, the first deposit insurance scheme was created with the aim of replacing the implicit full state guarantee. Deposits of physical persons were insured and coverage was relatively low. As the DIS introduction coincided with the outbreak of a dire financial crisis, the scheme did not begin operating. In 1996-97 about 20 banks, comprising nearly one quarter of the banking system assets failed.

To curb the crisis, extraordinary legislation was adopted and the Government compensated depositors in closed banks from the budget (households were compensated in full and legal entities at 50%). Once the situation had stabilized, the Law on Bank Deposit Guaranty was adopted in 1998. The Law introduced an explicit DIS with limited coverage on deposits and established an independent deposit insurance institution – the BDIF.

At present, thirty-five commercial banks, including six foreign banks' branches, operate in Bulgaria and the participation of the banks in the system is mandatory. Under certain circumstances only branches of foreign banks operating in Bulgaria may be allowed not to participate in the system. Currently, there are thirty-two member institutions. Three branches of Greek banks that are covered under the Greek DIS do not participate.

The system is industry funded by member institutions paying entry and annual premium contributions to the BDIF. The banks' entry premiums amount to one percent of the bank's registered capital but not less than BGN 100,000 (approx. EUR 51,100). Annual premiums paid by banks are 0.5 percent of the total amount of the previous year's deposit base determined on an average daily basis. Annual premiums are due not later than 31 March in the current year. The BDIF is considering the possibility of replacing the current flat-rate premiums system with a risk-based one.

BDIF may invest its funds in government securities, issued or guaranteed by the government, short-term deposits with commercial banks authorized to act as primary dealers of government securities and deposits with the Bulgarian National Bank (BNB). Currently BDIF funds amount to BGN 193 million (approx. EUR 100 million). The target ratio of the Fund, stipulated by law, is 5% of the total deposit base in the banking system. In the event of a shortfall of resources, the BDIF may borrow from the market with a government guarantee.

Deposits of physical persons and legal entities in national and foreign currency are currently insured in full up to BGN 15,000 (approx. EUR 7,600) per depositor, per bank. By end-2006, the coverage is to be gradually raised to BGN 39,200 (EUR 20,000) as part of the commitments related to Bulgaria's future accession to the European Union and in compliance with the minimum coverage required by EU Directive 94/19/EC.

Insured deposits are repaid in national currency. Disbursement is done *via* a commercial bank determined by the BDIF Management Board and it begins within 45 days from the date of the BNB revocation of a bank's license. The BDIF has successfully performed its insurance function in the two bank failures since its establishment (in 1999 and 2000).

With the adoption of the Law on Bank Bankruptcy, effective as of 28 December 2002, the BDIF controls how trustees exercise their powers by appointing and removing the trustee, determining their remuneration, controlling expenses and transactions, and by issuing instructions on how they exercise powers. The Fund drafted regulations, adopted by the BNB, on trustees' remuneration, BDIF inspections of banks in bankruptcy, trustee report format, as well as on tariff relating to bankruptcy proceedings. The BDIF performs off- and on-site inspections of failed banks.

The Fund is accountable to the Council of Ministers, the BNB and the National Audit Office by presenting them its Annual Report. The National Audit Office audits the BDIF financial activities.

BDIF is managed by a Management Board, consisting of five members. The Chairman is designated by the Council of Ministers; the Vice Chairman – by the BNB Managing Board; one member is a representative of the Association of Commercial Banks; and the two other members are appointed jointly by the BDIF Chairman and Vice Chairman. The Fund relies on its own resources. Thirteen dedicated experts work in the Banking, Legal, Investment Management, Accounting, International Cooperation and Public Relations departments. Outsourcing is used in resolving specific issues.

A strong emphasis is placed on international contacts. The Fund receives and provides assistance on deposit insurance issues through bilateral cooperation. The BDIF is a founding member of IADI and actively participates in its activities. The Fund is also a founding member of the **European Forum of Deposit Insurers**.

Picture: Bisser Manolov, Chairman of the Management Board, Bulgarian Deposit Insurance Fund and member of the Executive Council, IADI.

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The BDIF is a major safety net player contributing to the stability and confidence in the Bulgarian banking system by insuring depositors' funds in banks and protecting the interests of creditors in bank bankruptcy proceedings.

Visit the Bulgarian Deposit Insurance Fund on its web site: www.dif.bg and learn more about them and deposit insurance in Bulgaria.

What's New in Your World?

Basel

The Basel Committee on Banking Supervision continues to make progress on its work to revise the international accord on bank capital following the agenda established in Madrid last October. At a recent meeting in Basel, the Committee reviewed the progress made on outstanding matters to meet its mid-year 2004 objective and took decisions on key issues. You may find out more at the following location: http://www.bis.org/press/p040115x.htm

Japan

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

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

Information on these events can be obtained from Kazumi Inoue, Senior Adviser, International Affairs, Deposit Insurance Corporation of Japan at:
kazumi-inoue@dic.go.jp.

Jordan

The **Deposit Insurance Corporation of Jordan** has named Dr. Mohammed Al-Ja'fari as its General Director effective 31 December 2003. Prior to joining the DIC, he was Commissioner for Finance and Administration/Agaba Special Economic Zone Authority and he held positions with the Central Bank of Jordan. Welcome aboard!

Malaysia

Governor Zeti Akhtar Aziz of **Bank Negara Malaysia** delivered the opening remarks for the launch of the Merdeka Savings Bond. You may find her remarks at the following location: http://www.bis.org/review/r040115c.pdf

Russia

The federal law on "Insurance of Household Deposits in Banks of the Russian Federation" came into force on 23 December 2003. In accordance with this law the function of deposit insurance will be fulfilled by a new Deposit Insurance Agency which will be gradually receive ARCO's financial, technological and staff resources. On 22 January 2004, the Board of Directors of the DIA held its first meeting; it approved an organizational structure and appointed Alexander Turbanov to the position of General Director. Congratulations all around!

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*This newsletter was issued on 28 January 2004. Want to share your expertise? To submit articles or items for consideration for the next issue please send them to **info@iadi.org** by 15 February 2004.*