



DGS Resources Planning for Contingencies

DIA, Russian Federation

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Outline of presentation

1. DIS mandate and general statistics of operations
2. Legal requirements and challenges for payouts
3. Resources planning and allocation in payout process
4. Agent bank network outsourcing for effective payouts

1. DIS mandate and general statistics of operation

DIS Mandate development

- December 2003 – Deposit Insurance Law - pay-box mandate was approved (inception of DIA)
- August 2004 – Bank Insolvency Law - bank liquidation mandate was extended
- October 2008 – Bank Rehabilitation Law - DIA was empowered to participate in open bank assistance to prevent its bankruptcy
- 2014 (Law to be approved) – management of guaranty fund for accumulated pensions

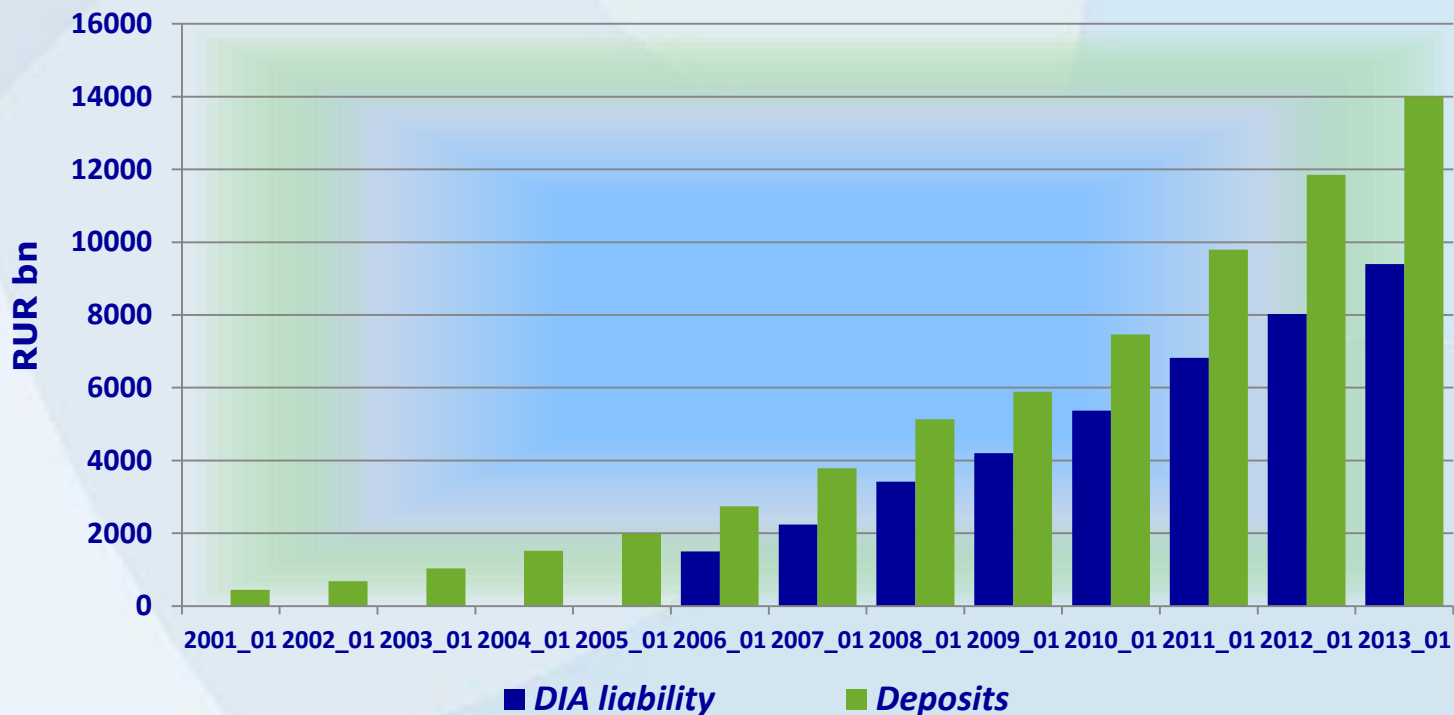
Paybox in figures (September, 2013)

- **DIS member banks – 778 (+ 100 under liquidation)**
- **Total amount of insured deposits – RUR 15 309 bn**
- **Deposit Insurance Fund – RUR 234 bn (US\$7,3 bn)**
- **Covered products - current and saving accounts of natural persons in any currency**
- **Insurance coverage level - RUR 700000 (US\$21900) per depositor per bank**
- **Number of insurance events – 142
(9 in 2013, 4 in September)**
- **Total number of depositors in failed banks – 1376 th**
- **Total insurance liability in failed banks – RUR 81,4 bn**
- **Number of reimbursed depositors – 437 th**
- **Amount of deposits reimbursed – RUR 77,9 bn**

