

Seminar on
Cross-border Banking Resolution Issues

**Latest Developments in the Role of Deposit
Guarantee Schemes in Latin America**

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Basel, Switzerland

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1. Deposit Insurance Systems in Latin America

LARC-IADI's Findings

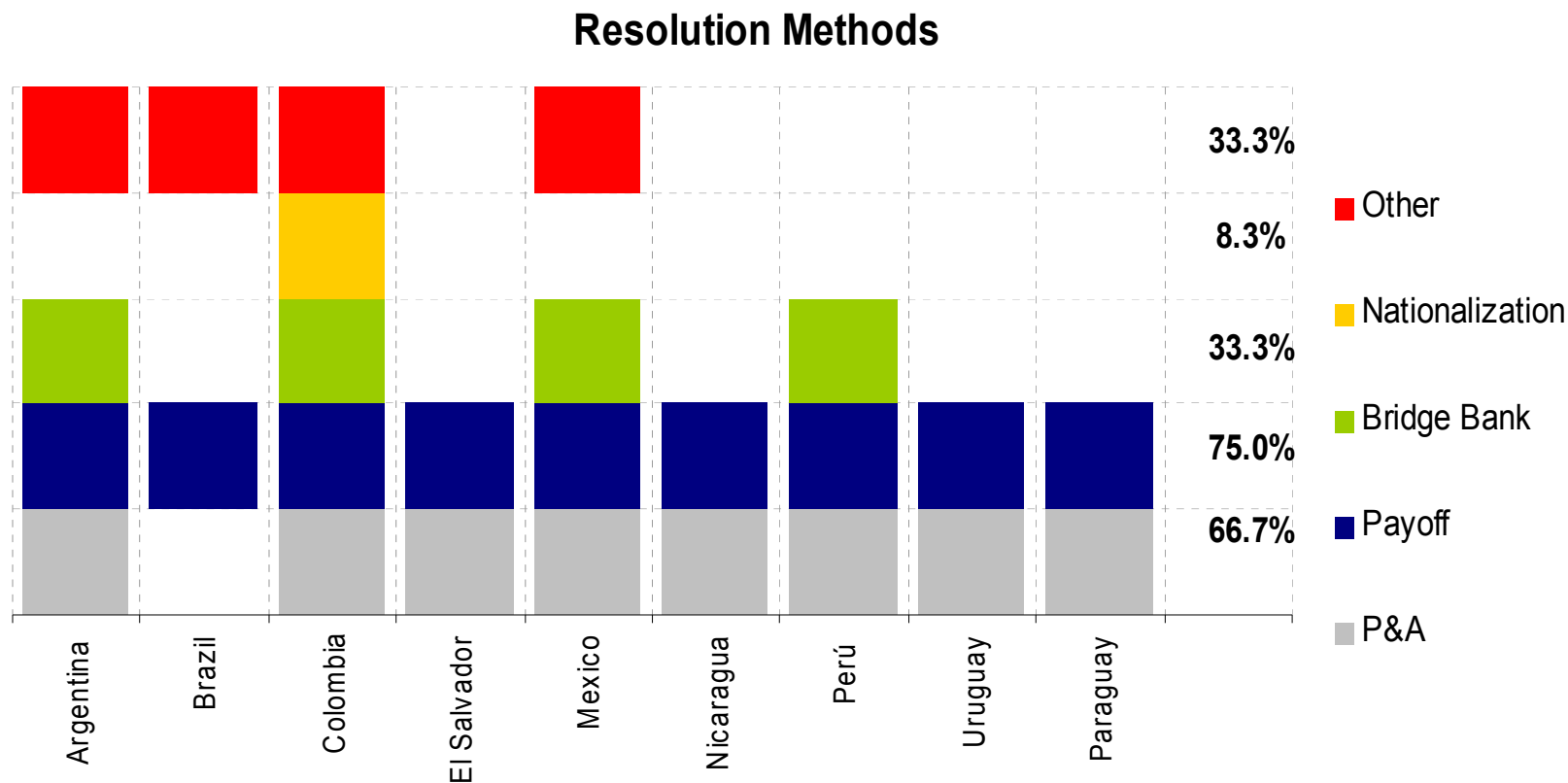


- On the 6th Conference and Annual Meeting of IADI's Latin American Regional Committee (LARC), LARC members agreed to build up a comprehensive database with the most relevant information regarding the region's deposit insurance systems (DIS).
