

Early Intervention, Crisis Preparedness and Crisis Management: Russia

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Deposit
Insurance
Agency

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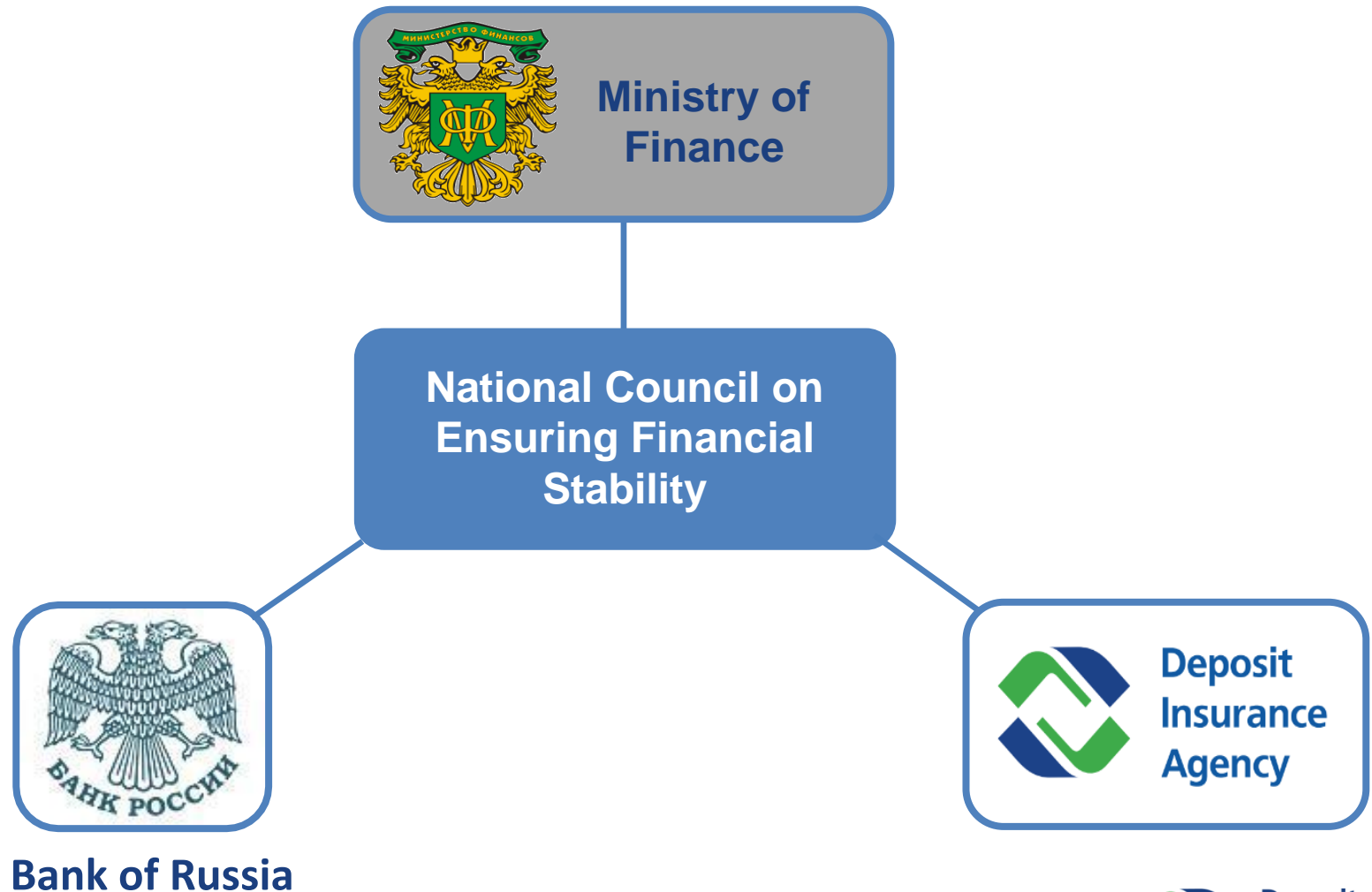
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Financial Safety Net



