

Contingency Plan Workshop

Critical Importance of Sound
Interrelationships with Other Safety Net
Players and the Need for DI's Mandate



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Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

Agenda

- ❑ Introduction
- ❑ Why Agencies Cannot Work Together and the Consequences
- ❑ Transforming Fragilities into Strength
- ❑ Strengthening the Links and Filling in the Puzzles
- ❑ Bank Negara and MDIC – Example of effective cooperation and collaboration framework
- ❑ Conclusion



Introduction: Why Effective Coordination Matters

Severity of financial crises often involve problems of coordination and lack of formalised cooperation/coordination plan (contingency plan)


Essential when safety net functions are allocated to separate and operationally independent agencies


If one link is weak the entire safety net chain would also become weak


Combined strength of each of the safety net player – stronger position to manage financial system and crises

Effective cooperation at national level - a critical pre-requisite for effective cross-border cooperation

Introduction: Benefits of Close Cooperation

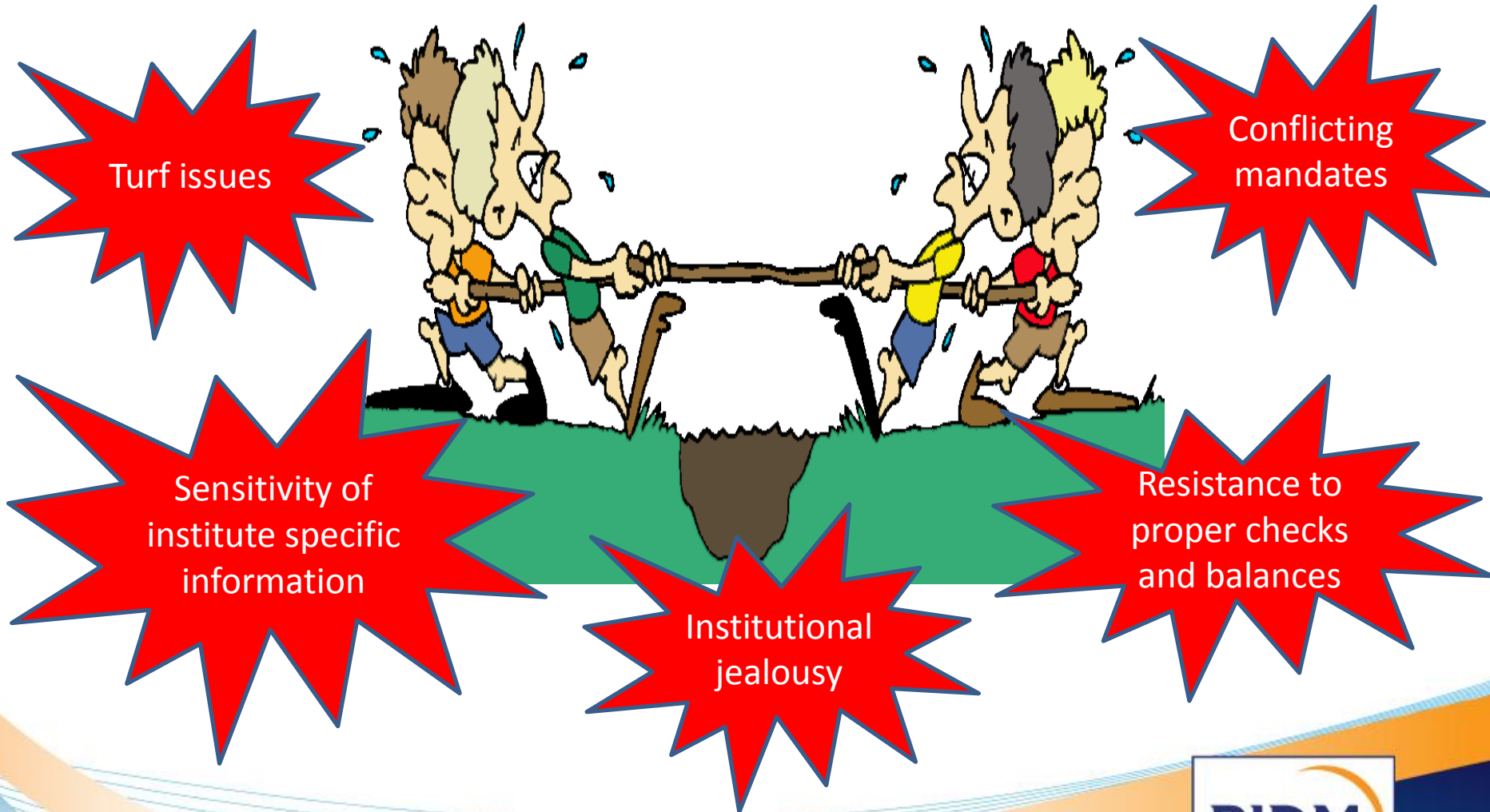
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- Minimise unproductive overlaps
 - Bring about early detection and resolution of potential problems

