



INSTITUTO PARA LA PROTECCIÓN  
AL AHORRO BANCARIO



# IPAB profile

GOBIERNO  
FEDERAL

SHCP

# México

# 2009



Vivir Mejor

## Introduction

- The *Instituto para la Protección al Ahorro Bancario* (IPAB) is the public agency in charge of the banking deposits insurance system in Mexico. The IPAB has its own legal personality and resources.
- The IPAB began operations on May 1999.
- Its objective is to protect saver's deposits, thus contributing to the preservation of financial system stability and to the functionality of the payments system.

## Functions

IPAB's activity is centered on four main functions:

- Administer Mexico's banking savings protection system, which guarantees payment of guaranteed obligations for up to 400 thousand UDIs (Units of Investment) per person (natural or legal) and per bank.
- Define and implement banking resolution methods at full service banks that run into solvency problems.
- Administer and sell assets associated with banking resolution programs.
- Management and financial administration of debt derived from prior Support Programs for Bank Savers and Debtors.

## Financial Safety Net

The IPAB is part of the financial safety net composed of the **Ministry of Finance and Public Credit** (*Secretaría de Hacienda y Crédito Público - SHCP*), the **Central Bank** (*Banco de México - BM*), the **National Banking and Securities Commission** (*Comisión Nacional Bancaria y Valores - CNBV*) and the **National Commission for the Protection and Defense of Financial Services Users** (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros - CONDUSEF*; financial ombudsman).

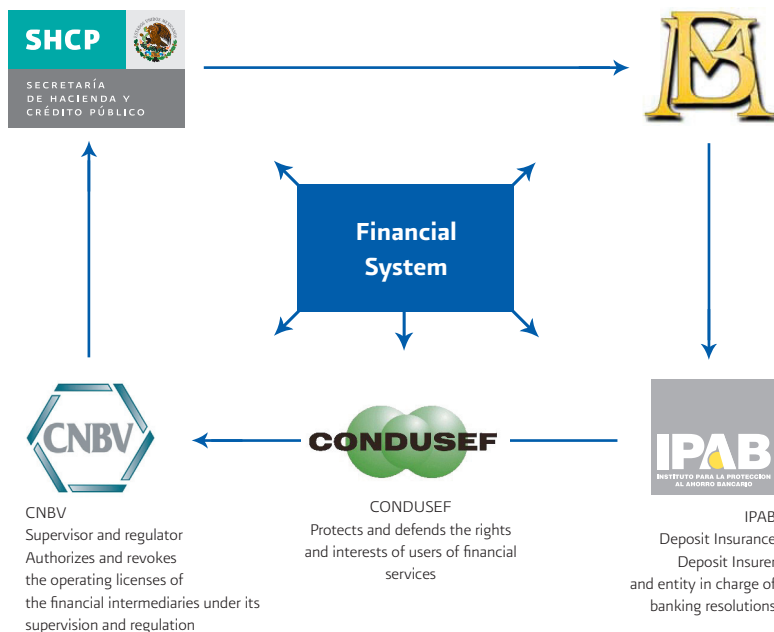
SHCP

Ministry of Finance and Public Credit  
In charge of the planning, coordination, evaluation and oversight of the financial system

BANCO DE MÉXICO

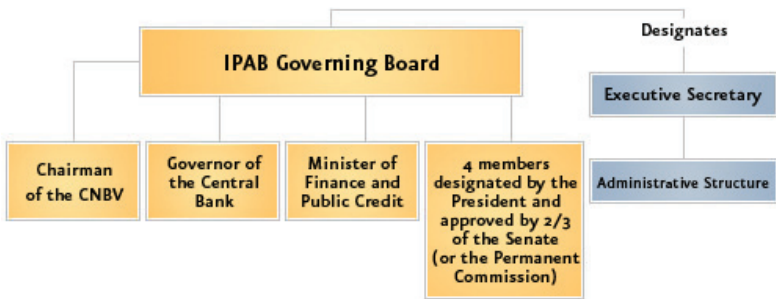
Central Bank

Autonomous entity in charge of preserving the stability of the purchasing power of the currency; promoting a sound financial development, and of the functionality of the payments system



## Governance and Administration

Governance of the Institute is in charge of a Governing Board made up by seven members. The Executive Secretary is the Institute's chief executive officer and is assisted by an administrative structure as set forth in IPAB's Organic Statute.



