Regional Initiative Implementation Plan

Supporting Implementation of Best Practices in Deposit Insurance and Failing Bank Resolution Frameworks in Southeast Europe and Eurasia

June 2011

This publication was produced for review by the United States Agency for International Development. It was prepared for the Partners for Financial Stability (PFS) Project, delivery order number EEM-I-00-07-00005-00 implemented by Deloitte Consulting, LLP

Regional Initiative Implementation Plan

Supporting Implementation of Best Practices in Deposit Insurance and Failing Bank Resolution Frameworks in Southeast Europe and Eurasia

USAID PARTNERS FOR FINANCIAL STABILITY (PFS) PROJECT

CONTRACT NUMBER: AID-EEM-I-00-07-00005-00
TASK ORDER NUMBER: AID-OAA-TO-10-00022

COTR: Ms. Sara Keefe

Compiled by: Ms. Leslie Sulenta, COP

DELOITTE CONSULTING, LLP
USAID/E&E/ECONOMIC GROWTH/MARKET TRANSITION

June 2011

Table of Contents

About PFS

The United States Agency for International Development (USAID) Partners for Financial Stability (PFS) Program is led by the Office of Economic Growth in the Europe and Eurasia Bureau (E&E). The project addresses the challenges facing the financial sector in 12 Partner Countries: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia (Southeastern Europe) as well as Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine (Eurasia). Other countries in the E&E region that are considered USAID 'graduates' serve as Mentor Countries in the PFS Program.

The PFS Program is designed to complement the work of the bilateral USAID missions' Economic Growth programs in the region by bringing together regional players to address regional challenges. PFS Program activities include benchmarking studies, conferences, knowledge sharing, research and technical assistance. The PFS Program addresses the challenges of the financial systems in these regions, working in a broad range of subject areas including anti-money laundering, banking and non-bank financial regulation, supervision and institutional rehabilitation, corporate governance, financial literacy, access to finance and implementation of international standards in financial sector reporting.

1. Executive Summary

The recent global financial crisis has illustrated the importance of effective deposit insurance systems to maintain public confidence in banking systems and ensure the flow of credit to the private sector. While deposit insurance played an important role in sustaining confidence in the banking systems in Southeast Europe and Eurasia during the financial crisis, more needs to be done to ensure that these countries' deposit insurance systems are better prepared for financial shocks.

Accordingly, implementing deposit insurance systems in developing economies presents important challenges. Research shows that overly generous deposit insurance in lax regulatory environments can, in fact, lead to financial instability as banks assume riskier loans and investments. Conversely, in sound regulatory environments, deposit insurance systems have very positive impacts on financial development, and ultimately, economic growth.

As deposit insurance systems are relatively new institutions in several E&E countries (see table below), and Kosovo and Georgia do not have explicit insurance funds, more work is needed to build knowledge and skills within the deposit insurance authorities and to ensure the implementation of international standards and best practices for deposit insurance and bank resolution regimes.

There are examples of countries, such as Ukraine and Belarus, where the level of insurance is low; certain types of deposits are usually not protected (e.g. small businesses); or where pricing of deposit insurance is not based on risk. These challenges impact the viability of the insurance fund and, in some cases, provide little or no comfort to bank customers, negating the very purpose of the program. To address these challenges, the Basel Committee and the International Association of Deposit Insurers adopted Core Principles for Effective Insurance Systems (June 2009). The Eighteen Principles recognize the importance of depositor protection, especially in times of crisis, and establish clear guidelines for effective implementation.

Table 1: Summary of Deposit Insurance Systems in SEE and Eurasia Countries[1]

Area	Finding
Type of System	All countries have explicit system, but Belarus that has mixed.
Membership	All countries except Bosnia have compulsory membership
Coverage for FX Deposits	All countries cover FX, same conditions as for local currency (except in Armenia). Armenia - if a depositor has both domestic and FX denominated deposits, compensation depends on size of domestic currency deposit, but is capped at specific amount in total.
Coverage for Interbank Deposits	Not available anywhere
Accrued Interest Coverage	All countries except Armenia have accrued interest coverage
Co-Insurance	Only Macedonia has co-insurance
Eligible Depositors	Individuals only; in Montenegro legal entities too, in Serbia entrepreneurs, small, and medium-sized legal entities too. In Armenia and Moldova: Individuals, including entrepreneurs.
Type of Coverage	All countries have coverage per depositor
Participation Premiums	All countries have flat participation premiums, while only Serbia and Montenegro have option for differential
Payout Currency	Majority of countries: local currency only

[1] Kosovo and Georgia are not included as they do not have deposit guarantee system in place yet

	Azerbaijan: Local for local currency deposits; USD or EUR for deposits in USD or EUR, respectively; AZN, USD or EUR for deposits denominated in other currencies Belarus: local in local, foreign currency in either local or currency of denomination Moldova: [not clear] Serbia: FX deposits in EUR

The PFS project should support several initiatives for accelerating the progress of development of SEE and Eurasia deposit insurance systems, including: (a) Providing guidance to the countries about implementing the 18 Core Principles[2] and the requirements of the new EU Directive; and (b) Promoting twinning and collaboration with successful deposit insurance schemes to improve each target country's depositor protection program.

[2] BIS/IADI Report on "Core Principles for Effective Deposit Insurance Systems", Basel, June 2009

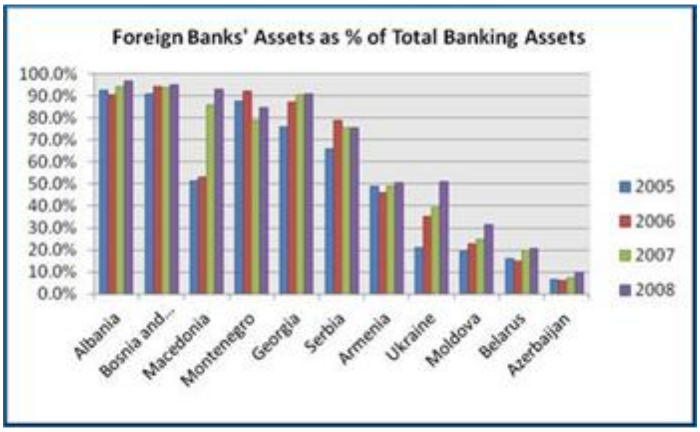
Table 2: "Overview of Regional Initiatives to Support Deposit Insurance Systems"

Objective	Partnerships	Activity	Outcome	Monitoring
Promote implementation of international best practices (the 18 Core Principles, the requirements of the new EU Directive). Promote regional collaboration and sustainable partnerships	• IADI • EFDI • PFS and Mentor Countries Deposit Insurers	• Assist national authorities to conduct first-time assessments of compliance with the Core Principles for Effective Deposit Insurance Systems • Support regional conferences , online meetings, and technical workshops of Deposit Insurers to follow through on implementation of Core Principles and EU Directive	• Three PFS Beneficiary countries are assessed for compliance with the 18 Core Principles by year-end 2011 • All PFS Beneficiary countries are familiar with the 18 Core Principles • All PFS SEE countries are familiar with requirements of the new EU Directive • Public awareness of deposit protection is enhanced -- risks and benefits -- across the SEE countries.	• Number of PFS Beneficiary countries that are assessed for compliance with the 18 Core Principles. • Number of PFS Beneficiary countries participating at regional conferences, online meetings and technical workshops of Deposit Insurers.
Develop capacities of deposit insurance agencies by enabling participation in professional training, twinning programs and collaboration with successful deposit insurance schemes. Promote regional collaboration and sustainable partnerships	• IADI • EFDI • Federal Deposit Insurance Corporation • PFS and Mentor Countries Deposit Insurers	• Promote and support twinning arrangements with mentor country(ies) related to topic of deposit insurer taking the role of a liquidator. • Study visit for representatives of the deposit insurance agencies from the region to FDIC • Study visits to PFS mentor countries with successful deposit insurance systems	• Good practices from successful deposit insurance systems are adopted by the PFS Beneficiary countries following study visits. • Capacities of deposit insurance agencies are developed • Sustainable partnerships are created and strengthened.	• Number of twinning arrangements with mentor countries. • Number of PFS Beneficiary countries that participate in a study tour to the US. • Number of PFS Beneficiary countries that participate in a study tour to a PFS mentoring country.

1. Partners for Financial Stability is implemented by Deloitte Consulting, LLC

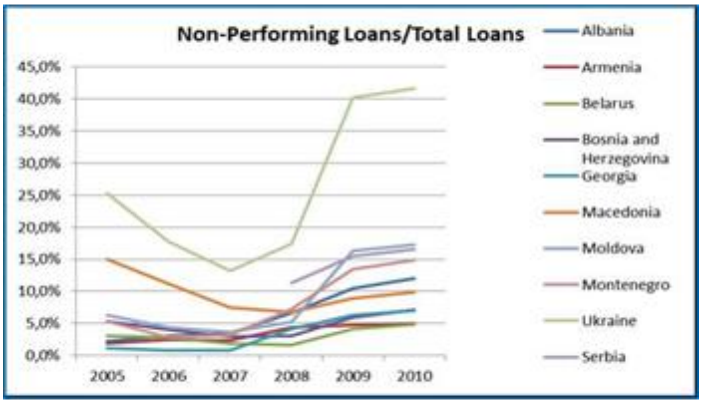
2. The Development Challenge

The recent global financial crisis has illustrated the importance of effective deposit insurance systems to maintain public confidence in banking systems and ensure the flow of credit to the private sector. The crisis which began in the United States in early 2008 ultimately challenged macro-economic stability and financial systems around the world. In September 2008, when concerns grew about the stability of major Western European (EU) banks, the crisis spread to the PFS economies and particularly their banking sectors which are dominated by EU banks. Liquidity dried up, depositors pulled out and fears were raised that the EU banks might quickly retrench and move funds back to their home countries.



The recovery of the region's banking sector from the initial shock has been attributed to a combination of decisive policy initiatives by the authorities including liquidity support to the banks and swift increases in deposit insurance coverage. These actions provided financial cushions and helped maintain confidence in the financial system thereby containing the problems.

Apart from hard-hit Ukraine, there have so far been no 'true' bank failures resulting from the financial crisis in other Eurasia and SEE countries. However, a number of banks were kept alive by Central Banks fearing the contagion effects that might be triggered by the collapse of one bank. Furthermore, in light of the high level of nonperforming loans (problem assets - see chart) and declining bank capital and profits throughout the PFS Beneficiary countries, the possibility of bank insolvencies remains elevated. Experience in other banking crises (Asia 1997-98, U.S. 1988-91, and others) has shown that keeping weak banks alive only delays and raises the cost of the eventual bank resolutions and chokes off the flow of credit to the private sector in the interim.



In our recent discussions with financial authorities in the PFS Beneficiary countries, particularly those in relatively less impacted SEE countries, many believe their deposit insurance systems are sound because their banking systems survived the crisis intact. These authorities have understandably turned their attention to the more immediate task of dealing with problem banks and high levels of troubled loans.

Today's need to deal with problem banks does not diminish the importance of deposit insurance as a key element of the region's financial safety net. Deposit insurance regimes in almost all of the PFS Beneficiary countries are simple payout boxes. These may be inadequate to deal with complex situations such as cross border bank failures. In addition, experience in other countries shows that bank liquidations which are handled as 'typical' bankruptcies, rather than through a special mechanism such as the deposit insurer, are usually inefficient, slow, and prone to conflicts of interest.

