

Member Profile

Deposit Insurance Agency (Russia)

The deposit insurance system of the Russian Federation was established on 27 December 2003, based on the federal law "On Insurance of Household Deposits in Banks of the Russian Federation". The law sets forth mandatory participation in the deposit insurance system of all banks that take household deposits and/or open and maintain households' bank accounts. To undertake the operations of the deposit insurance system the law also established the Deposit Insurance Agency (**DIA**).

Legal Status and Powers of Deposit Insurance Agency

The **DIA** is a State Corporation – a non-commercial entity with specific legal status. The Russian Federation is the sole owner of the Agency that is independent in performing its activities from the Government and the Central Bank of the Russian Federation.

In accordance with the law, the Agency has two basic functions:

- 1) the insurance of household deposits;
- 2) the liquidation of banks that take household deposits

The **DIA** monitors how banks fulfill their respective obligations and with this in view participates in back-up examinations of banks conducted by the **Bank of Russia**. Those examinations focus on the calculation and timely payment by banks of their insurance premiums to the deposit insurance fund and on maintaining records concerning deposits they have taken, as well as providing information to depositors on deposit insurance issues. In accordance with provisions set forth in the deposit insurance law, banks are obligated to maintain records in such a manner that will enable the Agency to obtain valid information needed for prompt payouts. In the course of examinations **DIA** experts conduct testing of software used by banks to maintain deposit records.

In accordance with the law, a special cooperation agreement has been concluded between the Bank of Russia and the Deposit Insurance Agency.

Funding Deposit Insurance System

To establish financial basis of the deposit insurance system the Russian Government made an initial contribution by transferring to the **DIA** the property previously owned by the **Agency for Restructuring Credit Organizations (ARCO)**. (Readers may recall that ARCO was liquidated in 2004 upon the accomplishment of its mission as a bank restructuring agency established to resolve banks that suffered during the 1998 crisis). As of 25 October 2005 the property contribution of the Russian Federation reached 5.2 billion rubles (\$182 million).

The law contains a provision for the possibility of urgent financing any deficits through borrowings from the federal budget. The major source of revenue is the quarterly payments by banks of their assessments that are currently set at the level of 0.15 % of total deposits.

Insurance Coverage

Presently, the total insurance coverage reimbursable to one depositor in one bank is 100,000 rubles (about US\$3,500) – all household deposits in rubles and foreign currencies are insured.

In accordance with the law, the reimbursement process is to be started 14 days after the Bank of Russia has closed the bank (i.e. it has revoked its license).

The **DIA** has submitted proposals to the Government requested a gradual increase of the insurance coverage limit in 2006-07 up to 280,000 rubles (about U.S. \$10,000). The amount up to 100,000 is to be guaranteed 100%, and extra RUR 100,000 should be guaranteed 90%. During the subsequent 5-7 years, it is proposed to increase the insurance coverage up to the equivalent of 20,000 Euro.

The total DIS liability currently amounts to 63% of the total deposits in the banking system. About 98% of the total number of insured deposits and household accounts are fully covered by the limit. This constitutes 40% of the total amount of deposits taken by the whole national banking system.

Russian Banking System Overview

There are 1,424 firms licensed as credit institutions in the Russian Federation and out of this number 1,116 are licensed to take household deposits. Household deposits constitute a major source of funds for banks. On average, within the banking system - household deposits' share within banks' total liabilities is 28.8% , while legal entities deposits' share is 26.7% .

Presently 928 banks are deposit insurance system participants. The total amount of attracted by DIS participants' deposits reached 2.4 trillion rubles (\$84 billion). The share of the 30 largest banks within the total attracted household funds as of 1 July 2005 was 80.5%. The largest market share – 56,8% - is taken up by the Sberbank whose controlling stake is owned by the

government and household deposits in which were before fully covered by an implicit government guarantee (out of its share 61.5% deposits are denominated in rubles and 42.4% - in foreign currencies). It should be noted that there has been a gradual reduction of the share of household deposits market of Sberbank.

Since early 2005 the Bank of Russia has revoked banking licenses from 35 credit organizations. In the majority of cases de-licensing was based on suspicious from legal standpoint operations conducted by those banks.