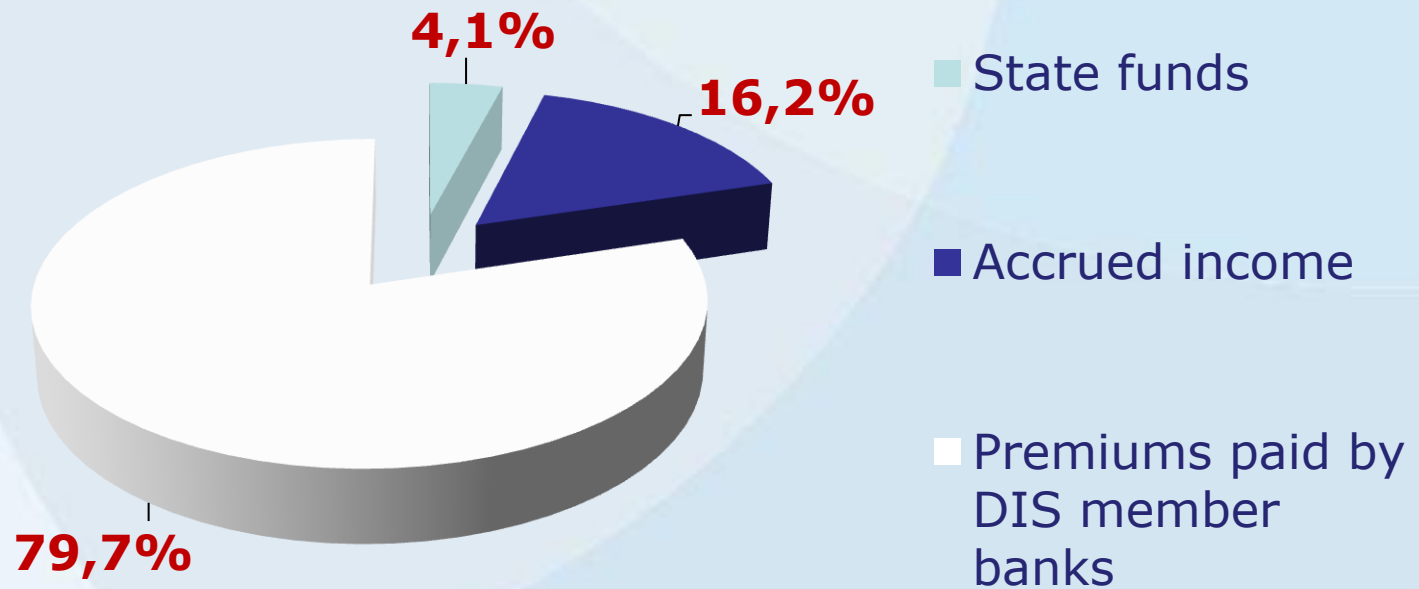
Other DIS functions in figures

- **111** ongoing bank liquidation processes with 67 th general creditors and RUR 296 bn in claims
- Total record of **309** bank liquidations in 2004-2013 including 191 processes finished
- Total record of **19** financial rehabilitation cases in 2008-2013 including 14 completed

