



# INFORMATION SYSTEM: KEY TO SOUND RISK MANAGEMENT

**Cristina Q. Orbeta**

Executive Vice President

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The Role of the Deposit Insurance Systems in Enhancing Financial Stability in Different Countries

Session 2 : Information Sharing: Prevention Before Cure



**“Deposit Insurer’s information system should adequately address requirements for prompt insurance pay-out while ensuring adequacy of deposit insurance fund”**

# Major considerations

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## A) Legal environment

- **Secrecy of bank deposits**
  - Records accessed only upon closure
    - significant delay in insurance pay-out
- **Enforcing submission of reports**
  - Authority
  - Mandatory and continuing deposit insurance coverage
  - Flat/Fixed vs risk based assessment rate
  - Sanctions - monetary and other penalties

# Major considerations

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## B) Data Quality & Consistency

- **Keeping pace with new concepts, new report formats** (e.g. IAS, Basel II Standards/Reports)
  - High turn-over of personnel
- **Integrity of Auditors**
  - Need for accreditation by regulators
  - Sanctions

# Major considerations

## C) Adherence to Transparency and Disclosure

### ➤ Banks

- Accuracy of published financial statements
- Comprehensive/accurate disclosure to regulators on risk controls (policies on limits, management oversight, etc.)

### ➤ Depositor Awareness

- Understanding deposit products & risks
- Understanding bank risks

### ➤ Regulators

- Commitment to share sensitive information while ensuring confidentiality of reports
- Publish data to assist banks develop their business strategies and targets and understand financial market environment

# Information Sharing Parameters

- **What > Coverage**
  - basic, focused/specialized, others
  - confidentiality - level of detail, restrictions, security arrangements
- **When > Timing and timeliness**
  - defined procedure for regular reports/information
    - ❖ Blanket approval vs. prior approval
  - spontaneous and prompt reaction
- **To and for whom?**
  - regulators and other concerned parties
  - public
- **Why >**
  - regulators - Joint concerted effort > investigate > conclude > and explore options to arrest possible crisis
  - public – updates on financial developments

# Information Systems Management

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## **A) Basic Reporting and Information Sharing System** – based on regular reports from:

- Member banks/institutions (i.e., statement of condition/income, various schedule of deposit etc.)
- Central bank (i.e., reports on examination, list of banks closely monitored, etc.)
- other regulatory agencies

# Information Systems Management

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**B) Focused/Specialized Monitoring system** - for banks under rehabilitation/under prompt corrective action

- Specialized reports- detailed reports on compliance with agreement/covenants (in addition to regular reports)
- Regular dialogue with bank
- Dialogue with concerned regulators on emerging issues

# Information Systems Management

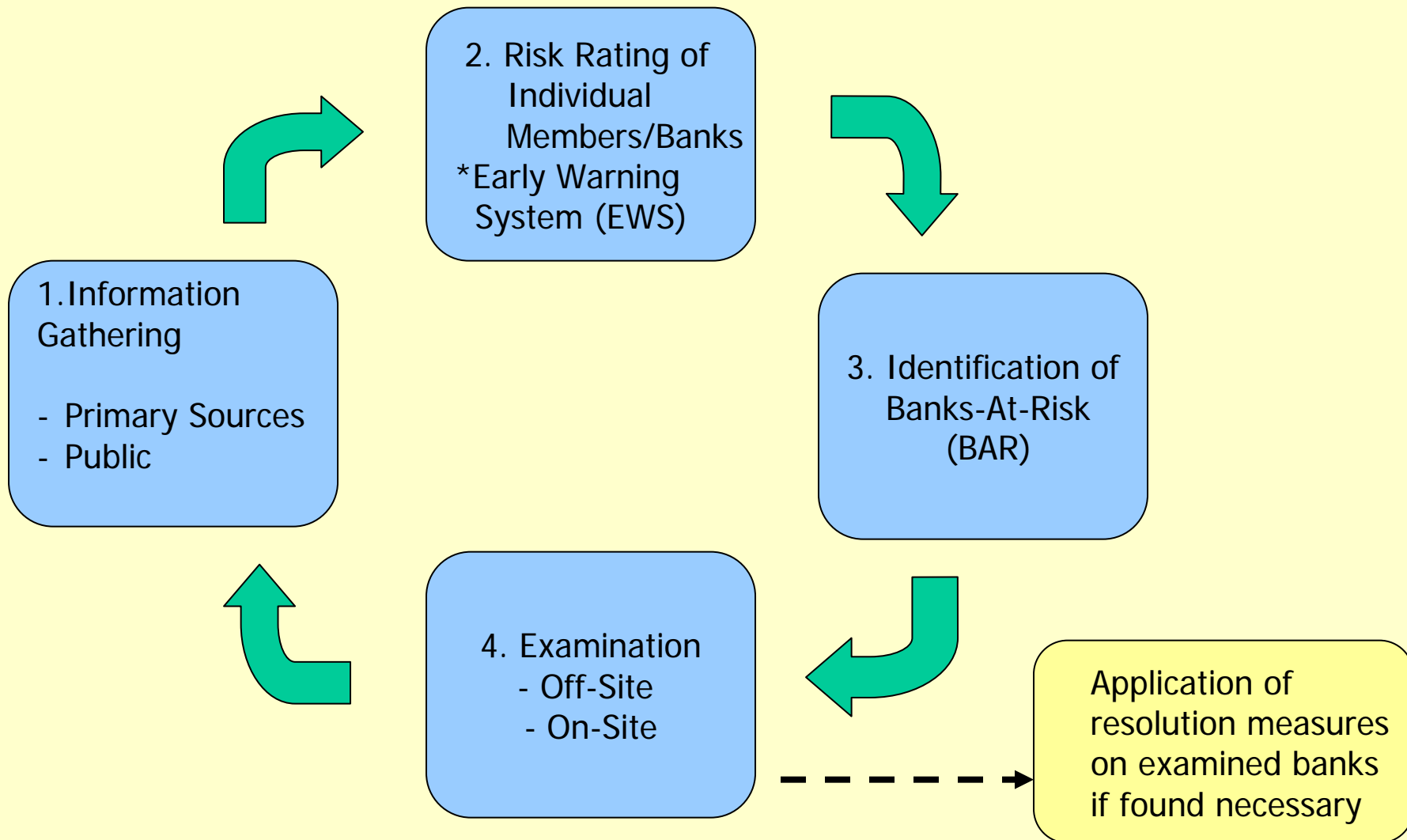
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## C) Other sources –

- Depositors
  - complaints desk
- Bankers
  - periodic dialogue via banking associations
  - road shows
- Credit rating agencies

# Risk Identification & Supervisory Action

## A) INDUSTRY



# Risk Identification & Supervisory Action

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## Resolution Measures

- Prompt and corrective action (PCA)
- Merger/Acquisition/Sale
- Financial assistance
- Closure

# Risk Identification & Supervisory Action

## B) By BANK (under Prompt Corrective Action, Financial Assistance)



# Conclusion

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**“Information systems should effectively and sufficiently capture the emerging risks of financial institutions to promptly anticipate distress situations and effectively prevent bank failure.”**