Managing the Deposit Insurance Fund

At present the total DIF resources are 15.1 billion rubles (\$528 million). About two thirds of this amount is banks' assessments, the balance is the initial government contribution. It is anticipated that by mid-2006 the total Fund's resources will reach 28 billion rubles (\$1 billion) and the system will be able to deal with the bankruptcy of any bank (if coverage limit is preserved at the existing level).

The **DIA** undertakes DIF liquidity management in accordance with an investment policy that stipulates that the investment of the Fund's resources be in reliable and highly liquid financial instruments with priority given to government bonds. As well, DIF resources can be invested in OECD members' government securities, as well as in stocks and bonds of Russian issuers (except those issued by banks), shares of index mutual funds and mortgage bonds. Presently, the main investment instruments are government bonds and corporate bonds by first class Russian issuers. In 2006 there are plans to invest partial DI Fund's resources through management companies selected on competitive basis. The Fund target reserve ratio is planned to be set at the level of 5% of the total DIS liability amount.

DIA undertakes extensive analytical research to assess DIS risks and DIF sufficiency for the forthcoming period. A number of mathematical models are used that enable the **DIA** to take into account both micro- and macro economy factors affecting the deposit insurance system.

Insured Deposit Payouts Experience

The first insurance event took place in July 2005. The Bank of Russia revoked the banking license of a small bank (International Bank for Economic Development) that had a small number of depositors. The payout process started 10 days after the bank was closed.

Reimbursements to depositors were effected through an agent-bank acting on behalf and at the expense of **DIA**. There was no commission charged; in accordance with **DIA** policy, a commission to be paid to agent-bank should not exceed 1.5%.

To conduct the payout, the **DIA** concluded agency agreements with the largest banks well beforehand. In the case of an insurance event, the agent-bank is to be selected on competition basis within 3 days. As well, when the triggering of an event arises, **DIA** personnel should be included in temporary administration appointed to the bank by the Bank of Russia.

DIS Influence on Public Investment Behavior

During the first half of 2005 household deposits increased by 330 billion rubles and reached 2.4 trillion and during the third quarter the same tendency continued. Long-term (more than one year) deposits demonstrated stable growth. Currently their share is above 57%, while as of 1 January 2003 the share was 35.4%, and as of 1 January 2004 it was 43.6%.

The introduction of the deposit insurance system was conducive in many respects to the market de-monopolization process. Since the beginning of the last year Sberbank's share went down from 60% to 57%. During the same period, the share of mid-size regional banks, by contrast, went up. The share of deposits denominated in foreign currencies is constantly decreasing. It went down from 37.8% to 24.9% from 1 January 2003 to 1 July 2005.

The **DIA** regularly conducts sociological surveys with a focus on the introduction of the DIS and its impact on public investment behaviour. Upon a **DIA** request, in the spring of 2005 an independent research centre conducted a public opinion survey. The results showed that the introduction of a formal DIS contributed to significant growth of public confidence in the national banking system.

Bank Liquidation

In December 2004 in accordance with provisions set forth in the Government Strategy for Banking Sector Development, amendments to the federal law "On Insolvency (Bankruptcy) of Credit Institutions" came into effect. The amendments reflected Strategy provisions stipulating that deposit insurance and failed banks' liquidation are integral components of single creditor interests protection mechanism. The function of arbitration manager (receiver) of insolvent banks was given to Deposit Insurance Agency.

Presently, the **DIA** is acting as the receiver of 39 credit institutions. These are mostly small banks that failed as a result of illegal operations conducted by bank's managers and shareholders who stripped assets and thus infringing upon their creditor's interests. The total appraised assets value of banks under **DIA** liquidation is 1 billion rubles (\$35 million), and the total liabilities – 17.8 billion rubles (\$623 million), including obligations to households – 1.9 billion rubles (\$67.2 million).

Acting as receiver **DIA** conducts failed banks' asset disposition and effects settlements with creditors. **DIA** also takes steps aimed to enforce vicarious and criminal liability against failed banks' owners and managers. Significant attention is given by **DIA** to improvements in the legislation and enforcement procedures utilized.