Crisis Preparedness: the Bank of Russia

Financial Stability Assessments/Reviews

- Stress-tests
- Early warning system (weekly, 30 indicators)
- Tightened provisioning requirements
- Prompt corrective actions framework
- Internal contingency plans

Strengthening banks' loss absorption capacity

- Intensified supervision of D-SIBs
- Basel III – improved quality of banks' capital

Recovery and Resolution Planning

- D-SIBs are required to submit their recovery plans to the Bank of Russia
- Bank of Russia develops resolution plans for D-SIBs
- In the medium term all banks will be required to prepare and submit recovery plans
- Bank of Russia will have the authority to require banks to adopt appropriate measures to improve their resolvability



Crisis Preparedness: DIA's Role

Crisis Preparedness

- Back-up funding arrangements
 - Member banks - extraordinary premiums
 - Ministry of Finance – capital injections, loans
 - Central Bank - loans
- Resolution toolkit
 - Open Bank Assistance
 - P&A
 - Asset Purchase
 - “Voluntary” Bail-in)
- MOUs, stand-by agreements (with the Bank of Russia, agent banks, outsourcing – lawyers, appraisers, accountants, sales platforms,...)
- Internal and external regulations; trained staff; IT systems; software tools...

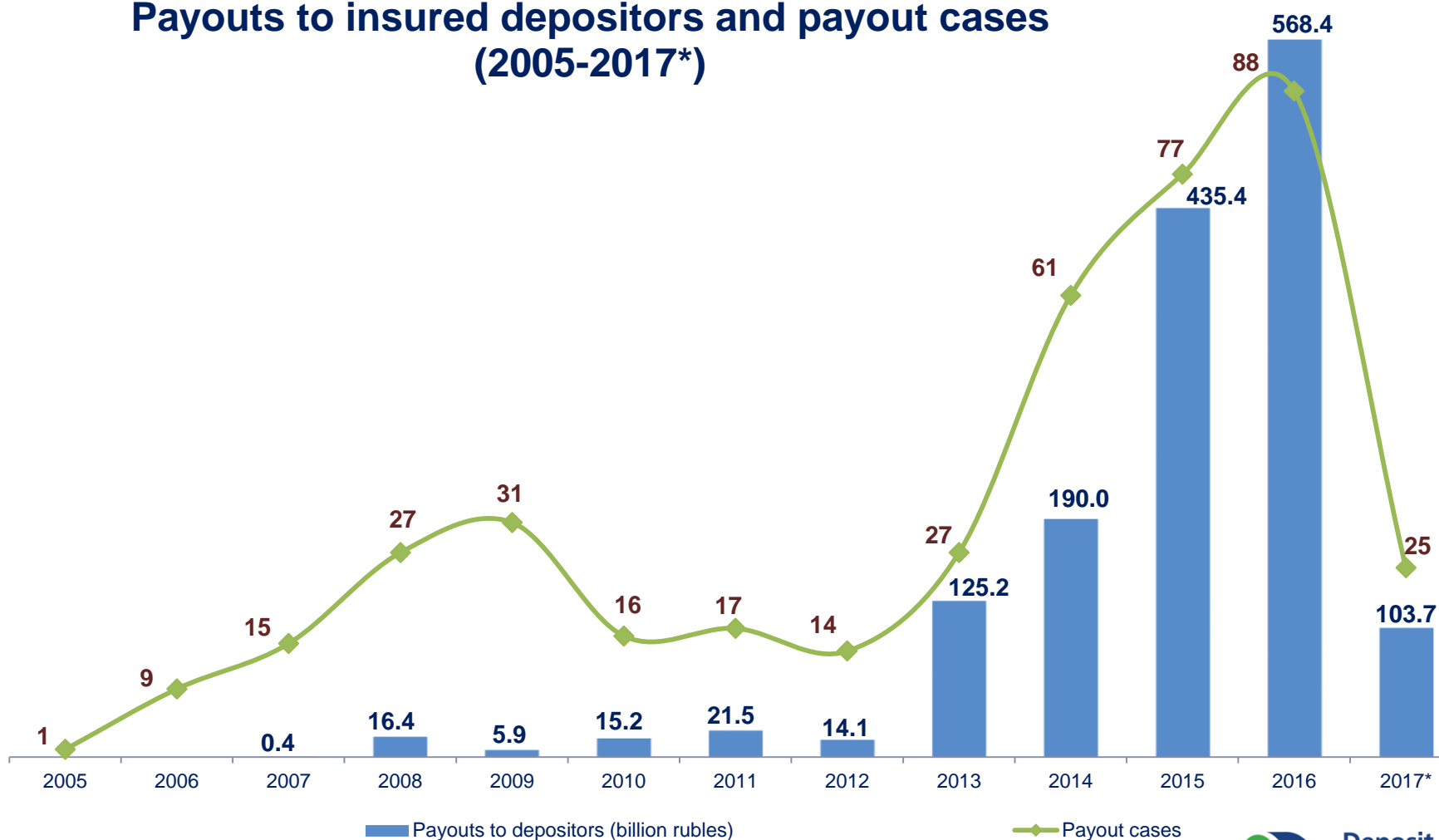
Crisis Management: DIA's Role

Crisis Management

- DIA Coverage was doubled in 2008 – from 700 thousand rubles to 1.4 million rubles (about US\$24 thousand)
- DIA starts reimbursement of insured depositors in average within 11.3 working days after bank closure