## Protection for Savers in Mexico

IPAB's primary role is to protect savers' deposits in full service banks.

- Deposit insurance is automatic and free of charge, in favor of the persons who perform operations deemed guaranteed in terms of the Law of Banking Savings Protection (*Ley de Protección al Ahorro Bancario* Spanish acronym LPAB);
- Guaranteed obligations include the deposits, loans, and credits mentioned in Article 46, Items I and II, of the Law of Credit Institutions (*Ley de Instituciones de Crédito*, Spanish acronym LIC).

### *Guaranteed Obligations*

Are mainly comprised of:

- Banking monetary sight deposits, such as checking accounts;
- Savings accounts;
- Term deposits or deposits that can be withdrawn with prior notice, such as certificates of deposit;
- Deposits that can be withdrawn on predefined days;
- Current account deposits associated with debit cards.

### *Non-Guaranteed Obligations*

IPAB does not insure resources committed to brokerage or investment firms, insurers, mutual savings and savings and loan companies, or development banks, even if such investment destinations are offered or promoted in bank branch offices.

Also, IPAB does not guarantee the following operations:

- Operations that have not observed the applicable legal, regulatory, and administrative provisions; and those that deviate from sound banking practices and methods;
- Liabilities documented in negotiable securities, as well as securities issued to the bearer.

Bank obligations payable to the following persons are excluded from coverage:

- Companies that form part of the same financial group as the bank;
- Financial entities;
- Shareholders, board members, and officers of the two highest levels in the bank's organizational hierarchy and agents with powers to act on behalf of the bank.

## *Collection of Fees*

- Banks are obliged to pay to the IPAB the ordinary and extraordinary fees established by the Governing Board;
- Ordinary fees are payable monthly and may not be less than 4 one thousandths on an annual basis, of the value of the banks' liability operations in a year;
- When IPAB lacks sufficient funds to meet its obligations, the Governing Board may establish extraordinary fees not exceeding 3 one thousandths on an annual basis, of the value of the banks' liability operations in a year;
- The sum of both types of fees may not exceed 8 one thousandths of the value of the banks' liability operations in a year;

- To date, IPAB operates with a uniform fees scheme;
- However, the Governing Board may establish different ordinary fees for banks in relation to their risk exposure, based upon each bank's level of capitalization and other general indicators.

### ***Collection of Fees and Fund Administration***

- The Central Bank is responsible for charging the banks on a monthly basis the aforementioned fees, and for crediting them to IPAB;
- Money in the Savings Protection Fund is invested in high liquidity government securities or deposits in the Central Bank;
- In accordance with the LPAB, IPAB uses three fourths of the fees to service the debt related to past bank depositors and debtors relief programs;
- The fourth part, net of administrative and operational expenses, is transferred to the preventive Protection Fund, to be used in order to pay depositor's savings up to the limit established by law.

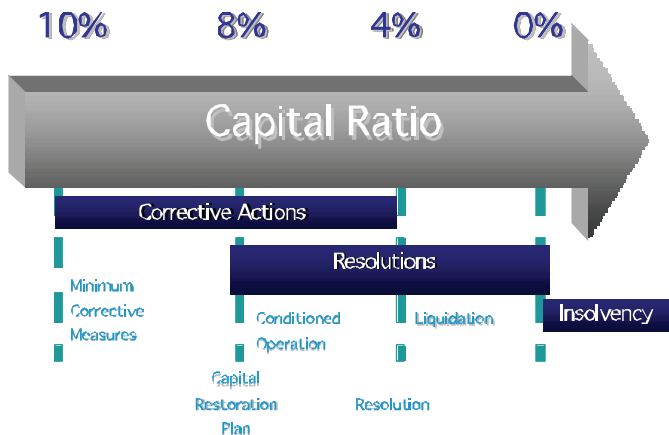
## Financing Mechanisms

- In case of a bank failure, and when funds from fees that banks have contributed to the preventive fund are insufficient to meet IPAB obligations, IPAB is authorized to contract financing which cannot exceed 6%, every three years, of the bank's total liabilities balance as published in the immediately preceding month.

