

IADI Africa Regional Committee Conference: 'Why Deposit Insurance'

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“Kosovo’s experience in establishing the deposit insurance system: mandate and powers vs practice and its contribution to the financial stability”

Deposit Protection Fund of Uganda

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OUTLINE

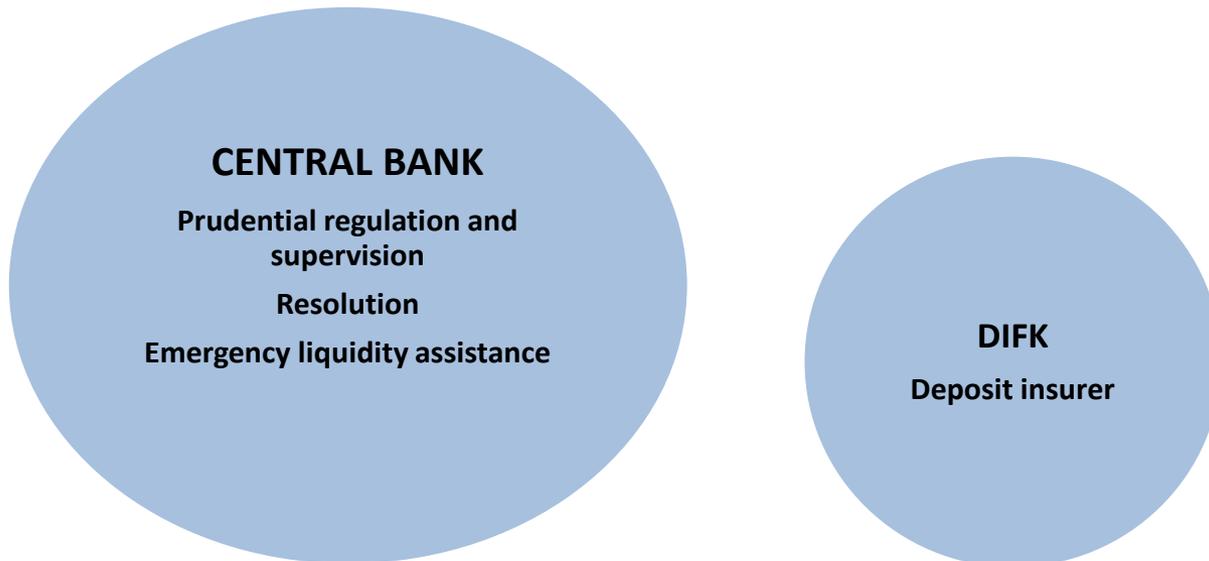
- I. SETTING THE CONTEXT: KEY FEATURES OF KOSOVO DIS AND CP COMPLIANCE RESULTS
- II. ESTABLISHMENT OF KOSOVO DIS: KEY FACTS
- III. PREREQUISITE FOR DEPOSIT INSURER'S CONTRIBUTION TO THE FINANCIAL STABILITY: DIFK'S EXPERIENCE

Kosovo Financial Safety Net

Kosovo Deposit Insurer is established independently.

The Central Bank is mandated with the following functions:

1. prudential regulation and supervision, 2. resolution, 3. lender of last resort (Emergency Liquidity Assistance).



Kosovo DIS: Key features and CP compliance results

Public Policy Objective	<p>“to protect small depositors from loss in case of a bank failure”.</p> <p>“to support the Central Bank in meeting its objective to foster the soundness, solvency and efficient functioning of a stable, market-based financial system”.</p> <p>Graded „Largely Compliant“ in the 2015 Assessment of Compliance with IADI Core Principles.</p> <p>Finding: DIFK’s public policy objectives are formally specified and consistent with its design features; however weaknesses exist in the review process.</p> <p>Recommended Action: Conduct regular internal and external reviews of the extent to which the DIFK is meeting its public policy objectives.</p>
Mandate and Powers	<p>Reimbursement of insured deposits and participation with funds, in collaboration with the CBK, in a resolution of a bank, up to the limit which fulfils the same obligation as in the compensation process (“least-cost test”).</p> <p>Graded „Largely Compliant“ in the 2015 Assessment of Compliance with IADI Core Principles.</p> <p>Finding: DIFK’s mandate and powers are clearly and formally specified and sufficient to enable fulfilment of its public policy objectives. However, DIFK lacks necessary access to data in order to verify premiums and determine insured deposits.</p> <p>Recommended Action: To further enhance the effectiveness of the DIFK, grant DIFK the authority to: (i) access necessary data onsite in order to verify premiums and determine insured deposits; and (ii) regularly audit and test member institutions’ information technology systems to confirm readiness for the accurate, timely transfer of data in the proper format to DIFK.</p>

Kosovo DIS: Key features and CP compliance results

Governance

Independent public institution with **operational and administrative autonomy** from government structure and civil service.

