



EFDI Annual Meeting and International Conference

Authorities Cooperation Booster:

Important aspects of Directives on national levels



Jerzy Pruski



IADI President and Chair of the Executive Council
President of the Management Board, Bank Guarantee Fund, Poland

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Crisis

- ❑ Lack of appropriate crisis management tools to wind up a bank in an orderly manner
- ❑ Fear of adverse effects of standard bankruptcy on economy caused by discontinuity of critical functions

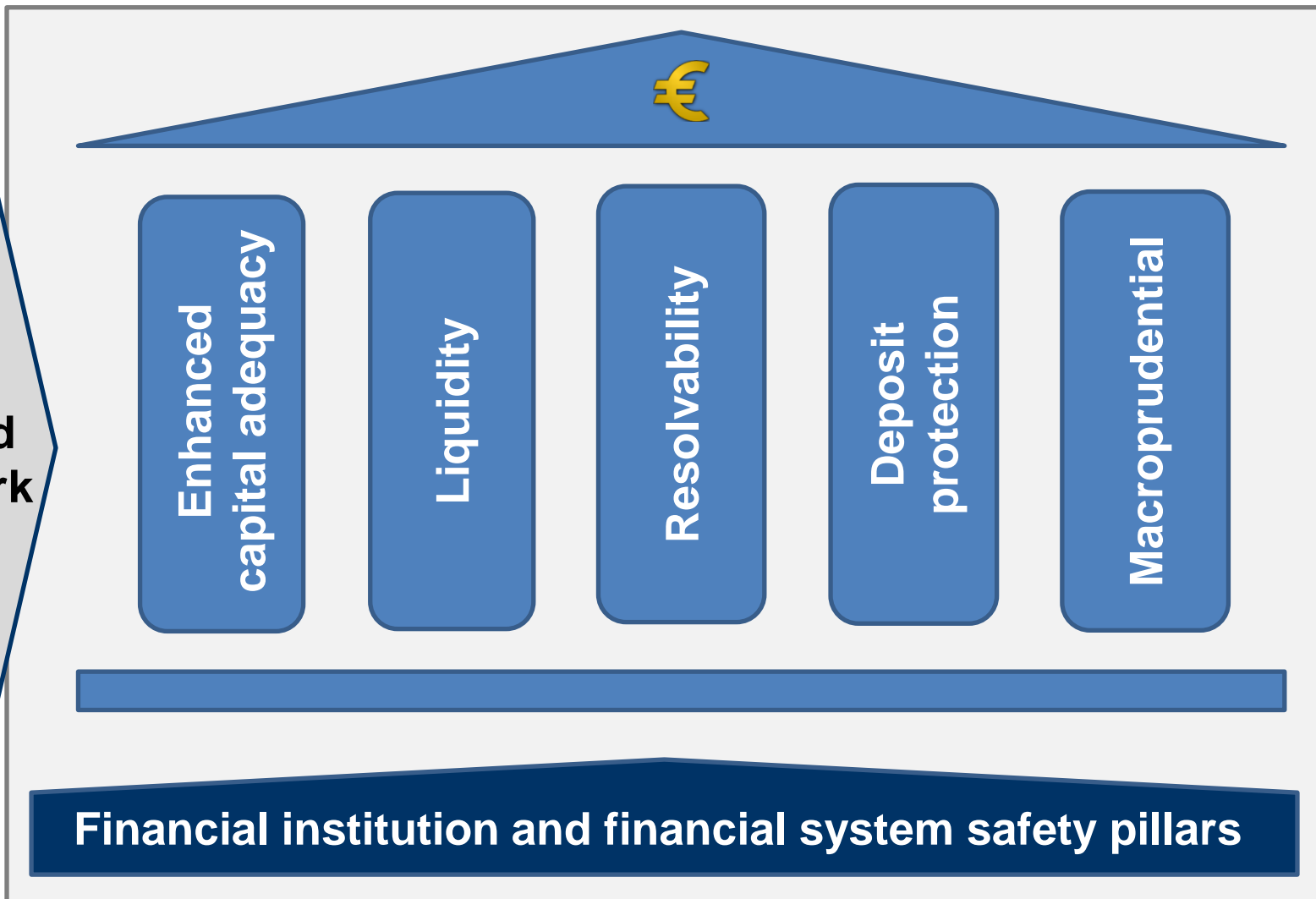


**Bail-out in most cases and of course
for TBTF**



- ❑ Tax payers bear burden of rescuing financial institutions when *failing or likely to fail*
- ❑ Fatal feedback loop between turmoil in the banking sector and sovereign debt turbulence