- IPAB, Mexico's deposits insurer, applied a questionnaire to LARC members. The most relevant findings are presented below.
- The research is divided into 4 major subjects: Coverage; Assessments and Funding; Bank Failure Resolution Schemes, and Administration.
- The relevant findings presented below are associated with the coverage limit of insured deposits, as well as with bank failure resolution schemes.

1. Deposit Insurance Systems in Latin America

LARC-IADI's Findings

Bank Failure Resolution Schemes



1_/ Since 1982, Colombia's legislation provides the Government with the power to nationalize financial institutions.

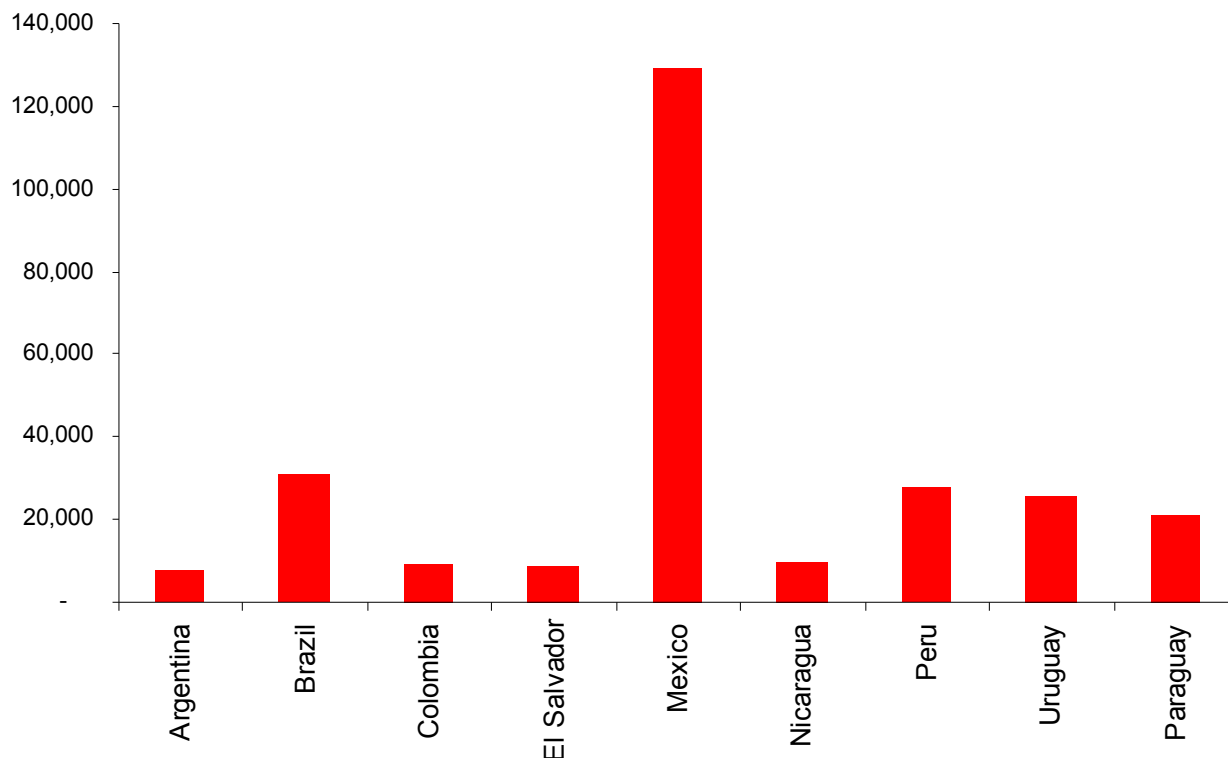
1. Deposit Insurance Systems in Latin America

