



*convergence*

*Fondo Interbancario di Tutela dei Depositi*



# Deposit Guarantee Fund in the Banking System

## Summary of Findings and Conclusions

**Romanian Banking Institute Symposium**

Bucharest, March 2, 2006

# This Is A “Convergence” Review

**“Convergence”**<sup>1/</sup> is a financial sector development program for South-East Europe focused on:

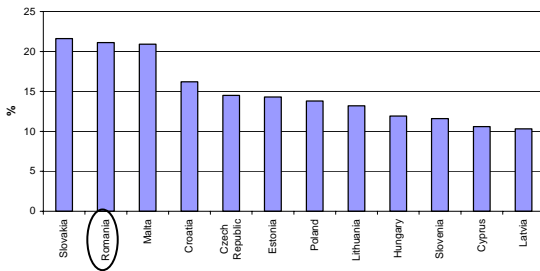
- Undertaking, as an “honest broker”, analytical tasks of micro-institutional issues as a basis for identifying solutions tailored to country circumstances
- Taking EU integration as a strategic perspective
- Building awareness of market participants, involving them in the search of market-building solutions, and fostering their dialogue with authorities
- Using the experience of regional former policy makers and local experts whenever possible
- Working in partnership with other institutions

# The Convergence Assignment

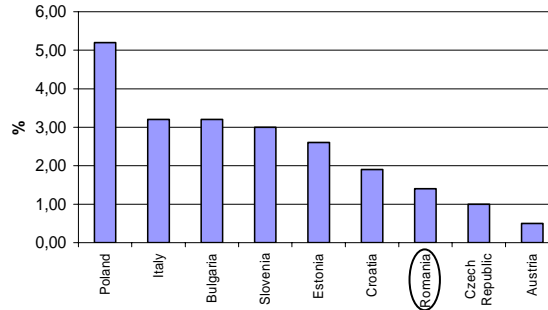
- Romanian authorities wished to make an updated assessment of the level of banks' contributions to the Deposit Guarantee Fund (DGF)
  - *“This assessment should take into consideration the latest developments in the Romanian banking sector, the international practice, as well as the need to maintain a well-funded guarantee scheme to preserve the confidence of depositors.”*
    - » DGF Letter to Convergence, May 2005

# Romania: Sound Banking Indicators

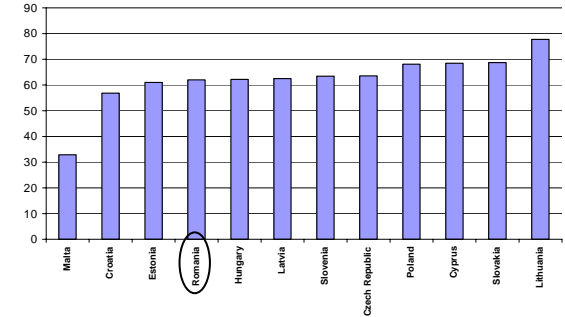
**Capital Adequacy 2003**



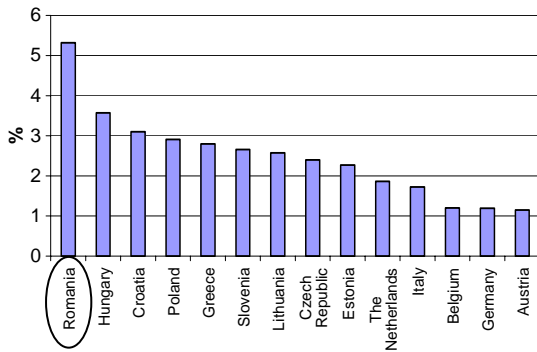
**Bad (D&E) loans to total assets 2003**