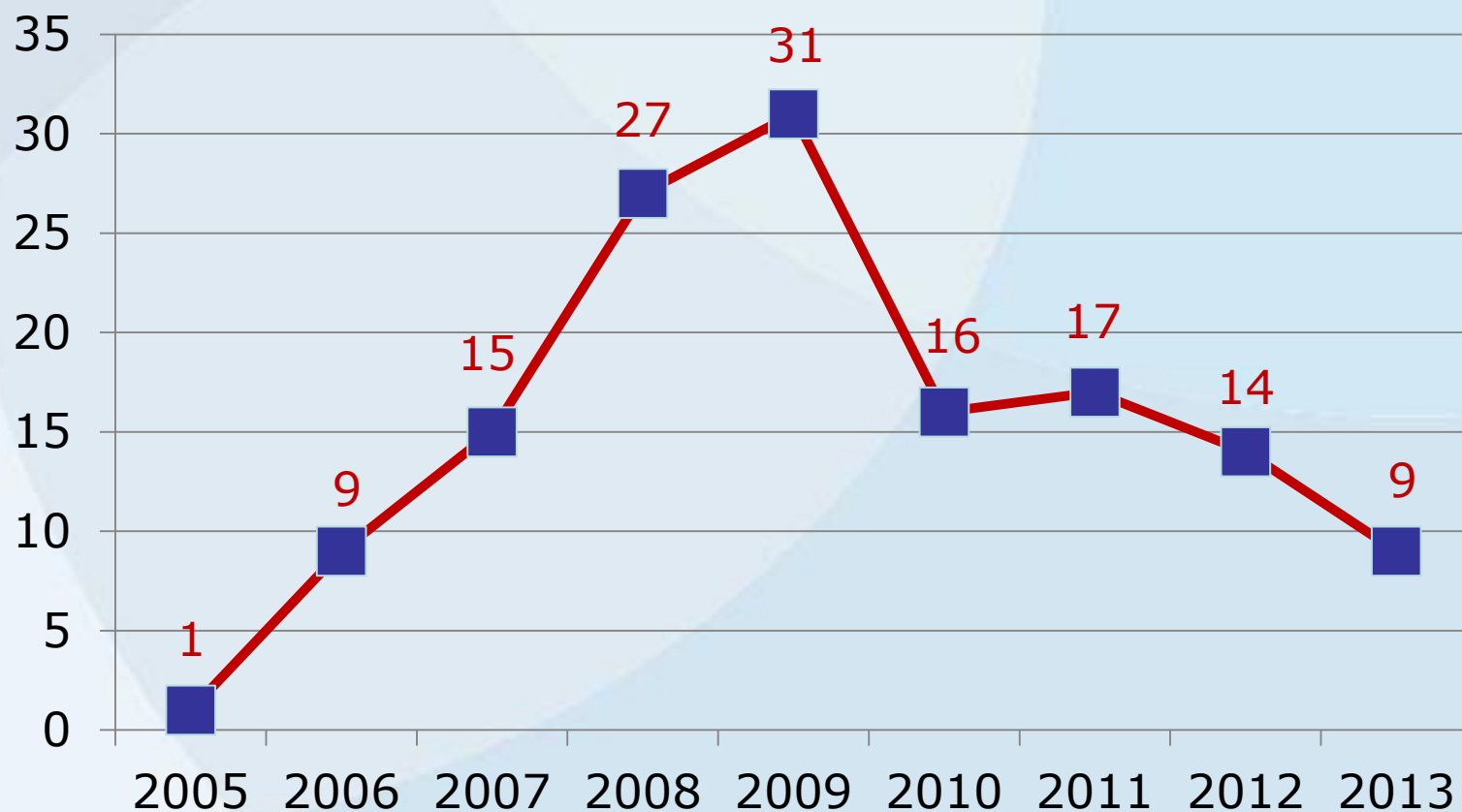
Insured deposits and DIA liability



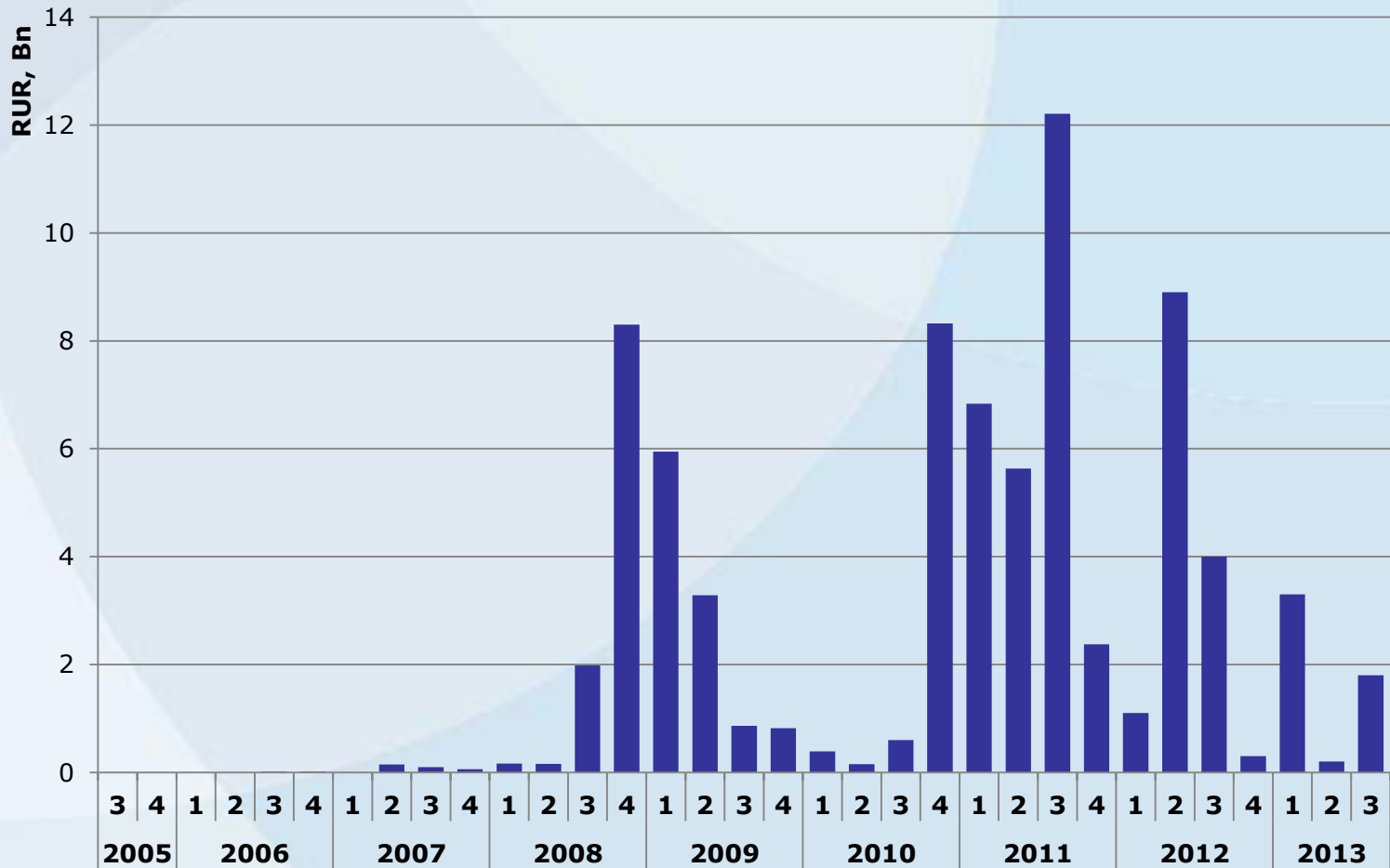
Deposit Insurance fund sources



Number of insurance cases (2005-2013)