LARC-IADI's Findings



Coverage

DIS Coverage Limit*



Coverage Limit	
Argentina	7,947
Brazil	30,744
Colombia	9,265
Ecuador	N/D
El Salvador	8,500
Guatemala	N/D
Mexico	129,055
Nicaragua	10,000
Peru	27,812
Uruguay	25,600
Venezuela	N/D
Paraguay	21,049

*Figures in US Dollars, as of June 2009.

1. Deposit Insurance Systems in Latin America

LARC-IADI's Findings



Coverage

Country	Previous Coverage Limit*	Current Coverage Limit*	Updated on
Colombia	7,200	9,265	29-Ene-09
El Salvador	7,890	8,500	1-Ene-08 **

*Figures in US Dollars

** The coverage limit was updated to USD \$9 thousand, on January 1st, 2010.

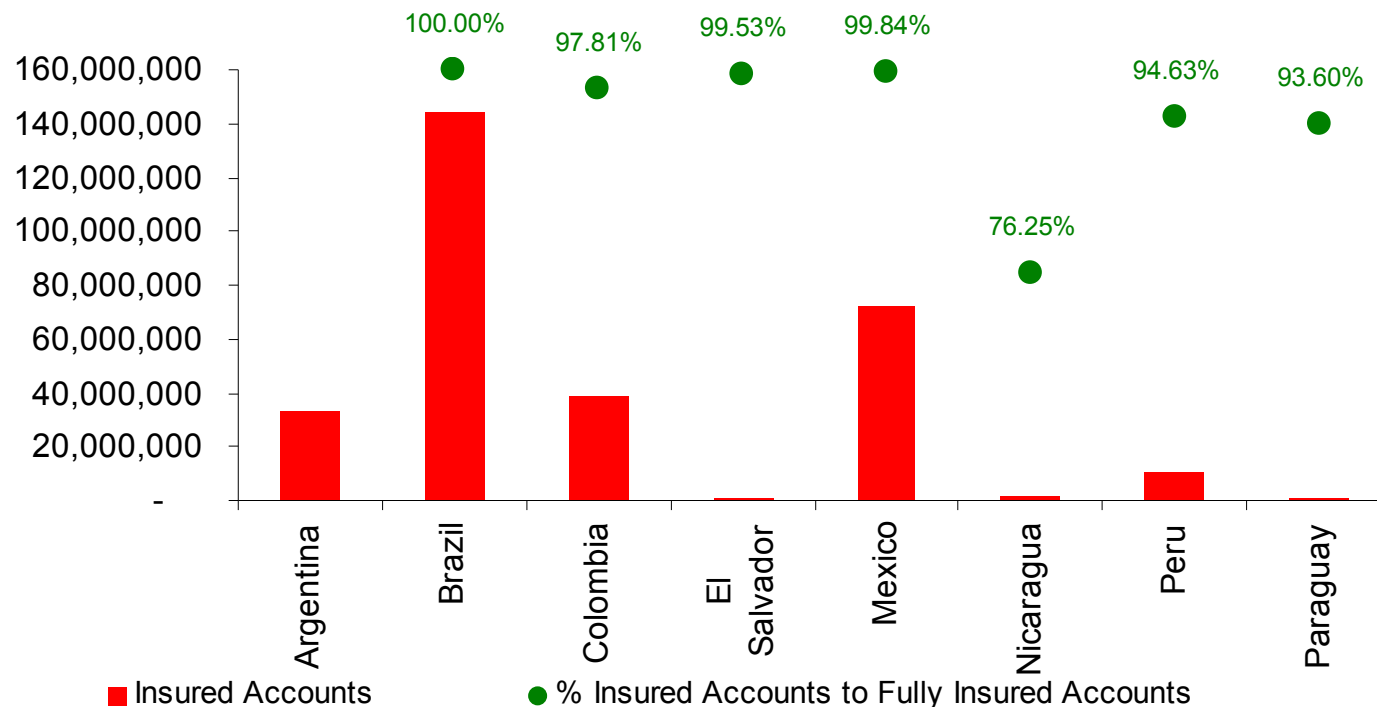
- Colombia and El Salvador increased their coverage limit during the past two years. This decision has helped to preserve confidence and stability in the financial system in such countries.