Specific Challenges in the PFS Beneficiary Countries

All the SEE countries examined for this report, except for Albania, were part of the Socialist Federal Republic of Yugoslavia, while the Eurasia countries examined for this report are former Soviet republics. Both the SEE and Eurasia countries' banking and financial systems have some common roots. However, each country had its own development phase in regards to deposit insurance.

The deposit guarantee practices in the twelve PFS Beneficiary countries range from full coverage of all deposits in every bank (Republic of Belarus), to full coverage of deposits up to a specific amount in every bank, to no deposit insurance at all (Republic of Georgia and Kosovo). All the surveyed countries with a deposit insurance system in place have explicit deposit guarantee systems which cover the majority of, but not all, deposits.

In most countries, some significant improvements to the deposit insurance frameworks were made during the recent global financial crisis. For this reason, it is difficult to judge the effectiveness of the deposit guarantee programs as no “triggering situations” have occurred since the amendments were enacted. In Eurasia, only in Ukraine was it possible to see the safety net in action after the most recent escalation of the level of deposit insurance coverage in 2008. In Moldova, the only truly failed bank was merged into a healthy institution and the agency did not have to pay off insured depositors. Macedonia made last changes to its deposit insurance system in 2002, and it is the only country in SEE where it was possible to see the deposit insurance system in action in the last five years. In Armenia, Azerbaijan, Belarus, Albania, Bosnia and Herzegovina, Montenegro and Serbia there have been no bank failures since explicit deposit insurance was introduced.

As noted, most of the PFS Beneficiary countries that have a deposit insurance system in place have tried in some way to react to the global financial crisis by adjusting their deposit insurance frameworks. In Eurasia, those countries with explicit deposit guarantee systems have increased the maximum guaranteed amounts – some did it as early as 2008 (Azerbaijan and Ukraine), and some only introduced new limits in 2010 (Armenia). One country – Republic of Belarus – went as far as offering full coverage on every deposit in every member bank. Another country (Ukraine) has decided to reform its deposit insurer to convert it from a payout box to an agency with extended powers. The underlying idea was to achieve a smoother bank resolution practice and to avoid any possible conflicts of interest with the bank regulatory agency.

In SEE, in response to the deposit outflow of October 2008, Serbia enhanced existing market confidence by increasing deposit insurance coverage and shortening the payout period. By amending the Law on Deposit insurance and the Law on the Deposit Insurance Agency, it (i) increased the deposit insurance coverage dramatically from € 3,000 to 50,000 per depositor per bank; and (ii) expanded coverage to include small and medium legal entities and sole entrepreneurs. Montenegro increased its coverage from € 5,000 up to € 50,000 in three phases. The new law in Montenegro increased coverage to € 20,000 through 12/31/10, to € 35,000 through 12/31/11, and to € 50,000 beginning 1/1/12[3]. Albania increased the coverage by 3.5 times in 2009 and removed the criteria for co-insurance. Bosnia also increased the maximum coverage in 2010. Macedonia did not make any

[3] Report to the Financial Stability Board, June 2010, Note by the Staffs of the International Association of Deposit Insurers and the International Monetary Fund on Update on Unwinding Temporary Deposit Insurance Arrangements

changes since 2002 when it increased the insured amounts. Macedonia is also the only surveyed country that has co-insurance and that had a chance to test its deposit insurance system in the last five years.

There are many common features of deposit insurance in the PFS Beneficiary countries:

- No country uses co-insurance (except for Macedonia). Depositors with deposits above the maximum coverage limits are entitled to seek recovery through the bank resolution process (in most cases – liquidation), but on their own.
- All countries except Bosnia declare deposit insurance to be compulsory for the banks that accept individual deposits. In Albania, a bank cannot obtain a banking license from the National Bank without being a member of the Deposit Insurance Agency. Bosnia, similarly to Eurasia countries, established qualification criteria for banks to be accepted into the deposit insurance vehicle; therefore not every operating bank is necessarily a full member.
- Montenegro, Serbia and Bosnia and Herzegovina in addition to flat premiums have the option to set risk-based premiums, while the rest of the countries only require flat contributions from every participating bank. However, in practice, none of the SEE countries have used risk-based premiums. In Eurasia, only Belarus has used risk-based premiums (the practice has since been abolished), while the others require flat contributions from every participating bank.
- Deposit insurance is available mostly to individuals only and is not provided for interbank deposits. However, in some countries (such as Armenia, Moldova and Serbia) deposits of private entrepreneurs are also covered. In Serbia and Montenegro, legal entities are covered as well.

Bank resolution practices, however, do not differ much by country. In general, bank resolution is the responsibility of the Central (National) Bank and the deposit guarantee agency is supposed to step in only when it is called to pay off the insured deposits. Only the Serbian DIA, in charge of the deposit insurance fund (DIF) management and payout functions, is also the designated bank resolution agency for closed bank resolution. In all other countries, the deposit insurer is not able to intervene in a failing bank or apply any enforcement authority over bank directors or managers. In Bosnia and Macedonia, the deposit insurer is capable of terminating the insurance of a participating bank, and in Albania the insurer terminates the insurance when decision by the National Bank is taken to terminate insurance. Similarly, in some Eurasian countries the deposit insurer does have eligibility criteria for participating banks and therefore is capable of terminating the insurance of a participating bank. Only one country in Eurasia (Ukraine) is undertaking a major transition toward an enhanced deposit insurer. All together these factors suggest that deposit insurance in the majority of the analyzed countries is mostly viewed by governments as part of the 'social safety net,' rather than a comprehensive means to mitigate bank failures.

Overall, the bank resolution practices in the PFS Beneficiary countries are rather untested. The majority of countries have enacted some amendments / improvements to their national deposit insurance systems in light of the global financial crisis, but few had a chance to test the new approaches and requirements in a real life situation (bank failure) since. In nine of the surveyed countries, there has been no occasion to see the safety net in action, and only in Macedonia, Moldova and Ukraine were there recent bank failures. The number of bank failures differs widely – while in Moldova there were only two bank failures within last five years (including one self-liquidation), Ukraine had to deal with over 30 problem banks and in every case the deposit insurer had to step in.

The following areas need to be addressed:

1. ***Core Principles Assessments.*** Once the Core Principles Assessment Methodology is finalized (see box), it would be beneficial for the PFS Beneficiary countries to conduct self-assessments (or peer assessments) of their compliance with the 18 Core Principles, as the assessment could be a useful tool for implementing, reviewing or reforming a deposit insurance system. Based on the outcomes of these assessments, other activities should be considered. For instance:

2. ***Implementing the New EU Directive on Deposit Guarantee Schemes.*** As part of its work for creating a safer and sounder financial system, preventing a future crisis and restoring consumer confidence, the European Commission has proposed changes to existing European rules to further improve protection for bank account holders and retail investors. The new EU Directive on Deposit Guarantee Schemes will be adopted in September 2011. Those PFS Beneficiary countries working for EU membership will need to harmonize their deposit insurance systems with the new requirements set forth in the Directive. This means that the PFS Beneficiary countries would benefit from opportunities to study and clarify the new requirements. PFS will first determine whether the EU offers this type of assistance before moving forward in this area.

> ***Update on International Standards for Deposit Insurance Systems***
>
> *The Basel Committee and the International Association of Deposit Insurers (IADI) issued the "Core Principles for Effective Deposit Insurance Systems" in June 2009 as a voluntary framework for effective deposit insurance practices.*
>
> *The Principles are used by the IMF and the World Bank in the context of Financial Sector Assessment Programs to assess the quality of deposit insurance.*
>
> *Since December 2009, IADI has been collaborating with the Basel Committee, the European Forum of Deposit Insurers (EFDI), the International Monetary Fund (IMF), the World Bank, and the European Commission (EC) to develop a robust methodology to assess compliance with the Core Principles.*
>
> *Although the methodology for performing assessments is still under development, assessments of compliance with the Principles have been conducted for Mexico, India, the Czech Republic, and Serbia (a PFS Beneficiary country).*

3. ***Comparative Analysis of IADI and EU Requirements.*** The majority of SEE countries included in this study are striving to fulfill both the EU Directives as well as to comply with the Core Principles. It would be beneficial to examine the relation of these two sets of international standards to one another and point out any significant differences in recommendations. For example, while the risk of moral hazard is explicitly recognized by the Core Principles, as well as the need to strike a balance in setting the coverage level, the EU plans to increase the level of coverage. In this case, it would be hard for the SEE countries to be compliant with both recommendations.

4. ***Knowledge sharing on 'Extended Powers' Deposit Insurance Systems*****.** Serbia is the only country in the SEE region where the deposit insurance authority is also the designated bank resolution agency for closed bank resolution. The majority of the SEE countries do not know what it would mean in practice for a deposit insurer to have extended powers over those of a simple payout box. The management of the Macedonian Deposit Insurance Fund feels that it would be beneficial if their duties were extended to include them taking the role of a liquidator, and should a good example of deposit insurance authority being the liquidator be provided, the Macedonian Ministry of Finance would consider supporting changes to their legislation to extend the Fund's role. Only one country in Eurasia (Ukraine) is undertaking a major transition toward an enhanced deposit insurer

   Even though some of the deposit insurance agencies commented that the market in the region is simply not large enough to require deposit insurance systems to comply with the same recommendations as some other countries with large markets (e.g. USA), a capacity development program for deposit insurance authorities would allow them to become familiar with practices of countries with developed deposit insurance systems, to have the opportunity to form partnerships and gain knowledge. This would also be relevant to setting of participation premiums, as no country included in this study actually uses risk-based premiums, even though some countries have the legal possibility.

5. ***Coordinate with existing technical assistance programs.*** There are currently some donor programs assisting deposit insurance functions in Bosnia and Herzegovina (USAID's PARE project), Serbia (SECO), Azerbaijan (KfW), and Ukraine (World Bank, USAID's FinRep project, and FDIC). To maximize synergies and avoid duplication with other technical assistance projects, PFS will coordinate its efforts with all such programs in the region.

Table3: Summary of Recent Donor and Other International Organizations Interventions

	USAID	World Bank	KfW	EBRD	FDIC
Albania					
Armenia					
Azerbaijan			Loan, Technical Assistance		
Belarus					
Bosnia	PARE Project		Loan, Technical Assistance	Loan	
Georgia					
Kosovo					
Macedonia					
Moldova					
Montenegro			Founding deposit		
Serbia			Recapitalization, SECO Technical Assistance		
Ukraine	FinRep Project	World Bank			Collaboration

3. Objectives of Regional Initiative

The primary objective of PFS' regional initiatives related to deposit insurance systems is:

- To strengthen the institutional capacity of deposit insurers across 12 PFS Beneficiary countries to effectively implement international standards and best practices related to deposit insurance

The intermediate objectives are:

- **Intermediate Objective 1** - To assist PFS Beneficiary countries to implement international best practices through training and knowledge sharing (the 18 Core Principles, the requirements of the new EU Directive).
- **Intermediate Objective 2** - To develop capacities of deposit insurance agencies by enabling participation in professional training, twinning programs and collaboration with successful deposit insurance schemes.
- **Intermediate Objective 3** - To promote regional collaboration and sustainable partnerships between PFS Beneficiary countries, mentor countries and international deposit insurance organizations).

4. Partnerships

The proposed PFS activities will involve partnerships with the following entities:

- International Association of Deposit Insurers (IADI)
- European Forum of Deposit Insurers (EFDI)
- PFS and Mentor Countries Deposit Insurers
- Toronto Centre for Leadership in Financial Supervision
- Federal Deposit Insurance Corporation (FDIC)

Each of the institutions listed has specific expertise and knowledge to share with counterparts in PFS Program beneficiary countries. PFS plans to partner with the listed entities and share expenses related to organization of seminars, trainings and other regional events to enable PFS Beneficiary countries to attend and gain most value.

