International Association of Deposit Insurers

What's New at IADI ?

Volume 4, Issue 7 **17 February 2006**

Highlights in this issue:

IADI Partner Profile: ASIAN DEVELOPMENT BANK

Asia Regional Committee Meeting and International Deposit Insurance Seminar hosted by the PDIC and the ADB, in Manila

Singapore establishes Singapore Deposit Insurance Corporation

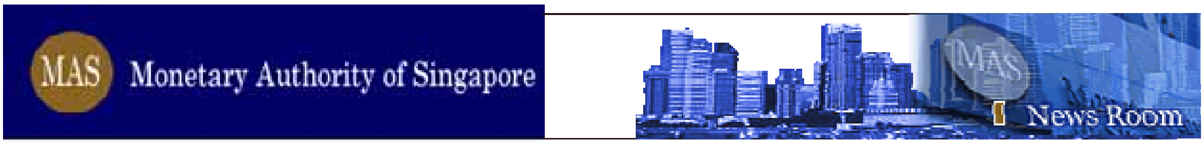
Save the Dates:

5-6 October 2006, Chicago

IADI and the Chicago Federal Reserve Bank will Co-Sponsor a Conference

13-17 November 2006, Rio de Janeiro

IADI Fifth Annual Conference and Annual General Meeting



Singapore Deposit Insurance Corporation Limited

The **Monetary Authority of Singapore (MAS)** announced on 8 February 2006 that the **Singapore Deposit Insurance Corporation Limited (SDIC)** has been set up to administer the deposit insurance system and manage the deposit insurance fund. This follows the enactment of the Deposit Insurance Act in 2005.

SDIC is a company limited by guarantee under the Companies Act and is a separate entity from **MAS.** The members of the company are **James Koh Cher Siang**, **Thean Lip Ping** and **Law Song Keng**. The board of **SDIC** is appointed by its members, and is accountable to the Minister in charge of **MAS, Senior Minister Goh Chok Tong**.

The board is chaired by **James Koh Cher Siang**. The other directors are **Law Song Keng, Ron Foo Siang Guan, Han Eng Juan and Professor Hong Hai**. The board has appointed **Ooi Sin Teik** as its **Chief Executive Officer**. The members and directors of **SDIC** are at Annex 1.

Targeted to commence on 1 April 2006, the deposit insurance system will provide compensation to individuals and charities for the first $20,000 of their Singapore dollar deposits, net of liabilities, in the event that their bank or finance company fails. The scheme compensates depositors through a fund built up from contributions by full banks and finance companies. **SDIC** will conduct public education on the deposit insurance system and issue rules on the operational aspects of the system.

IADI Partner Profile

Asian Development Bank

The work of the **Asian Development Bank (ADB)** is aimed at improving the welfare of people in Asia and the Pacific, particularly the 1.9 billion people who live on less than $2 a day. Despite many success stories, Asia and the Pacific remains home to two-thirds of the world's poor.

The **ADB** is a multilateral development financial institution owned by **64 members**, 46 from the region and 18 from other parts of the globe. Its vision is a region free of poverty and its mission is to help its developing member countries reduce poverty and improve the quality of life of their citizens.

The main instruments for providing help to developing member countries are:

- policy dialogue
- loans
- technical assistance
- grants
- guarantees, and
- equity investments.

Annual lending volume is typically about $6 billion, with technical assistance usually totalling about $180 million a year. With its headquarters in Manila, it has another 26 other offices around the world:

- 19 **resident missions** in Asia
- 3 sub-regional offices in the Pacific
- representative offices in **Frankfurt** for Europe, **Tokyo** for Japan, and **Washington** for North America, and
- a special liaison office in **Timor-Leste**;

and it has more than 2,000 employees from over 50 countries.

Functions

The **Asian Development Bank**:

- extends loans and equity investments to its **developing member countries** (DMCs) for their economic and social development;
- provides **technical assistance** for the planning and execution of development projects and programs, and for advisory services;
- promotes and facilitates investment of public and private capital for development; and
- responds to requests for assistance in coordinating development policies and plans of its developing member countries.