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LARC-IADI's Findings

Coverage

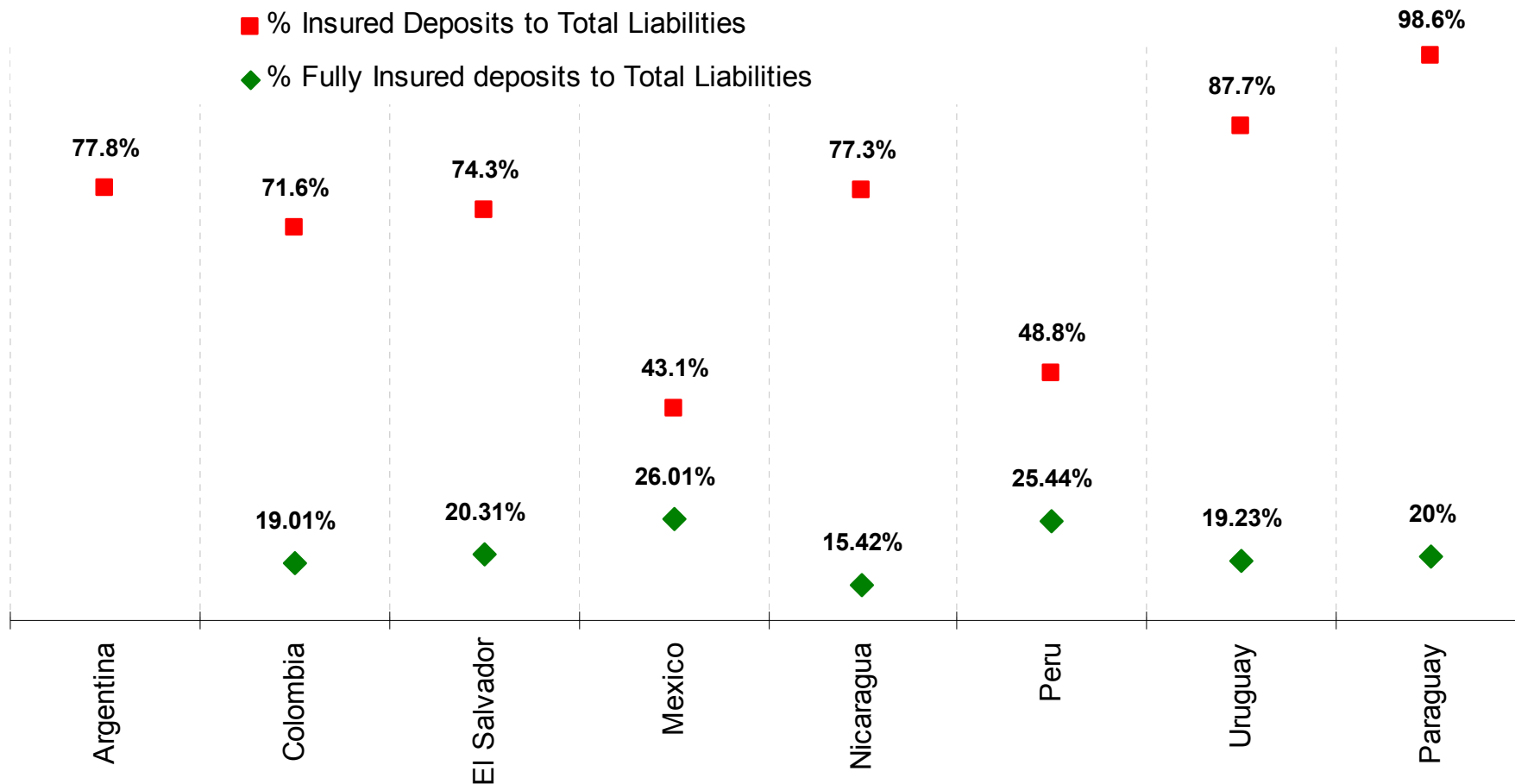
Insured Accounts and Fully Insured Accounts



