

What's New at IADI?

Volume 4, Issue 6

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Highlights:

The Executive Council is pleased to announce that IADI has issued:

- **General Guidance for the Resolution of Bank Failures and**
- **General Guidance to Promote Effective Interrelationships among Financial Safety Net Participants**

IADI welcomes its 42nd Member: FOGADE, Deposits Insurance Fund Nicaragua

Profile on Deposit Insurance Agency (Russia)

General Guidance for the Resolution of Bank Failures

In order to deal in a timely and effective manner with the impact of individual bank failures or systemic banking crisis, many countries are seeking to enhance their mechanisms for dealing with failing or failed banks. Although the responsibilities of deposit insurers for various aspects of the resolution framework vary from country to country, the manner in which failed banks are resolved has a major impact on all deposit insurers.

The objective of the paper was to develop general guidance for deposit insurers and other safety net participants interested in establishing or enhancing their mechanisms for the resolution of failed or failing banks. It was prepared by the IADI Subcommittee on Developing Guidance for the Resolution of Bank Failures and is designed to take into account different country circumstances, settings and structures.

The guidance developed is based on the judgment of IADI's Members and the experiences of deposit insurers involved in the resolution of bank failures. Key sources of information used were the responses from a survey questionnaire distributed by the sub-committee in June 2004. The paper also draws on relevant reports and other literature available on the subject.

To view the guidance [paper](#) please go to the following link:

<http://www.iadi.org/html/App/SiteContent/Guidance%20Bank%20Resol%20Cons%20120505final.pdf>

General Guidance to Promote Effective Inter-relationships among Financial Safety Net Participants

The principal objectives of a deposit insurance system are to contribute to the stability of a country's financial system and to protect less-financially sophisticated depositors from the loss of their deposits when banks fail. In designing deposit insurance systems, policymakers should address the deposit insurer's relationships and co-ordination with other safety net participants. A need for close co-ordination exists in any institutional setting and information sharing. However, when more than one organization is responsible for the smooth functioning of the financial safety net, it could be said that "Good Fences Make Good Neighbours" as the functions assigned to different organizations raise issues related to the allocation of powers and responsibilities, information sharing, and the co-ordination of actions. In this regard, there is a need to set out guidance to promote effective interrelationships. The aim of this paper is to provide practical advice to safety net participants on how to promote interrelationships that will contribute to financial stability.

To view the guidance [paper](#) please go to the following link:

http://www.iadi.org/html/App/SiteContent/2006-01-12_Guidance_on_Interrelationship-final.pdf

Guidance Issued by IADI:

[Key Conclusions of APEC Policy Dialogue on DI and IADI Guidance points Summary of the General Guidance for Developing Differential Premium Systems](#)

[General Guidance for Developing Differential Premium Systems](#)

[Establishment and Design of Deposit insurance Systems](#)

[FSF - Consultation Process and Background Paper](#)

[Volume II](#) Prepared by the **Canada Deposit Insurance Corporation**

[FSF Report Guidance for Developing Effective Deposit Insurance Systems](#)

We Welcome FOGADE (Nicaragua) as a Member

The logo for FOGADE (Fondo de Garantía de los Depósitos de las Instituciones Financieras) is displayed in a large, bold, 3D-style font. The letters are white with a dark grey shadow, giving it a three-dimensional appearance. The logo is centered on the page.

Fondo de Garantía de Depósitos de las Instituciones Financieras

The **Nicaraguan Deposits Insurance Fund (FOGADE – Fondo de Garantía de los Depósitos de las Instituciones Financieras)** becomes a Member of IADI bringing the total number of members to 42. The **Nicaraguan Deposits Insurance Fund (FOGADE)** is represented by **Vilma Rosa Leon-York, President of FOGADE**, who can be contacted at: **FOGADE**, De la Shell Plaza El Sol 150 varas al Este, Edificio FNI, Managua, Nicaragua.

Telephone: (505) 2706254 / (505) 2704709 / Fax: (505) 2706258.-

e-mail: vilmaleon@fogade.gob.ni website: www.fogade.gob.ni

Member Profile on: **Deposit Insurance Agency (Russia)**

The deposit insurance system of the Russian Federation was established on 27 December 2003, based on the federal law "On Insurance of Household Deposits in Banks of the Russian Federation". The law sets forth mandatory participation in the deposit insurance system of all banks that take household deposits and/or open and maintain households' bank accounts. To undertake the operations of the deposit insurance system the law also established the Deposit Insurance Agency (**DIA**).

Legal Status and Powers of Deposit Insurance Agency

The **DIA** is a State Corporation – a non-commercial entity with specific legal status. The Russian Federation is the sole owner of the Agency that is independent in performing its activities from the Government and the Central Bank of the Russian Federation.