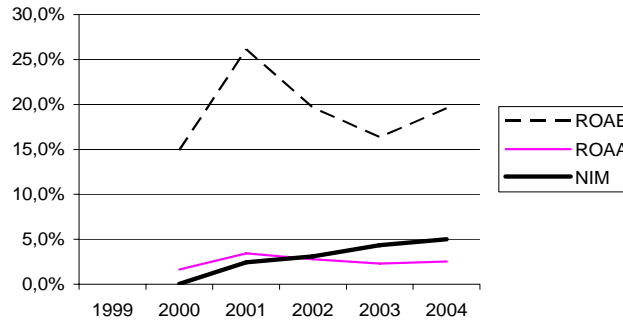
**Cost/income ratio 2003**



**Net interest margin: comparison 2004**



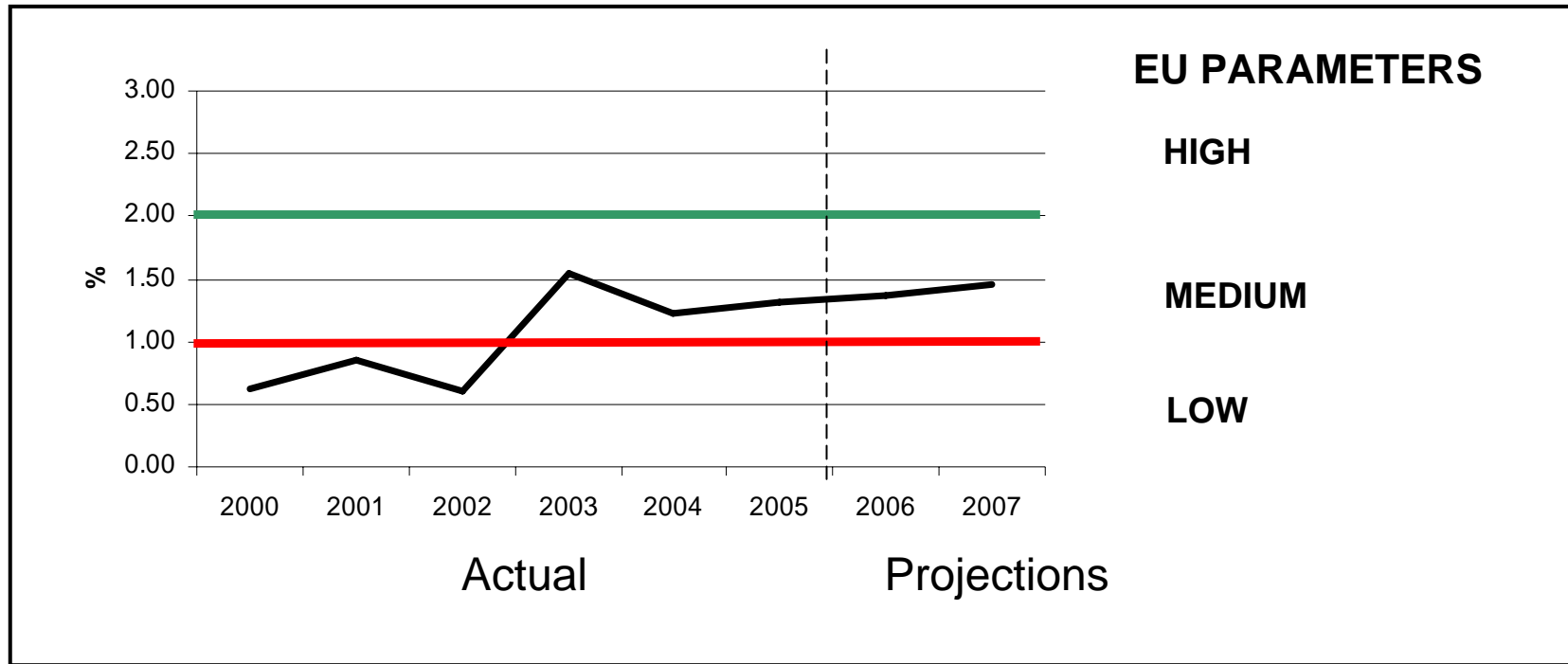
**Returns and net interest margin 2000 - 2004**