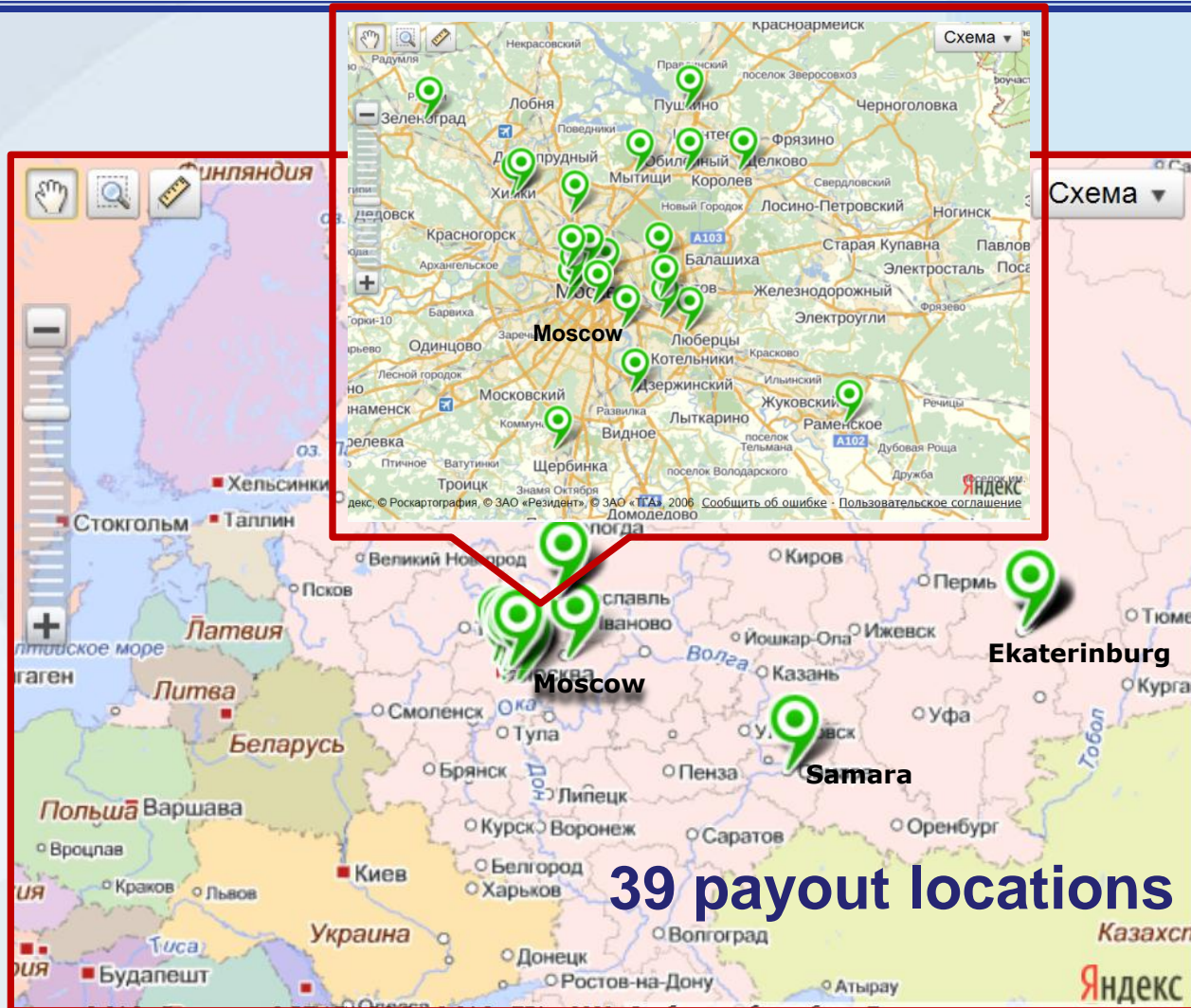


Reimbursed amounts (2005-2013), bn RUR, quarterly



Example of payout geography

(insurance event 10/09/2013 - EIB Bank, 17 branch offices, 4500 depositors, RUR 1,7 bn in deposit liabilities)