PFS also plans to partner with all active donors and projects in the area of deposit insurance in PFS Beneficiary countries and ensure that their activities and PFS activities complement each other.

5. Proposed Activities

The PFS Program plans to achieve the above-mentioned objectives through the following set of regional activities:

(a) Assist national authorities to conduct first-time assessments of compliance with the Core Principles for Effective Deposit Insurance Systems[4]. Serbia is the only PFS Beneficiary country for which an assessment of compliance with the Core Principles has been conducted[5]. The standardized methodology for assessing compliance has recently been published. Several activities are planned:

    - Support the Annual Conference of European Deposit Insurers that will be held in Belgrade, Serbia, May 30 and 31st 2011. There will be 50 countries participating (including PFS Beneficiary countries) and up to 250 participants. On this conference, PFS plans to introduce the initiative to conduct assessments of compliance with the Core Principles for Effective Deposit Insurance Systems and solicit interest from the countries.

[4] December 2010, Bank for International Settlements and IADI – Core Principles for Effective Deposit Insurance Systems – A Methodology for Compliance Assessment. http://www.bis.org/publ/bcbs192.pdf

[5] May 2010, IMF, Republic of Serbia: Financial Sector Assessment Program Update — Technical Note on Deposit Insurance

- IADI plans a workshop in July 2011 in Tirana, Albania, on how to do the assessments of compliance with the Core Principles for Effective Deposit Insurance Systems. PFS plans to sponsor/support attendance by the countries which displayed most enthusiasm to do the assessments.
- Following these 2 conferences, the PFS would schedule a round of self-assessments or peer assessments, and workshops to discuss, and follow up by our advisors. This could be organized in different ways depending on the plan made with the participating countries:
  - A PFS expert could conduct the assessments in cooperation with each country and compile the results and a recommended action plan which would then be shared in a regional event, or
  - Self-assessments or peer-assessments could be prepared by participating countries and findings shared with the working group for further elaboration and training.

PFS will organize follow-up workshops or online meetings (via PFS web portal) to support implementation of action plans to improve conformance with the Core Principles. Special sessions might address particular issues of importance, such as public awareness of deposit insurance systems or the IT needs of the beneficiary countries.

- PFS will consider partnering with IADI for other regional meetings where cooperation with PFS Beneficiary countries could be further enhanced and results of previous activities highlighted:
  - I. IADI regional meeting in Almaty in September 2011
  - II. The annual IADI meeting in Warsaw in October 2011
  - III. IADI meeting in Russia In May/June 2012

(b) Assist national authorities from SEE countries with implementation of the new EU Directive on deposit insurance and conduct comparative analysis of IADI and EU requirements. Those SEE PFS Beneficiary countries working for EU membership will need to harmonize their deposit insurance systems with the new requirements set in the Directive. This means that the SEE PFS Beneficiary countries would benefit from opportunities to study and clarify the new requirements. PFS will first determine whether the EU offers this type of assistance before moving forward in this area. As the majority of SEE countries are striving to fulfill both the EU Directives as well as to comply with the Core Principles, it would be beneficial to examine the relation of these two sets of standards and point out any significant differences in recommendations. For example, while the risk of moral hazard is explicitly recognized by the Core Principles, as well as the need to strike a balance in setting the coverage level, the EU plans to increase the level of coverage. In this case, it would be hard for the countries to be compliant with both recommendations.

- PFS will support the Serbian DIA together with the EFDI to organize a regional conference in May 2011 to discuss the new Directive and its implementation. The new EU Directive will be adopted in September 2011.
- In October/November 2011 a World Conference on Core Principles will be held. PFS will consider supporting a regional conference to explore the relation of the new EU Directive to the Core Principles.
- For these activities, PFS also plans to organize online meetings / group discussions (via PFS web portal)

(c) Explore the possibility of successful deposit insurance regional authorities acting as mentors or leading "twinning" partners for other regional players:

- PFS will try to respond to a request from the Macedonian deposit insurer to secure a twinning partner related to topic of the deposit insurer taking the role of a liquidator. This could possibly be Serbia, or one of the PFS mentor countries.

(d) Support a study visit for representatives of the deposit insurance agencies to FDIC (Washington) to participate in training organized by FDIC. PFS will consider supporting study tours for deposit insurers from PFS Beneficiary countries to FDIC. As an example - changes to the Serbian legislation introduced the authority for the deposit insurer to intervene in failing banks, 'purchase and assumption' mechanisms for dealing with failed banks (this concept does not exist elsewhere in the SEE region), and the concept of bridge banks. These changes made the Serbian DIA resemble Federal Deposit Insurance Corporation (FDIC). Therefore, it would be beneficial to support the DIA's cooperation with the FDIC.

(e) Support study visits to PFS mentor countries with successful deposit insurance systems - PFS will consider supporting study tours for deposit insurers from PFS Beneficiary countries to mentor countries - e.g. Czech Republic would be a good candidate due to similarity of financial systems (as indicated by the Bosnian agency) or Russia (as mentioned by the Azerbaijan deposit insurance authorities).

6. Expected Outcomes

The outcome of these activities will be:

- Several[6] PFS Beneficiary countries are assessed for compliance with the 18 Core Principles by year-end 2011
- All PFS Beneficiary countries' deposit insurers are familiar with the 18 Core Principles
- All PFS SEE countries' deposit insurers are familiar with requirements of the new EU Directive
- Public awareness of deposit protection is enhanced -- risks and benefits -- across the PFS Beneficiary countries
- Good practices from successful deposit insurance systems are adopted by the PFS Beneficiary countries following study visits
- Capacities of deposit insurance agencies are developed via professional training (eg. FDIC training)
- Sustainable partnerships are created and strengthened

7. Monitoring Plan

This section outlines how PFS will measure and monitor the effectiveness of the regional initiative.

Measuring and monitoring stakeholder satisfaction, demand, and achievement of outcomes

PFS will intermittently track the results of this regional initiative, using monitoring and evaluation tools such as surveys, focus groups, or follow-up interviews. For each of the activities undertaken, PFS will use the most appropriate of these tools to:

- Measure satisfaction amongst stakeholders
- Gauge future demand for PFS initiatives/interventions

[6] 2 countries don't have deposit insurance system, and Serbia has been assessed for compliance

- Monitor achievement of expected outcomes

In addition, PFS will track cost-sharing amounts and percentages by the beneficiaries of the activities and by other co-financing organizations. Beneficiaries' and other organizations' willingness to share in the costs of PFS activities is a strong indicator of the usefulness of the events.

As illustrated in the table below, a variety of techniques will be used to monitor the outcome of the activities. This will assure that PFS not only demonstrates progress toward outcomes but that it has the information needed to make mid-course corrections if necessary.

Table 4: "Regional Initiative Monitoring Plan"

Project Initiative (RIIP) Level	**Notional Budget:** $300,000		
	RIIP Primary Objective: To strengthen the institutional capacity of deposit insurers across 12 PFS Beneficiary countries to effectively implement international standards and best practices related to deposit insurance		
	RIIP Intermediate Objective 3: Increased regional collaboration and sustainable partnerships between PFS Beneficiary countries, mentor countries and international deposit insurance organizations.	**RIIP Intermediate Objective 1:** Improved implementation of international best practices (the 18 Core Principles, the requirements of the new EU directive)	**RIIP Intermediate Objective 2:** Capacities of deposit insurance agencies improved by enabling participation in professional training, twinning programs and collaboration with successful deposit insurance schemes
	Number of times PFS Beneficiary Countries participate at international (IADI and EFDI) or bilateral (PFS mentor countries) events. Unit of measure: PFS beneficiary country's participation at workshop, annual conference, or similar forums or visits counts as "1".	Number of participants with an increased understanding of 18 Core Principles or the new EU directive after receiving PFS assistance (events, training, study tours etc.) Unit of Measure: PFS-conducted exit survey of participants after the event. It will measure number of participants (by country) that confirm an increase of understanding of 18 Core Principles or the new EU directive. Number of assisted PFS beneficiary countries that improved adoption of Core Principles. Unit of Measure: Number of deposit insurance agencies (reported by country and by number of Core Principles) that improve adoption of Core Principles as documented by self-assessments (initial self-assessment at the beginning of Regional Initiative; and PFS follow-up on adoption of Core Principles at least annually). For example, 2 countries adopt 13 Core Principles.	Number of participants who adopted good practices on deposit insurance after receiving PFS assistance (events, training, study tours etc.) Unit of Measure: PFS-conducted online survey of participants 3 months after the event. It will measure number of respondents (by country) that: • apply new skills in their daily work; • have started/implemented an institutional change at their agency; • have adopted new regulation, policy, or procedure.

Activity Implementation Level	Activity	Activity Indicator(s)	Related RIIP Objective(s)	Related PMP Objective(s)
	Activity #1: Assist national authorities to conduct first-time assessments of compliance with the Core Principals for Effective Deposit Insurance Systems	Number of PFS Beneficiary countries that are assessed for compliance with the 18 Core Principles.	**RIIP Intermediate Objective 1:** Improved implementation of international best practices (the 18 Core Principles, the requirements of the new EU directive)	**Sub IR 1.3:** Increased institutional capacity of financial sector actors
	Activity #2: Support regional conferences, online meetings, and technical workshops of Deposit Insurers to follow through on implementation of Core Principles and EU Directive	Number of PFS Beneficiary countries participating at regional conferences, online meetings and technical workshops of Deposit Insurers.	**RIIP Intermediate Objective 1:** Improved implementation of international best practices (the 18 Core Principles, the requirements of the new EU directive)	**Sub IR 1.1:** Increased financial sector integration **// Sub IR 1.2:** Increased harmonization of policies and practices with intl standards
	Activity #3: Promote and support twinning arrangements with mentor country(ies) related to topic of deposit insurer taking the role of a liquidator.	Number of twinning arrangements with mentor countries.	**RIIP Intermediate Objective 3:** Increased regional collaboration and sustainable partnerships between PFS Beneficiary countries, mentor countries and international deposit insurance organizations.	**Sub IR 1.1:** Increased financial sector integration
	Activity #4: Study visit for representatives of the deposit insurance agencies from the region to FDIC	Number of PFS Beneficiary countries that participate in a study tour to the US.	**RIIP Intermediate Objective 2:** Capacities of deposit insurance agencies improved by enabling participation in professional training, twinning programs and collaboration with successful deposit insurance schemes	**Sub IR 1.3:** Increased institutional capacity of financial sector actors
	Activity #5: Study visits to PFS mentor countries with successful deposit insurance systems	Number of PFS Beneficiary countries that participate in a study tour to a PFS mentoring country.	**RIIP Intermediate Objective 2:** Capacities of deposit insurance agencies improved by enabling participation in professional training, twinning programs and collaboration with successful deposit insurance schemes	**Sub IR 1.3:** Increased institutional capacity of financial sector actors //

