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**International Conference**

**“Bank Resolution and Public Awareness on Deposit Insurance”**

**X Annual Meeting of the Asia-Pacific Regional Committee**

**International Association of Deposit Insurers**

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**Welcoming Remarks**

Ladies and Gentlemen,

Let me first express my heartfelt thanks to the Management of the Deposit Insurance Agency of Russia, particularly to Mr. Alexander Turbanov, the General Director of DIA for inviting me for this international conference, held in the lovely city of Moscow. I would also like to congratulate Mr. Hiroyuki Obata, Chairman of the IADI Asia-Pacific Regional Committee for his leadership and contribution to the outstanding performance of the APRC in recent times.

The bank resolution framework and public awareness of deposit insurance are topics of paramount importance nowadays. They are key pillars of financial stability and safety of depositors, which continue to need careful monitoring due to the high uncertainty that characterizes the global economic and financial situation.

Five years after the outburst of the financial crisis, the global economy is slowing, Europe is stagnant or in recession, the US recovery remains fragile and China and some other emerging markets are slowing. All this leaves the world economy without a reliable engine capable of sustaining medium-term growth. According to the

recently released IMF Global Economic Outlook, global growth is projected to drop from about 4 percent in 2011 to about 3.5 percent in 2012. Projections for the euro area continue to indicate a mild recession as a result of the sovereign debt crisis and a general loss of confidence. Because of the problems in Europe, all advanced economies as a group will suffer, with projected expansion amounting to only 1.5 percent this year. This will also affect real GDP growth in the emerging and developing economies, which are expected to decelerate from 6.25 percent last year to 5.75 percent in 2012. The most immediate concern continues to be the further escalation of the euro area crisis, carrying with it the threat of a breakdown of the euro area. This would, without any doubt, have very serious negative ramifications for many parts of the world.

The prevailing global economic uncertainty must be viewed as only one aspect of the environment in which deposit insurance systems operate. Our community of deposit insurers can be described as a last resort line of defense that Main Street depositors have against the fragile banking sector, in a situation which is particularly uncertain in Europe. An analysis in the IMF Global Financial Stability Report asserts that pressures on European banks will remain in upcoming quarters. Consequently large EU-based banks could suffer a shrinkage in their combined balance sheets by as much as 2.6 trillion US dollars by end-2013, or almost 7 percent of total assets. About one fourth of this deleveraging could occur through a reduction in lending, with the remainder coming largely from sales of securities and other assets. The potential consequences of a synchronized and large-scale deleveraging may cause serious damage to asset prices, the credit supply and economic activity in Europe and beyond and in consequence pose additional risks to banks and financial stability.

The persistence of the financial crisis and the risk that it could develop further in a perilously unpredictable way once again confirms that we urgently need to establish a global safety net as well as strengthen domestic resistance to unfavorable developments in the financial sector. Important bodies like the IMF, WB, FSB, G-20,

EC work on improvements in regulations, supervision and crisis management. Intensive work is being done on regulations that cover the Basel 3 (CRDIV) risk management and capital adequacy framework, derivatives markets, rating agencies and investment funds. There's also a move towards enhanced supervision, with a focus on stress test exercises, new organizational solutions and the development of a macroprudential approach as separate areas in crisis prevention.

Some important aspects of the above-mentioned reforms have already been achieved, particularly in the field of enhancing depositor protection arrangements across the world. Most of these measures have been adopted as a prudential response so as to reassure depositors and maintain financial stability within a broader framework of a crisis management package.

First of all, these measures include raising deposit insurance coverage limits, expanding the scope of deposit insurance coverage by embracing previously unprotected banking products (e.g. foreign currency deposits) and shortening of the payout period. In many jurisdictions these measures have been reinforced by enhanced reforms such as broadening the mandate of deposit insurance schemes by adding preventive and resolution functions as well as strengthening their funding mechanisms, particularly by means of ex-ante funds. As a result, an increasing number of deposit guarantee schemes have become officially recognized domestic safety net players alongside the central bank, ministry of finance and supervisory institutions.

