



**Draft: 23 July, 2009**

## **Proposed Research Plan for Developing an Effective Payout System**

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### **Request for Comments and Submissions**

Deposit insurers and other interested parties are asked to comment on their experiences as they relate to the issues to be addressed below. Individuals and organizations that would like to submit a paper on the issues raised in this Research Plan are requested to inform Wai-keen Lai at [laiwaikeen@pidm.gov.my](mailto:laiwaikeen@pidm.gov.my), or Kevin Chew Chuan Poh at [kevin@pidm.gov.my](mailto:kevin@pidm.gov.my) by **September 30, 2009**.

### **Purpose**

The objective of this project is to develop best practices guidance for the development of an effective payout process and system.

### **Introduction**

One of the key mandates in the construct of deposit insurance system is the obligation to make reimbursements to depositors when member institutions are liquidated or unable make payments. In order to preserve financial stability and confidence in the banking system, a deposit insurer's effectiveness, efficiency and timeliness in making reimbursement to depositors is crucial. In light of the recent bank-run on Northern Rock, greater attention is directed towards enhancing the powers and design of deposit insurance schemes including a more effective and efficient payout process and system.

A cornerstone feature of an effective payout is to have in place policies, procedures and systems that efficiently and effectively allow depositors to expeditiously access their funds without complications. This leads to the pre-condition that deposit insurers must, at all times, be ready and in control of managing potential payouts where the fundamental building blocks that will determine the effectiveness of performing their payout mandate are in place. These fundamental building blocks include having early access to reliable and

accurate deposit liability information, having developed an effective IT system in order to generate accurate reimbursements, and having reliable controls and well thought through process and procedures in handling payout events.

There is a wide range of practices in conducting deposit insurance reimbursement payouts. Some deposit insurers such as FDIC, CDIC, HKPDB, SDIC and MDIC have built or are in the process of building IT systems to be able to expeditiously compute depositors' entitlements while others such as IDIC and PDIC have successfully conducted payouts in a manual fashion or relied on the failing member's system. The choice of approach would be dependent on factors such as the state of maturity of IT system usage, profile and size of depositors, and geographical dispersion of depositors in the banking system. In some jurisdictions, depositors are required to submit a claims form in order to effectively prove their ownership of the account especially in the case where bank records are suspect or poor or if bank-secrecy laws prevent accurate identification of depositors and their accounts.

## **Issues to Be Addressed**

### **A. Legal Framework and Inter Agency Arrangements**

- *Does the DI have sufficient powers and is the financial safety net arrangement such that the DI has early notice or is informed sufficiently in advance of a bank closure to be able to prepare for payment of insured deposits?*
- *Does the DI have sufficient powers to access depositor liability information in order to conduct preparatory reviews?*
- *What are some of the arrangements and requirements with members that would be in place to ensure reliability of deposit liability information? Does the DI have powers to set these arrangements/requirements?*
- *Is the DI clear of when and under what condition would the DI be required to make payout? Does the law provide for a clear determination of a payout computation date to determine depositor's reimbursement entitlement?*

### **B. Payment Method**

- *What are the considerations in determining the appropriate payment method?*
- *What are some of the policies and procedures that would be put in place to increase the efficiency of the payment method?*

### **C. Computation of reimbursements**

- *What is the amount of reimbursement due to depositors at the point of payout?*

- *What are the policies and procedures that would be put in place to reduce complexity and enhance expediency in the computation of reimbursements? When and how the insurability of products are determined i.e. up-front or at the point of payout?*
- *Given that member institutions have many types and often complex deposit products, how would interest calculation be computed into the principle amount of the deposit?*
- *Would payout entitlements be computed on a net basis and what are the computational challenges?*

**D. Building a Payout System**

- *What are the considerations in determining whether a Payout IT system would be built to compute depositor entitlements?*
- *What are the key features and process that the system would cover?*
- *What are the considerations surrounding selection of an appropriate system vendor when building the IT system?*

**E. Other Issues**

What is the institutional setup to handle a payout event? How does this translate to resource requirement? What third party services might be required?

**Methodology**

The methodology to be employed in developing the guidance paper would include literature review, surveys, case studies, practitioner’s experiences, consultation process and any relevant information taken from outreach activities.

**Responsibilities**

Mr. Jean Pierre Sabourin will chair the sub-committee. As the Chair, he will oversee the draft of the survey questionnaire, the report on the survey results as well as the guiding principles. The work procedure and research scope will be decided through consultation with sub-committee members.

**Members of the sub-committee**

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1.	Jean Pierre Sabourin (Chair)	Malaysia Deposit Insurance Corporation	jpsabourin@pidm.gov.my
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### **Timetable and Deliverables**

<b>Timelines</b>	<b>Deliverables</b>
March, 2008	<ul style="list-style-type: none"> <li>• Presentation of Payout System by MDIC and SDIC</li> <li>• Communication of corporation amongst DIs in deliberating on payout related topics and intention of developing Best Practices Guidance</li> </ul>
August 2008	<ul style="list-style-type: none"> <li>• Completion of detailed research outline and work plan/research plan</li> </ul>
October 2008	<ul style="list-style-type: none"> <li>• Presentation of the first draft research plan to RGC</li> </ul>
February 2009	<ul style="list-style-type: none"> <li>• Presentation of the second draft research plan to RGC</li> </ul>
March 2009	<ul style="list-style-type: none"> <li>• Confirmation of the RGC of the second draft research plan</li> </ul>
August 2009	<ul style="list-style-type: none"> <li>• Review of the draft survey questionnaire by the Subcommittee</li> <li>• Posting of research plan on IADI website for public consultation</li> </ul>

<b>Timelines</b>	<b>Deliverables</b>
October 2009	<ul style="list-style-type: none"> <li>• Issue the finalized questionnaire to survey payout systems and practices of IADI members</li> </ul>
December 2009	<ul style="list-style-type: none"> <li>• Compile and analyze survey results</li> </ul>
January 2010	<ul style="list-style-type: none"> <li>• A focus group discussion held along with the IADI meetings</li> </ul>
March 2010	<ul style="list-style-type: none"> <li>• First draft report of survey results send to Subcommittee members for review and comments</li> </ul>
April 2010	<ul style="list-style-type: none"> <li>• Second draft report of survey results send to Subcommittee members for review and comments</li> </ul>
May 2010	<ul style="list-style-type: none"> <li>• First draft report to RGC for review and comments</li> </ul>
June 2010	<ul style="list-style-type: none"> <li>• Second draft approved by RGC and send to Guidance Group and Advisory Panel for reviews and comments</li> </ul>
September 2010	<ul style="list-style-type: none"> <li>• Final draft send to EXCO for approval after the review of GG</li> </ul>
October 2010	<ul style="list-style-type: none"> <li>• Final draft posted on IADI website for public consultation</li> </ul>
1Q, 2011	<ul style="list-style-type: none"> <li>• Issuance and publication</li> </ul>