- DIA has paid out 1.5 trillion rubles (~ US\$25 billion) to more than 3 million of insured depositors
- DIA has resolved 63 systemic banks and liquidated 279 failed banks

Payouts and payout cases

Payouts to insured depositors and payout cases
(2005-2017*)



*As of July 2017

Challenges that Influence Effectiveness of the Deposit Insurance System

- **Late access to depositor data** – after bank closure (for payouts DIA receives the register of deposit liabilities from provisional administration of the bank appointed by the Bank of Russia)
- **Exclusion of legal entities from the scope of coverage** provokes transfers of money from corporate accounts to insured/eligible accounts (*draft law on expanding the scope of coverage to SME is discussed in the Parliament*)
- **Payouts start prior to the appointment of DIA as receiver/liquidator** – within 14 days after a bank closure by the Bank of Russia
- **DIA faces numerous cases of fraud:**
 - Large deposits are split on the eve of the bank closure to become fully insured – through internal transfers to relatives, friends, etc.
 - In some banks DIA has faced situations when some deposits were not reflected in the bank's books
 - Unsanctioned transfer of money from deposits to other entities (misappropriation, minimization of premiums)
 - In several cases DIA faced situations when banks intentionally destroyed or concealed their databases...

Bank Liquidation

Bank of Russia: bank closing (license revocation)



