

Ardian Fullani: Financial policy issues of deposit insurance schemes in South-East Europe

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the regional technical seminar on “Financial Policy Issues of Deposit Insurance Schemes in South-East Europe”, Tirana, 30 May 2006.

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Distinguished participants,

Ladies and Gentlemen,

It is my pleasure to open the proceedings of this regional seminar on “Financial Policy Issues of Deposit Insurance Schemes in South-East Europe”. I thank the Convergence Program of the World Bank and the Deposit Insurance Agency for the cooperation. I am convinced that this seminar will be valuable for exchanging new experience and ideas in fulfilling the missions of your institutions.

First of all allow me to emphasize that the banking system is important not only for being an integral part of the financial system but also for the stability it brings to a country, moving its economy forwards and leading to economic growth.

The Bank of Albania, as the country’s central bank, has the main target to maintain price stability. Along with this target, the Bank of Albania is exclusively responsible for licensing and supervising commercial banks and some other non-bank institutions involved mainly in micro-credit and in foreign exchange business. The legal and regulatory ground of banking supervision is already complete and we are constantly working for its improvement. Also, the supervisory practice complies with best standards in this direction, aiming at being oriented according to banking activity risk, being efficient and proactive.

The supervisory activity, along with prevention of extreme cases of insured institutions’ bankruptcy, carries out also the administration of such institutions, in cases when they fail irrecoverably. In this stage, the role and contribution of the Deposit Insurance Agency, until that moment “invisible”, appears with the whole magnitude and importance. It is indispensable not only in terms of treating depositors that have had savings at the bankrupt institution, but also in the “calming down” effect for all the depositors of the banking system.

In fact, the world experience has indicated that the deposit insurance function of the customers of the banking system is an important instrument in the framework of maintaining the banking system sustainability and keeping public confidence in it. The timely payment of the deposit value at the insured amount, in the case of a bank’s bankruptcy, allows responsible authorities to be focused on the procedures intending the isolation of the case and the recovery of the values of the bankrupt institution.

The activity of responsible deposit insurance institutions has different characteristics in different countries. Their legal framework provides responsibilities that are limited only in the role of the payer of the available fund and other cases, when responsibilities are extended further, up to the recovery of the insured institutions’ values that have gone bankrupt. These different characteristics also determine in essence:

- The way the insurance institution is established and functions,
- The way the insurance fund is managed and the forms the institution possesses for increasing its value in extraordinary cases, which is the level of the contribution amount by the insured institutions in ratio to the objectives for increasing the insurance fund and for raising the covering capacities;
- Relation to insured institutions;
- The role of the state in the insurance institution’s capital;
- Requirements with regards to necessary human resources and objectives on the intended level of personnel’s expertise;
- The way the banks and foreign bank branches are insured;

- The way of determining the payment of the insurance contribution on the basis of insured institutions risk profile, etc.

In general, it can be stated that all these elements depend on:

- The moment the responsible deposit insurance institution is put into function, as in the case of the Albanian experience;
- The degree of banking market development;
- The way of its integration and of banking institutions' integration into more developed markets;
- The development degree of financial markets in general;
- The level of legal and regulatory framework completeness and perfection (not only the one closely related to deposit insurance); and
- The level of public education in relation to services provided by the banking industry and by the financial market in general.

The more advanced we are in the above developments, the higher in quality and number are the alternatives that allow the responsible deposit insurance institution a major role in administration of crises the insured institutions may be faced with.

In fact, besides the "wealth" they provide in approximation of deposit insurance practices in the banking activity, the above changes in the legal framework and in the practices of deposit insurance activity, lay down the need of a more general harmonization, in regional level and maybe even further. In this way, we would prevent any legal stipulations, which in practice may prove to be non-functional or at high cost.

I would like to emphasize once more that the whole legal framework of the banking system is a topic largely discussed nowadays, not only in Albania, but in international levels as well. Nowadays, risk management has turned into a primary issue and is in the focus of national and international institutions. In this way, regulatory systems are advised to be reviewed and elaborated to be better adapted to current developments and to financial system's perspectives. The financial system does not operate in the vacuum. It functions under real conditions and our task is to adapt to best experiences. I think our task is to identify the best practices and to try to adjust them to the real conditions of our economy, because by adjusting them to the whole regulatory framework and banking activity, we come to a motif and motivation: the European Community.

I am confident that you will use this seminar to find out joint elements in the activity of your institutions, as well as to identify the distinctions. I think it would be valuable to identify also the cases that represent what is regarded as the "best practice" in deposit insurance area. In this way, it would contribute to the achievement of the objective to standardize the regional insurance practices and to create a clearer vision on the insurance activity performance in the future.

The activity of the Albanian Deposit Insurance Agency is new. As such, its capability of operating in extreme cases is not proved yet. Nevertheless, efforts are made constantly for fulfilling the necessary legal framework and procedures, covering all possible directions of its activity. Simultaneously, there is worked in terms of organizing the structure, increasing the institution's staff number and training. Emphasis is laid on the DIA's cooperation with the Bank of Albania, the supervisory authority, so that the DIA carries out its functions effectively. At the same time, the relation with the Ministry of Finance is taken into consideration in organizing the Deposit Insurance Agency's structure, so as to have the solid presence of the state in it. The forms of this cooperation are numerous, but all of them should be first consolidated under normal conditions of the banking system activity. The main elements of this cooperation are:

- Exchange of information on supervisory practices and observance of regulatory requirements by the insured entities;
- Organization of joint trainings in getting acquainted with respective functions;
- Acquaintance with and discussion on manuals and procedures requiring the commitment of both institutions in certain cases, and the testing of these procedures.

The Bank of Albania and the Deposit Insurance Agency are working for enhancing this cooperation constantly.

A number of legal and regulatory alterations that are being prepared in parallel by both our institutions, and the exchange of information, as well as more frequent contacts between both institutions serve this purpose. It is aimed at adopting best practices in this area, and at implementing the recommendations given by specialized assessments of international financial institutions that assist this process.

Allow me to state once more that the Bank of Albania is completely committed to provide all the necessary assistance for strengthening the capacities of the Deposit Insurance Agency in Albania, in view of its very important mission.

I wish good proceedings to this seminar.