Such a strong performance of deposit guarantee schemes has coincided with and has been stimulated by the outstanding achievements of the International Association of Deposit Insurers. Let me quote the most important of these:

- Core Principles included in the list of Key Standards for Sound Financial Systems;
- Core Principle Methodology;

- The development of the Training Program for Core Principles Methodology Assessors;
- The development of the Handbook for the Assessment of Compliance with the Core Principles for Effective Deposit Insurance Systems;
- IADI Technical Assistance “Capacity Building” Program;
- Provision of e-training opportunities in collaboration with FSI;
- The development of the cBIS Deposit Insurance Data Base;
- and very broad IADI Research Initiatives.

It is particularly plausible that all those accomplishments have been done in just a decade, as last month IADI celebrated the 10<sup>th</sup> anniversary of its inception.

Such a remarkable track record for IADI has been achieved with active and substantial contributions from the members of the Asia Pacific Regional Committee.

That is all about achievements. Let me now briefly refer to the challenges we are heading towards. These challenges are closely related to the nature of the market economy, characterized by cyclicity in its development. After a period of booms, economies face a period of recessions and crises. The inevitability of bad times imposes on us the obligation to build a crisis management toolkit which allows, in case of emergency, to act decisively, promptly and effectively. The consequences of a weak or entirely absent crisis management framework are evident nowadays and manifest in a kind of vicious circle: a crisis in the financial sector infects the real sector of the economy – with a further impact on public finance gaps and a sovereign debt crisis and second round effects feed back to the financial sector.

To mitigate the overall cost of financial institution collapse and to limit its spillover effects on the whole economy, a crisis management framework should include a

comprehensive resolution regime. An effective resolution regime is also the basis for reducing moral hazard and strengthening market discipline.

In particular, we need tools to deal with SIFIS and GSIFIS - in addition to higher capital and liquidity requirements, we need the ability to wind down failed institutions or those that are likely to fail, and do so in a controlled way regardless their size, complexity and interconnectedness.

The pre-crisis experience with winding down credit institutions in an orderly way comes mostly from North America and Asia. Those resolution regimes were tested with respect to small and medium size banks (these were hundreds in number) but in a limited scope when it comes to large banks – only Washington Mutual in the US and a few banks in some other countries.

There has been no significant event in this respect on a cross-border scale and the European experience shows it is still a big challenge both legally and operationally.

Therefore, any decisions that have been made thus far and work that has been done on recovery and resolution plans, as well as an additional buffer imposed on GSIFI's, must be followed by an enhanced resolution regime with a full and coherent toolset. In that respect the most challenging issue is the concept of bail-in. It promises to be extremely interesting how the forthcoming European Directive on Resolution will cope with the bail-in concept. This idea has not been tested yet. Moreover it is legally challenging with potential unintended economic consequences, but a tool like bail-in gives hope, reasonable hope, that it might be well-suited to deal with SIFIS and GSIFIS.

But if we are not successful with all these preventive and crisis management solutions, the last resort line of defense when it comes to financial stability and confidence of depositors is an effective and well-funded deposit insurance system that provides prompt pay-outs. In order for a deposit insurance scheme to be effective, it is essential that the public be informed on an ongoing basis about the

benefits and limitations on the deposits insurance system. And this is precisely what Core Principle number 12 refers to. It means, implicitly, that the deposit insurer is responsible for promoting public awareness of the deposit insurance system, identifying potential information gaps and articulating to all stakeholders how the system works. The importance of public awareness was emphasized in the FSB “Thematic Review on Deposit Insurance Systems, Peer Review Report”. In Recommendation 3 of the Report it is stated that IADI should, in consultation with the BCBS, update those guidelines that pre-date the financial crisis in the area of “developing appropriate mechanisms to regularly monitor public awareness of the DIS”. Let me also take the opportunity to bring up Recommendation 2 of the Report: “FSB member jurisdiction with an explicit DIS should undertake actions to fully align their DIS with the Core Principles” which leads me to emphasize once again, what a remarkable achievement IADI has made in this area in recent years.

I am very pleased that the today’s Conference addresses both topics, bank resolution and public awareness, issues so important for deposit insurance schemes. I am convinced that the Conference will prove to be an excellent occasion to exchange opinions and expertise on how our institutions should be of better service, for the benefit of all financial system stakeholders.

Let me conclude by wishing all of you assembled here today fruitful and inspiring discussions. Thank you very much.