1. Partners for Financial Stability is implemented by Deloitte Consulting, LLC

Annex 1: Detailed Country Analysis

SEE Countries

Albania

Deposit Insurance Summary

Albania Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit since October 2002
Name of Deposit Insurer	Albanian Deposit Insurance Agency
Accountable to	Financially and operationally independent, accountable to the Assembly of the Republic of Albania, Council of Ministers and to the Bank of Albania (Central Bank).
Administration	Administered by the Board of Directors, composed of five members. The Bank of Albania appoints members of the Board of Directors nominated in the following manner: two members by the Bank of Albania, two members by the Minister of Finance, one member by the trade union of Certified Public Accountants.
Membership	Compulsory - Pre-Screening: a bank cannot obtain license from the Bank of Albania without being member of the Agency
General Coverage Limit	ALL 2,500,000 [≈ $24,000]
Coverage for FX Deposits	Yes. ALL 2,500,000 [≈ $24,000]
Coverage for Interbank Deposits	Not available
Accrued Interest Coverage	Yes
Co-Insurance	None
Eligible Depositors	Individuals, regardless of whether a depositor is a resident or non-resident in Albania. The Agency insures only deposits not used for commercial purposes. Not eligible: deposits held at an insured bank by any director, senior executive officer, shareholder that holds 5% or more of the equity or voting rights of the bank, persons responsible for carrying out audits of the bank, depositors that earn preferential rates of interest (at least 20% more than the bank's standard rate);
Type of Coverage	Per depositor
Participation Premiums	Flat. All premiums are paid in local currency. Membership: the admission contribution is equivalent to 0.5 percent of the subscribed capital of the bank.
Base for Premiums	0.5 % of the arithmetic average of insured daily deposit balance of the last quarter of the previous year. The annual premium payment is paid in four installments.
Payout Trigger	The Agency is notified in writing by the Bank of Albania on the intervention or the decision of voluntary liquidation of the insured bank
Payout Type	Each depositor is entitled to bring a claim against the Agency for payment of compensation. Payment is done: a) through the recognition of right to return the funds for the deposited amount and transferred to another insured bank, up to the level of compensation

	b) through the payment of the amount in ALL to the person c) through an insured bank.
Payout Currency	Payout is done in local currency.
Source of Funding	Mixed – Government funding plus participation fees etc. The State budget - amount Leke 400,000,000 (~$ 380,000), plus admission contributions and annual premia and premium surcharges from insured banks; credits, loans, subsidies and grants; and income and capital gains earned on its assets.
Special Treatment(s)	None

The Albanian Deposit Insurance Agency was established in October 2002 as part of the Albanian financial safety net. The Albanian Deposit Insurance Agency Fund acts as an independent agency governed by a Board of Directors comprised of representatives selected by the Bank of Albania, Minister of Finance and the Professional Union of Public Accountants. It is directly accountable to the Assembly of the Republic of Albania, Council of Ministers and to the Bank of Albania.

In 2009, by amendments to the Law from 2002, the coverage of both domestic currency and foreign currency deposits was increased to 100% of amounts up to 2,500,000 ALL [≈ $24,000]. This change increased the coverage by 3.5 times and also removed the criteria for co-insurance. Before the amendments, the maximum insured amount was 700,000 ALL [≈ $6,600] or the equivalent amount in foreign currency, such that: for deposits ≤ 350,000 ALL, the amount of compensation was 100 % of the deposit; For deposits > 350,000 ALL but < 700,000 ALL, the amount of compensation was the sum of 350,000 ALL and the equivalent of 85 % of the amounts whereby the deposit exceeds 350,000 ALL; and for deposits of ≥ 700,000 ALL, the amount of compensation was 647,500 ALL.

The impact of these amendments was that it brought the percentage of the fully covered depositors to over 90 % of the total number of depositors in the banking system, according to the latest data of the Agency.

Other important amendments made in 2009 are a reduction of the period for beginning the compensation process, and increasing the power of the Agency and strengthening its role within the function of ”pay box”.

The coverage for domestic currency deposits is the same as for FX deposits. The Agency can compensate insured deposits in the following ways:

(a) through the recognition of the right to return the funds for the deposited amount and transferred to another insured bank, up to the level of compensation

(b) through the payment of the amount in ALL to the person

(c) through an insured bank. The insured bank which accomplishes the compensation process is determined by a decision of the Director General of the Agency.

The Agency can decrease the regular quarterly premiums (which are at 0.5%) to not less than 0.1% of average deposits in case the assets of the Agency exceed the equivalent of 5% of such average deposits. Also, the Agency can increase the annual premium to not more than 0.7%.

The Agency does not cover deposits receiving ‘preferential interest rates,’ i.e. interest rates which are greater than 120% of the average interest rates paid to all other depositors of the bank.

Failing Bank Resolution Summary

Albania Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No, this is the exclusive role of the Central bank
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	Yes. The Agency terminates the deposit insurance of a bank when: a. It receives from the Bank of Albania a written notice of intervention against that bank. b) b) When the banking license of the bank has been revoked.
As part of failure resolution, how many banks closed or merged in the last 5 years?	None
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	N/App.
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	N/App

The Albanian Deposit Insurance Agency is responsible for the effective administration of funds collected. In compliance with the standards adopted by the Agency regarding risk management, it collects information and documentation on the activity of banks, specifically on the deposits and depositors, of the bank's calculation of premiums and banks' initial contribution to the deposit insurance fund. The Agency is also entitled to file an objection against the liquidator's report with the Bank of Albania (provided it finds out that the acts proposed by the liquidator are at variance with its legitimate interests). The Agency verifies with the insured banks the accuracy of their calculation of premiums, data about depositors and deposits for the purposes of compensation, as well as the accuracy of public information on the insurance scheme. The Agency can request that the Bank of Albania include its representatives in the examinations of insured banks.

There is no information about any case where the Albanian Deposit Insurance Agency was required to take action. In 2005, there have been 17 banks in Albania, and in 2007 the number decreased to 16, due to the merger and acquisition of Italian – Albanian Bank S.A. (IAB) by American Bank of Albania S.A. In March 2008 the license of IAB was revoked.[7]

[7] Source: BSCEE Review

Bosnia-Herzegovina

Deposit Insurance Summary

Bosnia and Herzegovina Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit since 1998
Name of Deposit Insurer	Deposit Insurance Agency of Bosnia and Herzegovina
Accountable to	The Management Board
Administration	Administered by the Management Board, consisting of 5 members. The Governor of the Central Bank, and the Minister for Treasury of the Institutions of Bosnia and Herzegovina, are ex officio members of the Management Board. The Governing Board of the Central Bank, the Minister of Finance of the Federation and the Minister of Finance of the Republika Srpska each appoint one member.
Membership	Compulsory. All banks licensed by the Banking Agencies and who meet the Agency's criteria for membership as stated in Article 7 of the Law are required to become a Member Bank.
General Coverage Limit	KM 35,000 (~$24,000)
Coverage for FX Deposits	Yes. KM 35,000 (~$24,000)
Coverage for Interbank Deposits	None (Eligible deposits exclude assets deposited by other domestic or foreign banks on their own behalf and for their own account)
Accrued Interest Coverage	Yes
Co-Insurance	None
Eligible Depositors	Natural persons only Not eligible: deposits of bank insiders, auditors, or their immediate family; depositors that obtained preferential interest rates/any other financial concession which may have helped aggravate the bank's financial condition
Type of Coverage	Per Depositor
Participation Premiums	Flat with option for differential. (' The Management Board of the Agency has the right to establish a system of ranking for the purposes of setting insurance premium rates for individual Member Banks based on that ranking or to accept, for this purpose, any rating system established by the respective Banking Agencies.')
Base for Premiums	0,3% p.a. to the calculation basis determined by the Law - the average total eligible deposits as per the end of each month plus accrued interest. Paid quarterly.
Payout Trigger	• Loss of the banking license of a Member Bank by action of Banking Agency • Loss of banking license of a Member Bank in a voluntary winding-up of bank's operations Appointment of Provisional Administrator of a Member Bank
Payout Type	Individual solicitation
Payout Currency	Local currency only. For purposes of payout, any assets of a Natural Person denominated in foreign currency shall be converted into KM.
Source of Funding	The Agency's operational expenses are financed from revenues of fees and returns on investments of the Fund. Funds from the Agency's operational account can only be utilized for the Agency's operational expenses and the funds that comprise the Fund account can only be utilized for the payment of deposit insurance in the event of an

	insurance payout. Donations may be used to finance the operational expenses of the Agency.
Special Treatment(s)	None

The Deposit Insurance Agency of Bosnia and Herzegovina is an independent, non-profit legal entity with full authority under the law of the State. The Management Board is the sole governing body of the Agency. It consists of five members. The Governor of the Central Bank and the Minister for Treasury of the Institutions of Bosnia and Herzegovina are ex officio members of the Management Board. The Governing Board of the Central Bank, the Minister of Finance of the Federation and the Minister of Finance of the Republika Srpska each appoint one member. The Management Board provides a copy of its annual business report and its financial plan to the Presidency of Bosnia and Herzegovina

The maximum amount of an Insured Deposit, including any accrued interest, to be reimbursed by the Agency per depositor (natural persons only) per member bank is the ‘Eligible Deposit’ less legal or contractual debt owed to the member bank by the depositor or KM 35,000 (~$24,000) whichever is smaller. The maximum amount was increased in 2010 to KM 35,000; previously the maximum amount was KM 20,000.

Domestic currency and FX deposits have same treatment; however payouts are done in local currency only.

At least once per year the Management Board of the Agency establishes the level of insurance premiums for all member banks, based on the recommendation provided by the Director of the Agency. The Management Board of the Agency has the right to establish a ranking system for the purposes of setting insurance premium rates for individual member banks or to accept, for this purpose, any rating system established by the respective Banking Agencies.

Failing Bank Resolution Summary

Bosnia and Herzegovina Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	Yes. The suspension or termination of membership in the deposit insurance program, for any reason other than the situations described in Article 12 of the Law (see payout triggers in table above), can only result from a Decision of the Agency’s Management Board on the recommendation of the Agency’s Director.
As part of failure resolution, how many banks closed or merged in the last 5 years?	None
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	N/App.
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	N/App

The Deposit Insurance Agency of Bosnia and Herzegovina issues Membership Certificates to banks and can revoke them through suspension or termination procedures. It invests the assets of the deposit insurance fund and enacts bylaws regulating deposit insurance and the operations of the Agency. When the Agency determines that a member bank does not meet its obligations for payment of the insurance premium to the Agency or any other of its financial obligations to the Agency, the Agency is authorized to file charges with an appropriate court and/or institute suspension and termination procedures.

The Agency has the power to impose a monetary fine of KM 1,000 to KM 50,000 (~$ 34,000) to a member bank in certain cases. In cases of untimely submission of reports to the Agency or deliberate submission of inaccurate information to the Agency or failure to conform to any provision of the Law, a monetary fine can be imposed in proportion to the level of damage caused or the level of any unsettled liability to the Agency up to a maximum of twenty times of the amount of damage or unsettled liability that is the subject of the violation. Moreover, the Director of the Member Bank can be charged with a monetary fine of KM 200 to KM 5,000.

In 2005, Bosnia had 24 banks; in 2007 the number went to 22, and in 2009 to 20 banks. The consolidation process has resulted in the largest banks becoming larger and intensifying competition.[8] There have been no bank failures to test the deposit insurance system.

[8] Source: BSCEE Review

Kosovo

In Kosovo, there is no official deposit insurance. The first reading of the Draft Law on Establishment of a Deposit Insurance System for Financial Institutions in Kosovo was held in June 2010.