2. Legal requirements and resource challenges for payouts

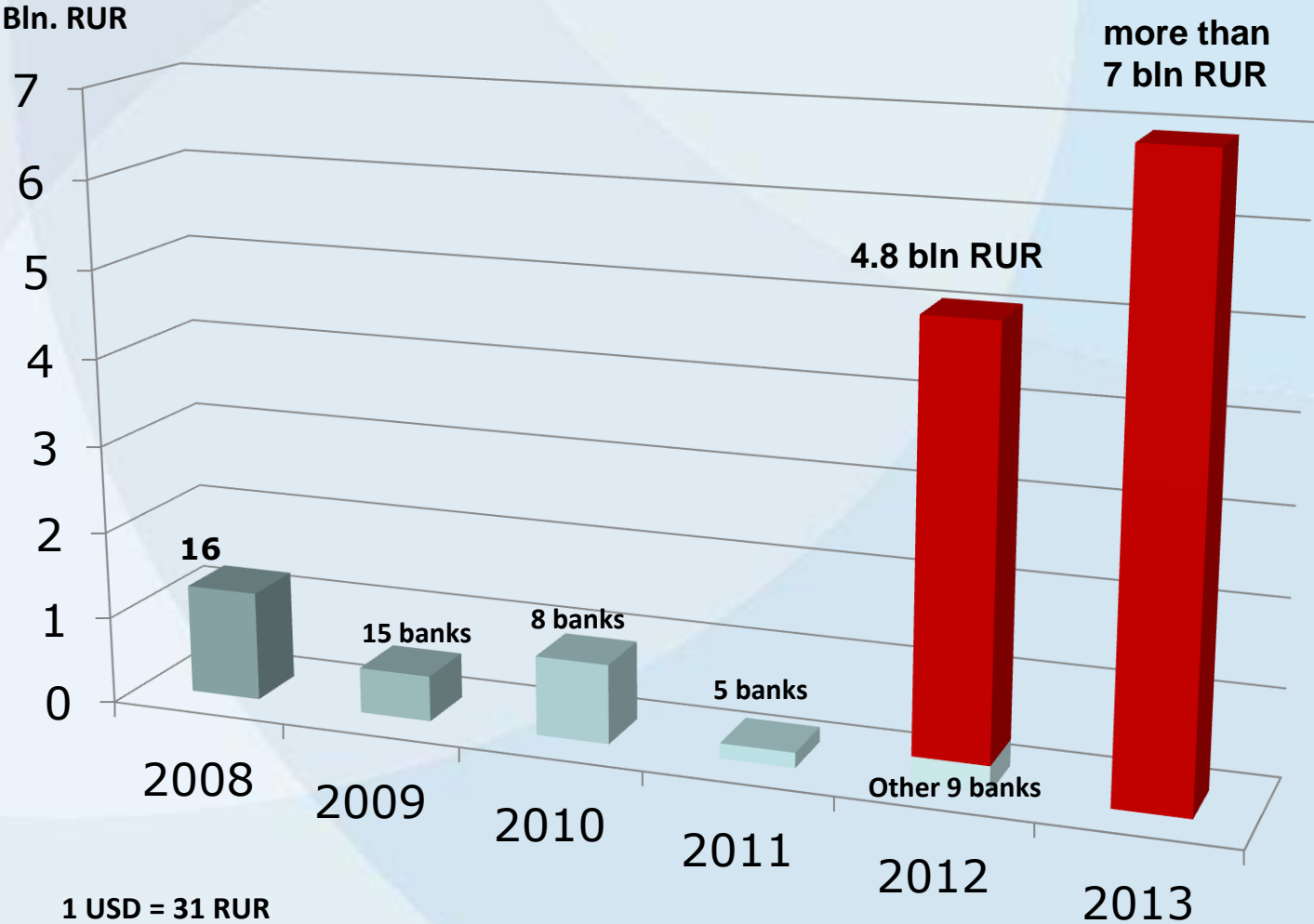
Legal framework for payouts

- Insurance case is triggered by banking license revocation
- DIA is invited (in fact 1-2 days before triggering event) to include its representatives in interim bank administration, set by supervisor
- Depositor's Register in standard form as legal grounds for payout to be provided by the bank's temporary administration within 7 days
- 7 more days for DIA to set up and advertise payouts
- Reliance on failed bank's records with aggregated liabilities, counter claims and reimbursement amounts ("virtual" set-off is applied)
- Individual depositor application for reimbursement (in writing) is mandatory, no proof of claim is needed, application period is limited by bankruptcy termination
- Mandatory means of payout: cash (money over the counter or postal transfer) or bank transfer to clients' account in another bank (as indicated in application)
- 3 business days for DIA to settle individual application
- DIA has an option to appoint paying agents among DIS member banks to process claims and make payouts

Features of banking system vs payout options

- **Large territory** with lack of banking competition in low populated areas
- High **concentration of banking services** in a couple of state-owned banks (more than 50% in total assets) and **in large cities**
- **Unsophisticated nature** of majority **of banking products** available to household depositors and payroll clients (no joint accounts or multiple depositor's capacities)
- **Polarized depositors' base**: 50% of deposits with negligible balances (1% in total balance) while 1% of deposits account for 25% of total balance
- **No payment instruments for DIA-initiated payouts** - checks are unknown to most customers, no unique client identifier, poor internet availability (< 20% of population outside large cities).
- Deficiencies in bank supervision, lack of legal provisions and immature law enforcement and court systems to prevent cases of **deposit insurance fraud** (primarily formal split of accounts to obtain extra reimbursement)

Statistics of insurance fraud cases in Russia



New tricks in DI fraud

- **Heavy advertising of high yield deposit products on the eve of expected failure**
- **Cashier transactions imitation instead of tracable bank transfers**
- **Fake bank robbery to cover cashier's deficit**
- **Fake bank staff bonuses transferred to their insured accounts**
- **Fake redemption of clients' loans**
- **Deposits recorded in past business days (behindhand)**
- **Deposits opened by proxy**
- **Dummy accounts opened beforehand**
- **Mess in client documentation to prevent reconciliation**
- **Numerous and diversified fraud methods used simultaneously**

Files in order, database too...