In accordance with the law, the Agency has two basic functions:

- 1) the insurance of household deposits;
- 2) the liquidation of banks that take household deposits

The **DIA** monitors how banks fulfill their respective obligations and with this in view participates in back-up examinations of banks conducted by the **Bank of Russia**. Those examinations focus on the calculation and timely payment by banks of their insurance premiums to the deposit insurance fund and on maintaining records concerning deposits they have taken, as well as providing information to depositors on deposit insurance issues. In accordance with provisions set forth in the deposit insurance law, banks are obligated to maintain records in such a manner that will enable the Agency to obtain valid information needed for prompt payouts. In the course of examinations **DIA** experts conduct testing of software used by banks to maintain deposit records.

In accordance with the law, a special cooperation agreement has been concluded between the Bank of Russia and the Deposit Insurance Agency.

Funding Deposit Insurance System

To establish financial basis of the deposit insurance system the Russian Government made an initial contribution by transferring to the **DIA** the property previously owned by the **Agency for Restructuring Credit Organizations (ARCO)**. (Readers may recall that ARCO was liquidated in 2004 upon the accomplishment of its mission as a bank restructuring agency established to resolve banks that suffered during the 1998 crisis). As of 25 October 2005 the property contribution of the Russian Federation reached 5.2 billion rubles (\$182 million).

The law contains a provision for the possibility of urgent financing any deficits through borrowings from the federal budget. The major source of revenue is the quarterly payments by banks of their assessments that are currently set at the level of 0.15 % of total deposits.

Insurance Coverage

Presently, the total insurance coverage reimbursable to one depositor in one bank is 100,000 rubles (about US\$3,500) – all household deposits in rubles and foreign currencies are insured.

In accordance with the law, the reimbursement process is to be started 14 days after the Bank of Russia has closed the bank (i.e. it has revoked its license).

The **DIA** has submitted proposals to the Government requested a gradual increase of the insurance coverage limit in 2006-07 up to 280,000 rubles (about U.S. \$10,000). The amount up to 100,000 is to be guaranteed 100%, and extra RUR 100,000 should be guaranteed 90%. During the subsequent 5-7 years, it is proposed to increase the insurance coverage up to the equivalent of 20,000 Euro.

The total DIS liability currently amounts to 63% of the total deposits in the banking system. About 98% of the total number of insured deposits and household accounts are fully covered by the limit. This constitutes 40% of the total amount of deposits taken by the whole national banking system.

Russian Banking System Overview

There are 1,424 firms licensed as credit institutions in the Russian Federation and out of this number 1,116 are licensed to take household deposits. Household deposits constitute a major source of funds for banks. On average, within the banking system - household deposits' share within banks' total liabilities is 28.8%, while legal entities deposits' share is 26.7%.

Presently 928 banks are deposit insurance system participants. The total amount of attracted by DIS participants' deposits reached 2.4 trillion rubles (\$84 billion). The share of the 30 largest banks within the total attracted household funds as of 1 July 2005 was 80.5%. The largest market share – 56,8% - is taken up by the Sberbank whose controlling stake is owned by the government and household deposits in which were before fully covered by an implicit government guarantee (out of its share 61.5% deposits are denominated in rubles and 42.4% - in foreign currencies). It should be noted that there has been a gradual reduction of the share of household deposits market of Sberbank.

Since early 2005 the Bank of Russia has revoked banking licenses from 35 credit organizations. In the majority of cases de-licensing was based on suspicious from legal standpoint operations conducted by those banks.

Managing the Deposit Insurance Fund

At present the total DIF resources are 15.1 billion rubles (\$528 million). About two thirds of this amount is banks' assessments, the balance is the initial government contribution. It is anticipated that by mid-2006 the total Fund's resources will reach 28 billion rubles (\$1 billion) and the system will be able to deal with the bankruptcy of any bank (if coverage limit is preserved at the existing level).

The **DIA** undertakes DIF liquidity management in accordance with an investment policy that stipulates that the investment of the Fund's resources be in reliable and highly liquid financial instruments with priority given to government bonds. As well, DIF resources can be invested in OECD members' government securities, as well as in stocks and bonds of Russian issuers (except those issued by banks), shares of index mutual funds and mortgage bonds. Presently, the main investment instruments are government bonds and corporate bonds by first class Russian issuers. In 2006 there are plans to invest partial DI Fund's resources through management companies selected on competitive basis. The Fund target reserve ratio is planned to be set at the level of 5% of the total DIS liability amount.