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- Bring different skills and expertise to the table
 - Promote proper checks and balances

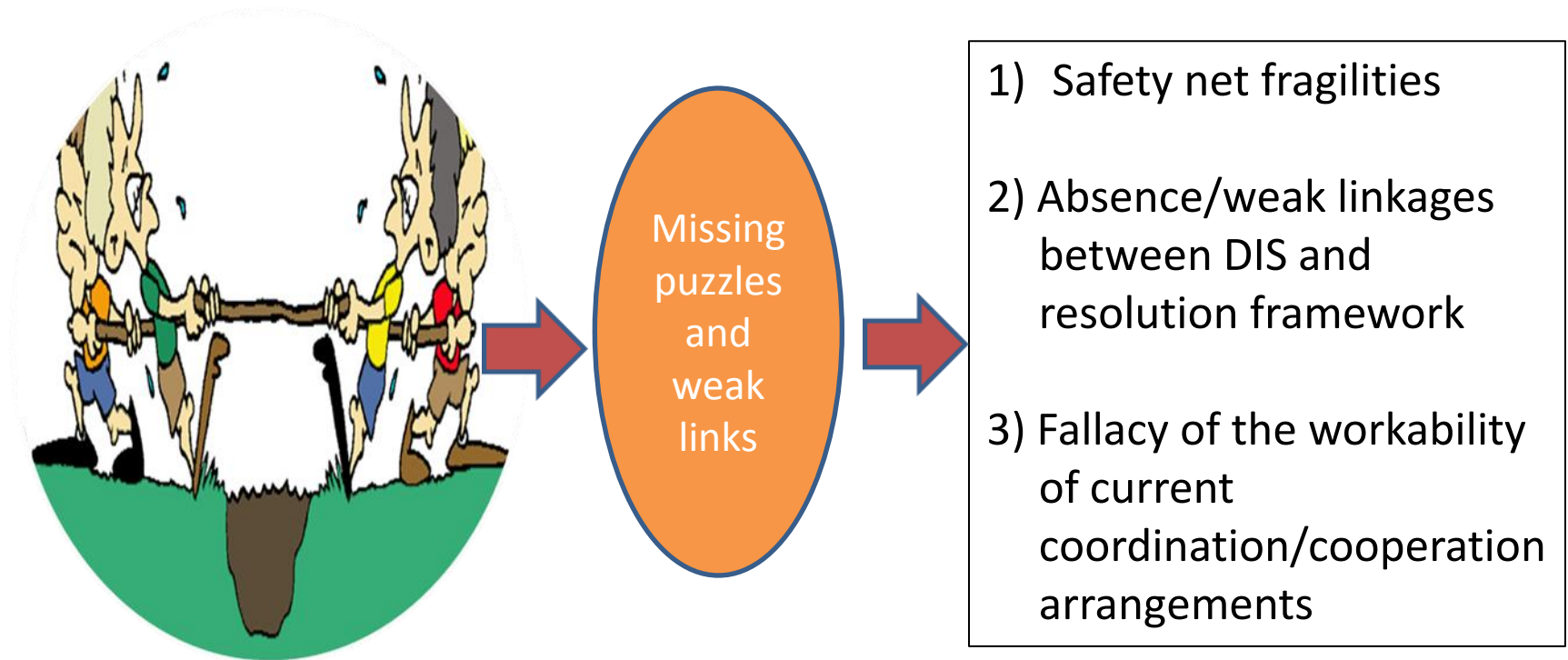
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- Risk assessment – Two heads are better than one
 - Communicate with general public in a consistent way



