



Deposit Insurance Workshop

hosted by

the Eastern Caribbean Central Bank and the World Bank Group

June 25th 2020 and July 15th 2020

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Presentation outline

1	Introduction: Context setting	A. Trinidad & Tobago Deposit Insurance Corporation B. Governance Structure, Mandate and DI Model C. Fund Management, Coverage, Premiums, Expenses
2	Experiences of the Deposit Insurance Corporation	A. Powers of the DIC B. Payout C. Liquidations
3	Things to consider	A. Lessons Learned B. Contribution to the financial sector safety net C. Regional Comparative D. Relationship to Financial Stability Board's Key Attributes
4	Questions	



Section 1

Introduction: Context Setting



Intimate relationship between FSB Key Attributes and IADI Core Principles:

•KA1. Scope

•Regime for any financial institution that could be systemic – main focus G-SIFIs.

•KA2. Resolution authority

•Single or multiple RAs.

•Operationally independent, accountable authority with a mandate to pursue financial stability.

•KA3. Resolution powers

•Broad range of powers to intervene and resolve institutions, including through transfers of business, bridge bank and bail-in within resolution and timely payout or transfer of insured deposits.

•KA4 /5. Set-off, Netting/ Safeguards

–Legal certainty, effectiveness & enforceability.

–No creditor worse off than in liquidation principle.

•KA6. Funding

–Privately financed sources of funds in resolution (e.g. DI or resolution funds).

–Ex post recoveries from industry, if necessary.

–Reference to IADI CPs on deposit insurer funds & safeguards

•KA7. Cross-border Cooperation

•Statutory mandate to cooperate and legal capacity to share information and to give effect to foreign resolution measures.

•No discrimination against creditors based on nationality.

•KA8-10. Crisis Management Groups, Resolvability Assessment & COAGs

•Home, key hosts, central banks, supervisors, resolution authorities and finance ministries of GSIFIs to maintain CMGs.

•Information sharing among home & key host authorities in recovery and resolution planning as well as in crisis.

•Resolvability assessments for all G-SIFIs to evaluate feasibility/credibility of RRP.

•Institution-specific cross-border cooperation agreements.

•KA11. Recovery and resolution planning (RRPs)

–Set out recovery and resolution plans to be undertaken by all G-SIFIs.

–To be informed by resolvability assessments.

–Regularly updated and reviewed.

•12. Access to information and information sharing

–Robust management information systems

–No impediments to cross-border sharing of information among authorities subject to confidentiality.

•Scope and operating environment

•Adaptable to a wide range of circumstances, settings and systems.

•CP2/3. Mandates , Powers and Governance

•DI mandates vary from “paybox” to “risk minimizers”. Many insurers have resolution powers and are RAs.

•Mandate clarifies roles and responsibilities of deposit insurer and is aligned with the mandates of the other safety-net participants.

•Deposit insurer is operationally independent and accountable.

•Powers support its mandate.

•CP9: Funding

•Banks pay for deposit insurance.

•Deposit insurer must have ex-ante funding and assured access to emergency liquidity.

•Sound fund investment and management.

•Start-up funding from government or international donors permitted under conditions.

•Deposit insurer must authorize use of its funds.

•Taxation and remittance limits.

•CP5. Cross-border issues

–Formal information sharing and coordination in place among deposit insurers.

–No discrimination against depositors based on nationality.

•CP6 . Crisis preparedness & management

–The deposit insurer has effective contingency planning/crisis management policies/procedures.

–The insurer should be a member of any institutional framework for coordination involving system-wide crisis preparedness & management.

•CP14. Failure resolution

–Resolution regime should enable the deposit insurer to provide for protection of depositors and contribute to financial stability.

–Legal framework includes special resolution regime.

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•Resolution regime enables the deposit insurer to provide for the protection of depositors and contribute to financial stability.

•All banks resolvable through a broad range of powers/tools which include: powers to preserve critical bank functions (bridge bank), transfers deposits and assets, write-down and/or debt to equity conversion.

•CP15. Reimbursing depositors

•Most insured depositors to be reimbursed within seven working days utilizing a variety of reimbursement options.