The law on the Deposit Insurance Fund (DIF) will ensure depositors have speedy access to their deposits during bank resolution, including through use of DIF funds to facilitate a purchase and assumption transaction. The DIF will not have any responsibility for official administration or liquidation of banks and its permanent administration will employ no more than one full-time employee.[9]

[9] IMF, **Republic of Kosovo**: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, July 7, 2010

Macedonia

Deposit Insurance Summary

Macedonia Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit (1996/2000/2002)
Name of Deposit Insurer	Deposit Insurance Fund Skopje
Accountable to	The Government of the Republic of Macedonia
Administration	The Managing Body consists of 5 members. Minister of Finance nominates 3, the Governor of the National Bank of the Republic of Macedonia nominates 1, and the Banking Association nominates 1. The Government of the Republic of Macedonia approves the appointment of the Managing Board members.
Membership	Compulsory
General Coverage Limit	1. 100% of the total deposits of each physical person in a bank or savings house in the amount of up to € 10,000 in in local currency (Denar) equivalent, and 1. 90% of the total deposits of each physical person in a bank or savings house amounting to between € 10,000 and 20,000 in Denar equivalent, but not exceeding € 20,000 in Denar equivalent.
Coverage for FX Deposits	Yes
Coverage for Interbank Deposits	Not available
Accrued Interest Coverage	Yes
Co-Insurance	Yes
Eligible Depositors	Individuals. Not eligible: members of bank managing bodies, individuals owning > 10% of the voting shares, or their first-of-kin relatives. Also, deposits of individuals with privileged terms of interest (higher interest rates than those announced in the bank or saving house) are not covered.
Type of Coverage	Per depositor
Participation Premiums	Flat. Membership: newly-established banks and savings houses are obliged to pay an entry premium in the amount of 1% of the founding capital when becoming members of the Fund.
Base for Premiums	The Fund collects premiums from the members at a rate up to 0.7% per annum of the total deposits of physical persons in each bank or savings house.
Payout Trigger	The Fund pays out insured deposits of individuals after the date on which the National Bank Governor issues a decision to revoke the license for establishment and operation of a bank or savings house [10]
Payout Type	Solicitation. Depositors should file a request by filling in a form they can obtain free of charge at the paying bank, as defined by the Fund.

[10] In the English version of the law, there is another possibility stated: 'when the majority of members of the Fund's Managing Board decide that a bank or savings house has generally ceased paying out deposits to individuals', however the Director of the Deposit Insurance Fund indicated that this is not correct and that there is no such option.

Payout Currency	Local currency. The reimbursement of Denar and foreign currency deposits are made in Denars
Source of Funding	Mixed. The resources of the Fund are composed of the founding capital, collection of premiums for insurance of deposits of physical persons and revenues from investments. Total resources of the Fund amount to at least 4% of the total deposits of the physical persons in the banks and savings houses in the Republic of Macedonia.
Special Treatment(s)	None

After gaining political and monetary independence, there was a serious need for establishing a system for deposit insurance in the Republic of Macedonia. The need was primarily motivated by the problem of paying off the so-called “frozen foreign currency deposits”[11], restructuring of the banking system and bankruptcies of some banks and savings houses which caused a lack of confidence in the domestic financial system.

One of the measures undertaken was the establishment of the bank owned Savings Deposits Insurance Fund, Inc. Skopje in January 1997, in order to introduce an insurance system. The goal was to insure deposits of individuals up to a certain level. In July 2000, the Deposit Insurance Fund Act was enacted, and the Fund was established in November 2000, as a state owned institution and legal successor of the Savings Deposits Insurance Fund Inc. Skopje.

The Managing Board administers the Fund and is comprised of five members appointed by the Government of the Republic of Macedonia: the Minister of Finance nominates 3, the Governor of the National Bank of the Republic of Macedonia nominates 1, and the Banking Association nominates 1.

There is 100% coverage of deposits up to € 10,000 (in Denar equivalent), and 90% is guaranteed of the total deposits of each physical person in a bank or savings house amounting to between € 10,000 and 20,000 (in Denar equivalent). Macedonia resolved the regressive nature of coinsurance by insuring smaller deposits in full and only taking a haircut on the larger deposits

The Fund does not guarantee deposits of individuals with privileged terms of interest, , i.e. interest rates higher than those officially announced by the bank or savings house.

When the resources of the Fund exceed 4% of total individual deposits, the Managing Board of the Fund can pass a decision terminating the obligation of banks and savings houses to pay premiums to the Fund.

The Deposit Insurance Fund Skopje has the power to impose monetary fines. It can fine the 'responsible person' at the National Bank, a bank or a savings house, persons with special rights and responsibilities in a bank, or the conservator or receiver of a bank or a savings house for infractions if they fail to submit to the Fund the required reports or if they fail to fulfill other duties.

[11] At the time of the dissolution of the former Socialist Republic of Yugoslavia (SFRY) commercial banks in Macedonia had significant claims on the SFRY National Bank, both from foreign exchange actually re-deposited with the SFRY National Bank and for exchange rate losses against which the SFRY National Bank had guaranteed the commercial banks. After the dissolution of SFRY (Macedonia independent since 1991), the FYRM passed a Law on the 'guarantee of the Republic of Macedonia of foreign exchange deposits of citizens." This Law effectively froze the foreign currency deposits of Macedonian citizens, as these deposits can be used only for the limited payments specified in the Law.

Failing Bank Resolution Summary

Macedonia Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	Yes. The Managing Board shall decide about termination of the insurance of the bank or savings house in the Fund.
As part of failure resolution, how many banks closed or merged in the last 5 years?	2 (Radobank AD Skopje on 8-25-2005 and Makedonska banka AD Skopje on 12-4-2007)
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	Yes
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	No

From the establishment of the Deposit Insurance Fund until 30/04/2010, during the 13 years the Fund exists in the Macedonian environment, 9 risk events have occurred among the Fund's members i.e. 4 banks and 5 savings houses. The reimbursement statement of the bank members of the Fund is as follows:

Name of the Bank	**Reimbursement** (Denar 000)	**Number of reimbursed savers**
Almako banka AD Skopje Bankruptcy procedure started in 1999	381	10
Eksport-Import banka AD Skopje Bankruptcy procedure started in 2003	91,339	576
Rado bank AD Skopje Bankruptcy procedure started in 2005	72,251	781
Makedonska banka AD Skopje Liquidation procedure started in 2007	1,220,344	19,121
Total	**1,384,315**	**20,488**

The public announcement to the depositors of Radobank AD Skopje of the occurrence of a “risk event” was made on June 10, 2005, and the public announcement of the commencement of the reimbursement of insured deposits was made on August 23, 2005. The reimbursement was carried out through Univerzalna Investiciona banka AD Skopje.

The public announcement to the depositors of Makedonska banka AD Skopje of the occurrence of a “risk event” was made on October 29, 2007, and the public announcement to the depositors of the commencement of the reimbursement of insured deposits was made on December 4, 2007. The reimbursement was carried out through Komercijalna banka AD Skopje, for depositors in Skopje and through Stopanska banka AD Skopje, for depositors in other places of the country.

Of the total number of savers (121,887) of the 9 members of the Fund where a risk event occurred, 20,819 savers have been reimbursed in the amount of cca 1.4 billion Denars. Of the total number of savers, 17.08% have been reimbursed, but 93.73% of total insured deposits has been reimbursed. The difference mostly refers to savers with small balance accounts (between 100.00 and 1,000.00 Denars) as well as to a small group of savers from Makedonska banka with large balance accounts, which have not chosen the method by which they want to be reimbursed.

The Deposit Insurance Fund states that currently there is a very low risk for any bank in Macedonia to fail. However, according to the Deposit Insurance Fund's Director, there has been a situation in recent history where a bank was closed, the Fund paid out individuals up to the insured amount, but the bank liquidators haven't paid the depositors in full even though it has been 3 years since the event. The Deposit Insurance Fund feels that it would be beneficial if their duties are extended to include them taking the role of a liquidator. The Director noted that there is a possibility that should a good example of deposit insurance authority being the liquidator be provided, the Macedonian Ministry of Finance would consider supporting changes to their legislation to extend the Funds jurisdictions.

Currently, the Fund cannot make the decision to intervene a bank. The only authority their Fund has is to cancel or revoke deposit insurance for a bank (if they fail to pay premiums).

Montenegro

Deposit Insurance Summary

Montenegro Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit since 2003
Name of Deposit Insurer	The Deposit Protection Fund
Accountable to	The Managing Board. The Board submits its annual operating report to the Central Bank and, for information purposes, to the Government of the Republic of Montenegro.
Administration	The Managing Board has three members. One member of the Managing Board is appointed by the Central Bank, one member is nominated by the Ministry of Finance and one member is nominated by the Association of Montenegrin Banks and Financial Institutions.
Membership	Compulsory. All banks licensed by the Central Bank of Montenegro are automatically included in the deposit protection scheme,
General Coverage Limit	€50,000 * (~ $66,000) * a transitional solution" was introduced whereby the guaranteed coverage is being gradually increased, starting from €20,000 in 2010 and 2011 and €35,000 in 2012. From 2013, the general coverage limit is €50,000.
Coverage for FX Deposits	Yes (same as local currency deposits)
Coverage for Interbank Deposits	Not available
Accrued Interest Coverage	Yes (The amount of guaranteed deposit is determined by reducing matured liabilities of a depositor with a bank, including any accrued interest, from aggregate deposits held by the depositor with that bank as at the protected event date.)
Co-Insurance	None
Eligible Depositors	Both natural persons and legal persons Not eligible: depositors who received higher interest rates or financial advantages and have contributed to deterioration of the financial position of the bank, persons who are members of the bank managing bodies or responsible for auditing the bank, legal persons holding, whether directly or indirectly, at least 5% share in the bank capital or voting rights, their spouses and children, legal persons providing insurance services, state and municipal bodies, funds for mandatory health, pension and social insurance; voluntary pension funds and investment funds and their management companies; banks, etc.
Type of Coverage	Per depositor
Participation Premiums	Flat with an option for differential premiums (the Managing Board may set different premium rates for individual banks, depending on their rating and risk profile) Membership: the initial premium amounts to €50,000 (~ 66,284 USD). All licensed banks must pay this premium before their commencement of operations.
Base for Premiums	Regular premiums are calculated and paid on a quarterly basis. The regular premium base is comprised of the average amount of total deposits in a bank as od the last day of each month for the previous quarter. The rate of regular premiums cannot exceed 0.5%. The Managing Board has the authority to develop a system of differential

	premiums, to reduce the regular premium, and to introduce extraordinary premiums in specific circumstances.
Payout Trigger	A "protected event" occurs on the day the Central Bank passes a decision on instigating bankruptcy proceedings against a bank. The Central Bank is obliged to immediately inform the Fund of a decision to initiate bankruptcy proceedings against a bank.
Payout Type	The Deposit Protection Fund organizes the payout via one or more banks, and depositors are informed about the payout via the media.
Payout Currency	The local currency in Montenegro is the EUR ; deposits in other currencies are translated into EUR at the official exchange rate announced by the Central Bank on the date of the „protected event."
Source of Funding	Collecting premiums and grants/donations
Special Treatment(s)	None.

The Deposit Protection Fund is a legal entity having the rights, obligations and responsibilities provided for by the Deposit Protection Law. It was established in 2003.

The Fund is governed by a Managing Board comprised of three members. Members of the Managing Board are appointed by the Central Bank, provided that one member is nominated by the Ministry of Finance and one is nominated by the Association of Montenegrin Banks and Financial Institutions. The Managing Board submits to the Central Bank for adoption its annual report, annual financial plans and other reports. Reports are also submitted to the Government of Montenegro and the Parliament of Montenegro for information purposes.