Reports to the **Central Bank of the Republic of Kosovo** (CBK).

Governed by the **Management Board** composed of: 1. Governor of the Central Bank or his authorized representative; 2. One representative from the Ministry of Finance; 3. Managing Director of the Fund; 4. One expert experienced in the field of deposits and finance insurance, and 5. One expert – certified Auditor.

The Management Board is **Chaired** by the **CBK representative** since establishment.

Graded „**Largely Compliant**“ in the 2015 Assessment of Compliance with IADI Core Principles.

Finding: While not affecting the current assessment or ratings, **current board structure creates a perception of conflicts of interest** (e.g. **DIFK Chair currently not an independent member, Executive Director as voting member of the Board**) and **potentially undermines the operational independence of DIFK.**

Recommended Action: To address perceptions of conflicts of interest and enhance operational independence, include requirements in law and procedure **restricting DIFK Managing Director's involvement in matters relating to their employment** (e.g. salary, benefits and contract terms). **Require Management Board report to a higher authority (e.g. Legislature or Parliament).**

Kosovo DIS: Key features and CP compliance results

Coverage	<p>Limited coverage up to EUR 5,000 per depositor, per member bank, covering individuals, legal persons; joint and trust accounts. Exclusions apply for deposits of banks and FI's, pension and retirement funds, local and central government and administrative authorities, etc.</p> <p>Graded „Largely Compliant“ in the 2015 Assessment of Compliance with IADI Core Principles.</p> <p>Finding: The level and scope of deposit insurance is adequate to meet public policy objectives. The lengthy coverage exclusions list has the potential to delay payout. While not affecting the overall rating, it was also noted that coverage levels were significantly lower than in nearby jurisdictions.</p> <p>Recommended Action: Conduct periodic reviews of the adequacy of the coverage level after 2018, taking into account regional coverage levels and changing economic conditions. Ensure depositors of merging banks have a period of dual coverage and are notified of changes in coverage levels.</p>
Funding	<p>“Ex-ante” funded system, mainly, through collection of on-going premiums from member banks on quarterly basis. The assessment base for premiums are insured deposits reported by the member banks. Differential premium system based overall assessment of the banking supervision of the CBK.</p> <p>Target fund size: 8 – 9% of the total of insured deposits.</p> <p>Graded „Materially Non-Compliant“ in the 2015 Assessment of Compliance with IADI Core Principles.</p> <p>Finding: Emergency funding arrangements are insufficient. A back-up funding mechanism is in place with EBRD; however, sufficiency is a potential risk. There is no power to access funds from the CBK or MoF. Time period to achieve target fund ratio is too long without a sufficient back-up funding facility in place. There is lack of clarity regarding use of funds in resolution.</p> <p>Recommended Action: Establish sufficient emergency funding arrangements. Strengthen safeguards regarding use of funds in resolution.</p>

Establishment of Kosovo DIS

Kosovo DIS is established as a development project - a bilateral cooperation between Kosovo and Germany with donated capital of **€17.5 million** provided to fulfil two objectives: 1. establishment of the DIS and 2. support the increase of the deposit insurance limit to €5,000.

Capital contribution to DIF	Government of the Republic of Kosovo (through Ministry of Finance)	Financed by IDA (through the World Bank)	German Government (through KfW)
2011	3,300,000		4,500,000
2012	3,300,000		0
2012	2,957,511	Financed 3 rd tranche	0
2013	1,442,489		2,000,000
Total	11,000,000		6,500,000