•Provisions to be made for making advance, interim or partial payments.

•Access to depositor records at all times; authority to undertake advance or preparatory exams.

•Scenario planning and simulations mandated.

Trinidad and Tobago

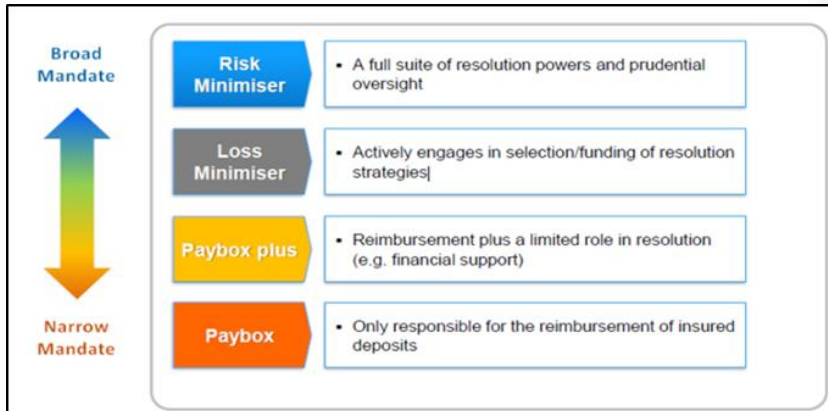
- Population – 1.4 Mn
- GDP Per Capita – US\$17,300 (2018 est.)
- Economy – Small energy-based with a vibrant financial sector

Governance Structure

Board of Management

- 2 members from Central Bank; 1 member from the Ministry of Finance; 2 members with knowledge and experience in banking, commerce, finance, accounting, insurance or law
- Executed by Twenty-one (21) staff led by a General Manager

Deposit Insurance Mandates



(Source: IADI 2014)

Deposit Insurance Corporation, Trinidad and Tobago

- Enabling legislation - the Central Bank and Financial Institutions (Non-Banking) (Amendment) Act, 1986
- Fund size – USDE 540 Mn
- Coverage limit – USDE 17,900
- Executed 9 Payouts and 9 Liquidations during the period 1986 to 2009

Vision

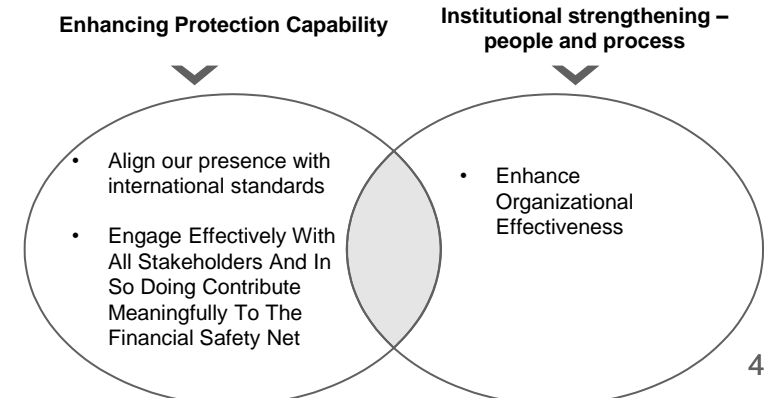
To be a dynamic contributor to the financial sector safety net

Mission

To promote public confidence in the banking system by:

- protecting insured deposits up to the prescribed limit
- effective fund management; and
- facilitating the resolution of insolvent and distressed institutions.

Key Strategic Objectives



Fund Management, Coverage, Premiums, Expenses

Management of the Fund

Fund Size (USDE) **\$540.0 million**

Member Institutions Twenty-four (24)

- Objectives**
- Maintenance of capital value
 - Provision of an adequate liquidity profile
 - Reasonable growth of the Fund

- Governance**
- Board of Management
 - Investment Committee of the Board
 - Investments are under internal Management

- Approved Investment Categories**
- Short-Term Investments: 10% - 55%
 - Medium-Term Investments: 20% - 70%
 - Long-Term Investments Over 5 years < 40%

- Deposits (0 -10%)
- Corporate Securities (0 - 20%)
- Government Securities (20 - 100%)
- Foreign Securities (0 - 30%)
- Equities (0 - 5%).