In 2010, Montenegro raised the limit of guaranteed deposits by 10 times to the amount of € 50,000(~ $66,000) per depositor. Previously the guaranteed amount was € 5,000. However, the guaranteed € 50,000 coverage is not immediately effective. The Fund calculates and pays out the guaranteed deposits during a transitional period as follows:

- as of the day of entry into force of the law until 31 December 2011, up to the amount of € 20,000 per depositor,
- from 1 January to 31 December 2012, up to the amount of € 35,000

The payout of insured deposits is made in local currency, which is Euro, and deposits in other currencies are translated into and paid out in Euro.

Both natural and legal persons are covered. Those not entitled to a guaranteed deposit payout are:

1. depositors that have contributed to deterioration of the financial position of the bank and those who have received higher interest rates or financial advantages in obtaining a loan or other banking services, and particularly if they: obtained a loan which would otherwise not be granted to another person; have paid significantly lower interest on loans than other depositors; have received higher interest on deposits than other depositors
2. persons who are members of the bank's managing bodies or responsible for auditing the bank, legal persons holding, whether directly or indirectly, at least 5% share in the bank capital or voting rights, their spouses and children
3. legal persons providing insurance services, state and municipal bodies, funds for mandatory health, pension and social insurance; voluntary pension funds and investment funds and their management companies; banks, etc.

In Montenegro, the Managing Board may set different premium rates for (differential premiums) for individual banks, depending on their rating and risk profile. To assist the Fund in establishing the risk profile of an individual bank, the Central Bank submits to the Fund all available data on the bank's rating and operating risk.

When the Fund's resources reach the level of 10% of the guaranteed deposits, the Managing Board may decide to reduce the regular premium rate or temporarily discontinue the collection of regular premiums. Also, the Managing Board can pass a decision on the introduction of extraordinary premiums, specifying the amount of resources lacked by the Fund and the extraordinary premium base and rate.

Once the Central Bank informs the Fund of a decision to initiate bankruptcy proceedings against a bank, the Fund selects one or more banks to payout the guaranteed deposits. The Fund publishes information about the payout bank and the place and date of commencement of the payout of guaranteed deposits in at least two print media distributed in the territory of Montenegro and on the Fund's website. Payout is in EUR; deposits in other currencies are translated into EUR at the official exchange rate of the Central Bank.

According to the Law, the Fund may issue monetary fines. A fine ranging from a 50-fold to 300-fold amount of the official minimum salary in Montenegro can be imposed upon a bank and a fine ranging from a 10-fold to 20-fold amount of the official minimum salary in Montenegro can be imposed upon responsible persons in the bank if:

- the bank has not provided and/or has charged the information on the deposit protection scheme to depositors and potential depositors
- the bank has used its participation in the deposit protection scheme in advertising its banking products
- the bank has commenced its operations prior to the payment of the initial premium
- the bank has not paid or has delayed in the regular premium payment
- the bank does not pay or it delays the payment of the extraordinary premium
- the bank has not provided or has not provided timely or has provided inaccurate data and information
- the bank has not submitted data required for the calculation and payout of guaranteed deposits within 10 business days following the protected event date
- the bank has not opened guaranteed deposit payout accounts for every individual depositor

Failing Bank Resolution Summary

Montenegro Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	No. The Central Bank has the authority, and is obliged to immediately inform the Fund when it issues and revokes a bank license.
As part of failure resolution, how many banks closed or merged in the last 5 years?	None
Were depositors wholly compensated (to the extent	N/App.

of legal protection) the last time a bank failed?	
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	N/App

The Montenegro Deposit Protection Fund is a simple payout box with authority to issue fines. It does not have the authority to cancel or revoke deposit insurance, or to intervene in a bank.

The Central Bank informed us that their objective is to avoid or prevent any bank failures. This is because the number of banks is very small, and a failure might cause serious disruption to overall confidence in the banking system. There were 10 banks in Montenegro in 2005, and in 2009 the number went up to 11. Most likely in Montenegro, any insolvent banks would be expected to be "resolved" by way of forced mergers or other "open bank" operations.

Serbia

Deposit Insurance Summary

Serbia Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit since 2001
Name of Deposit Insurer	Deposit Insurance Agency, established by the Law on Deposit Insurance on July 25, 2005, legal successor of the Agency for Deposit Insurance and Bank Rehabilitation, Bankruptcy and Liquidation that existed from 1989
Accountable to	Government of the Republic of Serbia
Administration	The Managing Board. Members are: the Minister of Finance, the Minister of Economy and the Vice-Governor of the National Bank of Serbia responsible for supervision of banks. Other members of the Managing Board are appointed and dismissed by the Government: the president and one member is proposed by the Ministry of Finance, one member by the National Bank of Serbia, one member by the representative association of banks.
Membership	Compulsory
General Coverage Limit	€ 50,000 (~ $66,000)
Coverage for FX Deposits	Yes. € 50,000 (~ $66,000)
Coverage for Interbank Deposits	Not available
Accrued Interest Coverage	Yes
Co-Insurance	None
Eligible Depositors	Physical persons, Entrepreneurs, Small legal entities, and Medium-sized legal entities.
Type of Coverage	Per depositor
Participation Premiums	Flat with an option for differential premiums. Membership: Banks pay an initial premium in the amount of 0.3% of the cash portion of the bank's minimum capital requirement. The Agency calculates and collects quarterly premiums in local currency (Serbian Dinars or RSD) for RSD deposits and in EUR for foreign currency deposits.
Base for Premiums	The quarterly premium rate for insured deposits for the year of 2011 is 0.1%. If the assets in the Deposit Insurance Fund reach 5% of total insured deposits, the Agency may discontinue the calculation and collection of quarterly premiums.
Payout Trigger	The decision of the National Bank of Serbia to revoke the bank's operating license
Payout Type	The Agency informs depositors via the mass media about their rights and obligations and the date and the place of the payout. Depositors must request the payout of insured deposits from the Agency.
Payout Currency	RSD deposits are paid in RSD and foreign currency deposits in EUR
Source of Funding	Mixed. Sources of revenues include: I. premiums and interest; II. fees obtained from collection of Government of Serbia debt to private companies in the context of the Paris-London club negotiations (3% of the debt collected); and,

	III. fees obtained from bank resolution process upon completion of the process (fees collected from the failed bank)
Special Treatment(s)	None

The Deposit Insurance Agency (DIA) in Serbia was established as the legal successor to the Agency of the Federation for Deposit Insurance and Bank Rehabilitation, which dated from 1989. The DIA is in charge of the deposit insurance fund (DIF) management and payout functions, and is also the designated bank resolution agency for closed bank resolutions. In addition, the DIA is tasked by Government of Serbia to manage state- and socially-owned bank shares on behalf of the state, and to collect Government of Serbia debt in the context of the Paris-London club negotiations. In addition to its permanent staff, the DIA employs temporary staff under Swiss grant funding to advise the agency in the management of state-owned banks and temporary staff in a (donor) Project Implementation Unit for the DIA and for other agencies. Worryingly, the DIA does not have an IT department, but has outsourced its functions to the IT Department of Beogradska bank that is under bankruptcy administration with DIA.[12]

Following recent amendments, the DIF covers natural persons, entrepreneurs, and SMEs accounts up to € 50,000 (~$66,000) per depositor per bank In 2005, the DIF coverage was set at € 3,000 per household per bank. However, in response to the banking crisis, the level of coverage was expanded to € 50,000 per depositor per bank in December 2008. At the same time, the list of covered depositors was extended to include sole entrepreneurs and SMEs. RSD deposits and foreign currency deposits are both covered up to the same amount. RSD deposits are paid in RSD and foreign currency deposits in EUR. Currently, 99 percent of the deposits in number and 90 percent in volume are covered; this is almost akin to a blanket guarantee for depositors. According to the IMF, such a high coverage, coupled with the fact that the DIF does not levy risk-based premium, can increase moral hazard. Also, the present level of deposit insurance might encourage market participants to take excessive risk in the long-run; hence it should be gradually decreased.[13]

Technically, the depositors of banks in liquidation and bank employees remain outside the DIF coverage. The Serbian legal system distinguishes between bankruptcy of banks (when the court estimates that the bank assets are smaller than the bank liabilities) and liquidation of banks (when the court estimates that there are enough assets to repay all creditors – amongst which depositors). The depositors of banks in liquidation are therefore outside of the DIF coverage, as it is assumed that their claims can be covered by the sale of the bank assets (depositors are high on the list of priorities).

Since depositors of banks in liquidation are outside of the DIF coverage they have a claim on the liquidated banks for the full amount of their deposit. If the liquidated bank does not have liquid assets to meet the payout period, the liquidator (i.e. DIF) is required by law to extend a loan to the liquidated bank for the total amount of the insured deposits. For uninsured deposits, the depositors still hold a claim against the bank in liquidation; however, if the DIF has extended a loan to the liquidated banks, its claim against the liquidated bank takes precedence in the order of priority. Finally, individuals or entities connected to the bank are excluded from coverage and, based on the definition used by the DIF, bank employees are considered individuals connected to the bank.

[12] 10 May 2010, IMF, Republic of Serbia: Financial Sector Assessment Program Update — Technical Note on Deposit Insurance

DIA revenue sources are volatile and deposit insurance fund related revenues are used to subsidize non-DIF related activities. In 2007, the bulk of the DIA revenue was generated by donors' grants, while in 2008 most revenue came from interest on DIF resources (70 percent of revenues). In 2008, DIF operating expenses amounted only to 32 percent of DIA expenses. The legal framework is ambiguous as to whether DIF resources can be used to cover running costs of the DIA.

DIA can issue monetary fines. A bank may be fined from RSD 100,000 to 2,000,000 (~ $24,798) for an offence. The responsible person in the bank may also be fined from RSD 20,000 to 150,000 (~$1,860).

According to IMF Financial Sector Assessment Program Update — Technical Note on Deposit Insurance from 2010, the DIF fully or partially complies with 11 out of 18 Core Principle for Effective Deposit Insurance Systems[14] . It is not compliant with the following principles: Public policy objectives, Mitigating moral hazard, Cross-border issues, Public awareness, Legal protection and Early detection and timely intervention and resolution.

As of end-September 2009, the DIF did not have sufficient financial resources to cover the insured depositors of any of the largest 16 banks individually or more than the sum of the 9 smallest banks in the system. Different articles of the DIF law list additional funding sources when DIF resources are insufficient. These include an extraordinary premium up to 0.4 percent annually and, should these not suffice, borrowings. In addition, the DIF law also mentions that the DIF is fully backed by the Government of Serbia. Despite these provisions, no emergency funding arrangements have been set-up and no line-item included in government budget, which is a pre-requisite for government support.

The recent draft payout procedure is adequate and should be tested and adopted as soon as possible. In parallel to the development of a payout procedure, software is being designed by IT experts of Beogradska bank and will be purchased by the DIA.