## Banking Resolutions

The comprehensive scheme for the resolution of full service banks that run into financial problems comprises three successive stages.

- Prompt corrective actions system (preventive stage);
- Resolution stage (receivership stage); and
- Insolvency stage (assets insufficient to pay for liabilities).





The **Capital Ratio (CR)** triggers each stage of the aforementioned scheme.

## 1. Prompt corrective actions

In 2004, a program of prompt corrective actions was incorporated into law, with the primary objective of providing financial authorities with a regime that allows them timely detection of problems that disrupt a banks' financial stability, and to establish the necessary measures to correct this situation.

## 2. Resolution Process

In 2006, several laws were modified in order to provide the financial authorities with an integral scheme for dealing with full service banks that may experience financial problems, thus establishing a timely and adequate resolutions system as a complement to the prompt corrective actions system.

The process of resolving a full service bank formally begins when its CR is equal to or smaller than 8 percent; however, when the bank's CR is lower than 8 percent but larger than or equal to 4 percent, the bank is given an opportunity to continue to operate under the "Conditional Operation Regime", subject to its compliance with certain requirements.

If a full service bank's CR falls below 4 percent, the bank will automatically enter into a resolution process in accordance with the law's predefined resolution alternatives.

The process of resolving a full service bank shall be carried out through the following methods:

**1.** Liquidation of a bank in cases when the CNBV revokes the bank's operating license

Liquidation operations that IPAB can implement:

- a. Assets and liabilities transfer to another operating bank, also known as Purchase of assets and assumption of liabilities or P & A
- b. Bridge bank: a temporarily constituted, IPAB-operated bank
- c. Direct payment of insured deposits, and, when in receivership, assets sales

**2.** Open bank financial assistance or partial payment of non-guaranteed obligations, whenever the Financial Stability Committee determines that the bank entails a systemic risk

### **3. Judicial banking insolvency process - (in progress)**

When a bank has negative capital it is essential that effective rules exist to provide the greatest possible protection to the interests of its creditors.

Consequently, work is underway to produce a reform proposal for a judicial liquidation applicable to insolvent banks that allows for a more efficient and expeditious recovery of its assets and for a faster depositor reimbursement process, respecting at all times the due legal process.

The current regime in place is the Business Reorganization Law (Ley de Concursos Mercantiles), which sets forth the application of generic provisions to any kind of business.

### *International Affairs*

IPAB is a founding member of the International Association of Deposit Insurers (IADI), created in 2002.

IADI's objective is to contribute to the stability of the financial systems by enhancing international cooperation in deposit insurance matters.



Through IPAB's involvement in the IADI, the Institute participates in an ample international dialogue among deposit insurers and other institutions with similar interests.

IPAB also collaborated in the elaboration of IADI's Core Principles for Effective Deposit Insurance Systems, made to benefit countries considering adopting or reforming their deposit insurance system.

**financial system** – the set of public and private institutions that manage the monetary flows of a country.

**payments system** – the means used by financial system institutions to enable to flow of money among their clients and services users.

**guaranteed obligations** – operations held between banks and their clients that are subject to coverage by IPAB.

**UDI** – (Unit of Investment), a unit of account linked to the behavior of the price level, thus preserving its value in real terms <http://www.banxico.org.mx/PortalesEspecializados/inflacion/inflacion.html>).

**problems of solvency** – when a bank does not comply with the minimum regulatory capitalization requirement set forth in article 50 of the Law of Credit Institutions (CR < 8%).

**assets** – those owned by an insolvent bank, or by a bank facing liquidity problems, where IPAB is in charge of their sale or management in order to maximize their recovery value, in the context of a banking resolution process.

