

## What's New at IADI?

Volume 2, Issue 11

April 2004

### Highlights

*Consultation Paper on Guidance on Differential Premium Systems issued*

*Training Catalogue Updated*

*Eurasia Conference - Program Information*

*Member Profile – Deposit Guarantee Fund (Ukraine)*

### Guidance on Differential Premium Systems

The Research and Guidance Committee has issued a Consultation Paper on Guidance for Developing Differential Premium Systems. The paper was presented at the Second Annual IADI Conference that was held in Korea in October 2003. Since then, David Walker, the Chair of the Sub-Committee that prepared the document received a number of suggestions and comments. Comments on the paper are welcome and they should be sent to [dwalker@cdic.ca](mailto:dwalker@cdic.ca) by 1 June 2004. You may find a copy of the document at the following location:

<http://www.iadi.org/html/App/SiteContent/IADI-Diff%20prem%20paper%20i.pdf>

### Training Courses of Interest to Deposit Insurers

The Training and Conference Committee has prepared the second issue of its catalogue of training courses and opportunities of potential interest to deposit insurers. This document located at:

[http://www.iadi.org/html/App/SiteContent/TRAINING%20Final%20Course%20catalogue-Issue2\\_%202304\\_2004\\_.pdf](http://www.iadi.org/html/App/SiteContent/TRAINING%20Final%20Course%20catalogue-Issue2_%202304_2004_.pdf)

The catalogue will be updated on a periodic basis as new information becomes available. If you are interested in having any courses that you are aware of, included in this publication, please contact Marianna Berg at [berg@oba.hu](mailto:berg@oba.hu).

### Eurasia Regional Meeting and Conference

#### Deposit Insurance as an element of Banking Sector Stability

Hosted by the Deposit Guarantee Fund (Ukraine) 25 – 27 May in Kiev, Ukraine

### IADI Africa Regional Meeting and Conference

#### Deposit Insurance in Africa: Issues, Challenges and Prospects

Hosted by the Nigeria Deposit Insurance Corporation

21 – 23 June in Abuja, Nigeria

More details in the next IADI Newsletter.



## DEPOSIT INSURANCE AS AN ELEMENT OF BANKING SECTOR STABILITY

**Organized by Eurasia Regional Committee of  
International Association of Deposit Insurers**

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### AGENDA

25-27 May 2004

#### ***PARTNER in Ukraine:***

Deposit Guarantee Fund  
32 A, Yaroslaviv Val Str.  
01034 Kyiv  
phone./fax (044) 495 24 16

#### ***VENUE:***

Hotel "RUS"  
4, Hospitalna str.  
01023 Kyiv, Ukraine  
tel. + 380 (044) 294 30 20  
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### ***Tuesday, 25 May***

#### **09:00-09:40 Opening Session**

Mr. Serhiy Tihipko, Governor, the National Bank of Ukraine

Mr. Jean Pierre Sabourin, President of the International Association of Deposit Insurers, CEO & President of the Canada Deposit Insurance Corporation

Mr. Valeriy Ohiyenko, Managing Director of the Deposit Guarantee Fund, Ukraine and Chairman of the Eurasia Regional Committee, IADI

#### **09:40-10:40 Session 1: Factors for successful financial sector development in transition economies**

Moderator: Mr. Jean Pierre Sabourin, President of IADI, CEO & President of the CDIC

#### **9:40-10:10 Institutional prerequisites for sound banking**

Mr. Kurt Geiger, Director, Business Group, European Bank for Reconstruction and Development

#### **10:10-10:40 Deposit Insurance - An Overview**

Mr. Fernando Montes-Negret, Director, Sector Unit for Private and Financial Sector Development, Europe and Central Asia Region, The World Bank

10:40-11:10 Coffee break

**11:10-12:40 Session 2: Elements of the financial safety net and their mutual correlation within the financial sector strategy development**

Moderator: Mr. Dániel Jánossy, Managing Director, National Deposit Insurance Fund, Hungary

**11:10-11:40 Indemnification of safety-net players and trigger mechanisms**

Mr. John Raymond LaBrosse, Secretary General, International Association of Deposit Insurers