Summary of Key IMF Recommendations:[15]

DIA	
Amend legal framework to clarify allowed use of DIF resources and cap use for operating expenses	Short-term
Develop medium term strategy for the Agency including funding for non DIF related activities	Short-term
DIF COVERAGE	
Amend the DIF Law to include depositors of liquidated banks under DIF coverage and change definition of "persons related to the bank" to exclude bank employees	Immediate
Reduce coverage to more credible levels	Short-term
DIF SIZE	
Develop risk assessment capacity	Medium term
Set-up emergency funding arrangements	Immediate
DIF PAYOUR PROCEDURES	
Test and approve payout strategy	Immediate

[14] BIS/IADI Report on "Core Principles for Effective Deposit Insurance Systems", Basel, June 2009

[15] May 2010, IMF, Republic of Serbia: Financial Sector Assessment Program Update — Technical Note on Deposit Insurance

Finalize and purchase IT software and equipment and recruit own staff	Short- term
LEGAL PROTECTION FOR DIF STAFF	
Amend DIF and DIA Law to provide for legal protection of staff for decisions taken in good faith	Short- term
PUBLIC INFORMATION OF THE DIF	
Develop an on-going public information campaign	Short- term

Failing Bank Resolution Summary

Serbia Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No. However, in accordance with a Government regulation issued upon a proposal of the National Bank of Serbia, the Agency may take the following actions in banks: 1. cover potential losses, 2. assume, purchase or otherwise acquire bad assets, 3. manage and sell bad assets.
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	No. If a bank fails to timely fulfil its obligations as prescribed by the Law or by the Agency regulation, the Agency notifies the National Bank of Serbia of this occurrence, and the National Bank of Serbia takes appropriate measures in accordance with the law.
As part of failure resolution, how many banks closed or merged in the last 5 years?	None
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	N/App.
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	N/App

The present bank resolution framework includes only “closed bank“ resolution options (i.e. resolution upon withdrawal of a bank’s license by the National Bank of Serbia), namely liquidation or bankruptcy. A bank is put in bankruptcy when the court estimates that the bank assets are smaller than the bank liabilities, while it is put in liquidation when the court estimates that there are enough assets to repay all creditors. In both cases the DIA is the agency in charge of administering the process.

The Government is amending the bank resolution framework to expand the resolution toolkit and include open and closed bank purchase and assumptions and bridge banks. The responsibility of restructuring open banks will continue to rest with the National Bank of Serbia, while the resolution of closed banks will remain with the DIA.

There have not been any recent bank failures in Serbia. Serbia had 40 banks in 2005 and 34 in 2009. In 2007, three banks (acquired by OTP Bank from Hungary) merged, also two banks (owned by Intesa and San Paolo IMI) merged and one bank was set up by way of transforming of the savings-deposit organization[16]. Also, it is interesting to note that in 2011 it will be 8 years since the liquidation process started for what used to be the 4 largest state banks in Serbia, Investbanka, Jugobanka, Beobanka and Beogradska Banka, and it is possible that the process will last an additional 8 years, according to the director of the Deposit Insurance Agency.

[16] Source: BSCEE Review

Eurasia Countries

Armenia

Deposit Insurance Summary

Armenia Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit since 2005, revised 2010. In 2001-2005 operated by Central Bank
Name of Deposit Insurer	Guaranteed Compensation Deposit Fund
Accountable to	Central Bank
Administration	By Fiduciary Board: Government, Central Bank, and Banking Association delegate two members each, plus one elected member
Membership	Compulsory under the Deposit Guarantee Law
General Coverage Limit	ARD 4,000,000 [≈ USD 10,300]
Coverage for FX Deposits	ARD 2,000,000 [≈ USD 5,150]. If a depositor has in failed bank both domestic and FX denominated deposits, compensation depends on size of domestic currency deposit, but is capped at ARD 4,000,000 in total
Coverage for Interbank Deposits	Not available
Accrued Interest Coverage	No
Co-Insurance	None
Eligible Depositors	Individuals, including private entrepreneurs. Insiders and related parties are not qualified. Deposit with preferred rate (1.5 of peer deposits in the same bank rate and higher) are not eligible
Type of Coverage	Per depositor
Participation Premiums	Flat. All premiums are paid in local currency
Base for Premiums	0.05% of average daily deposit balance in last quarter. Paid quarterly. Individual bank cap is ARD 1 mm per year. If Fund's balance is over 2.5% of average daily deposit balance assessed for all banks as a whole, no premium is to be paid for this quarter
Payout Trigger	Bank insolvency (declared by Central Bank)
Payout Type	Individual solicitation to failed bank or Fund
Payout Currency	Domestic currency only
Source of Funding	Private[1]
Special Treatment(s)	None

[1] Initial capital contribution to the Fund has been also made by German KfW.

The deposit guarantee in the Republic of Armenia was introduced only in 2005 by Guaranteed Compensation of Bank Deposits Law. Previously to this a deposit protection vehicle operated under the Central Bank. Also by the Law the Fund acts as an independent agency governed by Fiduciary Board comprised of representatives from Government, Central Bank and Banking Association, it is directly accountable to the Central Bank.

Unlike Belarus, where explicit preference is made to FX-denominated deposits, Armenia geared the preference to deposits in domestic currency. The coverage for domestic currency deposits from the very beginning has been twice as large as for FX deposits. In case a depositor has deposits both in domestic and foreign currencies, domestic deposits are to be paid out first. No doubts that compensation for any deposit is paid off in domestic currency only.

Like in other PFS Beneficiary countries, in Armenia there has not being a long history of deposit insurance development. Even during the global financial turmoil the government did not increase the coverage. Only in mid-2010 by amendments to the Law the coverage was doubled to reach the stated levels.

A special feature in Armenia is the waiving of regular quarterly premiums in case the Fund has accumulated over 2.5% of average daily deposit balance. Another special feature is geared toward moral hazard prevention – if a deposit bears an interest rate of more than 150% of peer deposits in the same bank, it is not eligible.

Failing Bank Resolution Summary

Armenia Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No, this is an exclusive role of the Central bank
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	No
As part of failure resolution, how many banks closed or merged in the last 5 years?	None [1]
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	N/App.
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	N/App

[1] No official statement is available in English; however the Armenian page of Central Bank's website claims that the number of banks was stable at 22 for last several years.

The Guaranteed Compensation Deposit Fund of Armenia is one of the clearest examples of a simple payout box. It does not have any regulatory, oversight, or intervention powers. Its only function is to pay off guaranteed depositors in case of the bankruptcy of a bank. According to the Law, it is the Board the Governors of the Central Bank that has one month to declare a bank failed and therefore initiate deposit payoffs.

There is no publicly available information about any case where the Guaranteed Compensation Deposit Fund has actually taken any action (the bank failures occurred in Armenia when the deposit protection was still operated by the Central Bank). In addition, the Central Bank has been implementing a rather conservative practice vis-à-vis bank regulation (CBA is the unified financial sector regulator overseeing also insurance, pawn brokers, payment systems, etc). Armenia is one of the few countries in the region where there were no bank failures during the global recession period.

Azerbaijan

Deposit Insurance Summary

Armenia Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit since 2007
Name of Deposit Insurer	Azerbaijan Deposit Insurance Fund
Accountable to	Board of Custodians
Administration	By Custodian Board: Government, Central Bank, and Banking Association delegate two members each, plus one elected member
Membership	Compulsory, Pre-Screening[1]
General Coverage Limit	AZN 30,000 [≈ 37,500USD]
Coverage for FX Deposits	Yes
Coverage for Interbank Deposits	None
Accrued Interest Coverage	Yes
Co-Insurance	None
Eligible Depositors	Individuals, excluding private entrepreneurs. Insiders, external auditors and related parties are not qualified. Deposits with preferred rate (1.8 x Central Bank discount rate and higher) are not eligible
Type of Coverage	Per Depositor
Participation Premiums	Flat. Premiums are paid in local currency, USD, or EUR, depending on the currency of deposit
Base for Premiums	0,125% of average daily deposit balance in last quarter. Paid quarterly. If Fund's balance is over 5% of covered deposits, the Fund has an option to decrease or suspend calendar premiums. If the Fund is short of funds, it can charge supplementary fees up to 0.2% of the quarterly average daily balance of protected deposits.
Payout Trigger	Bank insolvency (declared by Central Bank) or inability to perform on its liabilities (declared by a court ruling)
Payout Type	Individual solicitation to failed bank or Fund
Payout Currency	Local currency for deposits in local currency; USD or EUR for deposits denominated in USD or EUR, respectively; AZN, USD or EUR for deposits denominated in other currencies
Source of Funding	Private[2]
Special Treatment(s)	None

[1] All 43 operating banks are members of ADIF

[2] Initial capital contribution to the Fund was made by German KfW.

The deposit guarantee system in the Republic of Azerbaijan was introduced the latest among all six countries surveyed – only in 2007 the ADIF was established following adoption in 2006 of the Deposits Insurance Law.

The ADIF is governed by Board of Custodians. Members of the Board are appointed from the Government, the Central Bank, and local banks.

Azerbaijan has a 'tolerant' attitude to deposits denominated in foreign currencies. Deposits are compensated in the currency of denomination, and no conversion option is available. However, if the deposit is not denominated in either local currency, USD or EUR, the compensation is made in one of these currencies. The ADIF also charges membership premiums in the above currencies.

During the global financial turbulence, the coverage limit was increased from AZN 8,000 to AZN 30,000. However, there has been no bank failure since the increase to test the effectiveness of the safety net. And the Central Bank stated in its most recent releases that they do not expect any bank failures in the near future.

A special feature of Azerbaijan's deposit insurance system is an interest rate cap for deposits. Deposits with interest rates above 150% of Central Bank's discount rate are not eligible for insurance. This is a way to combat with moral hazard.

Another special feature for Azerbaijan deposit insurance is the option of the ADIF to impose additional quarterly premiums to member banks in case it runs short of funds due to insurance payouts.

Failing Bank Resolution Summary

Azerbaijan Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No, this is an exclusive role of the Central bank or court
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	Yes [1]
As part of failure resolution, how many banks closed or merged in the last 5 years?	None [2]
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	N/App.
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	N/App

[1] It has authority to pre-screen banks before accepting them into the insurance vehicle. As for cancellation or revocation of insurance for participating bank, no information is available.
[2] No official statement is available in English.

The Azerbaijan Deposit Insurance Fund is a simple payout box. It does not have any regulatory, oversight, or intervention powers. It only steps in when the bank is declared insolvent (failed) by the Central Bank or if a court issues a verdict that a bank fails to act on its liabilities. The ADIF does not perform any resolution function.

However, there was no recent bank failure in Azerbaijan and the bank regulator claims that all domestic banks are safe and sound.

Conclusion

Similar to its geographical neighbor, Armenia, the Republic of Azerbaijan has an untested deposit insurance and bank resolution system. Although the banking system now is reported to be resilient and performing, the government, the central bank, and the ADIF have to ensure that safety net would be able to deploy smoothly in case it were needed.

Belarus

Deposit Insurance Summary

Belarus Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Mixed since 1995 [1]
Name of Deposit Insurer	Agency for Guaranteed Compensation of Bank Deposits
Accountable to	Cabinet of Ministers and Central Bank
Administration	By Supervisory Council: Cabinet of Ministers and Central Bank delegate three members each
Membership	Compulsory
General Coverage Limit	Temporarily full coverage, generally EUR 5,000 [2]
Coverage for FX Deposits	Yes
Coverage for Interbank Deposits	No
Accrued Interest Coverage	Yes
Co-Insurance	None
Eligible Depositors	Individuals only, excluding private entrepreneurs. Insiders and related parties are not qualified
Type of Coverage	Per Depositor [1]
Participation Premiums	Flat. Premiums are paid in the currency of deposit
Base for Premiums	0.3% of member bank outstanding deposits as of quarter end. Once Agency's funds reach 5% of outstanding insured deposits, the premiums rate is automatically divided by two (it is restored to the original level once the 5% threshold is restored)
Payout Trigger	Revocation of License for Individual Deposits by Central Bank
Payout Type	Individual Solicitations to Agency
Payout Currency	Deposits denominated in domestic currency are paid out in domestic currency; deposits denominated in foreign currency are paid out in either domestic currency or currency of denomination, translated at the rate as of compensation announcement
Source of Funding	Mixed – Government funding plus participation fees
Special Treatment(s)	Deposits denominated in foreign currencies in selected banks (state owned or controlled) guaranteed in full [1]

[1] Before 2009 by Law all deposits placed in two state-owned banks were guaranteed in full, and in other four banks participating in Government programs full coverage was available for FX-denominated deposits. Deposits in other banks were explicitly insured by the Agency.