1. Deposit Insurance Systems in Latin America

LARC-IADI's Findings

Coverage



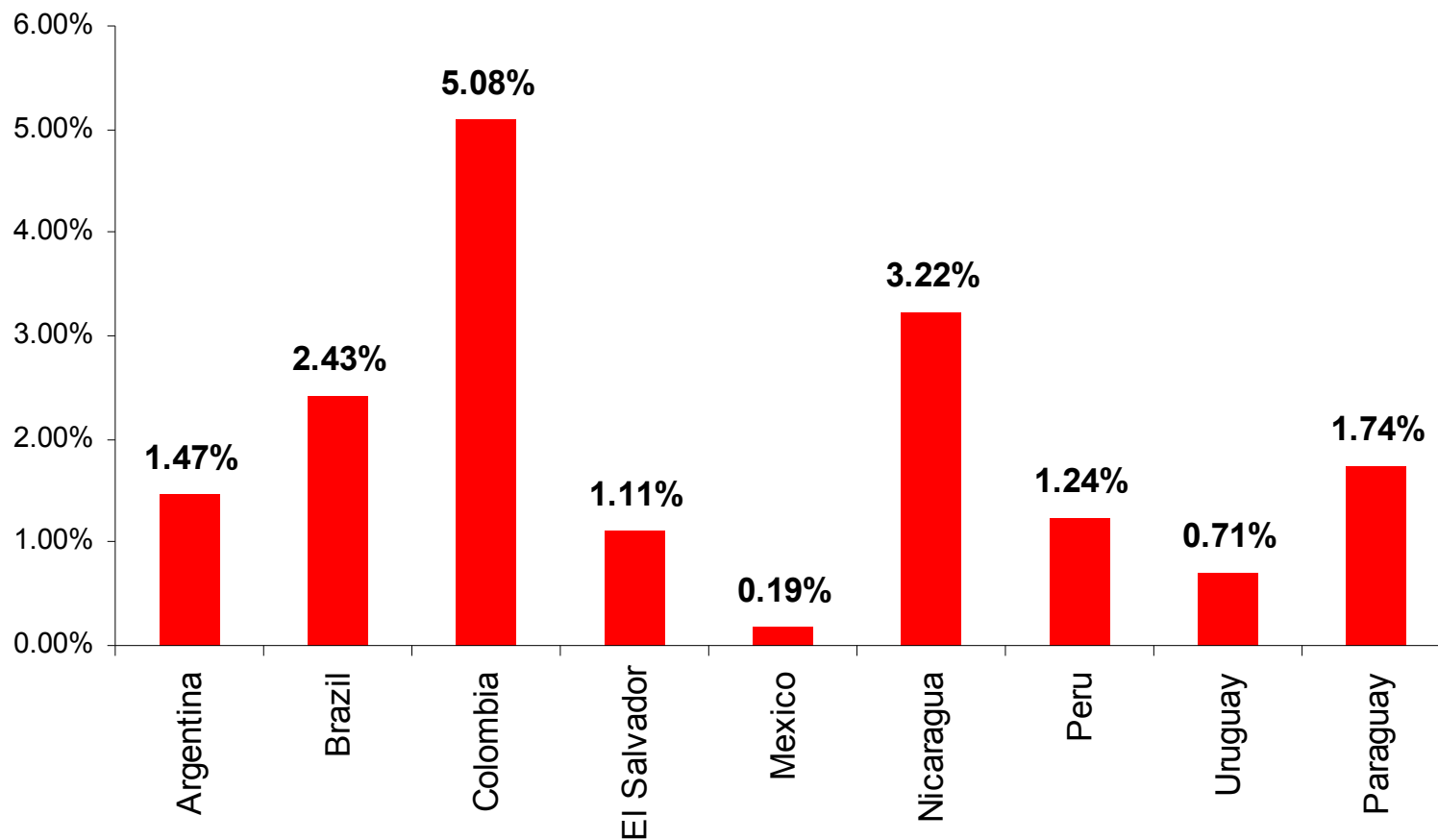
1. Deposit Insurance Systems in Latin America