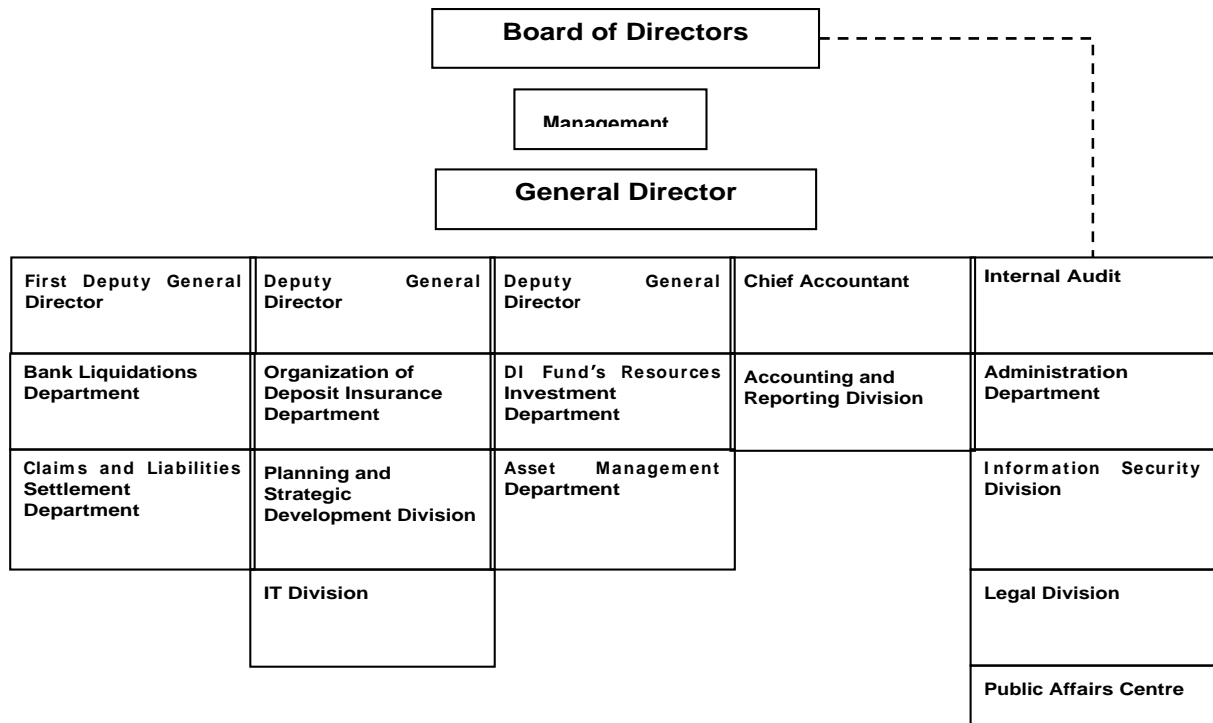
Organizational Structure



The governing body is the Board of Directors. Strategy development and adopting major decisions on the DIS functioning are within its competence. The Board of Directors consists of seven Russian Government representatives, five Bank of Russia representatives and the **DIA** General Director. The Chairman of the Board of Directors is A. Kudrin, the Russian Finance Minister. The management body is the Executive Board and it consists of seven members.

Picture: **Alexander Turbanov – DIA General Director**

Structural organization of State Corporation "Deposit Insurance Agency"



At present, the **DIA** has 300 employees and the majority is involved in rendering support to bank liquidation procedures.

Participation in International Association of Deposit Insurers



On 8 May 2002 the **Agency for Restructuring Credit Organizations - ARCO** joined IADI as an Observer. In February 2004 **DIA** became a Member.

Within the framework of the IADI Annual conference held on 27 September 2005 in Taiwan, elections to the IADI Executive Council took place. Mr. Melnikov, **DIA** Deputy General Director, who is the **DIA** designated representative, was elected as an Executive Council member for three years.

Andrei Melnikov – Deputy General Director, Member of the IADI Executive Council

DIA participates in the activities of the **European and Eurasian Regional committees** and is a member of **Research and Guidance Committee and the Finance and Planning Committee.**

Contact Information

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