



# **Governance Options for Deposit Guarantee Schemes**

*Eugen Dijmărescu*  
*CEO FGDB*

**EFDI Annual Conference “DGS and Crisis Management”**  
***Geneva, 12-14 September 2012***

## ***Contents***

- 1. Facts and questions***
- 2. Governance***
- 3. Public vs. private***
- 4. Experience of the Romanian DGS***
- 5. Towards the future***

## ***Facts and questions***

*Protection of depositors means more than reimbursement of deposits*



- Market failure is a sufficient base for making an intervention in the market functioning through the creation of a DGS.
- The novelty brought by the 2007 crisis was the reconsideration of DGS's function in the event of a collapse of cross-border deposit institutions.
- The question raised by the 2007 crisis is the following: is the framework of current DGSs capable to deal with a global run on cross-border banks?

*Is a private DGS better equipped to deal with a crisis than is a public one?*

## *Types of DGSs*

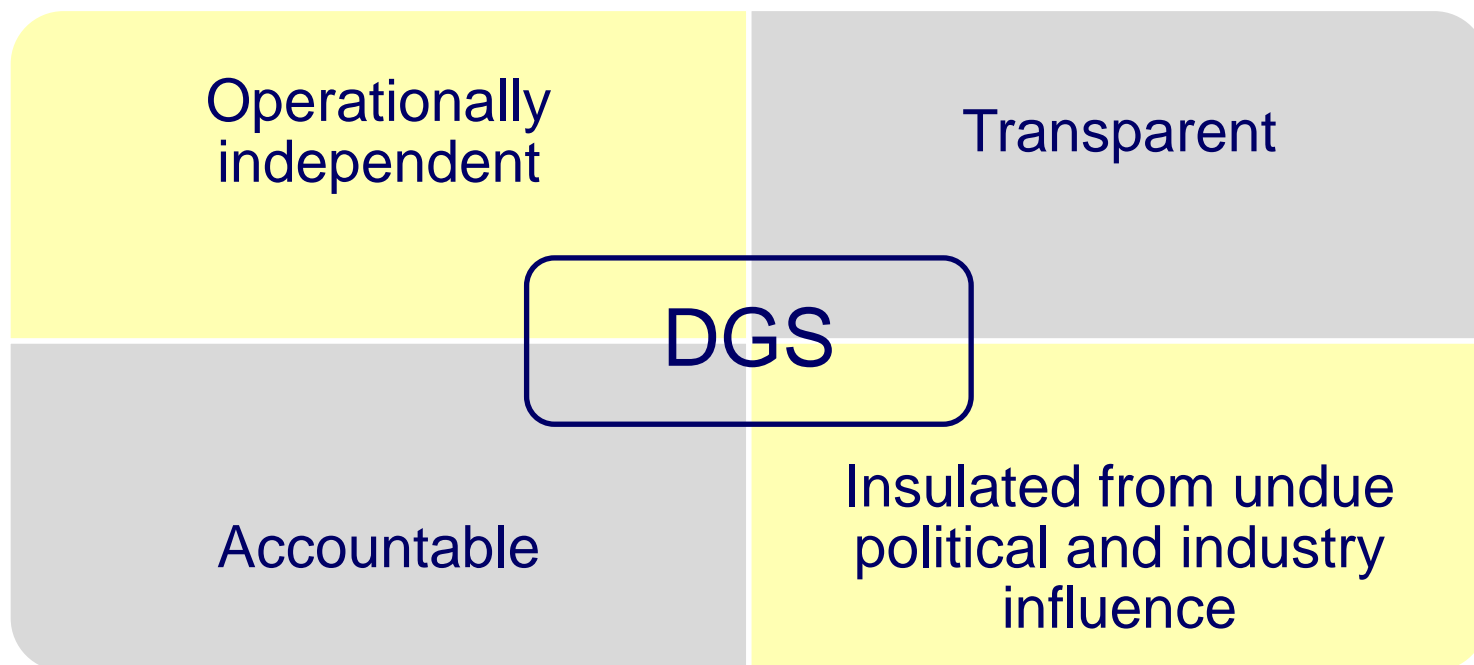
- ❖ *Legally separate entities publicly- or privately-administered*
- ❖ *Departments within a relevant authority (central bank, supervisor, government)*

➤ The emerging countries tend to establish publicly-administered schemes which receive at least partial funding from the government.

➤ Emerging countries also appear to value greater involvement by government and/or central banks in the running of their DGSs.