LARC-IADI's Findings

Assessments and Funding

Deposit Insurance Fund Ratio

(Deposit Insurance Fund Balance to Insured Deposits)



1. Deposit Insurance Systems in Latin America

LARC-IADI's Findings



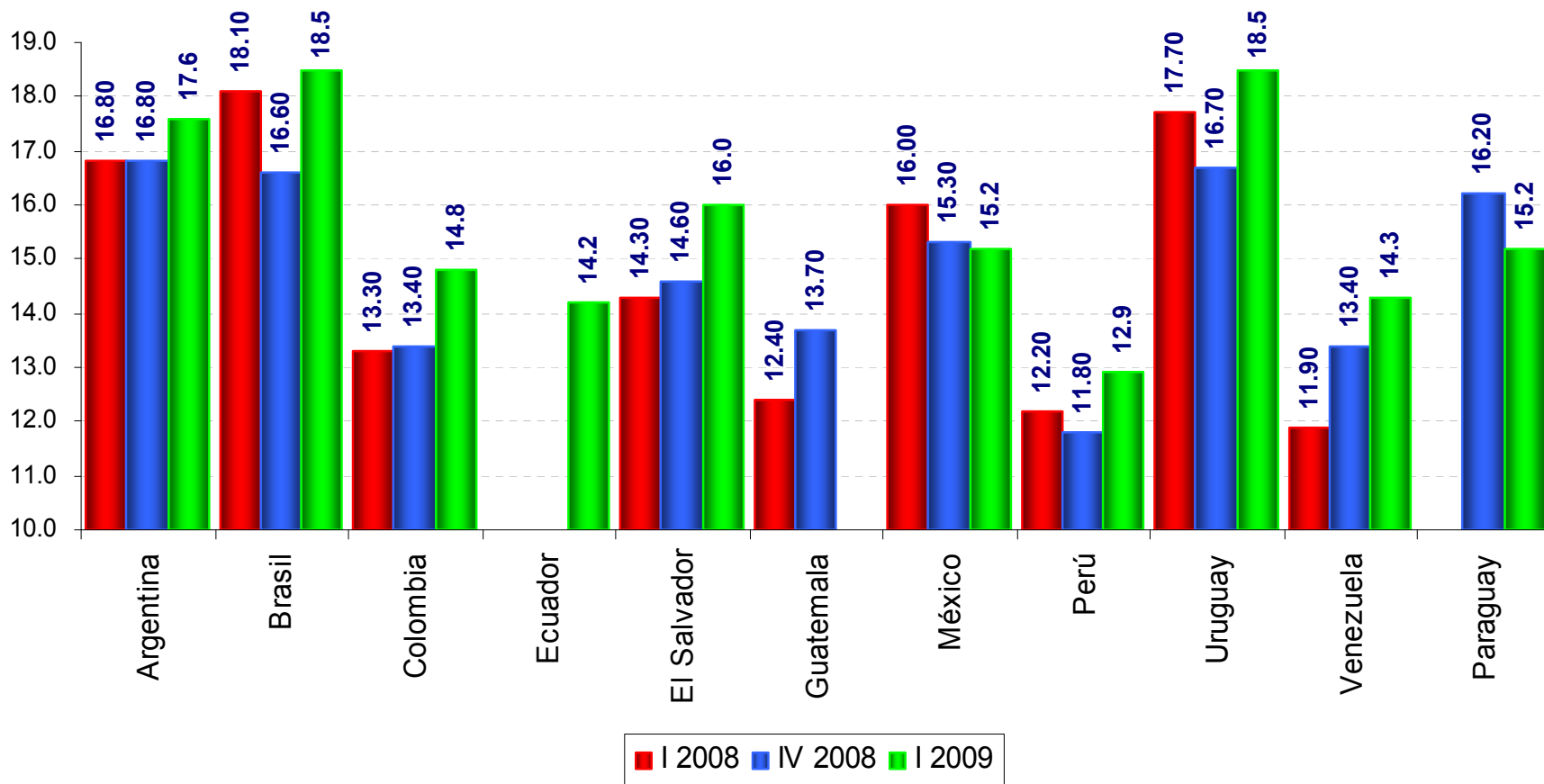
Assessments and Funding

Risk-adjusted premiums / assessment base	
Argentina	From 0.015% to 0.03%
Colombia	The annual premium charged to member institutions of the FOGAFIN is equal to 0.3% of insured deposits. Such scheme involves reimbursements or additional charges that range from 0.01% and 50% of the premium, subject to the results of the risk evaluation that the FOGAFIN performs on an annual basis regarding each of the member institutions.
El Salvador	0.0010 for institutions with risk evaluation up to BBB+ ; 0.0015 for riskier institutions
México	0.004 of total liabilities
Nicaragua	0.25 % of a flat premium rate on all financial institutions plus a percentage that ranges from 0 % to 0.1 % based on risk rating provided by entities authorized by the Superintendencia de Bancos de las Instituciones Financieras.
Perú	< 0.45% - 1.45%>
Uruguay	$0.001 \leq x \leq 0.004$ of insured deposits

1. Deposit Insurance Systems in Latin America

LARC-IADI's Findings

Quarterly Bank Regulatory Capital to Risk-Weighted Assets (percentage)



2. Banking Resolutions executed in Latin America 2007-2009



- In Latin America the crisis has mainly impacted in GDP and employment levels, as well as in productive and commercial activities. These indicators have shown signs of recovery.
- Based on the information gathered, since 2007 the following resolutions have taken place in Latin America:
 - Nationalization of one bank and government intervention in 12 financial institutions in Venezuela.
 - Capital assistance on the former Banco Municipal de la Plata, purchased by Banco de la Provincia de Buenos Aires in Argentina (December 4, 2007, non-refundable capital injection of approximately USD\$ 10 millions).
 - Three resolutions performed in Brazil, in the way of capital assistance, totaling R\$100 million (approximately, USD \$57 million).