Need for enhanced framework



Lessons learned

Strengthened well-capitalized DGSs

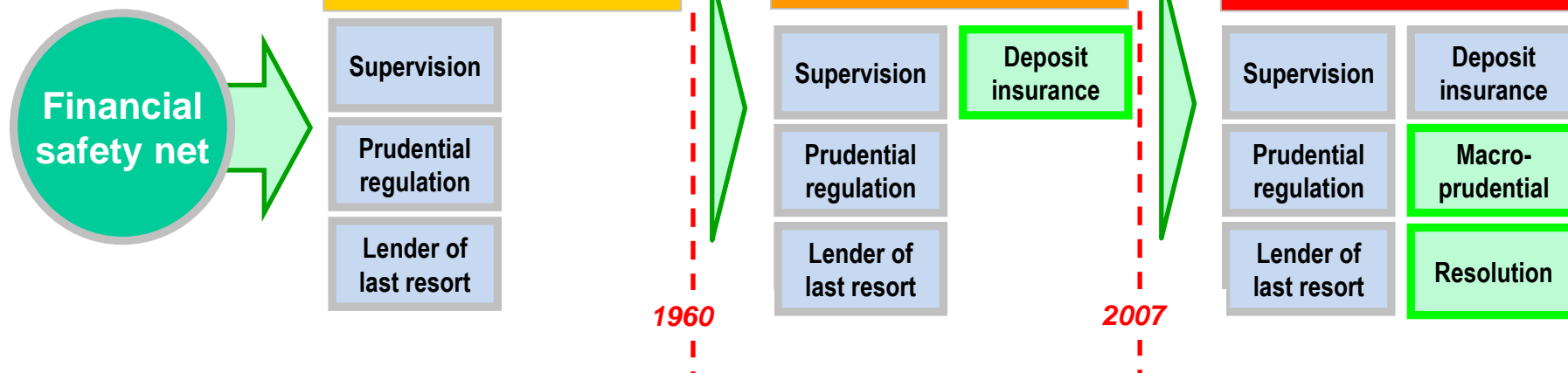
- Revised IADI Core Principles
- IADI Guidance on ex-ante funding
- Directive 2014/49/EU (DGSD)

New regulatory requirements, including macroprudential

- Basel III
- CDR IV / CRR package

Resolution regime

- FSB *Key Attributes*
- Directive 2014/59/UE (BRRD)



- The first DGS – FDIC established in USA in 1934 after the Great Depression
- Most of the systems created after 1980 (*Latin American debt crises, Transition Economies, Tequila Crisis, Asian Crisis*):

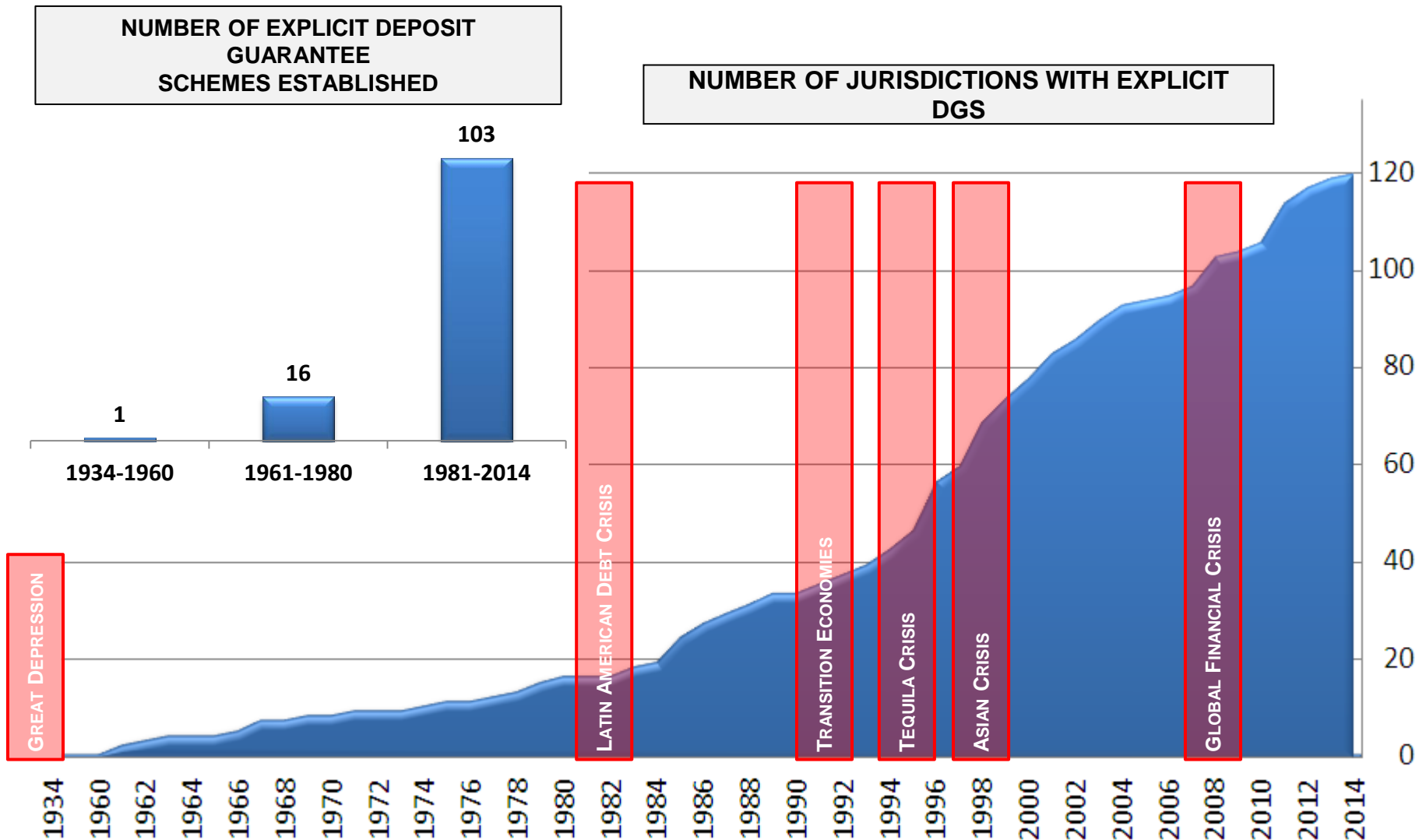
Number of countries with explicit DGS*:

1947: 12 → 1999: 71 → 2014: 113

The recent global financial crisis revealed significant gaps in the crisis management framework:

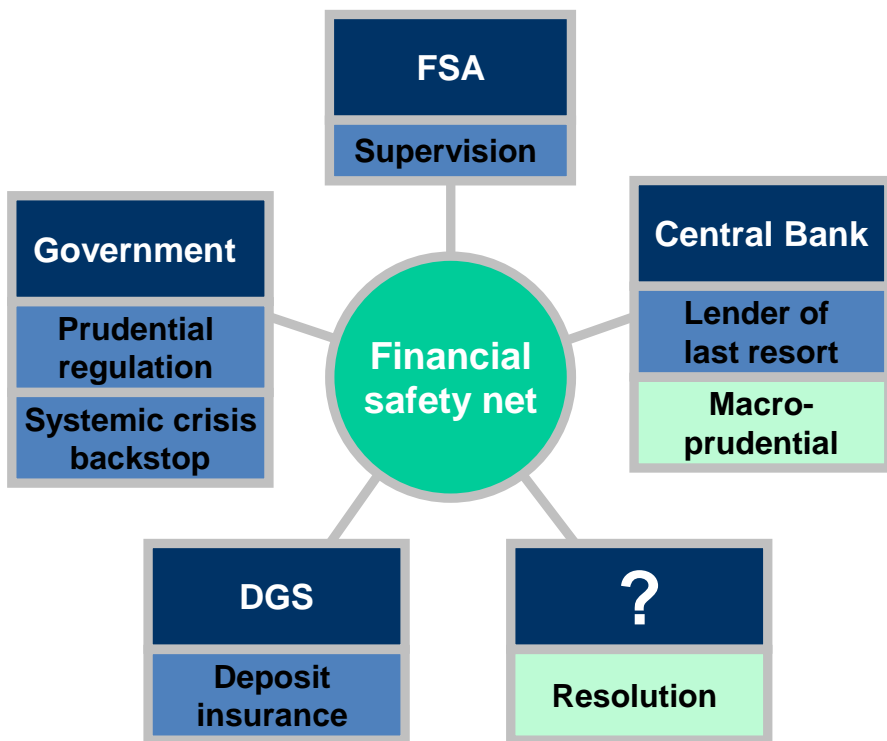
- **Lack of a macroprudential warning system**
- **Absence of tools to wind down a failed institution in orderly manner**

*Source: *Deposit Insurance Around the Globe: Where Does It Work?*, A. Demirgüç-Kunt and E. J. Kane (Boston College); IADI October 2014



