Deposit Insurance System in Romania

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How Can *Convergence* Help You?

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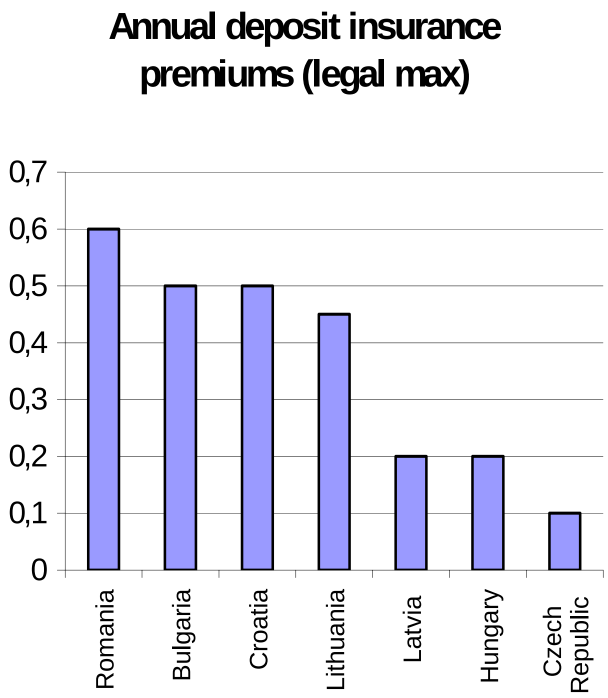
Premium rate of 0.6% high? Probably, because …

- One of the highest in a comparable group of countries
  - Undermining international competitiveness of Romanian banks
- Recent banking system improvements
  - Development of banking supervision
  - High capital adequacy ratio
  - Penetration of foreign ownership
  - Low non-performing loans to total assets
- High recovery rates during bankruptcy processes
- Improving economic and institutional fundamentals (EU accession)



But The "Devil's Advocate" Says:

- Extension of coverage leads to larger expected payouts in case of default(s)
  - And it may induce banks to hold less capital and take more risks
- Booming credit means uncertainty regarding risks taken in this phase of credit cycle
- Neither regulator nor banks want any default shortly after lowering the premiums
  - This may lead to a serious loss of regulatory credibility

Yet, Possibility To Identify "Quick Wins"

- Making the present system more flexible (actual premiums paid below legal maximum – see Hungary)
- Assess optimum premiums in light of the expected cash flow of deposit insurance fund (expected payment of the CEC bank; interest revenues vs interest expenditures of the Fund; no more loan repayments)
- Assess the possibility to reimburse / rebate banks after payments at a rate of 0.6% are made
  - Need for data collection (questionnaire)

…If 0.6% Does Not Prove Unjustifiably Low Given Current and Prospective Risks

The Real Problem Is Long-Term

Target: To make the regulatory cost structure of the Romanian banking system consistent over time with achieving international competitiveness at EU level

- Cost of reserve requirements
- Operational costs
- Loan loss provisions
- Cost of deposit insurance

Need For A Tool To Increase Objectivity Of Cost Reduction Decisions

Our Tentative Thinking For Phase II

- Goal: To fine-tune various elements of the financial stability infrastructure that, together, underpin a sustainable and risk aligned premium consistent with a competitive Romanian banking system within EU framework
- Method: A systematic review of the whole system (ex ante / ex post combination; aligning deposit insurance funding strategy with a strategy to bring down reserve requirements to EU level, etc)
  - Need for a policy framework conducive to justify sharp premium reduction overtime (not just a one-off adjustment)
- Principle: cost of deposit insurance should be optimised within the overall regulatory cost structure, as well as in terms of its influence on international competitiveness (real convergence)

How to review / fine-tune various elements of the financial stability infrastructure (illustrative list of elements)

- To which extent should public deposit insurance substitute for private self insurance in Romania?
- To which extent can Romania rely on market discipline and financial disclosure requirements?
- To which extent is capital adequate for absorption of foreseeable losses?
- Are there data and institutional prerequisites for differential premiums?
- Does it make sense to combine ex ante and ex post system?
- What is the proper financial policy strategy (including investment policy) of the deposit insurance fund?, etc.
- In order to do these assessments effectively, we need to have a detailed data set (see data requirement attached)