- Challenges**
- Insufficient depth in the securities market
 - Low-yield environment
 - Chronic liquidity resulting - few new issues of corporate securities, buy and hold market
 - Market dominated by Government securities T-Bills
 - Limited availability of foreign currency to invest in foreign securities

Coverage, Premiums, Expense Considerations

Coverage • **TT\$125,000**

- 25.6% Coverage - Total Value of Deposits;
- 94.6% Coverage - Total No. of Accounts
- The impact on the Fund and its capacity for reimbursing depositors
- Compliance with Core Principle #8 (cover the large majority of depositors but leave a substantial amount of deposits exposed to market discipline)
- Trends in the size distribution of total deposits
- The percentage of depositors covered
- The percentage of the aggregate value of deposits covered

- Premiums**
- Ex-ante funding
 - the initial contribution is matched equally by a contribution from the Central Bank of Trinidad and Tobago is fixed at 0.4 per centum of the aggregate of the deposit liabilities.
 - subsequent annual premiums, a fixed rate of 0.2 per centum of the aggregate of the deposit
 - all licensed financial institutions under FIA must participate

Expenses • About 9% of premium income and 13% of interest earned

Section 2

Experiences of the Deposit Insurance Corporation





DE

TRI

Eight Powers

Public Policy Objective 1:

To provide insurance against the loss of part or all of eligible deposits.

Public Policy Objectives 2&3:

To contribute to the stability of the financial system in Trinidad and Tobago.

After consultation with the Central Bank, to treat with member institutions in financial distress.

Protect Insured Depositors

Effective Fund Management

Facilitate the resolution of insolvent/ distressed institutions

(h) to pay off depositors up to the insured limit;

(j) subject to prior claims being paid, to deduct from moneys from the Fund due to a depositor, any loans due, call called-in guarantees and overdrafts and to set-off deposits pledged as collateral;

(d) to levy authorised contributions and premia from member institutions;

(i) to accumulate, manage and to invest funds collected, to borrow, lend, give guarantees and acquire the undertaking of any institution which is in financial difficulty;

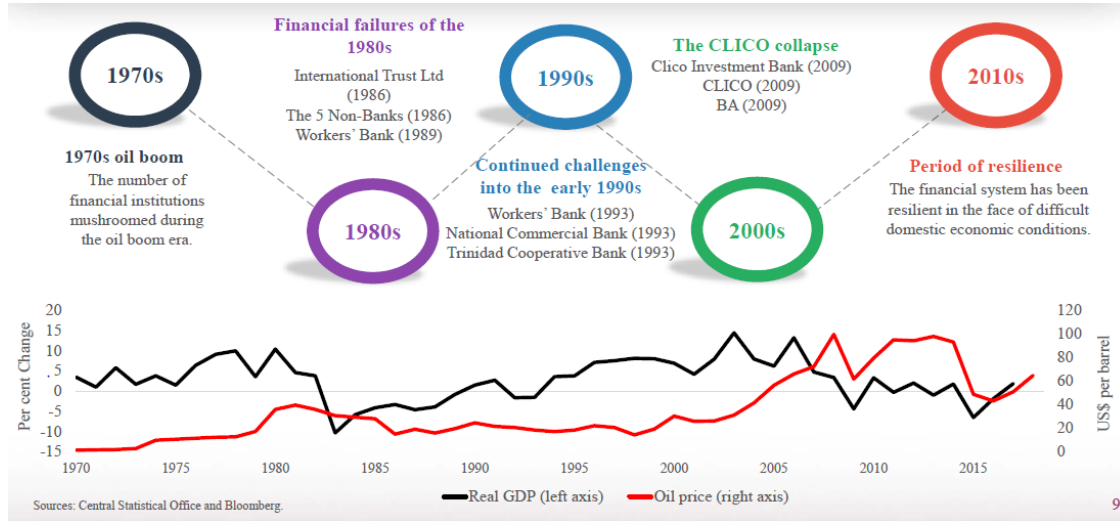
(e) to recommend to the Bank the suspension of business or closure of any member where that member is in financial difficulty;

(f) in the event of a member becoming insolvent to act as receiver or liquidator of that member;

(g) to arrange after consultation with and on the advice of the Bank for the restructuring of a failed member whether by merger with a financially sound member or otherwise;

(k) to require from any director, manager, agent or employee of a member institution or from such person in its holding or parent company or any of its subsidiary companies any information in relation to its business or the production of any document or record under his custody or control.