Why Agencies Cannot Work Together.....



...and the Consequences



1. Safety-net Fragilities

- Numerous countries lack robust DIS, either missing or ineffective
- Deposit insurers (especially with pay box mandate) are often marginalised in the resolution planning and decision making process:
 - Asymmetric extent and timeliness in accessing information compared to other safety net players;
 - Excluded from resolution planning process, have little control over the resolution decision making process, BUT are expected to fund the cost of resolution.
- No or ineffective interaction and coordination between MOF, the central bank, the supervisory authority, and the deposit insurance authority in crisis management or resolution framework

1. Safety-net Fragilities (Cont'd)

- Lack of financial stability mandate for DIS
- No effective arrangements for sharing of information:
 - ***With the supervisory authority*** – DIS not privy to discussions in supervisory colleges, group-wide/consolidated supervision;
 - ***With the Central Bank*** – DIS not privy to information pertaining to the granting and extent of LOLR provision, the extent of encumbered assets pursuant to LOLR, macro-prudential discussions and decisions;
 - ***With MOF*** – DIS not privy to the information pertaining to extent and availability of government support as a back-stop to crisis/resolution funding.

2. Absence of/ Weak Linkages Between DIS & Resolution Framework

- Exclusion of deposit insurance authority as part of the national and cross-border (including regional) crisis management arrangement

- Exclusion of deposit insurance authority as a party to resolution agreements/MOUs

3. Fallacy of the Workability of Current Coordination & Cooperation Arrangements

Even though the principles are entrenched, assessments on compliance with CP 6 (Relationship with other SNP) & 7 (Cross border issues) revealed significant gaps on the following areas:

- Lack of formalised arrangements (e.g. not in legislation, limited involvement of relevant parties e.g. the DIS)
- When there are arrangements:
 - Motherhood commitments/not specific;
 - Significant overlaps and gaps of accountabilities, not clear who is ultimately responsible;
 - No proper working relationship or protocols established.

CP6 (Relationship With SNP) - Common gaps

Impeded access to information

1. no access, limited access, not timely, only upon request or not readily exchanged
2. information received are standardised and may not identify banks in distress
3. does not receive information necessary to effect prompt reimbursement to insured depositors on a timely basis
4. no access to forward looking assessments, early warning systems

No formal mechanisms

1. legislative restrictions – Confidentiality of information
2. maybe explicit in an MoU but only partially implemented
3. for timely information sharing and the coordination of actions among the DIS and other safety-net participants
4. for periodic simulations to validate the on-going effectiveness of coordination mechanisms
5. or only informal agreement of information sharing with other safety-net participants
6. to coordinate mandates, functions and roles of safety-net participants

Transforming Fragilities into Strength

1. Cooperation and coordination at the national level:

- Mandate explicitly defined in law for each safety-net player
- Open and honest cooperation and coordination and identification of impediments to effective information sharing between safety-net players
- Agreement (refers to SAA type of agreement) must be formalised and inclusive
- Synchronisation of entry into resolution triggers and exit

2. Alignment of incentives of all safety-net players at the national level:

- Inclusion of promoting financial stability as the deposit insurer mandate
DIS must be national resolution authority if it is expected to bear resolution costs
- Development of an authority matrix on responsibilities & accountabilities of all safety-net players
E.g. Use of DIS's funds by other safety-net players is UNACCEPTABLE and fraught with peril as it provides for weak accountability framework (supervisors use DIS Funds to bury their mistakes at higher costs than other options available)