## *Core Principle 5 – Governance*



## ***DGS's Governance***

### *Sharing common features despite diversity:*

- ✓ mandates (usually) assigned by a public authority by means of legislation (few exceptions, such as the DGSs receiving their mandates from banking associations)
- ✓ accountability to a higher authority vs. accountability to the public/consumers
- ✓ governing body and management team
- ✓ responsibilities towards the interested parties – depositors, member credit institutions, relevant authorities, other safety net entities, the financial system as a whole
- ✓ transparency, in order to diminish the information asymmetry, which is the source of market failure

## ***Public vs. private – some questions***

- Full operational independence and insulation from undue political and industry influence? Effects on credibility?
  - ✓ involvement of the state in case of a crisis/ shortage of DGS resources (e.g. formal or informal guarantees, reinsurance from the state or central bank – credible guarantors)
  - ✓ DGS exposed to political influences on the goals – extension of the guarantee scope and increase in the level of coverage in times of crisis
  - ✓ political decision/ pressures regarding the DGS involvement with a view to protecting depositors and/or credit institutions
  - ✓ regulatory capture
  - ✓ investment policy
  - ✓ interdependencies between the entities of the financial safety net – cooperation and coordination in dealing with crises

## ***Public vs. private – some pros and cons***

### ***Public***

- ↑ more efficient crisis management
- ↑ credibility
- ↑ possibility of broader mandates
- ↑ better cooperation with the relevant authorities
- ↑ the Government has the ultimate rescue responsibility
- ↓ in case DGS is a department within a relevant authority, no autonomy, limited capacities

### ***Private***

- ↓ more vulnerabilities in times of crisis, including questionable credibility
- ↓ narrower mandates
- ↓ potential problems in cooperating with the relevant authorities
- ↓ potential slower implementation of critical decisions in crisis situations
- ↓ involvement and influence of the industry
- ↓ potential pro-cyclicality

*In any case, the best interest of the public and the stability of the financial system should be the overarching objectives of a sound governance of DGSs.*



## *Public-private partnership*



➤ There are some examples of a public-private partnership in the regulation of the financial sector, Germany being one of them.

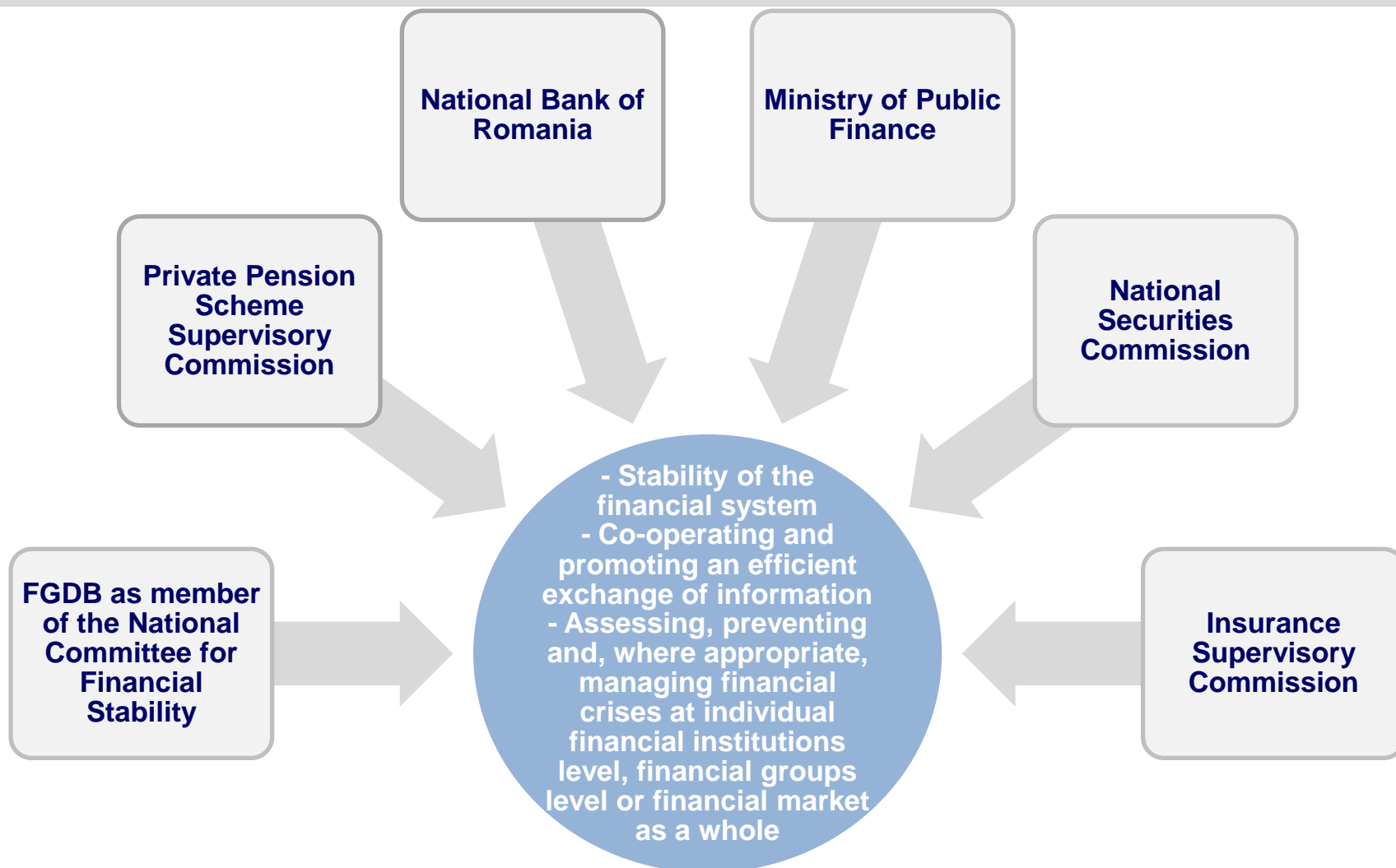
➤ One can define the private-public partnership also along the dimension of systemic and non-systemic crises. The private partner has to take all losses incurred due to non-systemic crises, whereas the public might step in in the case of a systemic crisis.