Petition to declare the bank insolvent

Arbitration Court: decision



Decision to declare the bank insolvent and appoint DIA as the bank's receiver

DIA: appointment of Receiver in Charge

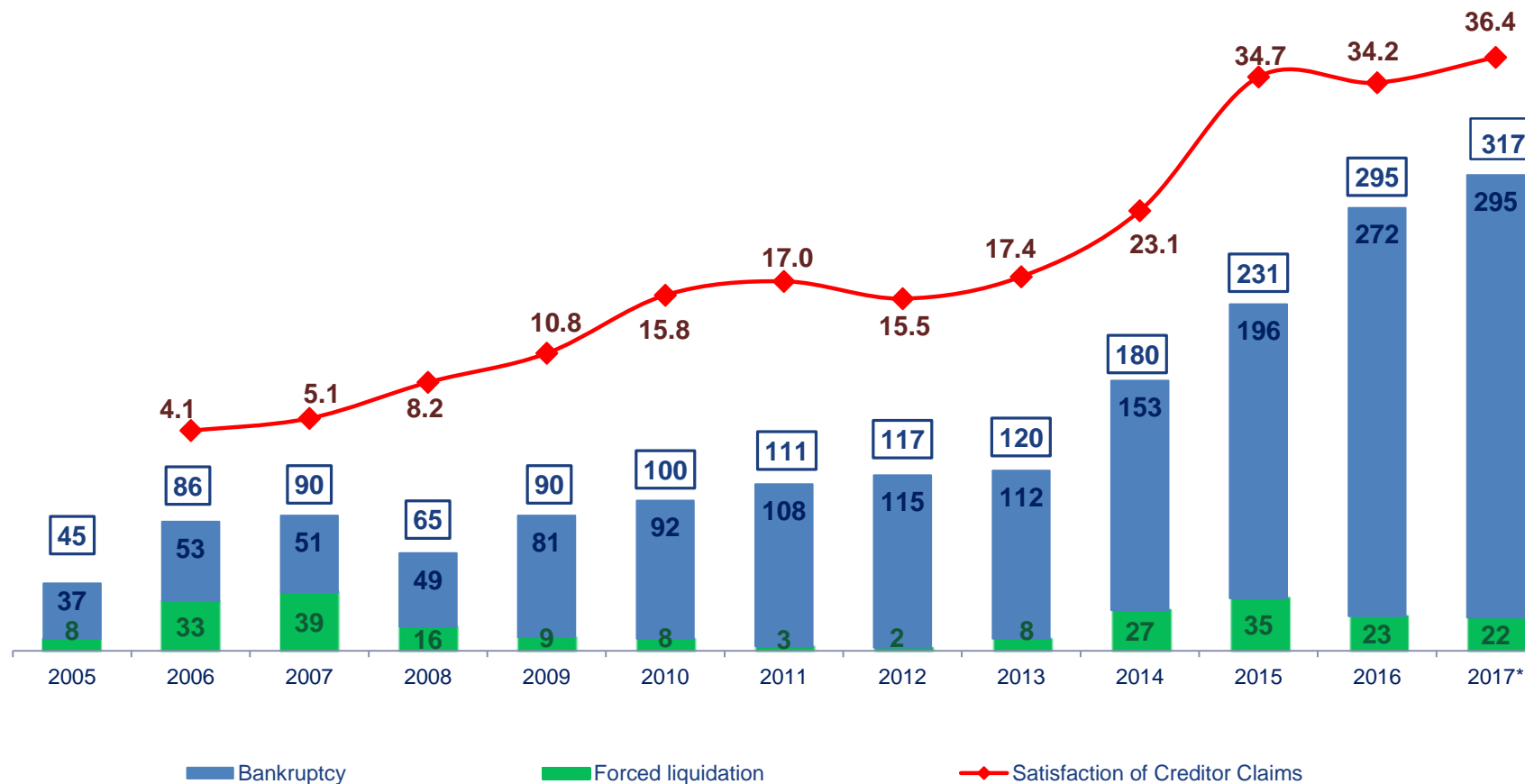


Main responsibilities of DIA as receiver (liquidator):

- ✓ Collection of creditor claims
- ✓ Formation of the register of creditor claims
- ✓ Inventory, appraisal and marketing of assets
- ✓ Interaction with the creditor committee
- ✓ Investigation of causes of the bank's failure
- ✓ Recovery of stripped/stolen assets
- ✓ Meeting creditor claims
- ✓ Reports: to the court, the Bank of Russia, creditors...

Bank Bankruptcy and Liquidation

Dynamics of Satisfaction of Creditor Claims (percent) and Number of Banks Liquidated by DIA in 2005-2017*



*As of July 2017

Challenges that Influence Effectiveness of Bank Liquidation

- DIA is appointed as receiver/liquidator (by court) not earlier than in 1 to 1.5 months after a bank closure, and provisional administration (the Bank of Russia) that manages the failed bank's affairs in this interim period is not active in collecting/recovering assets, challenging dubious transactions, etc. *Out-of-court (administrative) liquidation proceedings would be a preferable option*
- P&A transactions are allowed only after bank closure and have some legal impediments. *They draft law that will allow P&A before a bank closure is discussed in the Parliament*
- Ranking of insured depositors in insolvency is different: households deposits are the first priority claims while deposits/accounts of individual entrepreneurs are the third priority claims. *Hierarchy of claims needs adjustment*
- Sale of any asset requires creditor committee's prior approval (minimum price, conditions of sale...). In some cases creditors do not support expenses on legal actions to recover misappropriated assets. *Out-of-court (administrative) liquidation proceedings would streamline and speed up the process*