Strengthening the Links and Filling in the Puzzles

1. Active engagement and inclusion of deposit insurer in frameworks and arrangements:
 - In the national and cross-border (including regional) crisis management
 - As a signatory party in any MOUs or agreements, including trade agreements if relevant to the mandate of the deposit insurer
 - In platforms for discussing resolution
e.g. Crisis-Management Group, Cross-border Cooperation Agreements

2. Active involvement in the discussions and decisions pertaining to:
 - Recovery and resolution plans
 - On group issues including Group RRP
 - In determining the resolution strategy
 - Early intervention and remedial actions
 - Crisis simulation plan and war games

Strengthening the Links and Filling in the Puzzles (cont'd)

3. Enhanced role of deposit insurer in resolution:
 - Participation in the resolution of SIFI
 - Mitigate pro-cyclicality of the financial system especially in ex-ante funding mechanisms

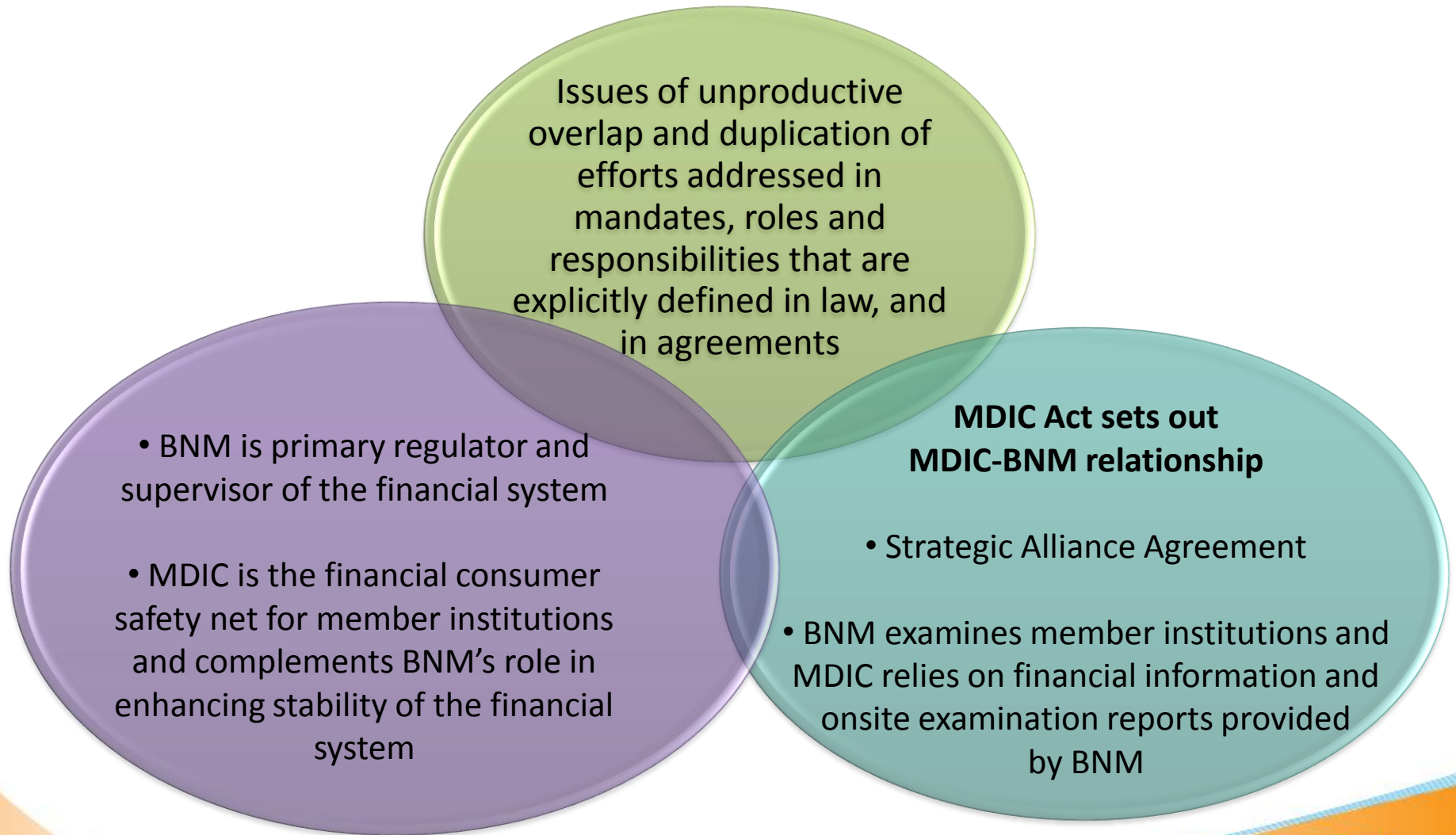
4. Compliance with the international conventions and best practices, with letter and spirit:
 - IADI-BCBS DICP and FSB Key Attributes of Effective Resolution Regime