➤ A general assessment has to consider carefully the trade-off between the efficiency gain of a privately run deposit insurance scheme and its potentially negative impact on competition and entrepreneurship.

## ***Experience of the Romanian DGS - FGDB***

- Legal entity governed by public law, established by virtue of a government ordinance
- Responsibilities:
  - ✓ to guarantee deposits and pay compensations to depositors given the unavailability of deposits
  - ✓ to finance transactions involving guaranteed deposits transfer;
  - ✓ to carry out the activity of a special administrator, interim administrator or liquidator of credit institutions;
  - ✓ to manage funds established for purposes related to financial stability;
  - ✓ to carry out the activity of delegated administrator and, as the case may be, to have the capacity of shareholder of a credit institution which is subject to a resolution measure taken by the National Bank of Romania;
  - ✓ to have the capacity of sole shareholder and exercise the tasks of the supervision committee of a bridge bank.

## *Experience of the Romanian DGS (cont.)*



## ***Experience of the Romanian DGS (cont.)***

- Board of Directors' composition:
  - ✓ 3 members appointed by the National Bank of Romania, including the chairman of the Board;
  - ✓ 2 members appointed by the Romanian Banking Association;
  - ✓ one member appointed by the Ministry of Public Finance;
  - ✓ one member appointed by the Ministry of Justice.
  
- Some of the decisions are under the competence of the National Bank of Romania's Board of Directors, such as: the FGDB's statute and by-laws, organizational structure, income and expenditure budget, the annual contribution rate, the suspension and resumption of the contributions, the special contributions, the FGDB's borrowings, the annual report and the financial statements, the exposure coverage ratio, the investment strategy, the issues related to the resolution methods applied.

## ***Experience of the Romanian DGS (cont.)***

- Memorandum of Understanding between FGDB and the National Bank of Romania regarding the cooperation and exchange of information.
- Procedures of FGDB and NBR regarding the implementation of the resolution measures.
- Funding from member credit institutions: ex-ante annual contributions and fees, initial contributions, special contributions
- Last resort funding: from Government within five working days at FGDB's demand

## ***Towards the future***



*“... appropriate mechanisms of democratic accountability must be constructed: for supervisory duties, the responsibility of the ECB must be strengthened, compared to the independence it enjoys as an institution responsible for monetary policy.”*

*“The Commission has already proposed legislation that will reinforce the current national systems for deposit guarantee schemes and bank resolution and recovery, and strengthen the capital requirements for banks.”*

*“At the second stage, we must make decisive progress to build a Common Deposit Guarantee Scheme for the protection of depositors, as well as for a single European recovery and resolution framework.”*

Excerpts from the speech *“Towards a genuine economic and monetary union”* by Mr. Olli Rehn, Vice-President of the European Commission and member of the Commission responsible for Economic and Monetary Affairs and the Euro, 3 September 2012

**Thank you for your attention!**

**Bank Deposit Guarantee Fund (FGDB)**

3 Negru Vodă St., A3 bldg., 2nd floor, 030774 Bucharest, Romania  
phone: +4 0314.323.804, fax: +4 0314.232.800, [www.fgdb.ro](http://www.fgdb.ro), [office@fgdb.ro](mailto:office@fgdb.ro)