**Banking system appears sound, with a good perspective to continue to attract capital and generate sufficient profits**

# DGF Size: Medium- Strength in EU Context

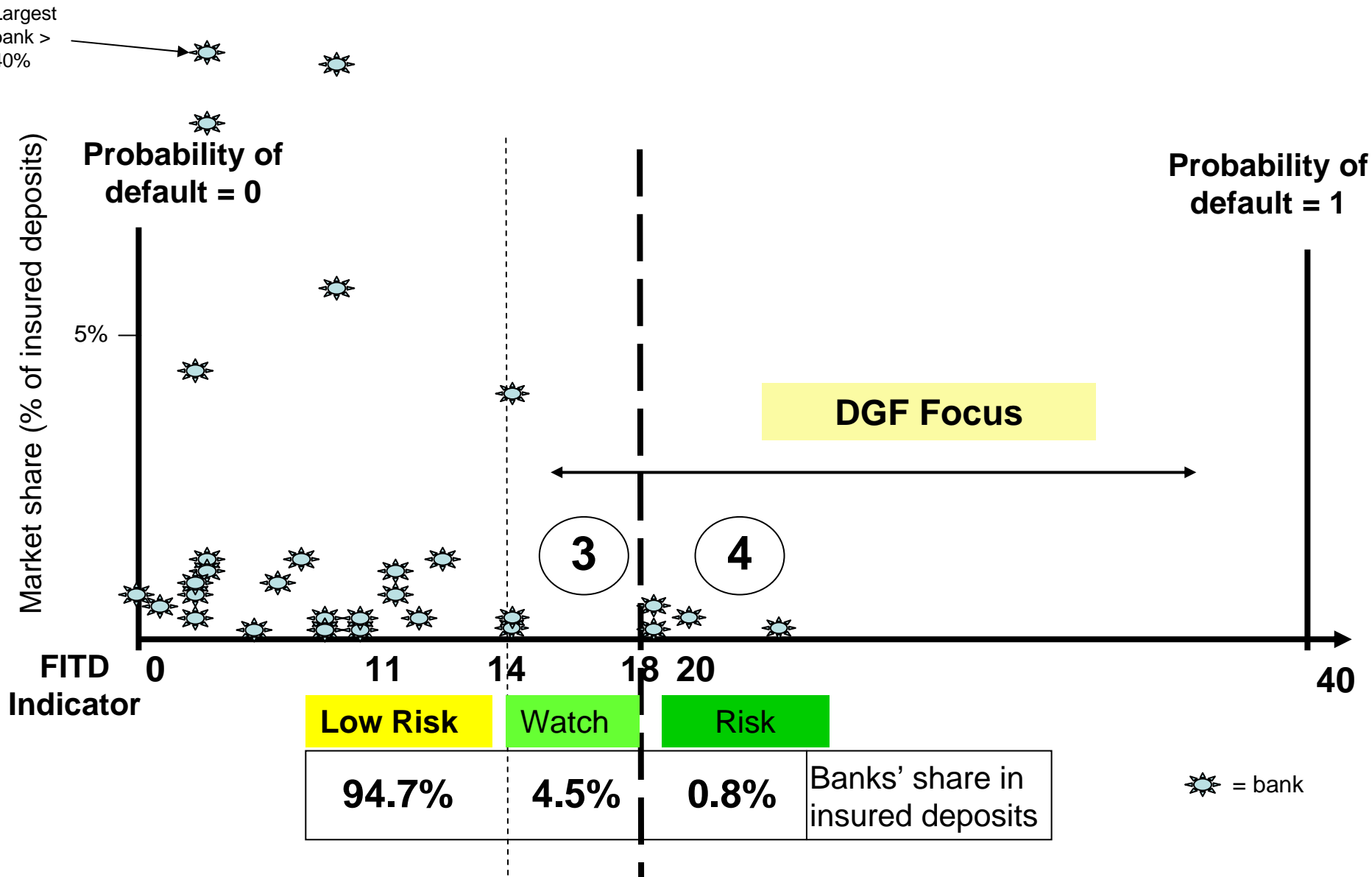
Exposure Coverage Ratio  
(in % of Guaranteed Deposits)



\* 2005 – 2007 expected values under assumption of unchanged premium under existing Law (0,4% 2006 and 0,3% 2007)