Shareholders and Management

Just like any other bank, **ADB** has shareholders. Of the **64 members**, 46 of which are from the Asia and Pacific region, Japan and the United States are coequally the largest shareholders, each with 15.8 percent of total subscribed capital. The **ADB**'s highest policy-making body is its **Board of Governors**, which meets annually and comprises one representative from each member. The Governors elect the 12 members of the **Board of Directors**. The **ADB President**, assisted by **four Vice-Presidents** and a **Managing Director General**, manages the business of ADB.

Statement of ADB Operations in 2005

In 2005, **ADB** approved 72 loans (64 projects) for $5.80 billion, two multi-tranche financing facilities for $1.52 billion, 54 grant-financed projects for $1.15 billion, ten equity investments for $217.1 million, two guarantees for $68.4 million, and 299 technical assistance operations for $198.8 million.

Table 1: Approvals, 2003–2005
($ billion)

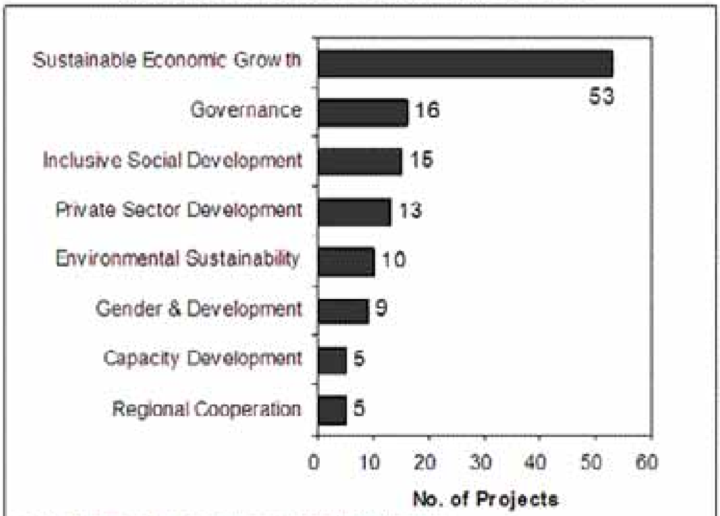
	2003	2004	2005
OCR Public Sector Loan	4.54	3.70	3.89
OCR Private Sector Loan	0.19	0.35	0.54
ADF Public Sector Loan	1.38	1.24	1.38
ADF IX Grant	-	-	0.25
Multitranche Financing Facility	-	-	1.52
ATF Grant	-	-	0.57
Other Grants [a]	0.45	0.10	0.33
Equity	0.04	0.18	0.22
Guarantee [a]	0.24	0.08	0.07
Technical Assistance [a]	0.18	0.20	0.20

[a] Includes cofinancing with administration services by ADB.

Lending

Lending with government guarantees accounted for 65 loans for $5.26 billion (57 projects and programs), comprising 25 loans from **ADB**'s ordinary capital resources (OCR) for $3.89 billion and 40 loans from the Asian Development Fund (ADF) for $1.38 billion.