**11:40-12:10 Increasing confidence in the banking system. Capitalization of the banking sector.**

Mr. Alexander Suhonyako, President, Association of Ukrainian Banks

**12:10-12:40 Deposit insurance as an element of the financial safety net: the case of Bulgaria**

Ms. Stefana Drianovska, Expert, International Co-operation and Public Relations, Deposit Insurance Fund of Bulgaria

12:40-12:50 Discussion

12:50–14:00 Lunch (*Hotel “RUS”, “Russian” hall*)

**14:00-15:15 Session 3: Solvency of the deposit insurance system, capitalization and payment**

Moderator: Dr. Raimundas Zilinskas, Director, State Company “Deposit and Investment Insurance”, Lithuania

**14:00-14:25 Increasing and sustaining adequate level of capitalization of the deposit insurance system**

Mr. Valeriy Ohiyenko, Managing Director of the Deposit Guarantee Fund, Ukraine and Chairman of the Eurasian Regional Committee, IADI

**14:25-14:50 Payments and use of the differential premiums and financial practice**

Mr. Hans Jacobsen, Chairman, Swedish Deposit Guarantee Board

**14:50-15:15 Transitioning to a stable banking system- the role of deposit insurance system and the Polish experience**

Mr. Tomasz Obal, bank expert, Bank Guarantee Fund of Poland

15:15-15:40 Coffee break

**15:40-16:40 Session 4: Collection and information sharing for supporting of the deposit insurance system activity**

Moderator: Mr. Alexander Suhonyako, President, Association of the Ukrainian Banks

**15:40-16:10 Deposit insurance system and problems of the actions coordination and sharing information with the state structure**

Ms. Bakhyt Mazhenova, General Director, CJSC Kazakhstan Deposit Insurance Fund

**16:10-16:40 Information sharing and actions coordination with Central Bank and bank supervision**

Dr. Raimundas Zilinskas, Director, State Company “Deposit and Investment Insurance”, Lithuania

16:40-17:00 Discussion

19:00 Dinner at the restaurant of Ukrainian kitchen

### **Wednesday, 26 May**

#### **09:00-10:30 Session 5. Problem bank resolution: risk minimization and prevention of the confidence crises**

Moderator: Mr. Jean Pierre Sabourin, President of IADI, CEO & President of the CDIC

#### **09:00-09:25 Legal framework for independence, soundness and effectiveness of deposit insurance system**

Mr. Vladimir Krotuk, Deputy Governor, the National Bank of Ukraine and Head of the Administrative board of the Deposit Guarantee Fund, Ukraine

#### **09:25-09:50 Problem bank resolution, case study Serbia**

Ms. Lidija Perovic, Acting Director, Deposit Insurance and Bank Rehabilitation Agency of Serbia

#### **09:50-10:15 Role of Deposit Insurance Fund in Problem Bank Resolution - Hungarian Experience**

Mr. Dániel Jánossy, Managing Director, National Deposit Insurance Fund, Hungary

10:15-10:30 Discussion

10:30-11:00 Coffee Break

#### **11:00-12:40 Session 6. Role of the Government and capital markets in liquidity maintaining and funding of the deposit insurance**

Moderator: Ms. Lidija Perovic, Acting Director, Deposit Insurance and Bank Rehabilitation Agency of Serbia

#### **11:00-11:25 Sources of additional funding for financing the needs of the deposit insurance system – international experience overview**

Mr. Jean Pierre Sabourin, President of the IADI, CEO & President of the CDIC

#### **11:25-11:50 The development of the deposit insurance system in Russia**

Mr. Alexander Turbanov, Chief Executive Director, State Corporation “Agency for Deposit Insurance”

#### **11:50-12:20 Personnel training and management issues**

Ms. Tamara Smovzhenko, Rector, Lvov' Banking Institute, Ukraine

12:20 –12:40 Discussion

12:40-14:00 Lunch

15:00 Tour

20:00 Reception

**Thursday, 27 May**

**09:30-11:00 Session 7: Closing Session**

Moderator: Mr. Valeriy Ohiyenko, Managing director of the Deposit Guarantee Fund, Ukraine and Chairman of the Eurasian Regional Committee, IADI

**09:30-10:00 Deposit insurance issues for transition countries**

Mr. Josef Tauber, Chairman of the Board of Administration, Deposit Insurance Fund Czech Republic