Nine Failed Institutions 1986 - 2020



https://www.central-bank.org.tt/sites/default/files/presentations/financial-sector-resolutions-lessons-from-trinidad-and-tobago-experiences-a-hilaire-june-2019_0.pdf

- 1986 Summit Finance
Commercial Finance
Trade Confirmers
SWAIT Finance
- 1988 MAT Securities
- 1991 BCCI
Caribbean Mortgage
- 1993 Principal Finance
- 2009 CIB-ICL

Payout Experience

- Quantitative
 - Payout value TT\$256Mn
 - Deposit insurance paid to total deposits at suspension: 4.7%
 - Uninsured deposits to total deposits: 55%
 - Recovered 27% of subrogated claims
- Qualitative
 - Payout process is operationally intensive
 - Quickly identifies outdated depositor information
 - Claim based
 - Matters of set-off
 - Use technology to expedite

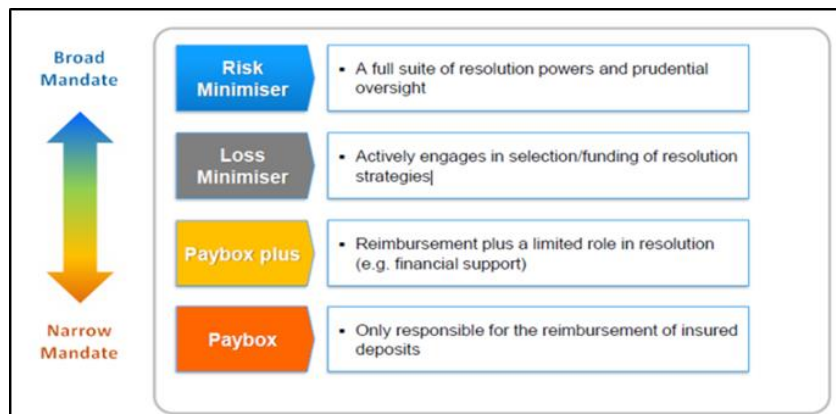
Liquidation Experience

- Quantitative
 - Loan and Asset recovery rate (17 to 25%)
 - Total unrecovered insurance payout by DIC as subrogated creditor (73%)
 - Cost of the Liquidation is borne by the liquidated entity
- Qualitative
 - Inherently protracted liquidation periods
 - On-going maintenance and storage of records
 - Prolonged legal challenges are costly

Section 3 | Things to consider



Things to Consider



(Source: IADI 2014)

References and Resources

https://www.central-bank.org.tt/sites/default/files/presentations/financial-sector-resolutions-lessons-from-trinidad-and-tobago-experiences-a-hilaire-june-2019_0.pdf

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<https://www.jdic.org/background>

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<https://www.iadi.org/en/>

A. Lessons Learnt

- Heavy reliance on a payout and liquidation can be time-consuming, costly and burdensome for all elements/stakeholders in the financial services sector.
- Build Alternative resolution strategies into a consistent, transparent process
- Use of Least Cost Analysis as a 'staple' in analyzing the best resolution strategy resolving financially distressed member institutions to buttress socio-economic and political factors.
- Close coordination among regulators and the fiscal authorities is essential. Main actors in the resolution process include (depending on country circumstances): the Regulators/Supervisors; the Central Bank; the Government/Ministry of Finance; the Deposit Insurance Institution; the Parliament; and the Courts
- Build adherence to international standards as far as it is practical to so do