Challenges to payout structure

- 14 days to start payments in any case, for any failing bank
- In case of bank data missing or in disorder – DIA needs resources for manual processing of bank documents
- Points of service for depositors are to be arranged close to failed bank branches
- Peaked demand for service expected, extra throughput is to be ready to avoid queues
- Cash payments is needed: not all banking branches fit
- In case of insurance fraud - extra workload to investigate, communicate with law enforcement and process complaints

3. Resources planning and allocation in payout process

Core pre-requisites and resources needed for effective payouts

- **Relevant information** on expected insurance cases (for proper planning)
- **Funding** (accumulated liquid funds + contingency funding options)
- **Staff** trained and motivated to launch and supervise the payout + staff outsourcing options
- **Payment infrastructure** (paying agents – PA) ready for immediate use
- **Client communication channels** (call center, complaints processing team, web site/mobile applications)
- **IT solutions** adequate for depositors' data download and cleansing, data exchange with PA, effective client communications

Challenges to obtain relevant information

- Information exchange with banking supervisor (CBR) is regulated by DIS Law and limited scope SAA primarily designed for pay box functions
 - Data to adequately evaluate bank financial state is not provided by supervisor
 - Publicly disclosed bank reporting is not always reliable
 - On-site examinations of DIS member banks are regular but not frequent enough
 - DIA is not always notified of bank problems and thus not allowed to access the depositors' data prior to bank failure
- => Prediction for potential insurance cases is impossible
- => Risk of resources shortage or misallocation exists

Funding pre-arrangements

- Accumulation of premiums in Insurance Fund (calculation verified and premium collection monitored by DIA)
- Regular (annual) evaluation of IF sufficiency, approved by Board of Directors
- Effective asset management, balancing liquidity and safety VS yields
- Emergency funds arrangements (pending draft legislation: option for unsecured loans from CBR up to 5 years)
- Differential premium system (DIS Law amendment pending parliament adoption)
- Immediate funding arrangement – accumulation of liquid funds within 2 weeks period of payout preparation

Staff allocation to prepare SCV and payouts

- Typical task force for single insurance case

On-site:

- Task manager in charge (1)
- Depositor data processing expert (1)
- IT support/bank automation system expert (1)
- Insurance fraud evaluation expert (1)
- Security (1-2, optional)
- Client documentation revision (1-3, optional)

Off-site:

Case manager (communication with agent bank)

Complaints processing (1-2)

- Feasible limit for DIA managing concurrent insurance cases – 5-7 (totally number of staff in DI Division – 35)
(3 license withdrawals a week is a record for Regulator)

Customer communication

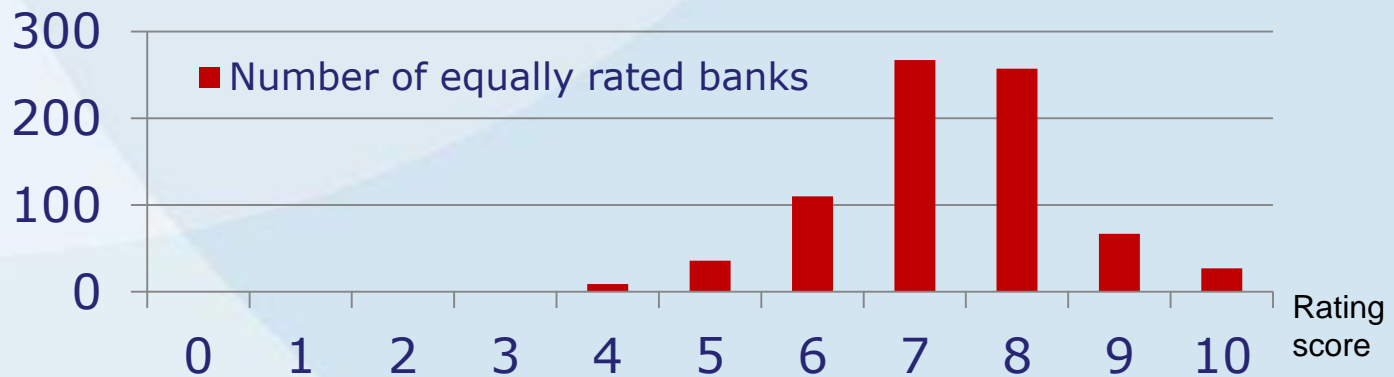
- Face-to-face consulting on-site and at DIA regional offices
- Preliminary (at closure day) and final (payment day) public notification – press, web-site, leaflets at failing bank offices
- Individual notice with statement of claim and reimbursement application form enclosed – sent out by registered mail
- Call-center (24 hours toll free line 8-800..)
- Clients written correspondence tracing

Outline of IT solutions

- Unified SCV structure for submission of depositor data (depositor register) as a legal requirement
- Free validation software for bank self-tests of depositor register data quality
- Regular on-site/off-site examinations in peace times and preparatory examinations in bad times
- Integrated payout/accounting software
- Identification of suspicious transactions and insurance fraud investigation as part of data cleansing on insurance event

Regular examinations of DIS member banks to ensure the SCV requirements are observed

- On-site examinations set up jointly by supervisor and insurer (75-100 banks annually, 5 years between exams)
- Off-site review of results of SCV self-test performed on demand of supervisor (10-20 tests per month)
- Complex rating of member bank compliance to DI requirements (incl. SCV rules)



Other benefits of SCV standard for payout process

- No need to have individual interface to upload depositor data for each of 778 operating member institution
- No urgency for DI to have access to bank records on the eve of triggering event
- Unified time limit requirement (7 days) for deposit register compilation allows DI to comply with targeted payout launch delay
- Mandatory set-off and reimbursement calculation is automatic due to consolidated deposit and liabilities accounts
- Standard data format is an effective way to improve data validation means and software
- Easy way to pass the depositor data to payout agent banks

4. Agent bank network outsourcing for effective payouts

Payment infrastructure: Agent Accreditation criteria

- The agents do not operate on a permanent basis. For new insurance case new tender is arranged among accredited credit institutions.
- Accreditation criteria list is very short with the requirements as follows: DIS membership, 3 years of operations, 1 year of prudential ratios compliance, RUR 1 bn (\$30 mln) in capital and branches in 10 or more regions. For regional bank there is an alternative scale criteria: 10 % of aggregate capital and in aggregate deposits of all banks registered in the region.