Bank Negara and MDIC – Example of Effective Cooperation and Collaboration Framework



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Interrelationship Between BNM and MDIC



Cooperation Set Out in Law

“The Corporation may enter into any agreement with any person in furtherance of its objects or in relation to the performance of its functions, including a strategic alliance agreement with Bank Negara Malaysia.”

MDIC Act (2011)

Strategic Alliance Agreement (The SAA)

Formalises approach and scope of cooperation set out in MDIC Act

Scope of Cooperation

Exchange of
Information

Consultation
and
Collaboration

Sharing of
Resources

The SAA (Cont'd)

Purpose	Guiding Principles
<ul style="list-style-type: none">• Formalises interrelationship between MDIC and BNM in promoting and contributing to public confidence in financial system stability• Sets out areas of cooperation to enhance ability to carry out mandates efficiently and effectively• Coordination of regulatory activities, promote consultation and facilitate exchange of information• Documents working relationship between employees of both agencies• Fosters greater understanding between employees for collaborative working relationship	<ul style="list-style-type: none">• Transparency and openness in dealing with issues• Respect for independence and accountability of each other's work within the mandate• Mutual respect and acceptance of diversity in addressing issues raised• Committed towards continuous maintenance and enhancement of working relationship• Timely and up-to-date communication and exchange of information• Minimises unproductive duplication of efforts and costs

Areas of Cooperation



Advantages of the SAA

Enhances overall supervisory framework

- Strengthens incentives for sound risk management practices
- Promotes market discipline

Financial stability at least cost

- Prevent premature intervention
- Expedites procedures for resolution

Delineation of function and focus

- Effective check and balance against conflict of interest between supervisor, deposit insurer and lender-of-last-resort functions

Promotes depositors'/ policy owners' confidence

- Protection of depositors/policy owners

Minimises duplication in supervisory and regulatory function

- Reliance on BNM as primary regulator –obtaining requisite information; conducting examinations

Triggers for Intervention

IFR options pre issuance of Non-viability Notice by BNM.

- Financial Assistance (eg. Guarantees)
- Asset Carve-Out
- Acquisition of MI's shares