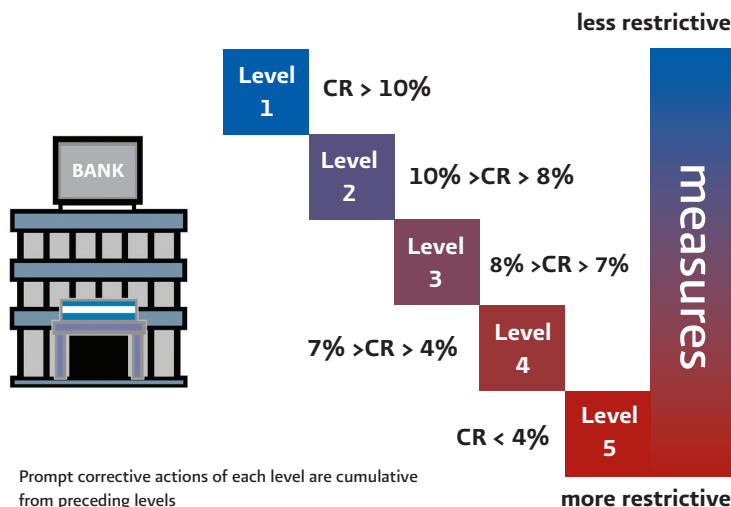
**financial group** – set of companies formed by a shareholding company and two or more financial entities grouped in terms of the Law to Regulate Financial Groups (*Ley para Regular las Agrupaciones Financieras*).

**reform** – The following laws will be reformed: Law of Credit Institutions, Law of Banking Savings Protection and Law of Amparo.

**systemic risk** – There is systemic risk when a bank's failure to fulfill its payment obligations may: generate serious negative effects in other banks or financial institutions in a way that their stability or solvency is endangered, as long as this could in turn affect the stability or solvency of the financial system or jeopardize the functioning of the payments system.

## Prompt corrective actions

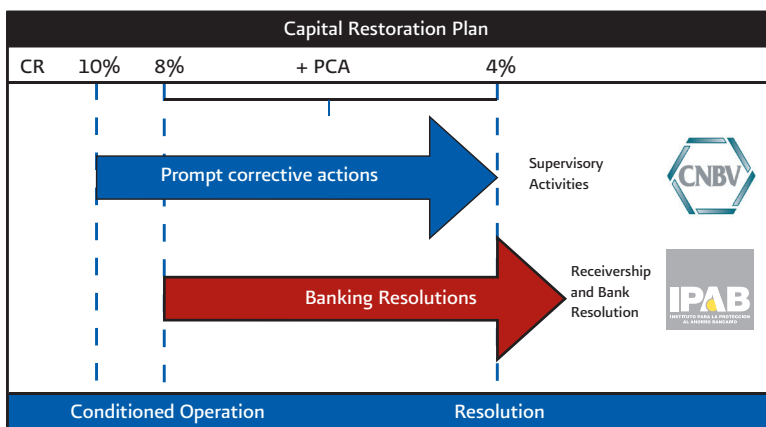
This system seeks to identify in a timely manner banks whose solvency is deteriorating and to deploy corrective measures in response to the extent of such deterioration.



<b>Level 1</b>	None
<b>Level 2</b>	Inform its Board of Directors of the type and causes of the deterioration Abstain from performing operations that diminish its CR
<b>Level 3</b>	Present a Capital Restoration Plan Suspend dividend payments or any other mechanism that implies transferring wealth to shareholders Suspend re-purchase of shares Withhold interest or principal payments, or convert subordinated obligations in an anticipated manner Suspend payment of bonuses and of other supplementary compensation to employees Abstain from increasing the amounts involved in operations with related persons.
<b>Level 4</b>	Request prior authorization from the CNBV before undertaking new investments in non-financial assets, opening branch offices or other activities.
<b>Level 5</b>	<b>RESOLUTION STAGE</b>

## Banking Resolutions

Prompt corrective actions and banking resolutions may be visualized as parallel procedures.



