

Keynote Speech by

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to

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## **Introduction**

Good evening. I am deeply honored to be invited to speak to you this evening. I would like to begin by thanking David Walker, Secretary General of IADI, for that kind introduction. I would also like to thank Louis Morisset, President and Chief Executive Officer of the Autorité des Marchés Financiers (AMF), and his outstanding staff for hosting this conference and for inviting me to participate. Thank you also to my friend Michèle Bourque, President and Chief Executive Officer of the Canada Deposit Insurance Corporation, for co-hosting this gala dinner.

The IADI Annual General Meeting and Conference is an important event that provides a venue for members, partners, and the entire community of financial regulators to exchange information on deposit insurance. I am delighted to see all of the delegates from our member organizations, as well as representatives from central banks, bank supervisory agencies, and other domestic and international organizations in attendance today.

## **Historical Perspective**

As you may know, this conference coincides with the 50<sup>th</sup> anniversary of the establishment of the Canada Deposit Insurance Corporation (CDIC). Deposit insurance was established here in 1967, following a year-long financial crisis. This makes the CDIC one of the oldest national systems of deposit insurance in the world. It is worth remembering that, from a global perspective, deposit insurance is relatively new. Only recently has it become an established element of the international framework for financial regulation.

Indeed, the United States was the first country in the world to establish a national deposit insurance system with the creation of the FDIC in 1933, in the depths of the Great Depression and also in response to a major banking crisis.

Between the 1880s and the early 1930s, the U.S. Congress considered a total of 150 proposals to establish a national deposit insurance system but did not enact any of them. In the early 1930s, however, the U.S. experienced the most severe financial crisis in its history up to that point. As banks began to fail, the public began withdrawing deposits, ultimately resulting in bank runs and a cycle of bank liquidity crises and failures. In response, the president declared a bank holiday, essentially forcing all banks to close temporarily, and Congress created the FDIC.

The next country to create a national deposit insurance system was India in 1961. Interestingly, India first considered insuring bank deposits in 1948, following a banking crisis in Bengal. The idea was considered but held in abeyance for more than a decade, until the failure of two large banks in 1960 led to the passage of India's Deposit Insurance Act, which created the Deposit Insurance and Credit Guarantee Corporation the following year.

As mentioned, the CDIC then was established in 1967, and the Deposit Insurance Corporation of Japan was established in 1971, but there was no further increase in the number of deposit insurance systems until the 1980s. Between 1980 and 1990, all major Latin American countries experienced financial crises. As a result, many countries in Latin America established their deposit insurance systems during this period. The situation was similar in the Caribbean, where territories experienced banking crises in the 1980s and late 1990. Governments in these territories set up deposit insurance systems as a way of restoring depositor confidence. A number of African countries also established deposit insurance systems to strengthen financial stability and depositor protection: Kenya and Nigeria in 1988, Tanzania and Uganda in 1994, and Zimbabwe in 2003.

A major boost to the development of deposit insurance came with the European Union (EU) Directive on Deposit Guarantee Schemes issued in 1994. This directive required each EU member state to introduce at least one deposit guarantee scheme in its jurisdiction to provide protection for depositors. In 2014, as a result of the recent financial crisis, the directive was amended to increase the minimum coverage limit, introduce a requirement that payments should occur within days (not months as was previously required), and establish other provisions related to providing more comprehensive and timely information to depositors.

In Asia, the 1997 financial crisis led to the expansion of deposit insurance schemes in Indonesia, Malaysia, and Thailand. In Eurasia, the first deposit insurance system was established in Ukraine in 1998, followed by Kazakhstan in 1999. Currently, most Eurasian countries have some form of deposit insurance system.

Globally, more than 100 countries today either have, or are considering, deposit insurance schemes, with most being contemplated during “normal” times, but not implemented until times of crisis.

### **The Establishment of IADI**

Given the global nature of financial risk, the importance of sharing experiences and expertise among these deposit insurance systems became apparent. The idea to launch an international association first gained prominence at a conference hosted by the FDIC in 1998. The idea gained additional momentum with the establishment of a Working Group on Deposit Insurance, sponsored by the Financial Stability Forum (now known as the Financial Stability Board or FSB) of the Bank for International Settlements (BIS). The purpose of the working group was to develop guidance for effective deposit insurance systems. In 2002, after the submission of the

working group's report, the decision was made among the participating deposit insurance organizations to establish an international association to serve as a forum for deposit insurers to exchange views, share experiences and expertise, and provide guidance, technical assistance, and training. IADI was formed in May of that year.

J.P. Sabourin was elected founding President and Chairman of IADI's Executive Council and served in that capacity for five years. Due in large part to the strong foundation he established, IADI entered the period of the global financial crisis well positioned to make a significant contribution to the enhancement of deposit insurance systems worldwide.