IFR options subsequent to BNM issuing the Non-viability Notice

Going Concern

- Restructuring
- Purchase & Assumption
- Bridge Institution

Liquidation

- Agency Arrangement
- Liquidation and Payout

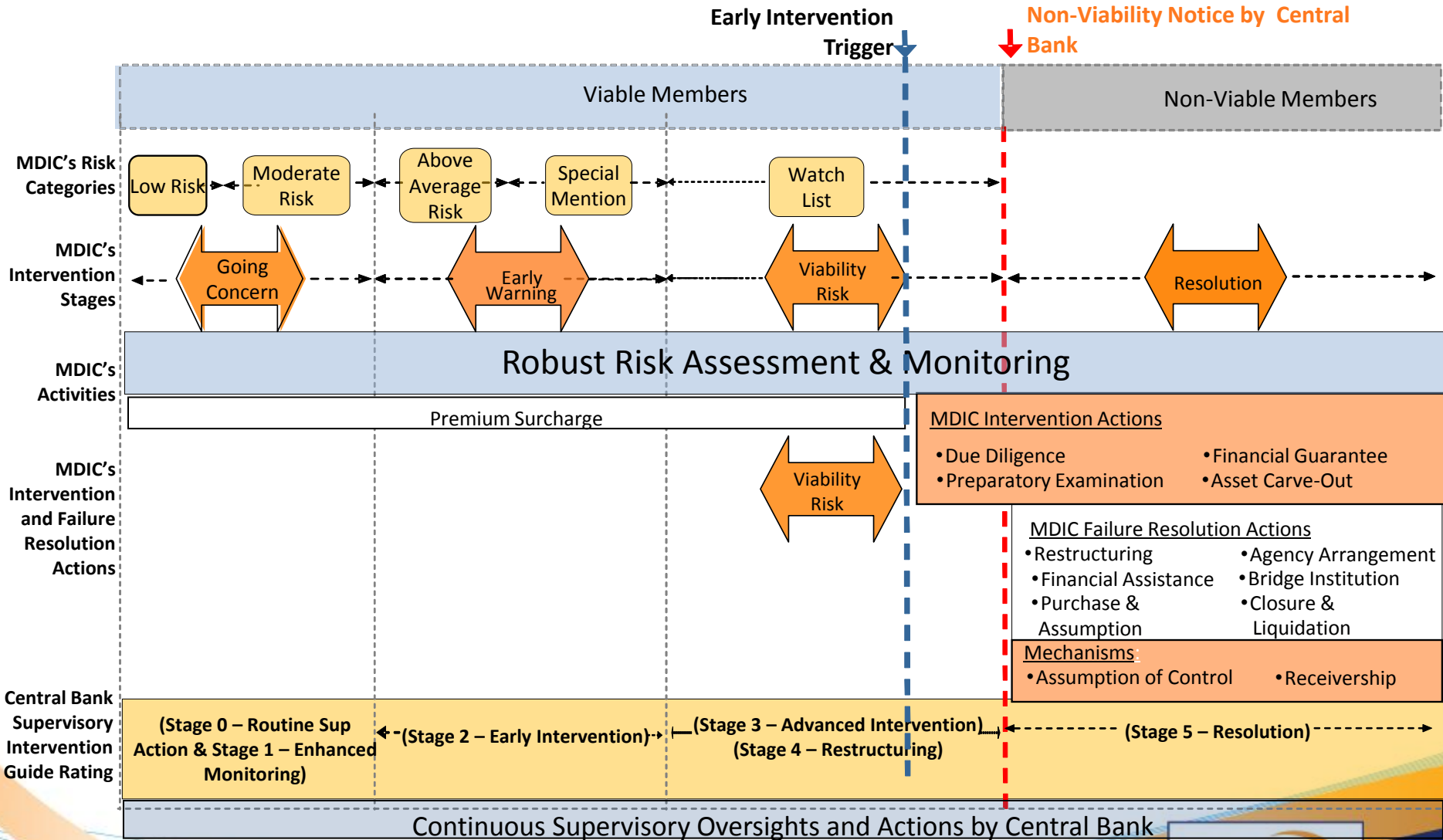
Mechanisms

- Receivership
- Assumption of Control

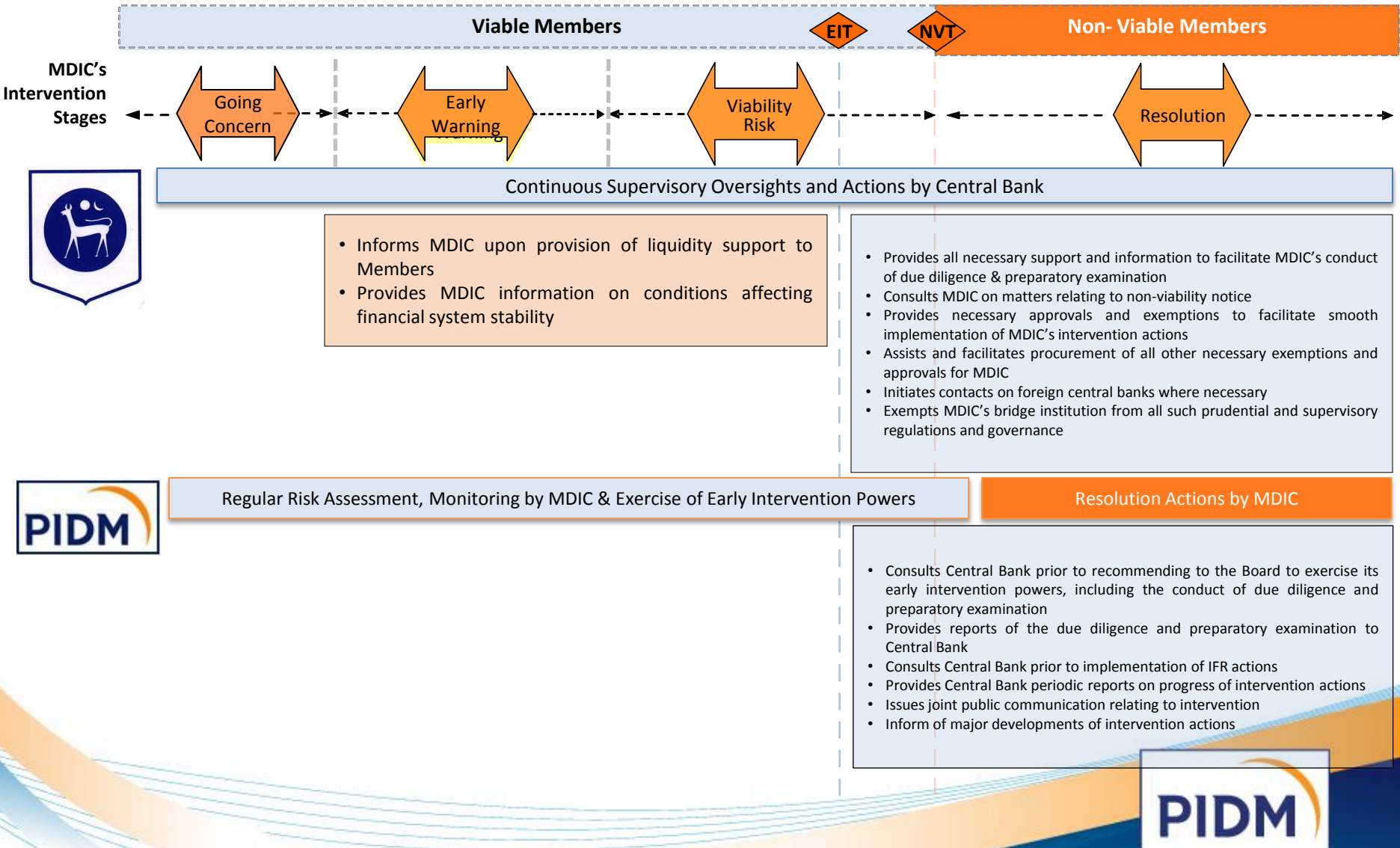


Clear triggers for early intervention and determination of non-viability addressed under the SAA