Figure 1: Theme Classification, 2005

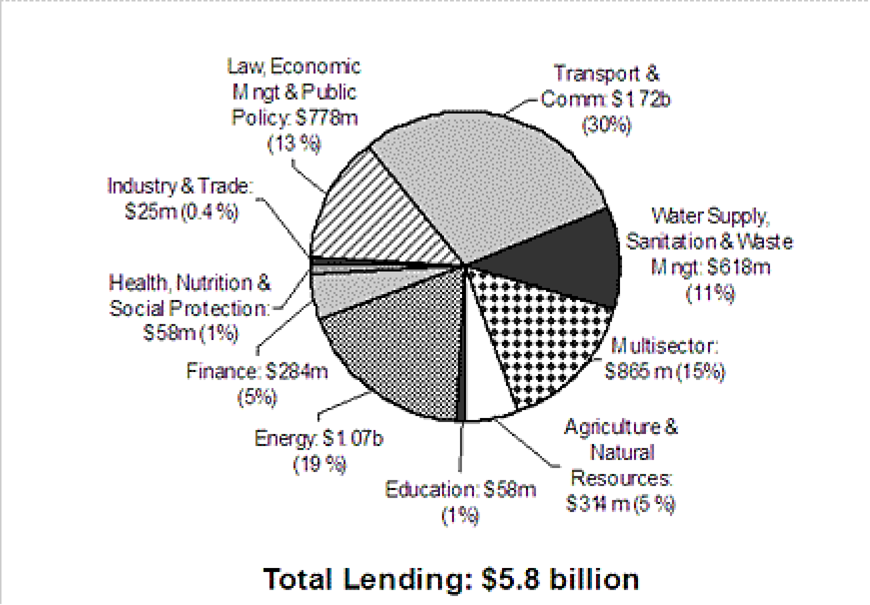


Note: Each project can have up to three themes.

This was a 6% increase over the $4.95 billion in 2004 (an increase of 4.9% for OCR lending and 11% for ADF lending). Lending without a government guarantee to the private sector accounted for seven loans for $536.0 million (seven projects)—in financial terms, this was an increase of 54.5% over the six loans for $346.9 million (6 projects) in 2004.

Of the 64 public and private sector projects and programs approved in 2005, 16 (25%) were categorized as targeted interventions and 48 (75%) as general interventions.

Figure 2: Sectoral Distribution of Loans, 2005



The 54 public and private sector projects represented a total investment of approximately $19.70 billion, out of which $5.08 billion (26%) will be financed by **ADB**; $4.43 billion (23%) by governments and borrowers; $10.14 billion (51%) by co-financiers, equity sponsors, and local financial institutions; and $50.7 million (0.3%) by project beneficiaries.

The ten policy-based programs approved in 2005 were valued at $1.14 billion, compared with 14 programs for $1.12 billion in 2004. Two program loans approved in 2005 were coupled with an investment project loan or a technical assistance (TA) loan.

At left, **ADB** headquarters in Manila

Multi-tranche Financing Facility

Under a new financing modality, two multi-tranche financing facilities were approved, totalling $1.52 billion. These were $770.0 million to Pakistan for the National Highway Development Sector Investment Program, and $750.0 million to India for the Rural Roads Sector II Investment Program. It is expected that loans from these facilities will be approved starting in 2006.

Grant-Financed Projects

ADB approved a total of 54 project grants for $1.15 billion. Of this amount,

- $246.6 million was funded from the Asian Development Fund IX
- $570.0 million from the Asian Tsunami Fund
- $80.0 million from the Pakistan Earthquake Fund
- $254.7 million from co financing sources with administration by ADB, including:
    - $28.4 million from the Japan Fund for Poverty Reduction (JFPR)
    - $12.1 million from the Global Environment Facility (GEF)
    - $2.4 million from the Japan Fund for Information and Communication Technology; and
    - $211.8 million for ADB administration from bilateral and multilateral sources (Australia, Canada, Finland, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom, and European Commission).
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Equity Operations

Ten equity investments totalling $217.1 million were approved in 2005, compared with twelve for $185 million in 2004.

Technical Assistance Operations

A total of 299 Technical Assistance projects for $198.8 million, including 271 new projects and 28 supplementary projects were approved in 2005-in financial terms, this represents 1% increase over the 323 projects for $197 million in 2004. Of the 299 projects, 68 were for project preparation, 152 were advisory, and 79 were for regional assistance.

In terms of the total amount approved, $89.4 million will be financed from the Technical Assistance Special Fund, $28.3 million from the Japan Special Fund, $2 million from the Asian Tsunami Fund, and the remaining $79.1 million from other multilateral and bilateral sources.

Co-financing and Guarantee Operations

Total co-financing in 2005 amounted to about $7.54 billion. Of this,

- $7.39 billion was for co-financing 34 public and private sector loan or grant projects, comprising $5.23 billion of commercial loan co financing (including $68.4 million guarantee support for two projects)
- $1.82 billion of official loan co financing
- $350 million of grant co-financing.

In addition, $40.5 million was mobilized and fully administered by **ADB** for grant projects with funding from JFPR and GEF, and $107.4 million for 142 TA projects (including $28.4 million from the Japan Special Fund).

Contact Details

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What's New in Your World?