DIA undertakes extensive analytical research to assess DIS risks and DIF sufficiency for the forthcoming period. A number of mathematical models are used that enable the **DIA** to take into account both micro- and macro economy factors affecting the deposit insurance system.

Insured Deposit Payouts Experience

The first insurance event took place in July 2005. The Bank of Russia revoked the banking license of a small bank (International Bank for Economic Development) that had a small number of depositors. The payout process started 10 days after the bank was closed.

Reimbursements to depositors were effected through an agent-bank acting on behalf and at the expense of **DIA**. There was no commission charged; in accordance with **DIA** policy, a commission to be paid to agent-bank should not exceed 1.5%.

To conduct the payout, the **DIA** concluded agency agreements with the largest banks well beforehand. In the case of an insurance event, the agent-bank is to be selected on competition basis within 3 days. As well, when the triggering of an event arises, **DIA** personnel should be included in temporary administration appointed to the bank by the Bank of Russia.

DIS Influence on Public Investment Behavior

During the first half of 2005 household deposits increased by 330 billion rubles and reached 2.4 trillion and during the third quarter the same tendency continued. Long-term (more than one year) deposits demonstrated stable growth. Currently their share is above 57%, while as of 1 January 2003 the share was 35.4%, and as of 1 January 2004 it was 43.6%.

The introduction of the deposit insurance system was conducive in many respects to the market de-monopolization process. Since the beginning of the last year Sberbank's share went down from 60% to 57%. During the same period, the share of mid-size regional banks, by contrast, went up. The share of deposits denominated in foreign currencies is constantly decreasing. It went down from 37.8% to 24.9% from 1 January 2003 to 1 July 2005.

The **DIA** regularly conducts sociological surveys with a focus on the introduction of the DIS and its impact on public investment behaviour. Upon a **DIA** request, in the spring of 2005 an independent research centre conducted a public opinion survey. The results showed that the introduction of a formal DIS contributed to significant growth of public confidence in the national banking system.

Bank Liquidation

In December 2004 in accordance with provisions set forth in the Government Strategy for Banking Sector Development, amendments to the federal law "On Insolvency (Bankruptcy) of Credit Institutions" came into effect. The amendments reflected Strategy provisions stipulating that deposit insurance and failed banks' liquidation are integral components of single creditor interests protection mechanism. The function of arbitration manager (receiver) of insolvent banks was given to Deposit Insurance Agency.

Presently, the **DIA** is acting as the receiver of 39 credit institutions. These are mostly small banks that failed as a result of illegal operations conducted by bank's managers and shareholders who stripped assets and thus infringing upon their creditor's interests. The total appraised assets value of banks under **DIA** liquidation is 1 billion rubles (\$35 million), and the total liabilities – 17.8 billion rubles (\$623 million), including obligations to households – 1.9 billion rubles (\$67.2 million).

Acting as receiver **DIA** conducts failed banks' asset disposition and effects settlements with creditors. **DIA** also takes steps aimed to enforce vicarious and criminal liability against failed banks' owners and managers. Significant attention is given by **DIA** to improvements in the legislation and enforcement procedures utilized.