One of J.P.'s lasting contributions during 2006 and 2007 was to lead the Executive Council in mapping out a strategic direction for the association to strengthen IADI's international leadership in deposit insurance through additional training and guidance for its members.

I was privileged to succeed J.P. as President of IADI in 2007 and served as Chairman of the Executive Council. My tenure as IADI President was one of my most rewarding experiences as FDIC Chairman. I take particular satisfaction in IADI's collective effort to develop the first internationally accepted standards for effective deposit insurance systems.

### **Developing the Core Principles**

As the value of effective systems of national deposit insurance became more apparent in the aftermath of the crisis, the need for international standards to provide guidance to countries in developing such systems gained recognition. This was acknowledged by the Financial Stability Board (FSB) which recommended in its April 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience* that "[a]uthorities should agree on an

international set of principles for effective deposit insurance systems.”<sup>1</sup> I believe that this was the first formal, international recognition of the importance of effective deposit insurance systems in maintaining financial stability.

At the time, although there were international standards for banking supervision and the regulation of securities and insurance, there were no comparable guidelines or best practices for deposit insurance systems. The FSB cited a need for standards that would provide for effective deposit insurance systems, while accommodating the unique circumstances of countries at different stages of economic and financial development that operate under different institutional frameworks.

IADI had already been working on the development of core principles for some time and was well positioned to respond to the FSB’s call for international standards. The association formed a joint working group consisting of deposit insurers from IADI, bank supervisors from the Basel Committee on Banking Supervision (BCBS), the European Forum of Deposit Insurers (EFDI), and the G10 Task Force on Deposit Insurance. The working group developed a document entitled *Core Principles for Effective Deposit Insurance Systems*.<sup>2</sup> The executive bodies of IADI and the BCBS approved the Core Principles in June 2009. Since then, the Core Principles have served as a valuable benchmark for jurisdictions working to develop new systems of deposit insurance or strengthen existing systems.

Once the Core Principles were established, IADI saw the importance of developing a corresponding methodology to provide additional guidance for assessing a jurisdiction’s

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<sup>1</sup> The FSB’s *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience* is available at [http://www.fsb.org/wp-content/uploads/r\\_0804.pdf](http://www.fsb.org/wp-content/uploads/r_0804.pdf).

<sup>2</sup> *Core Principles for Effective Deposit Insurance Systems* is available at <http://www.iadi.org/en/core-principles-and-research/core-principles>.

compliance with the principles. This significant milestone was achieved in December 2010 with the release of the Core Principle Methodology.<sup>3</sup> The development of the methodology was a collaborative effort led by IADI in partnership with the BCBS, the International Monetary Fund (IMF), the World Bank, the EFDI, and the European Commission. During the final stages of development, the methodology was field tested in the Czech Republic, India, and Mexico. With the release of the methodology, the Core Principles could now be used by deposit insurers and other interested parties to assess compliance with a recognized set of international standards.

IADI reached another major milestone with its recognition as an international standard setter in early 2011, when the FSB approved a revision of its Compendium of Standards to include the Core Principles among its Key Standards for Sound Financial Systems. The IMF and World Bank also officially recognized the Core Principles for use in their Financial Sector Assessment Programs (FSAPs), which they conduct to review the adequacy of national systems of financial regulation. Deposit insurance, as spelled out by the Core Principles, is now an integral part of the FSAP process. These measures demonstrate the international financial community's recognition that effective systems of deposit insurance are essential for financial stability.

### **The Value of the Core Principles and IADI**

The Core Principles serve as a valuable benchmark for jurisdictions to develop new systems of deposit insurance and reform existing deposit insurance systems. The principles are comprehensive, addressing such issues as coverage, funding, powers, membership, cross-border cooperation, transitioning from blanket to limited coverage, early detection and timely

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<sup>3</sup> *Core Principles for Effective Deposit Insurance Systems - A methodology for compliance assessment* is available at <http://www.bis.org/publ/bcbs192.pdf>.

intervention, reimbursement of depositors, and recoveries on assets of failed institutions. The principles can be adapted to a broad range of circumstances.

In 2014, the Core Principles were revised to reflect lessons learned from the global financial crisis, as well as experiences with compliance assessments conducted through the FSB Peer Review process. Some noted enhancements to the Core Principles include:

- Expanded guidance on reimbursements, public awareness, coverage, and funding;
- New guidance on deposit insurers' role in crisis preparedness and management; and
- Standards addressing cross-border deposit insurance issues.

IADI also published an updated *Handbook for the Assessment of Compliance with the Core Principles* to reflect the 2014 revisions.<sup>4</sup> The handbook is designed as a “how-to” guide, providing additional guidance on assessing a jurisdiction’s compliance with the Core Principles, and includes lessons learned from collaboration with IMF and World Bank FSAP review teams, IADI Core Principles Regional Workshops, and the IADI Self-Assessment Technical Assistance Program.