B. Contribution to the financial sector safety net

- Information Sharing Agreements between regulators, Cross Border Agreements
- Active participant in Financial Safety Net and National Financial Crisis Management so that roles and responsibilities of each participant is known and understood in advance
- Establish organized framework for timely detection and resolution of troubled member institutions.
- Plan to upscale capacity expeditiously, maintaining a database of subject matter experts that can be tapped to render support.
- Use of Fund
 - To reimburse depositors upon an insured event;
 - To provide financial assistance in the resolution process either less than or equivalent in value to the cost of payout and liquidation

Regional DICs

Item	Trinidad & Tobago	Jamaica	Bahamas	Barbados	Guyana	Belize
Governance	<ul style="list-style-type: none"> Established 1986 CB Act Five member Board of Management: 2 from the Central Bank, 1 representative of the Ministry of Finance, 2 of law, accounting insurance etc. 	<ul style="list-style-type: none"> Established by Deposit Insurance Act of 1998 Seven member Board of Directors 3 ex-officio directors: the Governor, the Financial Secretary and the Chief Executive Officer of the JDIC. And 4 others, appointed by the Minister. 	<ul style="list-style-type: none"> Established under the Protection of Depositors Act 1999 and the Protection of Depositors Bye Laws 1999 Board of Management: Governor, Manager Bank Supervision + 1 other from the Central Bank, the Financial Secretary, 2 of law, accounting, insurance, banking, commerce 	<ul style="list-style-type: none"> Established on June 8, 2007 by– Deposit Insurance Act 2006 Seven member Board of Directors: 3 appointed by the Minister of Finance and 4 as are ex-officio directors: The Governor, the Director of Bank Supervision, a representative of the Ministry of Finance and the Chief Executive Officer of the Corporation 	<ul style="list-style-type: none"> Established under Section 5 of the Deposit Insurance Act 2018. Five member Board of Directors: The Governor, 1 representative of the Ministry of Finance, 3 independents 	<ul style="list-style-type: none"> passed by Parliament in December 2019 and signed into law in January 2020. Five member Board of Directors the Governor; two representatives of the Ministry with responsibility for finance; 2 members (i) one nominated by the members of the Bankers Association that are domestic banks; and (ii) one nominated by the Credit Union League.
Fund Size (USDE)	\$540.0 million	\$166.3 million	\$58.0 million	\$53.0 million	<ul style="list-style-type: none"> \$3.6 million Fund aims for a target size of 5% of the total industry's value of insured deposits within 10 years of its establishment. 	<ul style="list-style-type: none"> A minimum Fund coverage ratio of 4 percent within 10 years thereafter the minimum target size of the Fund set by the Board
Premiums	initial contribution matched equally by the Central Bank of at 0.4% Annual premium 0.2%	0.15%	one-twentieth of one percent (.0005)	0.05%	' initial contribution to the Fund at a rate of 0.5%	0.1%
Member Institutions	Twenty-four (24)	Eleven (11)	Eleven (11)	Eleven (11)	Eight (8)	fund members (domestic banks and credit unions)
Coverage (USDE)	<ul style="list-style-type: none"> \$17,900 Claim based/90 days 	<ul style="list-style-type: none"> \$4,275 	<ul style="list-style-type: none"> \$50,000 Claim based /6 mths 	<ul style="list-style-type: none"> \$12,500 	<ul style="list-style-type: none"> \$9,585 Not claim based/30dy 	<ul style="list-style-type: none"> \$9,980
What is covered	<ul style="list-style-type: none"> Savings Accounts; Chequing Accounts ; Fixed Deposit Accounts 	<ul style="list-style-type: none"> Savings, Chequing Accounts; Time Deposits; Certificates of Deposit, Managers' Cheques, Money Orders, Drafts, Travellers Cheques Issued By The Financial Institution, A Share In a Building Society (other than capital shares, preference shares) Foreign currency deposits; 	<ul style="list-style-type: none"> Checking, Savings, Demand and time accounts Other accounts payable, for which a certificate, receipt, cheque, money order, draft or other primary liable instrumtents 	<ul style="list-style-type: none"> Chequing accounts (or demand deposits), savings deposits and time deposits (or certificates of deposit) Foreign currency accounts 		

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