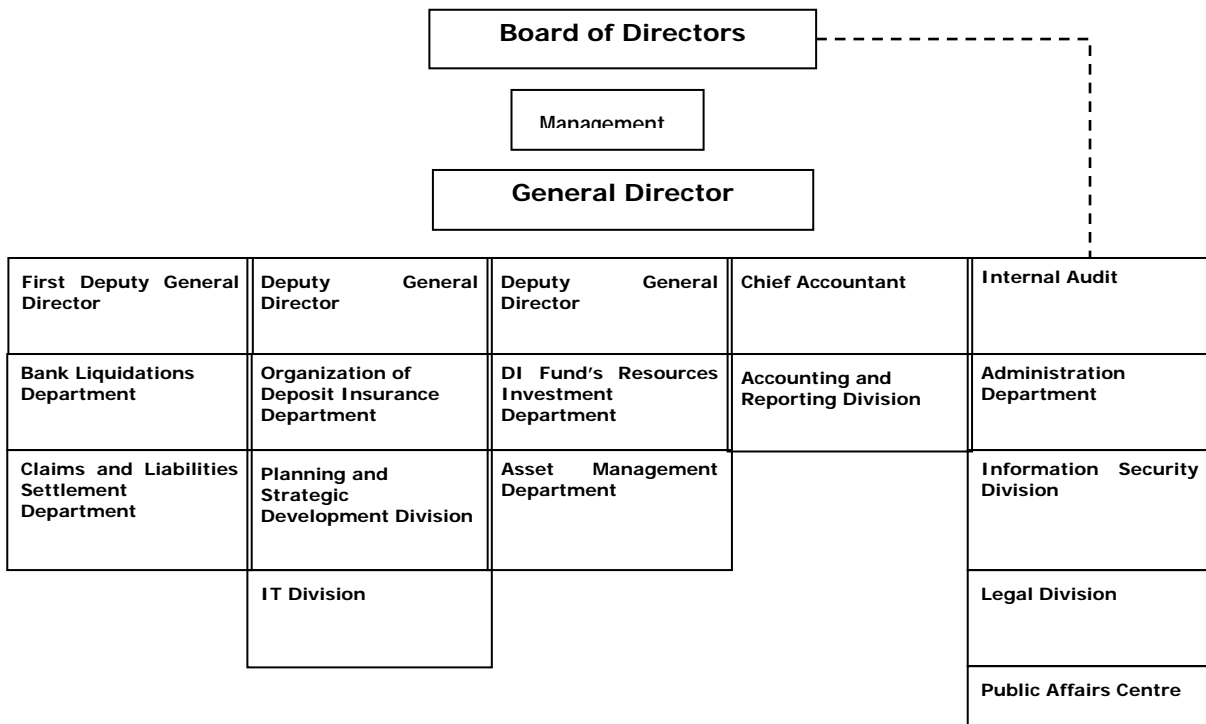
Organizational Structure



The governing body is the Board of Directors. Strategy development and adopting major decisions on the DIS functioning are within its competence. The Board of Directors consists of seven Russian Government representatives, five Bank of Russia representatives and the **DIA** General Director. The Chairman of the Board of Directors is A. Kudrin, the Russian Finance Minister. The management body is the Executive Board and it consists of seven members.

Picture: **Alexander Turbanov – DIA General Director**

Structural organization of State Corporation “Deposit Insurance Agency”



At present, the **DIA** has 300 employees and the majority is involved in rendering support to bank liquidation procedures.

Participation in International Association of Deposit Insurers



On 8 May 2002 the **Agency for Restructuring Credit Organizations - ARCO** joined IADI as an Observer. In February 2004 **DIA** became a Member.

Within the framework of the IADI Annual conference held on 27 September 2005 in Taiwan, elections to the IADI Executive Council took place. Mr. Melnikov, **DIA** Deputy General Director, who is the **DIA** designated representative, was elected as an Executive Council member for three years.

Andrei Melnikov – Deputy General Director, Member of the IADI Executive Council

DIA participates in the activities of the **European and Eurasian Regional committees** and is a member of **Research and Guidance Committee and the Finance and Planning Committee.**

Contact Information

Deposit Insurance Agency

Russia, Moscow, 109240, Verkhni Taganski Tupik, 4

Tel: +7 (095) 725 3141 Fax: +7 (095) 745 2868

Web-site: www.asv.org.ru

e-mail address: info@asv.org.ru, pankova@asv.org.ru, evstratenko@asv.org.ru

What's New in Your World?

MEFMI

The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) is a regionally owned institute with 12 member countries currently: Angola, Botswana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

MEFMI mission is dedicated to building sustainable human and institutional capacity in macroeconomic and financial management:

- to raise awareness to build sustainable capacity
- to promote best practices
- to enable development of networks in areas of economic and financial management
- to develop regional expertise development programme

MEFMI is organizing a Retreat on **The Role of Deposit Insurance in Supervision of Banks** from 29 to 31 May 2006, in Angola. **IADI** will be represented by **Ganiyu Ogunleye, Chair of the Africa Regional Committee, and Managing Director of Nigeria Deposit Insurance Corporation.**

Background

Deposit insurance systems have become an important tool in the supervision of financial institutions. Deposit insurance promotes stability and confidence in the financial system and provides a mechanism for the resolution of failed institutions. It is one of the tools used by regulators to assure depositors that their funds are safe thus removing the fear of loss and eliminating the incentive to run on a bank. While it is common for countries to adopt deposit insurance in response to banking distress, deposit insurance can be adopted under widely different circumstances. It is therefore necessary to sensitise supervisors that they do not need to wait for full blown banking crises before they adopt deposit insurance. A number of countries in the region have recently introduced deposit insurance systems and others in the region are in the process of introducing deposit insurance systems.

Objectives

- Raise awareness of the role of Deposit Insurance Systems in building confidence in the financial sector and protecting small depositors.
- Enhance the understanding of the different pricing systems available.
- The retreat will also raise awareness on global trends and supervisory challenges in financial sector regulation and supervision.

Target Group

The Seminar will be of particular interest to middle to senior professionals responsible for the regulation and supervision of financial institutions.