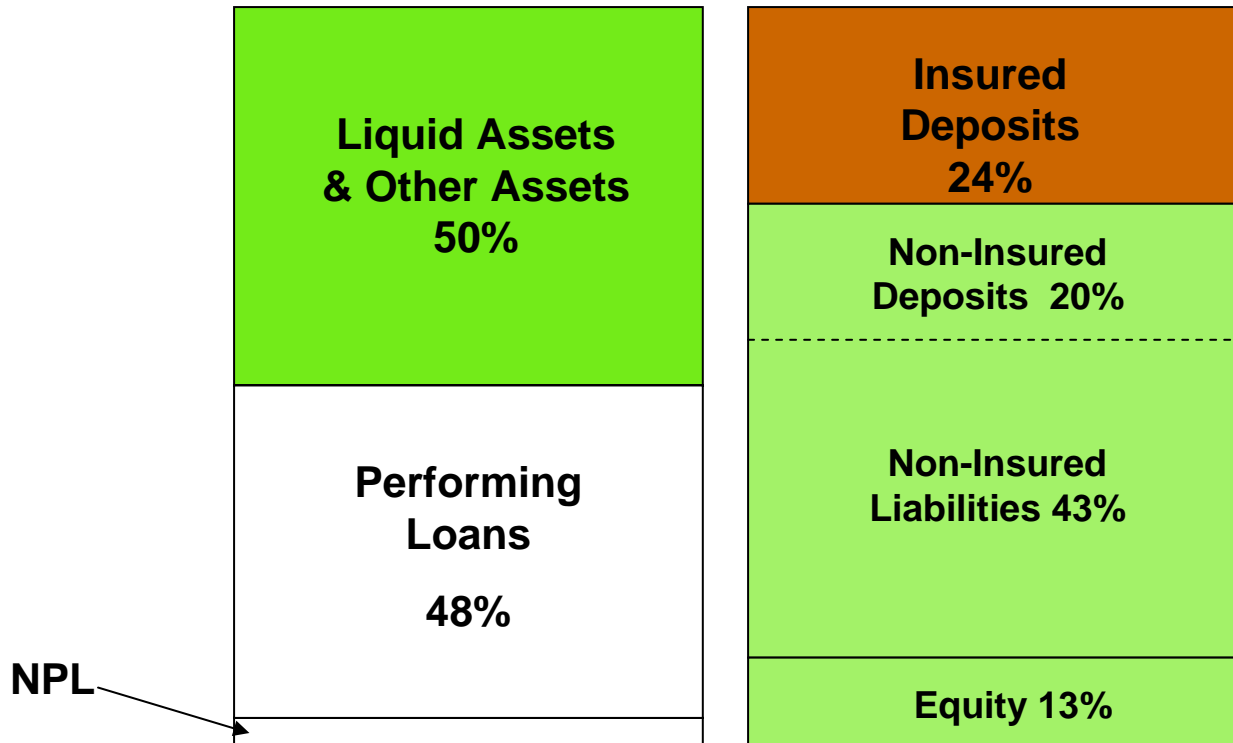
Note: For operational uses, we recommend Ratio as % of Insured Deposits