2. Banking Resolutions executed in Latin America 2007-2009 (Nationalization in Venezuela)



- Venezuela has intervened twelve financial institutions and nationalized one bank since the beginning of the crisis due to solvency and funding problems. Currently, the government controls nearly a quarter of the banking sector.
 - ❑ February 2009: the government intervened Stanford Bank S.A.
 - ❑ July 2009: the government bought Banco de Venezuela from Banco Santander for USD \$1.05 billion (Nationalization).
 - ❑ November 2009: Government placed 4 banks under state administration (Canarias, Confederado, Bolivar and ProVivienda), due to concerns regarding their portfolios and unexplained capital movements (Canarias and ProVivienda were liquidated, while Confederado and Bolivar would be “rehabilitated”).
 - ❑ December 2009: the government took over 3 banks (Baninvest, Central Banco Universal, and Banco Real) which account for 2% of Venezuela’s banking deposits.
 - ❑ January 2010: Banco del Sol, InverUnion and MiCasa were also intervened by the government
- Venezuela’s banking system includes over 40 banks, of which the top 10 hold 76% of the country's total deposits.

2. Banking Resolutions executed in Latin America 2007-2009 (Mexico)



- Although the global financial crisis had no effect on the Mexican banking sector, two institutions were affected by the negative economic environment:
 - A holding company owner of several retail enterprises, due to unsuccessful derivative transactions in foreign exchange market (USD \$1 billion).
 - A mortgage lender that provides loans to low and middle income customers, due to increasing mortgage loans defaults. (As of December, 2008, this mortgage lender had non-performing loans of, approximately, USD\$ 980 millions).
- Mexican Government through development banking institutions (NAFIN-BANCOMEXT and SHF), provided temporal financial assistance to contribute to the adequate functioning of the Mexican short and long term debt market.