PDIC and ADB Co-host International Seminar

On 16 and 17 February the **Philippine Deposit Insurance Corporation and the Asian Development Bank** are co-hosting an **International Seminar: "Integrating Financial Supervision and Role of Deposit Insurers"** held at the **ADB** in Manila, Philippines,

Link to the Program of the International Seminar

The **IADI Asia Regional Committee** also held its **Fifth meeting** in Manila.

Link to **More information about the Asia Regional Committee**

BDIF and TAIEX hold Joint Workshop

On 30-31 January 2006, the **Technical Assistance and Information Exchange Instrument (TAIEX) of the European Commission** and the Bulgarian **Deposit Insurance Fund** organized for commercial banks in Bulgaria a ***Workshop on EU Member States' Practices in Risk-Adjusted Deposit Guarantee Premiums***, which was held at the Grand Hotel Sofia.

Experts from both old and new EU Member States – Germany, Greece, Hungary, Italy, and Poland, presented and discussed the EU *acquis* and the latest developments in the EU deposit guarantee schemes: member states' experience in deposit guarantee coverage; funding mechanisms and assessment of an institution's risk; non-flat premiums implementation; cross border integration issues in the EU banking sector; and consumer protection. The Bulgarian deposit guarantee system was presented as well.

A workshop, attended by more than 50 participants from Bulgarian commercial banks, the Association of Commercial Banks and financial regulatory institutions, was organised within the current discussions on the introduction of a risk-adjusted premium system in Bulgaria.
The presentations are available at the **TAIEX** and the **BDIF** web sites at:http://taiex.cec.eu.int (section 'Library') and
http://www.dif.bg/seminars.php?lang=en

Riccardo De Lisa, University of Cagliari, Italy; Mr. Benno Wink, Deutsche Bundesbank; **Dániel Jánossy, National Deposit Insurance Fund of Hungary**; Eppo Jansen, EU Parliament former official and TAIEX Expert; Prof. Małgorzata Iwanicz-Drozdowska, Bank Guarantee Fund of Poland; **Bisser Manolov, BDIF Chairman**; Theodoros Kiriazidis, Hellenic Deposit Guarantee Fund (*from left to right*).

Workshop participants

Publications

You may find the following articles of interest:

IADI: Updated List of Deposit Insurers worldwide, available on the IADI site:
http://www.iadi.org/html/App/SiteContent/List%20of%20countries%20with%20a%20DIS_MCC%20020206.pdf

An Observer's viewpoint: Deposit Insurance and Public Education

By: Jack Biggs and J. Hambric[1], BearingPoint, Inc.

Deposit insurance can only bring stability to banking systems to the extent that the public is aware of how deposit insurance coverage works and when it is able to make informed choices based on that awareness. A significant challenge for new deposit insurance agencies, or those changing the terms or scope of coverage, is how to inform various constituencies of changes in insurance coverage. Deposit insurance agencies have to craft different messages and means of conveying these messages for each major constituency affected by deposit insurance.

Four Targets for Public Education

We divide the targets for public education on deposit insurance into four categories:

1. ***Large Depositors***: high net-worth individuals (more prevalent in developing countries), pension funds, insurance companies, major corporations, securities firms, mutual funds, government (federal, state, local and agencies), generally with large uninsured balances.
2. ***Small Depositors***: generally consumers and small businesses, with accounts that are fully or mostly insured.
3. ***Member Bank Senior Management***: focused on managing the match between assets and depositor liabilities.
4. ***Member Bank Line Managers***: generally focused on compliance issues – how to meet administrative and reporting.

Each of these groups has unique concerns.

Large depositors, especially those who have to meet short- and long-term disbursement obligations, must balance the safety of the uninsured portion of their deposits against liquidity needs. For example, welfare funds or trust accounts (whether public or private) may use banks as a way to store and distribute collected funds prior to payment to individual beneficiaries. A large company may use cash accounts to collect accounts receivable and to pay employees and suppliers. Utility companies may use banks as payment points, gathering funds from various customers before "sweeping" those funds out for operational uses. With a decline in insured limits, all of these depositors now have to evaluate whether the window between collection and disbursement represents significant potential risk.