**10:00-10:30 Deposit insurance as part of a wider strategy for financial stability: the work of the Financial Stability Forum Group**

Mr. Simon Hall, Financial Stability Forum, Basle, Switzerland

**10:30-10:50 Sharing deposit insurance expertise with the world: Information sharing between IADI and its members**

Ms Kim Utnegaard, Office Manager, International Association of Deposit Insurers, Basel, Switzerland

**10:50-11:00 Closing Remarks**

Mr. Serhiy Tihipko, Governor, The National Bank of Ukraine

11:00-11:30 Coffee break

**11:30-12:00 Next Steps**

International Association of Deposit Insurers – Prospects

Mr. Jean Pierre Sabourin, President of the IADI, CEO & President of CDIC

Mr. Valeriy Ohiyenko, Managing Director of the Deposit Guarantee Fund, Ukraine and Chairman of the Eurasia Regional Committee, IADI

12:00 Conference Ends

**14:00 Boat ride on the *Dnipro River, and Lunch***



## Member Profile

### The Deposit Guarantee Fund (DGF) - Ukraine

*A founding Member of IADI*



offices of the Deposit Guarantee Fund



Valeriy Ogiyenko, CEO of the DGF

#### ***Main address:***

Jaroslav's Mole 32A; 01034 Kyiv Ukraine

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The Deposit Guarantee Fund (DGF) was established under Presidential Decree ? 996/98 on 10 September 1998. The Law "On the Household Deposits Guaranteeing Fund" was passed by the Supreme Soviet of Ukraine on 5 July 2001 and signed by the President on 20 September 2001.

The DGF is a specialized state institution performing functions of state administration in the sphere of guaranteeing of deposits of natural persons. The Fund is an independent nonprofit institution with a separate balance sheet and it maintains current and other accounts with the National Bank of Ukraine.

#### ***Organization***

The Management bodies the Administrative Board and the Executive Directorate. The Administrative Board consists of five individuals composed of two representatives of the Cabinet of Ministers of Ukraine, two representatives of the National Bank of Ukraine, and one representative of the association of banks. The term of office of the members is four years and they may be reappointed for a second term.

The Executive Directorate, whose composition is approved by the Administrative Board, is responsible for the day-to-day activities of the Fund. The Executive Directorate is headed by the Managing Director.

## ***Regulatory objectives***

The main objectives of the DGF are:

- To protect the rights of the natural persons – depositors in the commercial banks – members of the Fund, which pay premiums to the Fund to cover ongoing expenses and any debts incurred; and
- To promote stabilization of the banking system.

## ***Protection of deposits***

The Fund guarantees depositors in a participant (temporary participant) bank the repayment of their deposits, including interest, to a maximum fixed by the law governing the DGF as of the date of closure of the institution. The indicated amount of repayment may be increased by a decision of the Board of Administration of the Fund.

## ***Membership***

The Fund's participants are the banks registered in the State Register of banks maintained by the National Bank of Ukraine and they must have a Banking License to undertake banking activity. The participants are banks that meet the established economic norms such as capital adequacy, solvency and its liabilities to the depositors and meet the standards set by the Fund.

Banks that do not yet meet the above-mentioned requirements are categorized as a temporary participant. The HDGF does not reimburse deposits of the customers of temporary participants whose deposits have been placed up after the day of transferring bank to the category temporary participant. In order to qualify as a participant the bank must make contributions to HDGF.

## ***Resources***

The funding sources for the DGF are as follows:

- Initial, regular and special contributions from banks that are participants (temporary participants) of the Fund;
- contributed by the National Bank of Ukraine in an amount of UAH20 million;
- revenues obtained from investing money resources of the Fund in state securities of Ukraine;
- credits obtained from the Cabinet of Ministers of Ukraine, National Bank of Ukraine, banks and foreign creditors;
- fine paid by banks that are participants (temporary participants) of the Fund for untimely or incomplete transfer of contributions to the Fund; and
- revenues from deposits placed by the Fund with the National Bank of Ukraine.

## ***Experience***

The Fund has carried out repayments in the case of four failed banks.

## ***Relationships***

HDGF has developed strong working relationships with organizations which belong to the International Association of Deposit Insurers and The World Bank.