Establishment of Kosovo DIS: Key facts

2007 - 2009	<p>Central Bank initiated the project for establishing a DIS with donor support from the German Government (through KfW).</p> <p>Drafted the Deposit Insurance Law.</p>
December 2010	<p>Enactment of the Deposit Insurance Law.</p>
May 2011	<p>The deposit insurance system was made effective and premium collected.</p> <p>A Central Bank staff was appointed as Interim Director.</p> <p>Secondary legislation passed regulating members reporting of insured deposits and premium collection.</p> <p>MoU on information exchange and cooperation with the Central Bank was concluded and signed</p>
August 2011	<p>First employment of DIFK staff: Managing Director.</p> <p>Central Bank hosted DIFK in its premises.</p> <p>Signed Financing Agreement between the Republic of Kosovo (through MoF) and International Development Association (through the World Bank) to provide seed funding for DIFK, under FSSMI project.</p>
September 2011	<p>One-year secondment of the Central Bank staff to cover legal, financial, PR and IT duties.</p> <p>Adopted Central Bank's policies covering employment and budgeting being also disbursement condition of the World Bank project.</p> <p>Signed three-partite Financing and Project Agreement between the Government of Kosovo (through MoF), the German Government (through KfW) and DIFK (as Project Executing Agency) for financial support for the establishment of Kosovo DIS with capital contribution to the DIF in the amount of €15.5 million and TA in the amount of €0.5 million.</p>

Establishment of Kosovo DIS

2012	<p>Initiated amendments to the Deposit Insurance Law.</p> <p>Relocation of office premises (May).</p> <p>Seconding of CBK staff concluded (Sep).</p> <p>Employment of two staff members covering finance and legal (Aug and Oct).</p> <p>Undergone FSAP (Sep).</p>
2013	<p>Amended Deposit Insurance Law came into force.</p> <p>Obtained borrowing facility.</p> <p>Signed the second Financing and Project Agreement between the Government of Kosovo (through MoF), the German Government (through KfW) and DIFK which supported the coverage increase to € 5,000 from 01.01.2018 with additional capital contribution in the amount of €2 million.</p>
2014	<p>Fulfilled FSAP recommendations.</p> <p>Supervisory mission concluded that the component of the IDA project (through World Bank) has successfully achieved its objectives.</p> <p>KfW, on behalf of German Government announced project closing and end of support measures after assessing effective implementation of legal framework for the protection of depositors and to the sustainable establishment of a DIS in which “DIFK constitutes now an integral part of the financial system in the Republic of Kosovo”.</p> <p>Relocated to new office premises.</p>

DIFK contribution to the Financial Stability: key prerequisite

Effectiveness of Kosovo DIS requires comprehensive collaboration framework with the Central Bank – put into practice - which will ensure effective fulfillment of the mandate and contribution to the financial stability.

Also, it will enable fulfillment of the recommended actions from the compliance assessment with IADI Core Principles:

CP2 (Mandate and Powers)
CP4 (Relationships with other Safety-net participants),
CP5 (Cross-border issues),
CP6 (Deposit insurer's role in contingency planning and Crisis management),
CP7 (Membership),
CP9 (Sources and uses of funds),
CP10 (Public Awareness),
CP13 (Early detection and Timely Intervention),
CP14 (Failure Resolution),
CP15 (Reimbursing Depositors) and
CP16 (Recoveries)

Deposit Insurer's contribution to the Financial stability

CONTRIBUTION to FINANCIAL STABILITY	EFFECTIVE DIS	DIFK's risks to its effective contribution to the financial stability	DIFK's practical experience
<p>DEPOSITOR PROTECTION</p> <p>PUBLIC CONFIDENCE</p>	<p>IADI has set 16 Core Principles for Effective Deposit Insurance Systems</p> <p>Basel III: LCR defines “effective deposit insurance scheme” as a scheme (i) that guarantees that it has the ability to make prompt payouts, (ii) for which the coverage is clearly defined and (iii) of which public awareness is high.</p> <p>...has formal legal powers to fulfil its mandate and is operationally independent, transparent and accountable</p> <p>...is based on a system of prefunding</p> <p>...has adequate means of ensuring ready access to additional funding in the event of a large call on its reserves</p>	<p>Risks to operational readiness:</p> <p>1. DIFK's legal framework provides that the Receiver submits the data to DIFK within three working days following an insured event, however, the Receiver's duty is not specified specifically in the banking act.</p> <p>2. DIFK's legal framework provides the power to support its mandate as specified in EC4, foreseeing also examination to be performed by Central bank joined by DIFK staff.</p> <p>Risk to reputation:</p> <p>The law doesn't specify the hierarchy of accountability for the Management Board. This lack of accountability may undermine public's confidence in the system.</p> <p>Also, the fact that DIFK reports to the Central Bank, but at the same time its Management Board is Chaired by the representative of the CBK.</p>	<p>The legal risk which is addressed in the MoU with the Central Bank is being consulted by the Central Bank.</p> <p>Although established in the law, on-site examination are yet to be conducted. Legal powers to be put in practice!</p> <p>The Management Board doesn't report to higher authority and Chairperson remains Central Bank representative.</p>

THANK YOU FOR YOUR ATTENTION!

Q & A