Idea of prior accreditation



- The accreditation procedure is followed by conclusion of **framework agreements**, establishment of secure information exchange links, and update of bank automation software to ensure the ability to receive depositor register of failed bank and report on effected payments.
- The whole procedure enables the accredited bank to be **permanently ready** in technology and internal procedures to start payments on demand from the insurer. In is very difficult or impossible when the arrangements are started after the insurance case announcement.

Agent bank tender criteria

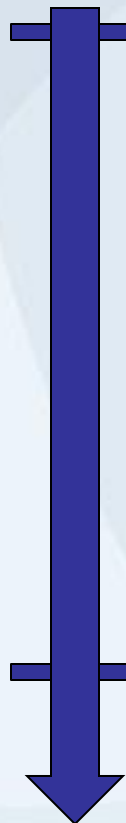
- Tender process for particular insurance case is based on formal evaluation and comparison of sealed bids of accredited banks willing to participate. Accredited banks make decision to bid within 3 days after invitation having revised their business priorities and cost of funding in every tendered payout location.
- The agent's coverage level of failed bank branch locations and proposed speed of service for insurance applications along with the financial proposal (agent fees + DIA funding schedule) and prior payout experience usually define the final score for the winner.

Tuning up agent bank tender rules (2011)

Target function parameters for agent bank bidding procedure		Weights of parameters for valuation of bids (%)									
		OLD scheme				NEW scheme (since Dec 2011)					
Parameters (by various grouping levels)		Primary grouping level	Secondary grouping level	Grouping level 3	Absolute weight	Primary grouping level	Secondary grouping level	Grouping level 3	Absolute weight		
A	Prudential requirements for Agent bank and Payout structure				55					55,0	65,0
1	Prudential requirements for Agent bank			20		11,0				11,1	
1.1	N1 (Capital adequacy)	50	20			5,5	50	17		5,5	
1.2	N2 (Instant liquidity)	25				2,8	25			2,8	
1.3	N3 (Current liquidity)	25				2,8	25			2,8	
2	Agent network sufficiency					55	30,3				42,3
2.1	Regional coverage	10	55	3,0			10	65	65	4,2	
2.2	Residential area coverage	40		12,1			40			16,9	
2.3	Service throughput	30		9,1			30			12,7	
2.4	Centralized customer service (access from any outlet)	20		6,1		20	8,5				
3	Business scale comparability between Agent and Default banks			10		5,5				5,2	
3.1	Comparability in deposits	50	10			2,8	50	8		2,6	
3.2	Comparability in capital	50				2,8	50		2,6		
4	Payout experience			15		8,3	10			6,5	
B	Agent services cost				45					45,0	35,0
1	Agent commission rate			40		18,0	10			35	3,5
2	Schedule of DIA cash installments to cover Agent disbursements			60		27,0	90			31,5	