Small depositors make up the primary group that deposit insurance aims to protect. They are generally the least sophisticated group that is most vulnerable in the event of a bank run or a bank failure. This is especially true in the case of thinly capitalized small businesses – a month or two without access to their own liquidity could cause that business to fail. They need to understand that they are protected and that a bank failure will not cause them to lose timely access to their funds.

Member Bank Senior Management must understand that their deposit mix will change. The large-balance depositors that provide a disproportionate percentage of the value of deposits will shift from weak banks to strong banks or state-owned banks and may substantially shift liquidity out of the banking system altogether. To counter this, member bank senior management has to manage the bank asset base, develop new products that compensate large depositors for additional risk or that provide additional security, better educate depositors about the strength of the bank, or attract more insured deposits.

Member Bank Line Managers must now learn how to comply with new reporting requirements and formats. This includes defining what constitutes a deposit, what kinds

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of deposits are eligible for coverage, how to combine accounts to determine insured limits, and how to gather data that is consistent with what the deposit insurance agency wants. Generally, deposit insurance laws and other banking regulations have significant penalties for non-compliance, including fines and personal liability for reporting officers and institutions, so the consequences of failure for line and senior managers are very high.

Targeted Campaigns for Each Constituency
An effective public education initiative will have separate strategies to address the needs of all four constituencies. The following section outlines possible methods for reaching each constituency, ranging from a targeted outreach for member banks to public education for the small depositor.

1. ***Member Bank Senior Management***: Generally, deposit insurers should conduct high-level seminars to explain how the insurance system works. Member Bank Senior Managers should understand the likely effects of deposit insurance on the makeup of a bank's liabilities far enough in advance of change to allow for banks to adjust their asset/liability mix. Although banks will, of course, respond by developing new or expanded products, it may make sense to help banks to understand what types of products may be acceptable to the deposit insurer, and what would be off-limits. For example, a deposit insurer may decide to permit or prohibit banks from offering "secured deposits" – pledging collateral such as liquid securities to guarantee repayment of uninsured deposits outside of a liquidation process.

   Other products may have to be changed in order to meet deposit insurance criteria. For example, many deposit insurance regimes limit protection to a certain amount for an individual depositor. Products such as bearer certificates or numbered (i.e. not tied to an individual) accounts may or may not be insured depending upon the identity of the holder. A deposit insurance agency may choose to limit coverage of these products unless safeguards as to the identity of a particular holder can be put in place.

   This constituency is relatively well defined, so a targeted presentation is a highly effective method for increasing awareness among this audience. This can be accomplished through seminars held for the senior management of every bank having a license, or through local or national bankers' associations. This seminar should be one of the first to be conducted – banks will need time to prepare for the implementation of deposit insurance and review their asset/liability mix and deposit base.

2. ***Member Bank Line Managers***: This audience will need exposure to the reporting forms (and the information needed to complete those forms), reporting requirements (frequency, method of delivery), and premium payment requirements. We recommend that complete regulations and reporting forms be devised and presented to these line managers, and two- or three-day seminars conducted to cover each form line by line. This can generally be performed as late as several months before effectiveness, depending upon the complexity of required compliance. Finally, line managers have to be able to explain to depositors how deposit insurance coverage works.

3. ***Large Depositors:*** Through regulatory reports bank supervisors can generally secure or generate a list of the major categories of large depositors. Regulators often consider large deposits to be volatile as these depositors are commonly chasing higher yields and hence subject to move from institution to institution. Most of these depositors can be reached through targeted seminars to different industry groups or through personal contact. Examples of possible industry groups are: chambers of commerce, insurance companies, securities firms, manufacturers, utility companies (gas, water, electric, telephone), and government and charitable associations. The key information

for these holders is how deposit insurance will affect the security of their larger deposits. In a country where implicit deposit insurance is assumed, this may mean a large impact on coverage and insurance limits.

Public education should stress that these companies will now need to consider the risk profile of their bank. Sophisticated depositors will need to monitor banks where they have major deposits. Less sophisticated depositors that cannot afford to monitor bank condition, such as non-profit entities or local governments, may have to change how they currently hold deposits.

If the deposit insurance agency intends to allow new products to mitigate the risk of uninsured deposits (such as secured deposits or 0% interest time deposits), these recommended seminars can be an appropriate venue to discuss alternative solutions.