[2] From July 1, 2009 full coverage of any deposit in a domestic bank was introduced by Presidential Decree as a temporary measure for banking sector resilience. Full coverage will be in effect until revoked by another Presidential Decree.

In the Republic of Belarus, a deposit guarantee system was first introduced in 1995 when a special Deposit Guarantee Fund was established under the umbrella of the National Bank. From the very beginning, the system did not use an 'equal treatment' concept. Explicit preferences were given to deposits denominated in foreign currencies and state-owned or –controlled banks. These deposits in these banks were guaranteed in full. In other banks and for other deposits the coverage was limited to USD 1,000. At that time premiums were risk-adjusted and depended on the ratio of capital to deposits.

In the early part of this decade, a discussion started at establishing a stand-alone deposit insurer. A Banking System Concept Paper had envisioned a special government-owned Reserve Corporation that would guarantee the first USD 2,000 in full and partially the amount of deposit from USD 2,000 to 5,000.

In mid-2008, the Agency for Guaranteed Compensation of Bank Deposits was established by the Deposit Guarantee Law and a guaranteed threshold of EUR 5,000 was established. The Agency is effectively controlled by the Government (Cabinet of Ministers) and the National Bank. Deposits above EUR 5,000 are not insured. The system of special treatment for banks related to the state was reinforced by the Law – out of 21 banks entitled to accept individual deposits, deposits in six government-controlled banks are fully guaranteed. The special treatment of deposits in these six banks relates only to FX-denominated deposits and is phased out after two years (from Jan 1, 2009 to Jan 1, 2011). In the new law, risk-adjusted premiums were superseded by flat quarterly premiums.

Some experts believe that the practice of granting full coverage for FX deposits, together with a relaxed customs regime with neighboring countries (Russia, Poland, Lithuania, and Ukraine), has turned Belarus into a "safe harbor" for non-resident depositors who were not able to get the same treatment in their home countries.

The most controversial feature of Belarus, deposit insurance program is that it does not appear to be either a fully implicit nor fully explicit program. Before 2009, the Law and the Banking Code guaranteed full coverage of deposits placed in the six largest banks (in two state-owned banks full coverage was applied to all deposits, and in four institutions FX-denominated deposits were guaranteed in full). However, all these banks which benefited from the explicit guarantee were members of the Agency and paid deposit insurance premiums. After the latest Presidential Decree, full covered was extended to all banks in the jurisdiction. Another special feature of Belarus' guarantee system is that deposits are predominantly paid out in the currency of denomination (the same holds true for quarterly deposit insurance fees); however there is an option to receive compensation in domestic currency.

Like in many other countries in the region, there has not been a bank failure since the enactment of the new pronouncements, so it is difficult to assess how effective the safety net is in reality.

Failing Bank Resolution Summary

Belarus Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No, it can only participate in onsite examinations conducted by the National Bank to check compliance
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	No
As part of failure resolution, how many banks closed or merged in the last 5 years?	None [1]
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	N/App.
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out	N/App

in liquidation procedures)?	

[1] Last reported bank failure occurred in 2001. The deposits in the failed bank were not insured.

Bank resolution experience in Belarus is quite limited. The last reported bank failure occurred in 2001. The failed bank was not insured, and about 10 thousand depositors lost some USD 17 million. No compensation has been offered, despite the fact that Banking Code places depositors, claims above all other claims in a liquidation procedure.

The Agency is not involved in bank resolution or liquidation and is not likely to be involved in the near future.

Georgia

In the Republic of Georgia there is no official deposit insurance. A discussion about adopting deposit insurance started as early as 2004. Several draft Laws have been prepared since that time, with assistance from KfW. The most recent statements by senior government officials vis-à-vis deposit insurance were in 2007 when the government concluded that it would put a deposit insurance system in place within two years.

Moldova

Deposit Insurance Summary

Moldova Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit since 2003
Name of Deposit Insurer	Bank Deposits Guarantee Fund
Accountable to	Public entity
Administration	By Administrative Board: Bankers Association delegate three members, Ministry of Finance and Ministry of Justice delegate one member each, and National Bank delegate one silence member
Membership	Compulsory
General Coverage Limit	MDL 6,000 [≈USD 490]
Coverage for FX Deposits	Yes
Coverage for Interbank Deposits	No
Accrued Interest Coverage	Yes
Co-Insurance	None
Eligible Depositors	Individual depositors, including private entrepreneurs. Related parties are not eligible
Type of Coverage	Per depositor
Participation Premiums	Flat quarterly and annual premiums.
Base for Premiums	Quarterly - 0.25% of insured deposits as of quarter end. Annual premiums shall be set in a special Fund's ruling
Payout Trigger	Bank failure declared by National Bank
Payout Type	Individual solicitation to Fund
Payout Currency	[not clear]
Source of Funding	Private
Special Treatment(s)	

Deposit insurance was introduced in Moldova in 2003. Initially, coverage was MDL 4,500 set by the Law. Recently the limit was increased to MDL 6,000 and the authorities claim that this should be enough to cover the majority of deposits.

A special feature of deposit insurance in Moldova is that the National Bank plays only a formal role. One representative of the National Bank sits on the Administrative Board of the Bank Deposits Guarantee Fund, but cannot cast any votes (some recent legal initiatives considered allowing NBM's representative to vote at the meetings). The majority of seats in the Administrative Board belong to bankers – domestic banks delegate three full-rights representatives. At the same time it is the National Bank that triggers the Fund's actions.

Failing Bank Resolution Summary

Moldova Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	No
As part of failure resolution, how many banks closed or merged in the last 5 years?	1 [1]
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	Deposits in full were assumed by purchasing bank
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	Deposits in full were assumed by purchasing bank

[1] Failed bank has merged into a healthy institution

Unlike many of the surveyed countries, Moldova has had a recent bank failure. In mid-2009 a large private commercial bank “Investprivatbank” S.A. failed due to operational deficiencies and poor lending practices. On June 19, 2009 the National Bank revoked the banking license and appointed a liquidator. On June 26, 2009 the failed bank was sold to one of the largest domestic banks, “Banca de Economii” [the former Savings Bank in the USSR]. The same day the failed bank was excluded from the list of the Fund’s participants. Depositors were offered an option to withdraw their deposits from the new bank or to roll them over. So, in the case of “Investprivatbank” S.A., the Bank Deposits Guarantee Fund was not called up to perform. No public information is available whether or not the Fund offered any assistance to purchasing bank.

Another recent bank failure occurred in 2006. The owners of “BUSINESSBANK” S.A. opted for voluntary bank liquidation. At the time of its discontinuation, the bank had no outstanding individual deposits, so the Fund did not have to perform.

Ukraine

Deposit Insurance Summary

Ukraine Deposit Insurance	*Summary Table*
Area	**Finding**
Type of System	Explicit since 1998, upgraded in 2001
Name of Deposit Insurer	Deposit Guarantee Fund
Accountable to	Public Entity
Administration	Administrative Board: Cabinet of Ministers and National Bank delegate two members each, and Bankers Association delegate one member
Membership	Compulsory[1], [2]
General Coverage Limit	UAH 150,000 [≈ USD 19,000]
Coverage for FX Deposits	Yes
Coverage for Interbank Deposits	No
Accrued Interest Coverage	Yes
Co-Insurance	None
Eligible Depositors	Individual depositors, excluding private entrepreneurs. Related parties and external auditors are not eligible.
Type of Coverage	Per depositor
Participation Premiums	Flat.
Base for Premiums	0.25% semiannually applied to outstanding deposits (including any accrued interest). Premiums are paid semiannually in domestic currency
Payout Trigger	Bank liquidation declared by National Bank or court ruling
Payout Type	Solicitation to agency
Payout Currency	Domestic currency only. FX-denominated deposits are translated using exchange rate as of compensation announcement
Source of Funding	Mixed
Special Treatment(s)	Deposits in State Savings Bank of Ukraine are implicitly guaranteed in full

[1] The Fund can cancel the deposit insurance of participating banks in case of poor performance

[2] Special treatment is given to the State Savings Bank of Ukraine (100% Government owned) in the form of implicit full coverage by Law and no participation in the DGF.

Among the countries surveyed, Ukraine has had the longest path of experience with its deposit insurance. In the last decade over 30 banks were liquidated where the Fund was called to act as the safety net. As of September 2010, in Ukraine 19 banks are pending liquidation, including 16 which failed within the last two years.

Ukraine's banking system suffered from the global financial crisis probably more than any other PFS Beneficiary country. Prior to the crisis, Ukrainian banks counted on ample liquidity from foreign markets and pursued aggressive growth strategies. As a result, in 2008-2009 over 20 banks failed. Some of them have been resolved through M&A or government intervention, and the rest have been liquidated. However, there is a large bank that has been in the process of resolution (provisional administration imposed by the National Bank) for over 20 months, and if it fails the Deposit Guarantee Fund will run out of cash to pay insured deposits. The DGF has a stand-by facility available from the NBU that it supposedly can use in this case.

The compensation level of UAH 150,000 was introduced by Parliament in October 2008 (effective January 2009) to replace previous level of UAH 50,000. There have already been several cases of bank failures when DGF used the new level to pay off depositors.

It is interesting to note that the core pillars of the Ukrainian deposit insurance system (participation, premiums, etc) have not been revised since introduction in 1998 and proved to be quite effective. The compensation ratio in every liquidated bank approximates 100% (only dormant accounts were not paid off). The DGF acts as a well-organized payout box. The problem that Ukraine is facing now is how to carry out failing bank resolutions.

Failing Bank Resolution Summary

Ukraine Bank Resolution	*Summary Table*
Question	**Answer**
Does the deposit insurance authority make the decision to intervene a bank?	No, but it can suggest to National Bank of Ukraine that it needs to intervene in the bank
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?	Yes, by moving the bank from full participation to partial that covers only previously insured deposits
As part of failure resolution, how many banks closed or merged in the last 5 years?	Over 20 [1]
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?	The average compensation rate in the last five bank failures approximated 97%. The Fund is still offering compensation to residual depositors.
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?	No

[1] Data from different sources conflict. The number is the minimum.

Current legislation places bank resolution under sole jurisdiction of the National Bank. It performs prudential supervision to identify weak banks and at any time can replace bank management with a provisional administrator (either an NBU officer or an independent expert, either of which must be ‘certified’). The provisional administrator is accountable solely to the NBU and is supposed to act in good faith to propose the “best solution.” However, the Law is not specific about the implied criteria, and in practice in many cases provisional administrations have proven to be ineffective – the administrator would ultimately suggest liquidation after losing valuable time. Liquidation is also the sole responsibility of the NBU. DGF claims against the liquidated bank (for compensated insured deposits) are not the most supreme.

To resolve this issue, reforms are currently underway to upgrade the DGF from a simple payout box to a payout box with extended powers. The draft Law, prepared with assistance from WB and USAID, shifts resolution powers from the NBU to the DGF, introducing the receivership concept and the least-cost criteria. It is expected that a new Law will come into force in 2011.

Partners for Financial Stability (PFS)
1919 N. Lynn Street
Arlington, VA 22209
Phone: +1 571 882 5000
Fax: +1 571 882 5100