# DGF Focus: 4+3 Small Banks



# No DGF Systemic Risk Exposure: Liquidity Higher Than Insured Deposits

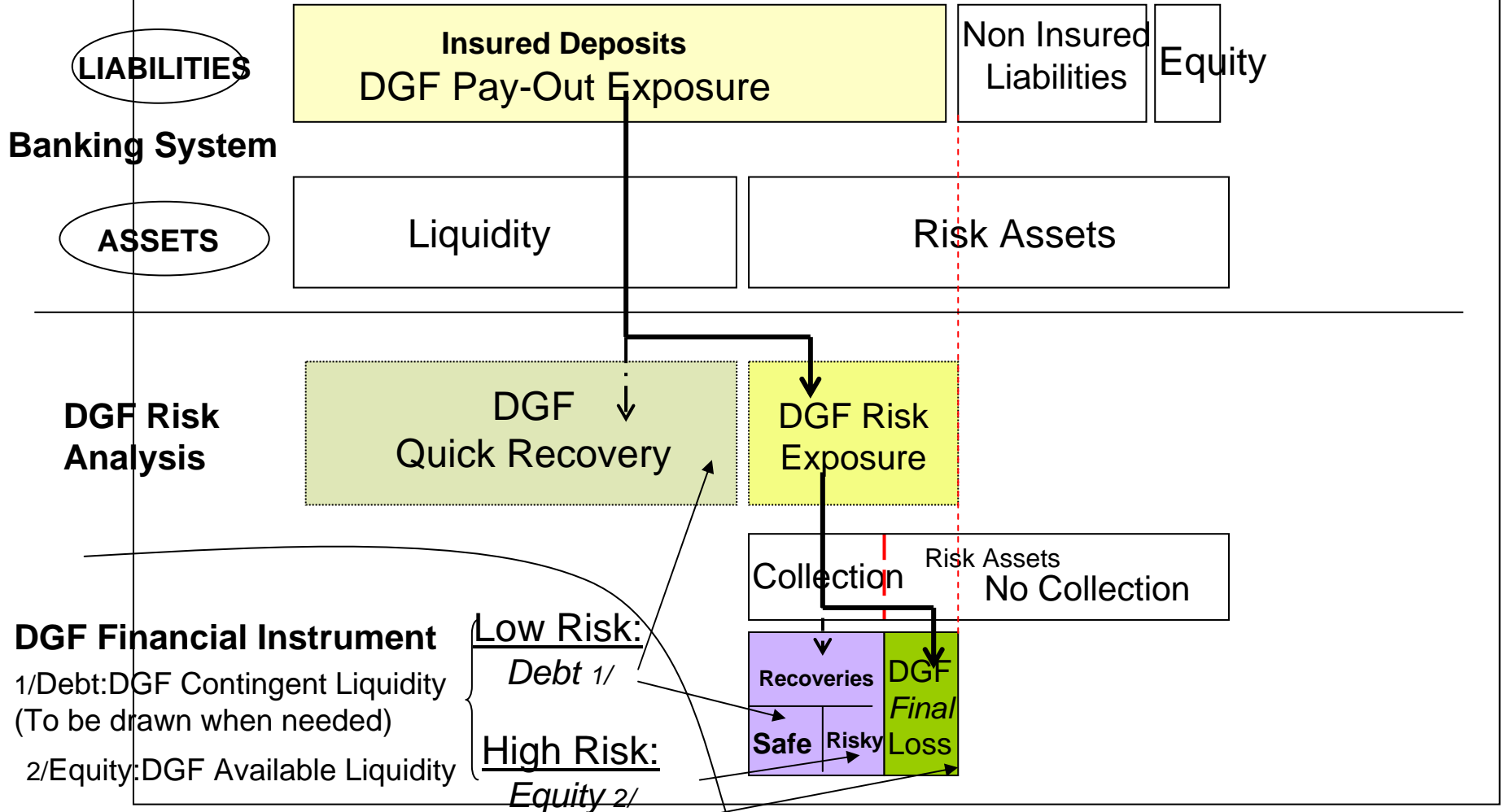
Romanian Banking System end 2004 with  