Resolution Triggers

Resolution actions need to be taken at a sufficiently early point, ideally when the bank is still has some positive net asset value, if there is no reasonable prospect of recovery outside of resolution

🔄 In Russia entry into resolution is triggered when there are signs that the financial position is unstable, thus endangering the interests of its creditors (depositors)

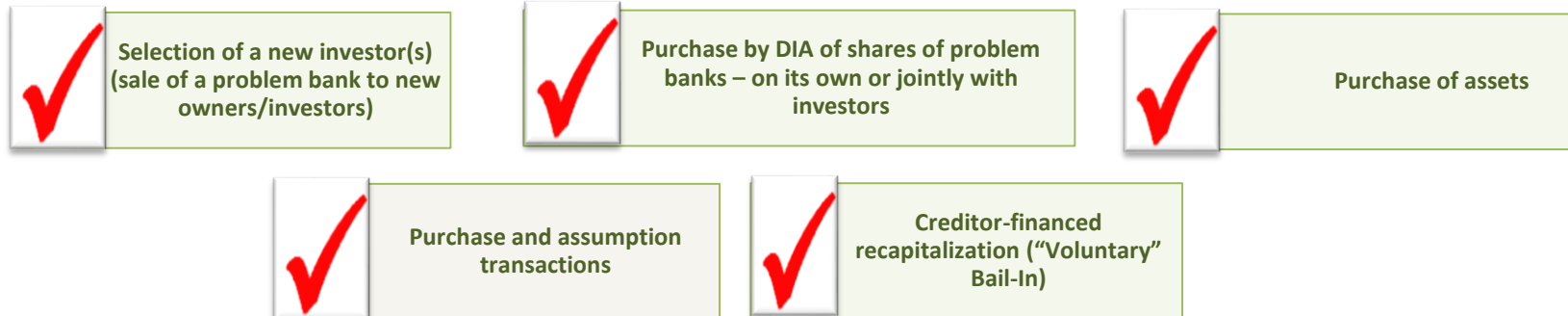
🔄 Existing quantitative and qualitative criteria:

- o Breach of capital adequacy requirements
- o Breach of law and/or other regulatory requirements
- o Systemic importance (national or regional level)

🔄 New forward looking quantitative and qualitative criteria characterizing non-viability of banks are under development

Resolution of Systemic Banks (OBA & P&A)

Major resolution tools used by DIA (other than payouts):



DIA has used these resolution strategies in the following way:

- Attraction/selection of an investor/investors (39 projects);
- Purchase by DIA of shares of problem banks – on its own or jointly with investors (7 projects);
- Asset purchase (one project – «NIZHEGORODPROMSTROYBANK»);
- Purchase and assumption (6 projects);
- Voluntary Bail-in (2 projects – «FONDSERVISBANK» and Bank «TAVRICHESKIY»).

Challenges that Influence Bank Resolution Effectiveness

- The Bank of Russia does not share information from recovery and resolution plans and DIA is not involved in their review
- Both the Bank of Russia and DIA are resolution authorities with similar powers (duplication of powers): it is the discretion of the Bank of Russia to resolve a failing systemic bank with or without DIA involvement
- As there isn't any prefunded bank resolution fund, DIA depends on the Bank of Russia's funding and final decision on the resolution tools to be used
- Lack of preparation time. It is essential that the DIA have access to the failing institution at the early stage of deterioration of its financial position. It would widen the scope of applicable resolution strategies and tools

Conclusions

For ensuring crisis preparedness and effective crisis management:

- I. FSN needs to be well informed, well coordinated and collaborative. Responsibilities and powers of FSN members should be clearly defined and delineated
- II. Central Bank should have transparent early detection and timely intervention frameworks, and it should timely inform DIA about early supervisory intervention measures that it takes
- III. Recovery and resolution planning and resolvability requirements should be applied to all banks. DIA if it acts as the resolution authority should have access to these plans
- V. A deposit insurer should have all necessary powers and capabilities including participation in interagency financial stability committee, influence on bank resolution tool selection, back-up funding arrangements

Thank you!

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