3. Efforts in Mexico to strengthen its bank failure resolution scheme (Reform project)



- Mexican financial authorities are currently working on a Reform for Judicial Banking Liquidation.
- The current Banking Resolution Regime in Mexico (administrative liquidation) sets out the options for resolving a bank which capital ratio (CR) has fallen below the required level, but it is still positive.
- A financial system must be backed by a legal framework that minimizes the costs associated with the failure of a bank by reducing the effects of asset depreciation and, consequently, the fiscal impact.
- Therefore, work is underway to generate an amendment proposal for a judicial liquidation applicable to banking institutions, that will allow a more efficient and expedite recovery of its assets, as well as to achieve an immediate depositor reimbursement process

3. Efforts in Mexico to strengthen its bank failure resolution scheme (Reform project)



- Existing banking resolution mechanism:
 - A bank with financial problems, which CR is lower than 8% (minimum regulatory) but greater than or equal to 4%, may apply to operate under the conditional operation regime.
 - If a bank's CR falls below 4% or if a bank which CR is lower than 8% but greater than or equal to 4% and chooses not to operate under the conditional operation regime, the financial authorities must initiate the process of resolving the bank according to the following alternatives:
 - Deposit Payoff
 - Purchase and Assumption Transaction (P&A)
 - Bridge Bank
 - For banks that entail systemic risk, "too big to fail", it is expected that, subject to the approval of the Financial Stability Committee, coverage may be increased to 100%
- Currently, the commercial insolvency proceeding is governed by the Commercial Insolvency Law, which includes the exceptions applicable to banks. Nevertheless, this mechanism exhibits some deficiencies

3. Efforts in Mexico to strengthen its bank failure resolution scheme (Reform project)



- The judicial liquidation proposal is sustained by principles that provide financial authorities with the necessary tools to maximize the recovery value of assets and to reduce negative effects on non-guaranteed creditors.

- Reform's governing principles:
 - Judge's intervention to protect the rights of creditors and to resolve possible controversies.
 - Recognition of claims (credits) promptly.
 - Preference in the payment of credits derived from insured deposits.
 - Flexible asset sale procedure.
 - Uninterrupted judicial liquidation process.

3. Efforts in Mexico to strengthen its bank failure resolution scheme (Reform project)



- Main goals of the proposed judicial banking liquidation scheme:
 - Implement efficient procedures that allow creditors to recover their assets in shorter periods.
 - Obtain the maximum recovery value for assets.
 - Minimize fiscal costs.

- To achieve these goals, the amendment would be organized according to the following assumptions:
 - Create an *ad hoc* scheme for insolvent banks compatible with the banking resolutions scheme.
 - Establish the same priority of claims in both liquidation procedures (administrative and judicial) for the payment of liabilities, resolution methods and asset sales.
 - Establishes the intervention of a judge, with the IPAB as a receiver, to expedite the process while preserving all legal guarantees in the due process.
 - Prevent any temporary delays of the process due to customer claims.

4. Concluding Remarks



LARC Members supports the need of a regulatory framework that might eliminate the loopholes that contributed to the current financial crisis.

In the same way, IPAB has followed up the most relevant reform proposals to the financial regulation, including the regulation proposal in USA regarding systemic risk, which comprises the following subjects, along with some others :

- 1. Create a Financial Stability Council**
- 2. No firm will be “too big to fail”**
- 3. Strengthen regulation and supervision of large, interconnected financial firms**
- 4. Provide tough restrictions on assistance in times of crisis to eliminate Government Bailouts**
- 5. Enhance regulation for non-banks**
- 6. In Latin America deposit insurance institutions must be aware of what happens to the holdings of foreign banks**

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