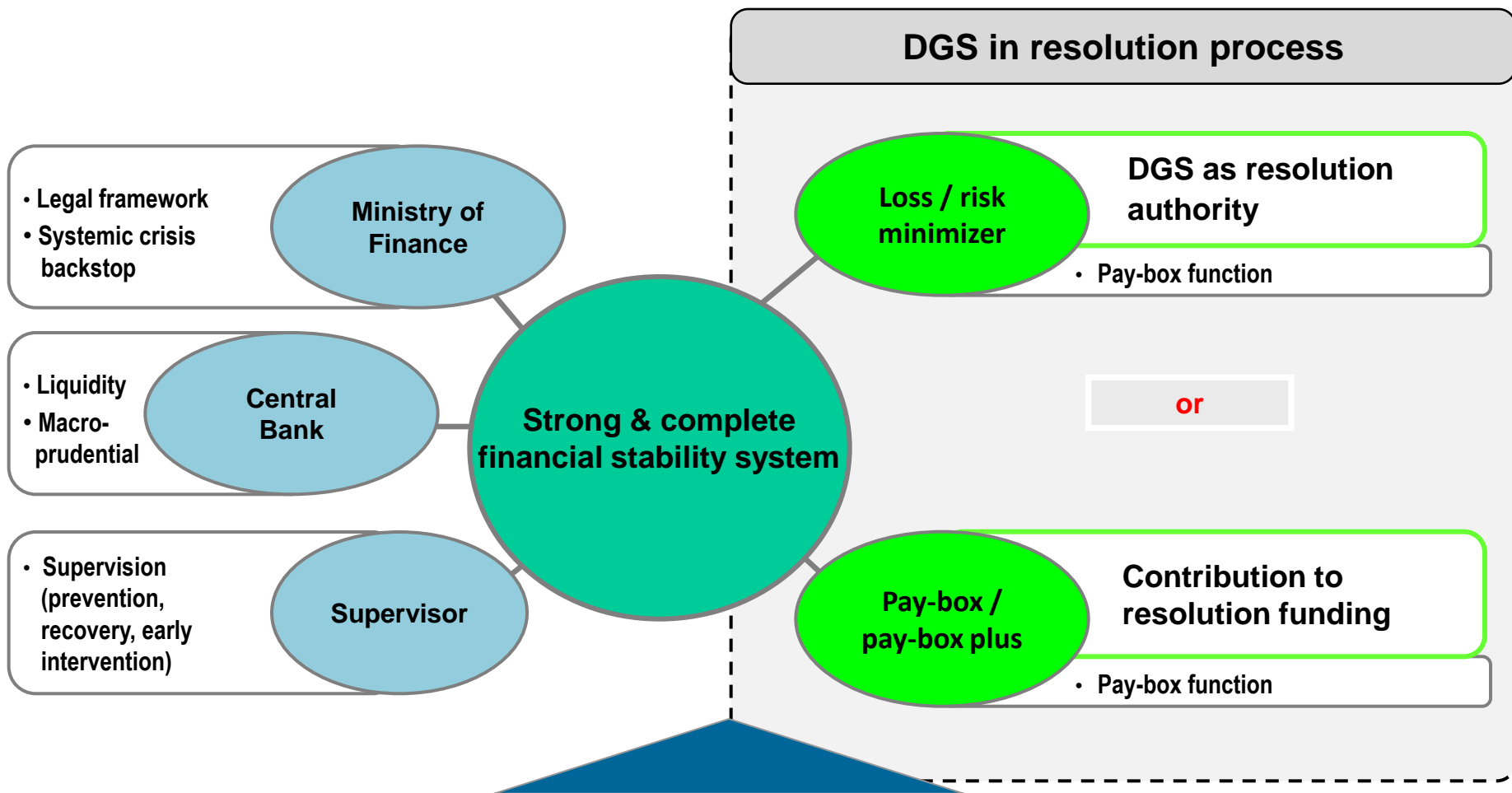
Source: World Bank (2014), IADI (2014), IMF (2009)

Functional developments require changes in the institutional framework

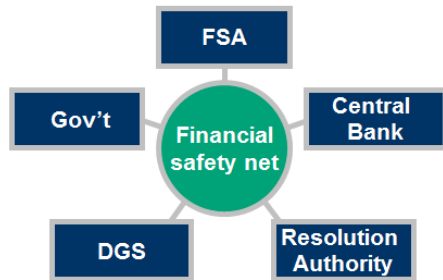


In some jurisdictions some functions can be combined (e.g. supervision exercised by Central Bank)

- Roles of financial safety net participants, including deposit insurers, evolve
 - In many jurisdictions powers assigned to DGS have been expanded significantly in last years
- However**
- There is no single international standard and the institutional approaches differ among jurisdictions