EUR 10.000 coverage (base for 2005 premium)



& Non-Insured Creditors Take First Loss

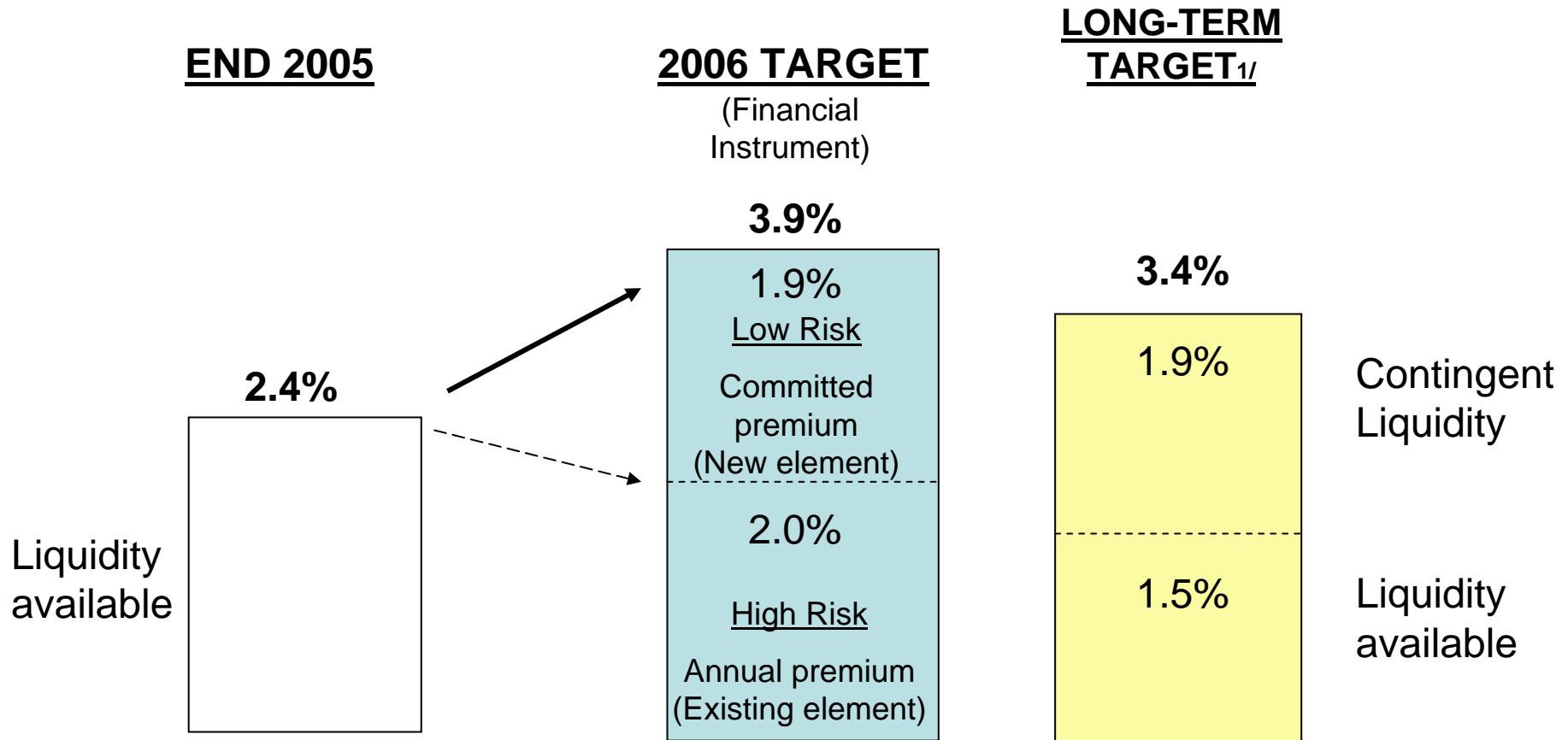
# DGF Detailed Risk Analysis Essential To Choose Adequate DGF Financial Instruments