## What's New in Your World?

### Kyrgyz Republic



Secretary General Ray LaBrosse delivered two presentations at the Roundtable on the Kyrgyz Deposit Protection System which was held in Bishkek on 8 April 2004. The Roundtable was organized by the National Bank of the Kyrgyz Republic, EBRD, IMF and The World Bank. Mr. LaBrosse met with Erkinbek Jumabaev, Head of the Supervision Methodology Department NBKR, left, who was a participant in the IADI/EBRD Seminar on Deposit Insurance held in January 2003 and with Khynish Sharshekeeva, Deputy Chairman/Methodology, Monitoring and Licensing Department and Salpanat Alybaeva, Head of the Department of Supervision.

### Sweden

On 26 February 2004 the Swedish government appointed Daniel Barr, former member of the Swedish Deposit Guarantee Board (DGB), as Head of the Deposit Guarantee Committee and Thomas Norling as its Secretary.

The Committee is responsible for carrying out a review of the deposit guarantee scheme with the object of proposing new arrangements for the future. In connection with this, the Committee will explain what effects the choice of guarantee model will have on the fees charged, the size of the reserve fund, and how the guarantee fees should be allocated. It will also analyze the consequences for the deposit guarantee scheme and the investor compensation scheme of the growing integration of the financial sector within the EU.

In its review, the Committee will also give particular consideration to what investment rules should apply to the management of capital invested in funds as part of the deposit



guarantee scheme, - what types of asset should be covered by the deposit guarantee scheme and the investor compensation scheme, - whether the current levels of compensation should be changed, - under what circumstances and when the deposit guarantee scheme may be drawn upon for payment of compensation, and how the arrangements for the deposit guarantee scheme and the investor compensation scheme should be organized.

## USA

In a recent speech, Donald Powell, the Chairman of the Federal Deposit Insurance Corporation (FDIC) provided an insight into the thinking of the FDIC with respect to the future prudential regulation and the provision of deposit insurance. These considerations come at a time when the combined earnings of the commercial banks in the United States in 2004 were over US\$100 billion.

The FDIC has considered two emerging trends as the primary reasons for the changing views: the consolidation of the banking industry over the last two decades (from 14,000 to 7,000 institutions) and the concentration of industry deposits in a few entities (a growth from 16 to 40 per cent of industry deposits in the top ten banking organizations). The FDIC is of the view that the consolidation trend may continue, and result in "a banking industry with a few institutions having assets in the trillions of dollars, and perhaps only half as many community banks as we have today."

The FDIC also has concerns as regards the administration of the safety net to the financial services industry, with the diverging trend in the profile of financial institutions. Large financial institutions, as compared to smaller institutions, are in a position to absorb local economic problems or problems in an individual activity through diversification. However, any internal risks arising from the challenge of managing large complex organizations could pose systemic risks to the system as a whole. The question has been raised as to the recognition of the differences between the large and the small institutions in applying regulatory and supervision approaches.

The FDIC asserts: "capital requirements form the foundation of any responsible supervisory regime." With the revised Basel Accord, capital requirements for the largest banks are expected to result in 'significant reductions' in capital requirements. As smaller banks will retain the existing approach to the determination of capital, the result will be a bifurcated approach to capital in the industry. The two-tiered system for capital should also be reflected in the further development of a two-tiered system for supervision. The FDIC recognizes the need to rationalize the regulatory process and minimize the burden it places on all the players.

If regulation and supervision reflect the two-tiered nature of the industry, Mr. Powell asserts perhaps it is time to establish "a new safety net that is explicitly two-tiered, with one set of arrangements for the largest institutions and separate arrangements for all others." A two-tiered system would replace the current system in which the small institutions have paid for the systemic risks associated with the large institutions and the large institutions have paid for the losses of small institutions on a disproportionate basis. If a two-tiered insurance approach were followed, the FDIC is considering the development of specialized financial instruments, in the form of bonds or reinsurance, to measure and manage the risks associated with the different classes of institutions.

## **I nternational Monetary Fund:**

The International Monetary Fund has just released its Financial Stability Report. You may find it at the following location: <http://www.imf.org/External/Pubs/FT/GFSR/2004/01/index.htm>

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*This newsletter was issued on 29 April 2004. Want to share your expertise? To submit articles or items for consideration for a future issue please send them to [info@iadi.org](mailto:info@iadi.org) by 15 May 2004.*