

Member Profile - The Instituto de Garantía de Depósitos (El Salvador)

A Founding Member of IADI



The Instituto de Garantía de Depósitos (IGD) in El Salvador was established by the Legislative Assembly under the Banks Law in November, 1999, after the failure of a medium financial institution and two smaller ones. The failure of these financial institutions created social disturbances, damaged financial system soundness and required the use of government funds. As a result, the government concluded that it was necessary to establish a deposit insurance system, which led to the creation of IGD and there have been no failures since that time.

The IGD provides limited coverage of bank deposits until there is a forced closure of a member bank. Also, the IGD may contribute to the restructuring of a member bank with solvency problems in order to protect depositor's rights; this objective was included in the Bank Law in November 1999.

In 2001, the Law was amended again to expand the powers of the IGD. In this regard, the IGD now has the ability to decide between making a payout of insured deposits or participating in a restructuring of the bank. In the event of a systematic crisis, the government and the supervisory authorities in conjunction with the IGD may decide to keep the member institution open or to close it.

The IGD is governed by a board of directors. There are four main directors and three alternate, or substitute directors. Two directors are named by the Central Bank and work as the President and Vice-President of the IGD. The other two directors and their alternates are elected by the Presidents of the member banks. Every director but the President of the IGD may have a substitute director. The substitute director for the Vice-President is named by the Central Bank as well.

The duties and responsibilities of the governing body are: to elaborate the accounting system for the IGD and to present it to the Financial System Superintendence; to approve the annual budget of the IGD; to approve the Annual Labor report; to administrate with prudence the assets of the IGD; to elaborate on procedures and policies for the proper functioning of the Board; to authorize the payment of insured deposits when is necessary; to approve a bank restructuring plan which contains all the means that will be used in order to protect the depositors (the IGD may support the implementation of this plan and coordinate its efforts with the Financial System Superintendent); to inform to member banks of the quarterly premiums that they must pay to the IGD; to sell the stocks acquired by the IGD after a bank has been restructured; to authorize liabilities that will be taken by the IGD, such as loans and the issue of other obligations.

The current board members are: Oscar Armando Pérez Merino, Chariman; Ruth del Castillo de Solórzano, Vice President; Sonia Guadalupe Gómez, Substitute Director; Oscar Armando Rodríguez, Director; Salvador David López, Substitute Director; Manuel Ernesto Rivera, Director; Ana Graciela Trejo, Substitute Director.

IGD is one of the financial safety net players in El Salvador. The policy goals of IGD in providing deposit insurance are to safeguard the benefits of depositors in financial Institutions and to enhance the sound development of financial operations. IGD currently has 7 employees. The major areas of IGD's business are:

Deposit Insurance:

A. Membership: In order to enhance financial stability and facilitate the orderly exit of insolvent financial institutions from the market, participation in deposit insurance is on a mandatory basis since 1999

B. Coverage: US\$ 6,700; in January 2004 the limit will be increased to US\$7,060.

C. Premium: 0.1% annual of total deposits liabilities.

D. Funding source: Including initial capital from the Central Bank, premiums and income generated from the Deposit Insurance Fund.

Handling Problem Financial Institutions:

IGD will dispatch personnel to institutions that are undergoing assistance. The disposition methods for problem financial institutions include:

1. Provision of financial assistance to the member banks that assume deposits
2. Straight pay-outs
3. Insured deposit transfers
4. Purchase & assumption