## Conceptual Illustration



# What Is DGF's Adequate Size?

(% of Insured Deposits)



2006 Target supports DGF's interventions in Risk and Watch banks

# Premium And Stand-By Calculations

EURm	2004	2005	2006	2007
<b>DGF Liquid Assets (EoY)</b>	96	140	171	195
<b>ECR (EoY) [2006-2007 Target]</b>	2,02	2,45	2,01	1,81
<i>Premium applied</i>	0,60%	0,50%	0,20%	0,10%
<b>ECR (D+E) (EoY) [2006-2007 Target]</b>	2,02	2,45	3,91	3,71
<i>Stand-by line of credit</i>			+162	+42
<b>ECR on guaranteed deposits (EoY)</b>	1,22	1,32	1,19	1,12
<b>Total ECR (debt + equity) on guaranteed deposits (EoY)</b>	1,22	1,32	2,31	2,30

## Notes:

Guaranteed deposits growth in 2005: 35%, 2006: 20%, 2007: 20%

Insured deposits growth: 20%

Investment in 2005: 85% (with 8,5%) and 15% (with 17%); from 2006 onwards 6%

Data on insured deposits end 2004 corresponds as insured beginning 2005 i.e. Coverage 10.000 not 6.000 Euro

Exchange rate: 31st December 2004; i.e. 39663

# The Convergence Conclusions

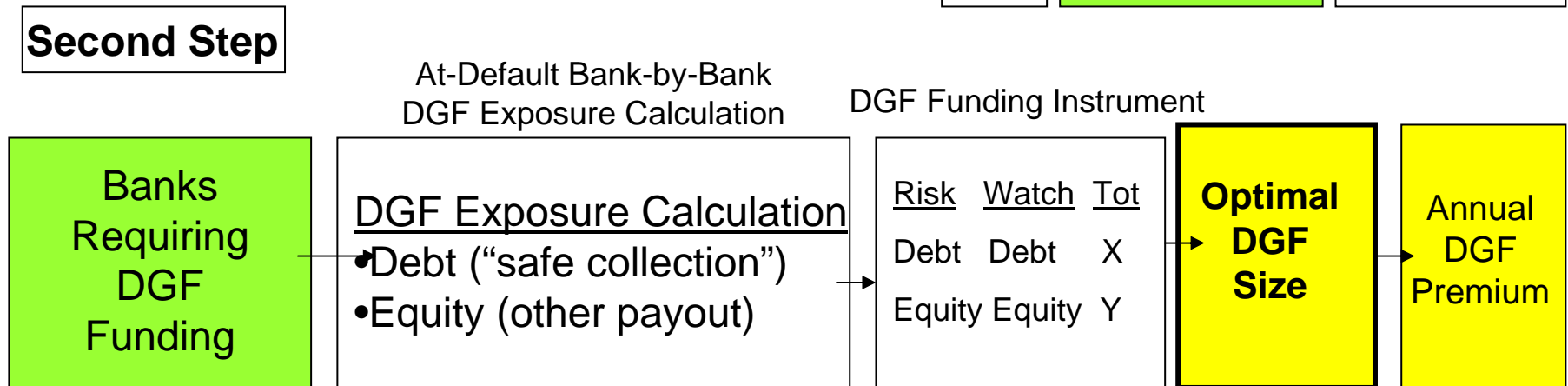
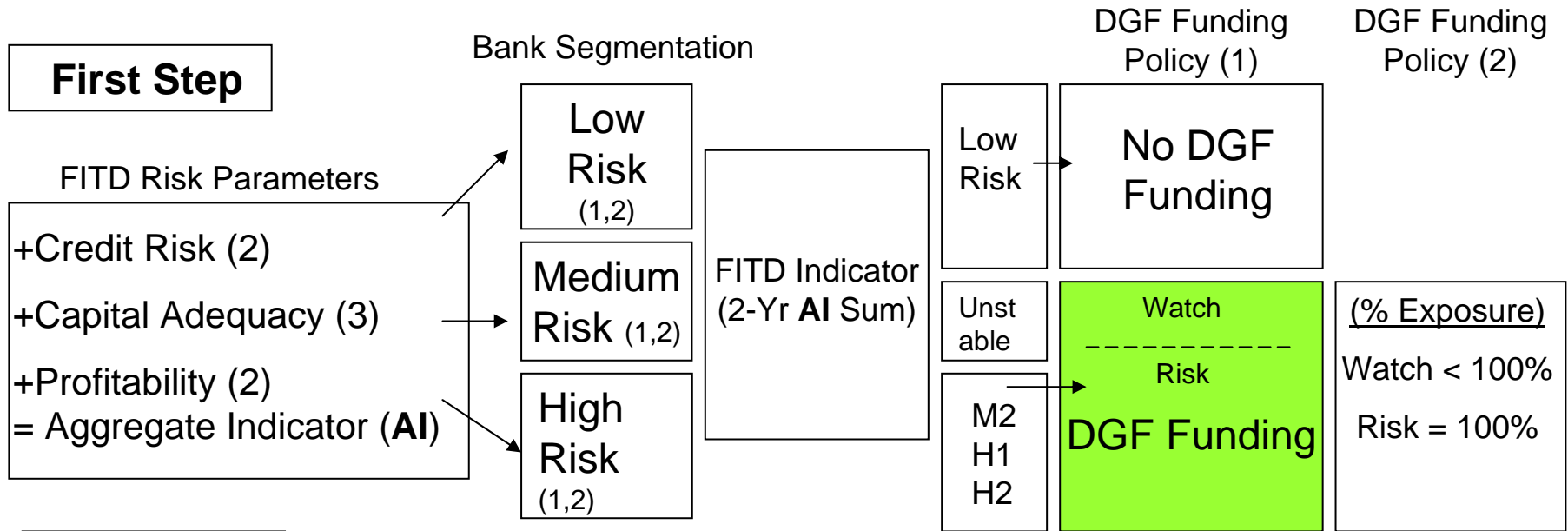
- To add a 1.9% unfunded component to bring total DGF size to 3.7% in 2007 (3.9% in 2006).
- To lower base annual premium from 0.4% to 0.2% in 2006 and from 0.3% to 0.1% in 2007 to optimize funded component to 1.8% by 2007 (LT target: 1.5%)
- To set up a premium cap for 2008 and beyond, transferring the responsibility for calculating it to DGF with NBR endorsement
- To eliminate bank deposits in DGF investment policy

# Notice

- This collection of slides is meant to support an oral presentation made by the Convergence-FITD team
- Slides could be fully understood only with the accompanying comments
- Readers that have not benefited from the oral explanations are invited to contact Mr. Shkelqim Cani, the Convergence Country Senior Advisor, ([shkelqimcani@yahoo.com](mailto:shkelqimcani@yahoo.com)) for assistance.

# Appendix

# Our Risk-Based Pricing Methodology



# Financial Policy Implications: Target Coverage Ratio with Four New Watch Banks

% Of Insured Deposits