Weight DOWN 
Weight UP 

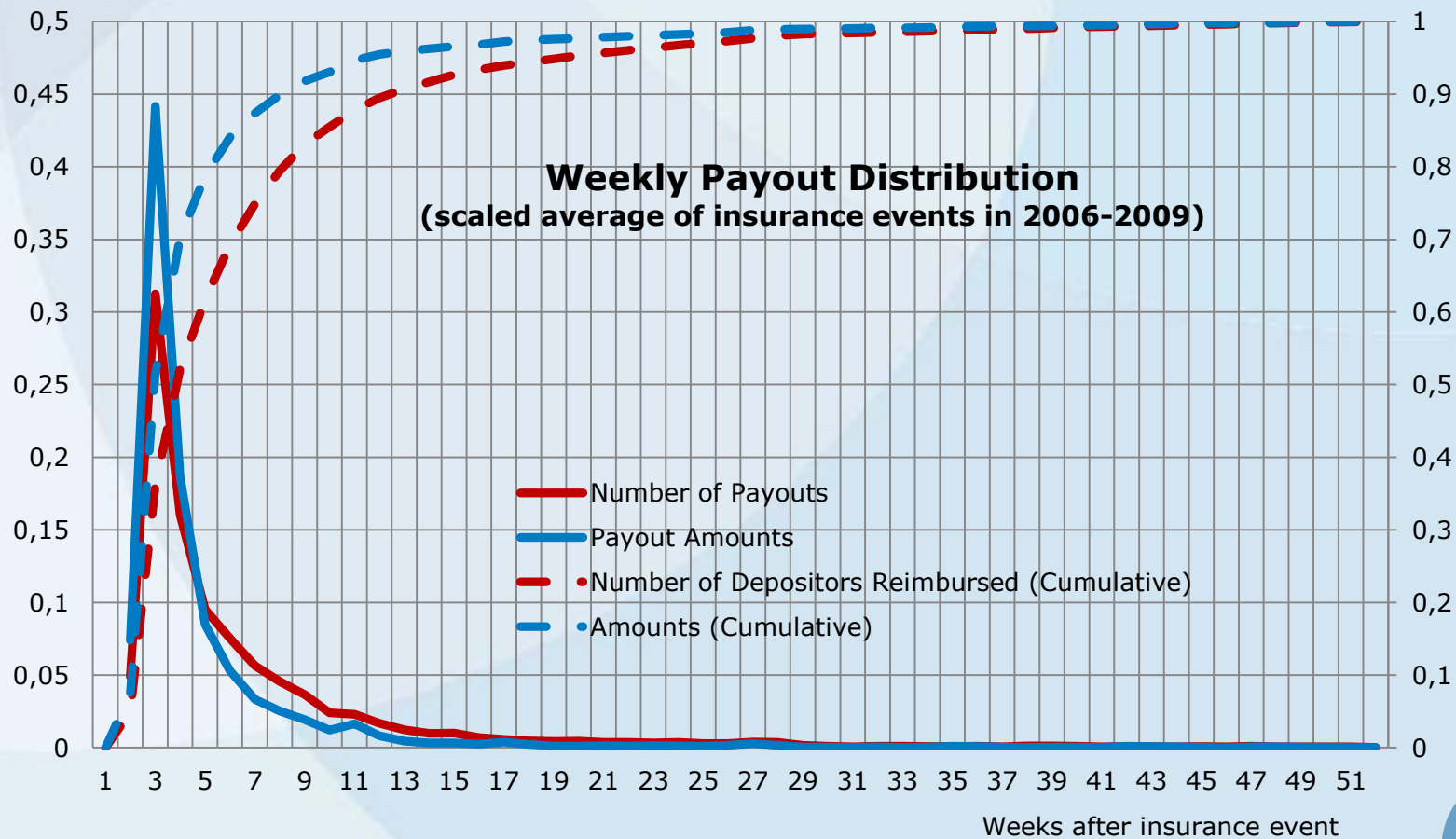
Typical payout time-line

- 
- Day **1** (insurance event acknowledged) – invitation for the tender is sent to all accredited banks qualified for the case; while DIA representative is sent to the failing bank to oversee the depositor register compilation.
 - Day **5** – tender is closed, winner is identified
 - Day **7** – depositor register is received from the bank and tested by DIA
 - Day **8** – agent agreement is signed
 - Day **9** – verified depositor register is sent to the agent
 - Day **13** – agent banks confirms all details of arraignments (addresses and business hours of the branches); official announcement for depositors is published; the agent receives funds for payment (if the advance was in the bid).
 - Day **14** – payments are started.
 - Day **20** – first weekly report on executed payments received from the agent.

Payout Distribution over time

- First 3 days are very tough for an agent, most customers are nervous, long queues may be observed. It is normal for the agent to repay 80% of all scheduled amounts within first month of payments.
- Usual agent contract lasts from 3 to 6 months. The residual clients may apply directly to the DIA before termination of bankruptcy procedures (typically about 2 years).

Workload distribution over time



Current Agent Bank Network

- **62 banks** are accredited now as potential agents with the DIA (including the largest state-owned retailer - SberBank of Russia);
- 25 regional and 37 federal-scale banks;
- **28000 branches** of these institutions are located **in 900 cities** and provide sufficient coverage of the territory of all regions where DIS banks are registered;
- Accredited banks' market share is **40%** in terms of capital and **75%** in terms of deposit liabilities.

Agent banks payout score (2005-2013)

	Agent bank	Number of insurance cases	Amounts repaid (mln RUR)	Depositors reimbursed (ths)
1	SBERBANK OF RUSSIA	19	39 909	197,1
2	VTB 24	16	12 784	60,2
3	RGS BANK	11	6 231	41,3
4	MDM BANK	20	4 653	25,7
5	BANK OF MOSCOW	13	4 004	24,8
6	NOMOS BANK	11	1 519	10,7
7	VOSTOCHNY BANK	4	1 027	20,4
8	AK BARS BANK	3	1 017	7,2
9	CHELINDBANK	1	998	6,1
10	ROSSELKHOZBANK	6	615	4,0
11	HANTY-MANSY BANK	4	578	14,2
12	BYSTROBANK	2	463	3,3
13	SVYAZ BANK	7	347	4,1
14	MOSCOW INDUSTRIAL BANK	8	235	1,1
15	ASIAN-PACIFIC BANK	1	198	4,7
16	POIDYOM! BANK	2	172	0,7
17	PROMSVYAZBANK	2	149	1,1
18	TRANSCREDITBANK	2	74	2,7
19	KAMCHATPROFITBANK	1	69	0,8
20	ECONOMBANK	1	55	0,6
21	INVESTCAPITALBANK	1	50	0,3
22	ALFA BANK	1	28	0,1
23	ALMAZERGIENBANK	1	22	0,6
24	SOYUZ BANK	1	10	0,1
25	IMPEX BANK	2	4	0,1
26	ZENITH BANK	1	1	0,1
	TOTAL	141	75 212	432,2

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