

Gent Sejko: Aiming for a secure financial system and the key role of deposit insurers

Welcome address by Mr Gent Sejko, Governor of the Bank of Albania, at the IADI's ERC Regional Committee Meeting, Tirana, 4 April 2019.

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Dear ladies and gentlemen,

Dear Mr Boccuzzi,

Dear Guests,

Good morning and thank you for giving me the opportunity to warmly welcome you all to Tirana and the Bank of Albania and address this international gathering.

It is a particular pleasure to have you here at the premises of the Bank of Albania today and to host the meeting of the Europe Regional Committee (ERC) of the International Association of Deposit Insurers (IADI). After this opening meeting, the agenda will then continue with the Technical Assistance Workshop for the rest of today and tomorrow. I hope you will enjoy it and, most importantly, hold interesting and constructive discussions. I take this opportunity to thank the International Association of Deposit Insurers (IADI) and the Albanian Deposit Insurance Agency (ADIA), who have made it possible for this event to be held in Tirana.

Throughout the development of ADIA, IADI's contribution and input has been undeniable in setting standards. In this regard, IADI has played an important role as a forum for deposit insurers from around the world to gather and share knowledge and expertise. The IADI has also provided intensive training and educational programs and has produced research and guidance on matters related to deposit insurance. Such examples include: establishing new deposit insurance systems and enhancing existing ones and contributing to safeguarding the stability of financial systems, by promoting international cooperation and encouraging wide international contact among deposit insurers and other interested parties. All these efforts have helped our deposit insurance scheme grow.

Since the inception of the ADIA, the Bank of Albania has been strategically committed to creating and maintaining an efficient and effective deposit insurance scheme in Albania. From the beginning, one of the Bank of Albania's responsibilities has been to develop a stable and safe banking system. Its efforts towards the new architecture of the banking sector – guided by international standards and consumer protection principles, and in coordination with government – have helped in setting up the Albanian Deposit Insurance Agency. The Parliament approved the ADIA law in 2002 to restore public confidence in the nation's banking system. The Bank of Albania, by law, is the supervisory authority of the ADIA.

The role played by deposit insurers is essential in crisis prevention and management, as already proved by the experience during the global financial crisis. This role has proactively evolved towards mitigating financial system vulnerabilities even in the absence of deposit runs or banks in default. It is now a fact that deposit guarantee schemes mitigated the recent financial crisis, using every possible instrument available to them, such as: increasing the deposits coverage limit; expanding the scope of the guarantee scheme; and providing faster deposit pay-outs or even liquidity support. The outcome of these developments is that a new focus is being placed on deposit insurance in the post crisis period. Deposit insurance is now considered as an essential crisis management tool and an important instrument for orderly liquidation of an unsound financial institution. A well-designed deposit guarantee scheme largely supports financial stability and financial crisis resolution by mitigating risks of and maintaining trust in the

financial system.

However, recalling one of the most important lessons we learned from the global financial crisis, despite the mandate given to any institution, no player can alone deal with a systemic crisis and the consequences of strong spillover effects and contagion risks. It is essential that each element of the safety net develops robust mechanisms that aim to resolve financial institutions and stabilize the financial system as smoothly as possible, minimizing the cost to the economy. Moreover, financial stability can only be preserved by a well-coordinated financial safety net, which is supported by a resilient legal framework, proper tools and instruments and careful contingency planning for each of its elements.

The Bank of Albania has dedicated much of the past 10 years to integrating the lessons learned from the recent financial crises into a new regulatory framework. Our financial safety net is further aligned with international best practices, as we coordinate our roles as supervisory authority, lender of last resort and, recently, resolution authority as well. Our post-crisis regulatory framework points towards a stronger banking sector, based on a more solid capital foundation that ultimately serves to protect deposits and taxpayers' money. In this perspective, the Bank of Albania has reinforced banks' capital position with higher requirements for core capital and is developing new demands for macro-prudential buffers, to build up the loss-absorbing capacity of banks in case of financial crisis. Moreover, the financial safety net already in place was further strengthened with a new mandate for the Bank of Albania as the resolution authority. A transposition of the BRRD, the new resolution law empowers the Bank of Albania with the necessary tools and instruments to resolve failing banks, with no eventual impact on financial stability.

Nevertheless, going back to the important lessons of the crisis, these efforts would be insufficient unless undertaken in coordination with all the relevant institutions and players of the crisis management platform. Clearly, effective crisis management requires ongoing communication and coordination among: supervisors and resolution authorities, financial market authorities, deposit insurers and the government. The Financial Stability Advisory Group (FSAG) is assigned with the important role of assisting in safeguarding financial market stability in the Republic of Albania. The FSAG was established in 2006 and comprises the Ministry of Finance and Economy, the Bank of Albania, the Albanian Financial Supervisory Authority and the Albanian Deposit Insurance Agency. A Memorandum of Understanding between the FSAG participants has been in place since 2014, to support its work on monitoring developments and risks to the banking and financial system and engaging in contingency planning and crisis preparation to prevent and address systemic risks.

Thanks to prudent measures undertaken in coordination with all the relevant institutions, the Albanian economy enjoys a sound financial system, with healthy banks, ample liquidity and prudent behaviour in terms of risk-taking. The banking sector operates in a sound and stable macroeconomic environment, sustained by a well-functioning and robust financial system. We are happy to observe that credit quality has improved significantly and the banking sector is consolidating, though more is expected in terms of financial deepening and credit growth. Standing from this point of view, our future efforts will certainly aim towards maintaining sound prudential practices and policies and further developing market discipline to secure a resilient financial system.

Staying in this line, the Bank of Albania and the Albanian Deposit Insurance Agency's relationship has constantly evolved over the years to become a strong partnership and cooperation, allowing our institutions to fulfil their respective, but complementary, missions.

The topic of the Technical Assistance Workshop is also of great interest to the Bank of Albania and certainly to other institutions responsible for financial stability. The Bank of Albania looks forward to hearing and learning about the different perspectives and approaches that will be

shared in this workshop or on the topic. Of course, the topic becomes more sensitive considering the current global financial complexity and its fast-changing landscape, and in view of the newly-acquired functions of the Bank of Albania and ADIA under the new law “On the recovery and resolution of banks in the Republic of Albania”. According to this law, the Bank of Albania has been assigned as the Resolution Authority, whereas the Albanian Deposit Insurance Agency is responsible for the administration of the resolution fund, which encompasses investing it in accordance with the policy approved by the Resolution Authority. Moreover, the law gives a new role to ADIA as an important partner in drafting resolution plans, as well as a new source of financing banks’ resolution, therefore increasing the pool of resources available to the Bank of Albania for resolving failing banks.

So, to conclude, once again, thank you very much for the opportunity to speak to you today. It is a pleasure to have you here and I hope you enjoy the rest of your stay in Tirana.

I wish you all a successful event!

Thank you!