The Banking Resolution Regime was incorporated into law on July 2006 and its objectives are to:

1. Pay depositors as much as possible, as soon as possible
2. Resolve a bank within the margins of a positive CR
3. Maximize the recovery of assets through alternative resolution methods
4. Reduce fiscal costs for IPAB
5. Have a scheme that minimizes the possibilities of incurring in judicial litigation and challenges initiated by persons that may be affected by the resolution

6. Coordinate the timely intervention of the financial authorities in the banking resolutions process

7. Strengthen the regulation applicable to banking liquidation processes.

8. Modify the causes that lead to the revocation of banking licenses, limiting them to those that imply a grave risk to the bank

9. Adjust the regulation of financial groups in order to clearly and effectively establish their scope of responsibility

Experience indicates that implementing a banking resolution scheme is legally complicated, as it entails affecting, among others:

- Property rights of shareholders;
- Management of the bank;
- Bank clientele.

For this reason a conditioned operation scheme was designed for banks to embrace voluntarily and allows, if necessary, for a peaceful takeover of the bank.

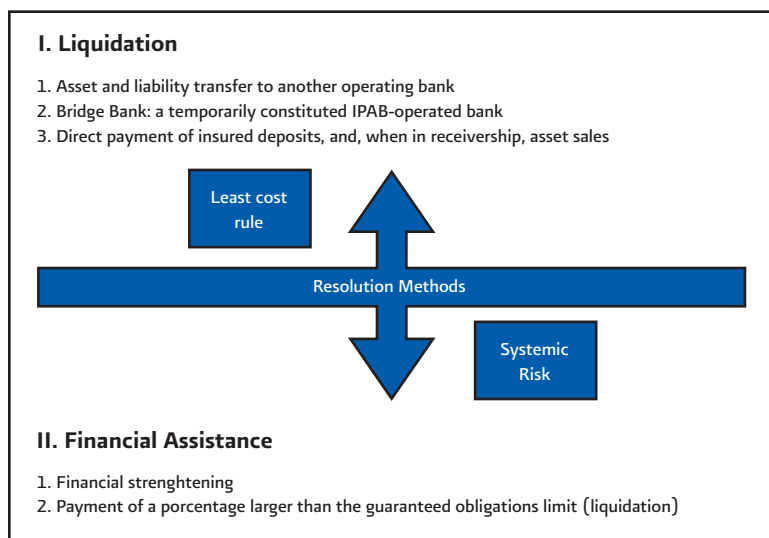
- Exceptionally, IPAB can pay a percentage of non-guaranteed obligations, in the event that it is determined that a bank might generate a systemic risk;



- The decision on whether a bank poses a systemic risk shall be taken by the Financial Stability Committee, which is composed by representatives of the highest levels from (the): Ministry of Finance and Public Credit; Central Bank; National Banking and Securities Commission; and IPAB.

## Resolution Methods

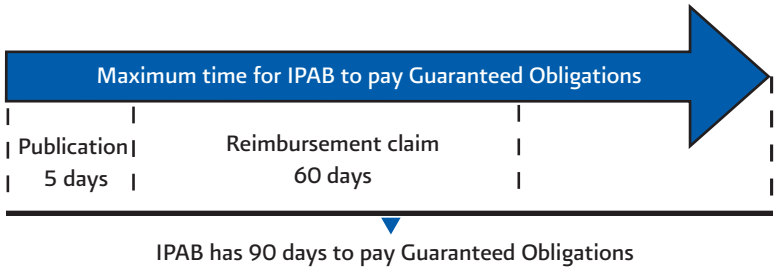
Payment of guaranteed obligations can be performed through:



In bank liquidation processes IPAB works as receiver.

**Publication and Payment of Guaranteed Obligations**

- Procedures for the Payment of Guaranteed Obligations must be published in Mexico’s Official Diary of the Federation and in 2 other major newspapers 5 working days from the date when IPAB assumes as receiver;
- Depositors must submit a reimbursement claim within 60 days from the date of publication (in further reforms the claim requirement will be eliminated).



**Micro Processes**

The IPAB is currently working on an inventory of guidelines, rules, agreements, contract models, assembly models and other general provisions that will regulate its actions when a banking institution encounters financial problems.

The set of all documents that comprise the aforementioned inventory are called “Banking Resolution Micro Processes”.



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