Through the development of standards, and by bringing together deposit insurers from around the world, IADI has gained worldwide recognition as the primary source of quality training, research, conferences (such as this), and educational programs in areas related to deposit insurance, crisis management, and resolution. Since 2009, IADI has developed and delivered more than 40 training programs and workshops specifically designed to promote compliance with the Core Principles.

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<sup>4</sup> The *Handbook for the Assessment of Compliance with the Core Principles* is available at [http://www.iadi.org/en/assets/File/Core%20Principles/IADI\\_CP\\_Assessment\\_Handbook\\_FINAL\\_14May2016.pdf](http://www.iadi.org/en/assets/File/Core%20Principles/IADI_CP_Assessment_Handbook_FINAL_14May2016.pdf).

IADI has also partnered with other international organizations including the World Bank, IMF, European Forum of Deposit Insurers, Toronto Centre, Asian Development Bank, and the U.S. Agency for International Development, to provide training related to deposit insurance. There is also a well-established partnership between IADI and the Financial Stability Institute. This relationship is formalized through the joint hosting of a Biennial Seminar on Bank Resolution, Crisis Management, and Deposit Insurance Issues, as well as a high-level roundtable discussion on financial regulatory issues that takes place every other year in Basel, Switzerland.

The Core Principles and related efforts to support compliance have contributed to stronger deposit insurance systems around the world. And these effects extend beyond the systems of our individual members. To cite just two examples, when China established a deposit insurance system in 2015, its features broadly reflected the guidance provided by IADI's Core Principles. Also, as part of completing the European Banking Union, the European Commission used the Core Principles when drafting a legislative proposal aimed at creating a pan-European deposit insurance scheme.

If we step back and consider these developments, it's certainly clear that IADI has achieved a great deal in a relatively short period of time. Within 10 years of its establishment, the association became recognized as the standard-setting body for deposit insurance by all the major public international financial institutions, including the FSB, BCBS, IMF, and World Bank. This is remarkable, really, and IADI members deserve a great deal of credit for their important contribution to global stability.

IADI has also expanded significantly along the way, growing from 25 members in 2002 to 83 members, nine associates, and 14 partners in 2017. It is truly a global association and an

important source of strength and credibility in its role as standard setter for the world's deposit insurance systems.

### **Current and Future Initiatives**

While a lot has been achieved, there is still much work to do. I have followed with interest IADI's recent review of its operations. The goal of this review was to more fully integrate IADI's operations with its growing membership and new responsibilities as a standard-setting body. In response, the Executive Council adopted three primary strategic goals for IADI in 2015:

1. Promoting deposit insurance compliance with the *Core Principles for Effective Deposit Insurance Systems*;
2. Advancing deposit insurance research and policy development; and
3. Providing members with technical support to modernize and upgrade their systems.

These goals are both timely and relevant, and the association has made significant progress in achieving them.

I should note that these goals had their genesis in the strategic roadmap that was developed under the leadership of former IADI President Jerzy Pruski. His efforts helped set the stage for the progress we are seeing today.

IADI's strategic goals are being addressed through current activities and initiatives planned over the course of the next several years, and implementation is to be completed in two phases. Phase I has been underway for some time and I'm told will soon be nearing completion. As part of the work being undertaken in Phase I, the Executive Council has adopted a new governance structure. IADI's seven Standing Committees have been replaced with four Council

Committees; the Secretary General is now tasked more with strategic planning, execution, and implementation; and the secretariat has been strengthened with additional staff.

I am particularly pleased to see this strengthening of the secretariat in the areas of research and policy analysis. In order for IADI to fulfill its role as global standard setter, the secretariat must have sufficient capacity to manage the output by the association in all three of its key strategic areas of Core Principles: compliance, research, and technical assistance.

IADI has also made important enhancements to its programs for training and technical assistance, including the Self-Assessment Technical Assistance Program and regional workshops more focused on common gaps in the design and implementation of features required by the Core Principles. These enhancements have great potential to benefit IADI's members and the global financial system.

I encourage you to stay the course as you continue to execute the training and technical assistance components of the strategic plan, and find a way to add sufficient capacity in the secretariat to manage and sustain these important efforts.

I have great appreciation for the strong leadership and hard work that is required both to develop such ambitious plans and then put them into action with fundamental changes to organizational structure and operations. The association certainly owes a great debt of gratitude to its current President, Thomas Hoenig, for his vision and leadership in making this happen.

While there is still much work to do, when I look back at how far we have come since 2002, the progress is impressive. It should be very gratifying to all of us - and I thank you for your hard work and dedication to IADI. I believe the outlook is bright for our association. The years ahead promise to be pivotal ones and I wish you great success as you move on to the next phase

of your strategic initiatives to ensure financial stability through effective deposit insurance systems.

Thank you.