Early Detection and Timely Intervention Framework

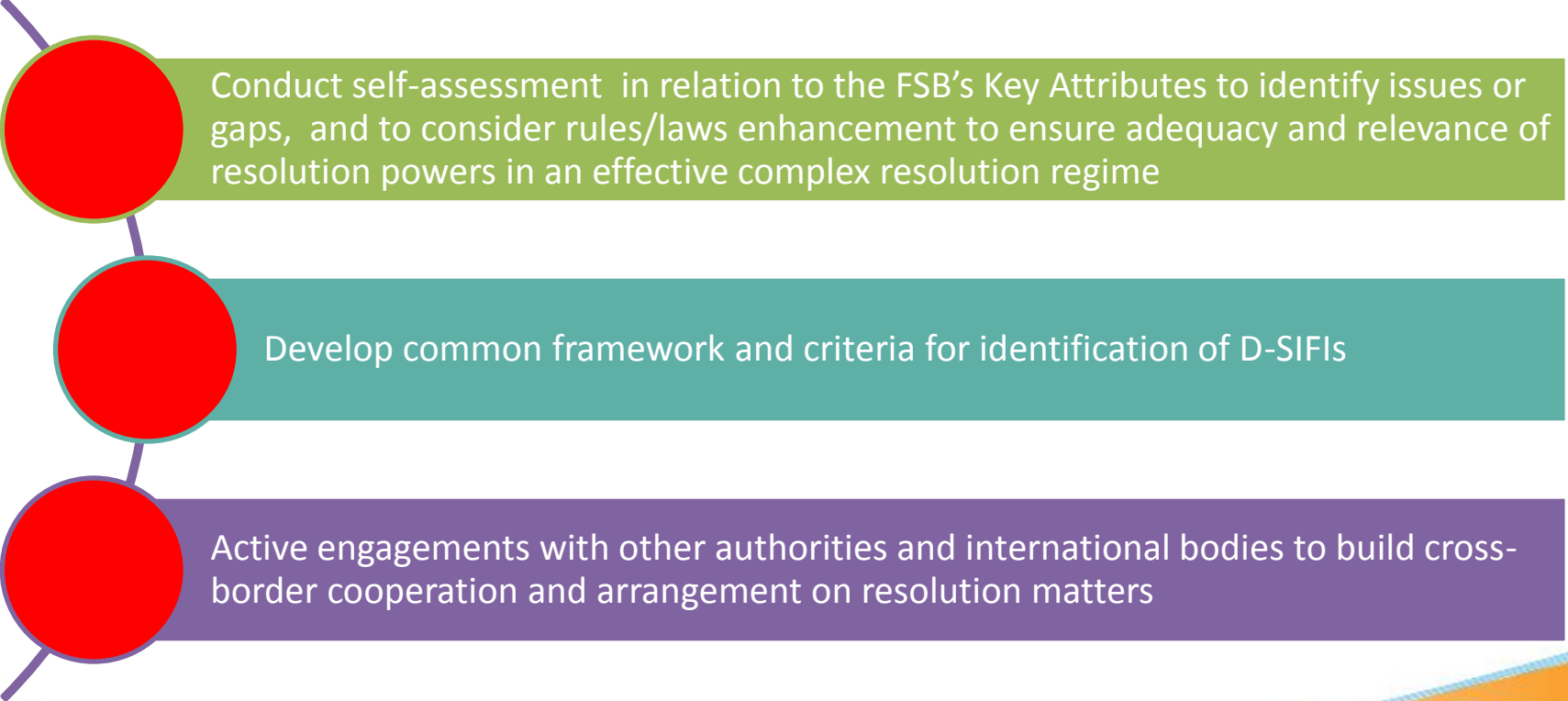


Working Arrangements During an Intervention



Joint Development/Implementation of Robust RRP Framework for SIFIs

Joint initiatives to facilitate development of robust RRP framework that complements and enhances financial existing risk management and governance framework and processes



Conduct self-assessment in relation to the FSB's Key Attributes to identify issues or gaps, and to consider rules/laws enhancement to ensure adequacy and relevance of resolution powers in an effective complex resolution regime

Develop common framework and criteria for identification of D-SIFIs

Active engagements with other authorities and international bodies to build cross-border cooperation and arrangement on resolution matters

Conclusion

- National financial safety net players should see relationship between agencies as a partnership. While our different role and distinct mandate do matter, our common vision - to ensure the stability of the financial system - matters much more
- Holistic and effective cooperation between safety-net authorities at national level is a critical pre-requisite for effective cross-border cooperation

THANK YOU



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