



# **Session V: Cooperation Among Safety Net Members in Bank Resolution: Practical Considerations**

**Presentation by:**

**Mr. Jean Pierre Sabourin**

**Chair of the Executive Council & President of the IADI**

**CEO of the Malaysia Deposit Insurance Corporation**

# Outline

- ❑ Organisational effectiveness
- ❑ 3 stages of bank failure resolution
- ❑ Challenges & practical considerations
- ❑ Areas of cooperation
- ❑ Concluding remarks

# Organisational effectiveness

- ❑ A deposit insurer cannot be an effective policy tool for building & sustaining public confidence if it is not effective.
- ❑ Organisational effectiveness by itself not enough.
- ❑ To be truly effective, must be able to meet its mandate and play its safety net role effectively.
- ❑ Contribution & effectiveness of the deposit insurer must be assessed together with those of the other safety net players.

# 3 stages of bank failure resolution

- ❑ A bank at sick stage is equivalent to the bank failure resolution stage.
- ❑ A sick bank goes through 3 stages as well
  - Pre-Closure, Closure, Post-Closure
- ❑ Pre-Closure -Diagnosis & prescription of solution
- ❑ Closure- Bank failure & cancellation of licence
- ❑ Post-Closure - Depositors & creditors claim against estate of a failed bank.

# Challenges & practical considerations

## Who should be involved & at which point?

- ❑ Mostly, sole supervisor approach. Deemed justifiable since financial system stability with supervisor.
- ❑ Many deposit insurers (DIs) not gatekeeper for new banks, yet bear financial risk of all new entrants.
- ❑ Since Enron, emphasis on corporate governance.
- ❑ Financial stewardship role puts inherent accountability on DI to ensure correct & effective usage of its funds.
- ❑ Good governance requires pro-activeness of DIs to mitigate risks before bank slides into closure stage.

# Challenges & practical considerations

## Who should lead the bank failure resolution process

- ❑ Supervisor should lead if it is responsible & fully accountable to all stakeholders.
- ❑ In MDIC leads when it is notified by the supervisor that the bank ceases or is likely to cease to be viable.
- ❑ Clear accountability clarifies roles & the powers needed to operationalise such roles effectively.
- ❑ Malaysia's approach is a supervisor-DI partnership to resolution.

# Areas of cooperation (1)

- ❑ Sharing of knowledge and analysis of EWS. Logical to share. Dual monitoring system ensures that all the early signals are captured. Provides for a check and balance.
- ❑ Sharing of knowledge on banks' financial condition of banks under surveillance.
- ❑ Malaysia example of cooperation. Has no examination powers but has right to information so as to independently assess the risks of individual banks & the financial system to fulfill its safety net role effectively.

# Areas of cooperation (2)

- ❑ MDIC has SAA - Sets out the roles & responsibilities of both agencies, arrangements for sharing of information & resources as well as the coordination of actions.
- ❑ SAA recognises that MDIC and Supervisor has distinct and separate mandates and responsibilities.
- ❑ Example of collaboration is the Terms & Conditions of Membership which require banks to adhere to supervisors' regulatory requirements.
- ❑ Failure to comply may result in premium surcharge.

# Concluding remarks

- ❑ How to measure effectiveness of a deposit insurer?
- ❑ Actions of supervisors impact on DIs.
- ❑ It is about what we can achieve together, a team effort.
- ❑ The real measure of our individual effectiveness is when total financial system effectiveness is greater than the sum of our individual contributions.

Thank you