4. ***Small Depositors:*** This is traditionally the hardest group to reach, and the most important from the standpoint of public confidence. The key message to convey is that most existing depositors will be protected in the event of bank failure, and the eligibility requirements are simple and easily comprehended. Public education is most commonly achieved through interaction with bank tellers and public service representatives, required regulatory disclosures at retail locations, and through signage, websites and other mass-media alternatives.

   Many deposit insurers use a combination of three methods.

   First, banks are an essential way to reach customers. If public education is implemented far enough in advance (usually one year before substantial changes in coverage are initiated), every bank can be required to provide depositors information on insurance coverage at the time of opening of any deposit account, or upon roll-over of term deposits. Additionally, many countries require banks to post information regarding insurance in bank branches and provide pamphlets explaining how deposit insurance works.

   Second, many countries use mass media - usually through public service announcements on radio, television or newspapers - to target customers. However, the effectiveness depends on the type of media used. Studies show that an advertisement has to be heard multiple times in order to be effectively understood. This means saturating media sufficiently to ensure that a majority of customers hears the message more than once. In markets where free media is not available, this can be prohibitively expensive.

   Finally, the deposit insurance agency can issue news releases, conduct seminars, provide websites or use similar means to ensure dissemination of the message.

Conclusion

Effective public education relies upon a comprehensive and specialized awareness campaign that tailors the message and its delivery to each of the relevant target constituencies. Careful crafting of the messages and effective targeting will make transition to deposit insurance more successful and will minimize the systemic impact of a failure. A well-crafted public education initiative decreases the likelihood of failures triggered by bank runs and panics. An effective public education campaign, when coupled with effective handling of banks after failure and prompt payment to depositors, helps to ensure that countries more quickly reap the economic benefits of a comprehensive deposit insurance program.

International Monetary Fund:

Working Paper No. 06/26: Fiscal Policy and Financial Development

Author/Editor: David Hauner

Summary: The author examines the effects of public sector borrowing from the domestic banking system on financial development in middle-income countries. While these countries' external debt has been falling, the share of bank credit absorbed by the public sector has been rising rapidly. He argues that this runs the risk of slowing financial development by affecting structural characteristics of the banking systems. The author points to empirical evidence that too much public sector borrowing harms financial deepening, and that banks mainly lending to the public sector tend to be more profitable but less efficient. We note that these effects add to the costs of fiscal prolificacy.

http://www.imf.org/external/pubs/cat/longres.cfm?sk=18776.0

Working Paper No. 06/34: Regulatory Capture in Banking

Author/Editor: Daniel C. Hardy

Summary: Banks will want to influence the bank regulator to favor their interests, and they typically have the means to do so. It is shown that such "regulatory capture" in banking does not imply ineffectual regulation; a "captured" regulator may impose very tight, costly prudential requirements to reduce negative spillovers of risk-taking by weaker banks. In these circumstances, differences in the regulatory regime across jurisdictions may persist because each adapts its regulations to suit its dominant incumbent institutions.

http://www.imf.org/external/pubs/cat/longres.cfm?sk=18798.0

Shared Responsibilities: Solving the Problem of Global Imbalances, Speech by Rodrigo de Rato, Managing Director, International Monetary Fund

http://www.imf.org/external/np/speeches/2006/020306.htm

Bank for International Settlements

Zeti Akhtar Aziz: Building a robust Islamic financial system (Central Bank Articles and Speeches)

Keynote address by Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Second International Conference on Islamic Banking, Kuala Lumpur, 7 February 2006.

http://www.bis.org/review/r060208e.pdf

Basel Committee issues guidance on corporate governance for banking organisations BIS press release about the Basel Committee guidance on corporate governance for banking organisations (BIS press releases 13 Feb 2006)

http://www.bis.org/press/p060213.htm

Enhancing corporate governance for banking organisations

Introduction to enhancing corporate governance for banking organizations (Basel Committee Publications No. 122 - February 2006)

http://www.bis.org/publ/bcbs122.htm

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This newsletter was issued on 17 February 2006. To submit articles or items for consideration for a future issue, please send them to **kim.white@iadi.org** by 15 March 2006.