Change of role of DGS in the new crisis management framework



As crisis management functions are shared by multiple institutions smooth information sharing is essential for financial safety net to work properly

DGS obliged to cooperate closely with FSA and macroprudential authority

DGSD

„Competent authorities, designated authorities, resolution authorities and relevant administrative authorities shall cooperate with each other (...)” [Article 3(2)]

e.g. competent authority approves calculating methods for the DGS risk-based contributions and may defer, in whole or in part, a credit institution's payment of extraordinary ex-post contributions to the DGS

EBA
GL

on methods for calculating contributions to DGS

„(...) DGS or designated authority must also take into account the phase of the business cycle and the pro-cyclical impact (...). The cyclical adjustment should take into account the risk analysis undertaken by the relevant designated macroprudential authorities (...) [Paragraph 38]

Supports implementation of IADI Core Principles...

Principle 4 RELATIONSHIPS

*Formal and comprehensive framework in place for the **close coordination of activities and information sharing**, on an ongoing basis, among DGS and other financial safety net participants.*

Principle 6 ROLE IN CRISIS MANAGEMENT

*Development of system-wide crisis preparedness strategies and management policies **as a joint responsibility of all safety net participants**.*

DGS as a member of any interagency institutional framework for communication and coordination related to system-wide crisis preparedness and management.

...AND provides significant added value to the crisis management framework with DGS as a fully-fledged safety net member

In 2013 the Bank Guarantee Fund joined the Financial Stability Committee



MINISTRY
OF FINANCE



NATIONAL BANK
OF POLAND



FSA



BANK GUARANTEE
FUND

FSC's main tasks

- ❑ Coordinating the crisis management activities of its members
- ❑ Ensuring a proper flow of information with respect to major events and trends that may pose a threat to financial stability
- ❑ The development and adoption of emergency procedures
- ❑ On-going assessment and preventing the escalation of a crisis in the domestic financial system
- ❑ Macroprudential authority (of which BFG is also a member)

Before crisis

New
quality of
risk
monitoring

DGS (and/or resolution authority) provides other Financial Stability Net participants with *Early Warning System's* output

Other institutions also prepare a range of analyses,

but...

DGS/RA bears costs of failure directly and has strong incentives to be highly attuned to respond to any sign of potential failure

DGS/RA analysis **complementary** to supervisory and macroprudential scrutiny

DGS to control quality of data in calculation systems on a continuous basis

New DGS directive obliges DGSs to start reimbursement of covered deposits within 7 working days



Updated and complete data is a prerequisite for quick realization of pay-box function



DGS carries the legal and financial responsibility for timely and proper payout

Strong arguments in favour of granting DGS power to oversee the quality of data in calculation systems

New
quality of
data

In crisis

Back-up
solution

Deposit insurance mitigates the risk of bank run



- ➔ **Strongly mitigates contagion, and**
- ➔ **Makes standard bankruptcy operationally possible**

This can be achieved only where depositors perceive DGS as a well-funded and reliable partner able to satisfy their claims in a timely manner



Active liquidity portfolio management (duration policy, buy-sell back, sell-buy back, REPO, reverse REPO etc.)

Readiness of Central Banks to support DGS by providing bridge financing

DGS via the calculation system – *as the only safety net member* – handles complex information on covered, eligible and non-eligible deposits



Due to unique data access DGS is the only one able to:

- ! estimate economic and in some cases social consequences of collapse, and as a result**
- ! identify new contagion channels**



- ➔ Determination of the amount of deposits over coverage limit**
- ➔ Recognition of depositors exposed to losses**

Identification of contagion channels

In many jurisdictions this remains an underestimated capacity of DGS

**Beacon for
other
safety net
members**

- Information on adverse economic and social effects of collapse supports public interest test**
- Recon of eligible deposits over coverage limit feeds determination of bail-inable liabilities available for loss-coverage and recapitalization purposes**
- Enables to identify cases where disorderly winding-up may lead to systemic crisis**

In case of idiosyncratic liquidity stress and lack of clarity over balance-sheet insolvency, DGS can give a clear signal to the Central Bank to provide or not emergency liquidity assistance



Time for FSA to examine balance sheet and recognize all losses and for RA to prepare resolution scheme

- ❑ **DGS as a provider of unique input and significant added value to crisis management framework**
- ❑ **Strengthened DGS necessary to make new developments in crisis management architecture efficient**
- ❑ **The potential to identify contagion channels**
- ❑ **Role of DGS sometimes underestimated both at the national and cross-border level**
- ❑ **Assignment of DGS with resolution powers can deliver far-reaching synergy effects**

THANK YOU

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