MEFMI 's [Prospectus](http://www.mefmi.org/publication/pub-2006-prospectus.pdf) for 2006 can be viewed at <http://www.mefmi.org/publication/pub-2006-prospectus.pdf>
WWW.MEFMI.ORG

CDIC (Taiwan) visits MDIC

In order to learn more about the newly established Malaysian deposit insurance system and strengthen mutual exchange and cooperation, the **Central Deposit Insurance Corporation (CDIC, Taiwan) Executive Vice President Wen-Hsian Lai** and **CDIC** delegate **Fiona Yeh** paid a visit to the **Malaysia Deposit Insurance Corporation (MDIC)** in Kuala Lumpur from 29 November to 1 December 2005.



They also exchanged experiences in implementing deposit insurance systems with **Jean Pierre Sabourin, CEO of MDIC and Chair of the Executive Council and President of IADI**, and his colleagues.

Wen-Hsian Lai with **JP Sabourin**.

During their stay in Malaysia, the **CDIC** colleagues visited as well **Asset Management Corporation Danaharta** to gather experience in handling Asian financial crisis and the achievements of disposition of NPLs in Malaysia.



CDIC (Taiwan) delegates and **MDIC Lai Wai Keen** (left) met with representatives of **Danaharta**

IADI Middle East and North Africa Committee (MENA)

The **IADI Middle East and North Africa Regional Committee** is to hold its first regional meeting in **Casablanca, Morocco** at the offices of the **Central Bank of Morocco, Bank Al-Maghrib**, over the period 30 January – 1 February.

The Chair of the **MENA** is **Mohammed al Jafari, Managing Director of the Deposit Insurance Corporation of Jordan**. mjafari@dic.gov.jo

All **MENA** members are expected to participate in the meetings with delegations headed by the following participants:

Abdelkader Belgherbi (Deposit Insurance Corporation of Algeria)
Abderrahim Bouazza (Bank Al-Maghrib/ Morocco)
Ezeldin Mirghani Yasein (Bank Deposit Security Fund/Sudan)
Khater Abi Habib (Institut National De Garantie Des Dépôts/Lebanon)
Ferruh Tunç (Savings Deposits Insurance Fund/ Turkey) and
Mohammed Al-Jafari (Deposit Insurance Corporation of Jordan).

As a starting point the meeting will exchange views and ideas about regional deposit insurance systems. Each participant will present the main characteristics of their system after the welcoming remarks by the Chair of the **MENA** and the host. A roundtable discussion session is scheduled for discussion of effective interrelations among the regional systems to promote further regional cooperation and experience sharing.

FGC visits SEDESA

Fatima Fantini Siliprandi, Manager of the **Fundo Garantidor de Creditos (FGC) of Brazil**, visited the offices of **Seguro de Depósitos S.A. (SEDESA)** in Argentina from 9 January to 20 January.



Gabriela Torracó, IT Manager (**SEDESA**); **Carlo Nosedá**, Planning and Control Manager (**SEDESA**); **Irene L. Ulnik**, Chairwoman (**SEDESA**); **Fatima Fantini Siliprandi**, Manager of **Fundo Garantidor de Creditos (Brazil)**; **Alejandro Emerson**, Administration and Finance Manager (**SEDESA**); **Nélida Marquez**, Trust and Collection Manager (**SEDESA**).

In preparation of the next **IADI Annual Meeting and Fifth Annual Conference**, which shall be organized and hosted by the **FGC** in **Rio de Janeiro, in mid-November**, **Ms. Siliprandi** came to Argentina to take Spanish classes and gain proficiency. Taking advantage of her stay in Buenos Aires, **SEDESA** and the **FGC** undertook a series of activities in order to familiarize **Ms. Siliprandi** with the operations of **SEDESA** by organizing meetings with all area managers, and other employees who explained their work and objectives in each area. **Ms. Siliprandi** also offered **SEDESA** a presentation of the activities and operations of **FGC of Brazil**.



**Irene L. Ulnik,
Chairwoman (SEDESA);
Fatima Fantini Siliprandi,
Manager of FGC (Brazil)**

Publications:

You may find the following publication of interest:

IMF:

Safeguarding Financial Stability: Theory and Practice

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=18100.0>

Author/Editor: Schinasi, Garry J., Published: 12 December 2005 [Link to Abstract](#)

Editor: Kim White
Deputy Secretary General
International Association of Deposit Insurers
Tel: +41 (61) 280 99 33 (Basel, Switzerland)
E-mail kim.white@iadi.org www.iadi.org

This newsletter was issued on 19 January 2006. Want to share your expertise? To submit articles or items for consideration for a future issue please send them to info@iadi.org by 30 January 2006.