

GOVERNANCE, MANDATES & RESPONSIBILITIES

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Presentation Outline

1. **Governance**
2. **Mandates**
3. **Powers and responsibilities**
4. **Trends**

1. Governance

Definition:

- *“ . . . the processes, structures and information used for directing and overseeing the management of an organization. . . ”*

Does governance matter for deposit insurers?

- *“... Good governance of deposit insurers promotes good governance of financial institutions...”*

Stephen Ingves (2005)

- IADI/Basel Committee Core Principles for Effective Deposit Insurance Systems highlight governance.

Governance...

Four key elements of good governance:

1. operational independence;
2. accountability;
3. integrity; and
4. transparency and disclosure.

Governance structures:

- Many different structures (e.g. Board of Directors most common ...Department model least common).
- But, all share the common characteristics of being accountable to a higher authority and being responsible to stakeholders.

Core Principles: Governance

- **Principle 5 – Governance:** The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry influence.
- **Supporting guidance**
 - Operational independence: The deposit insurer is able to use the powers and means assigned to it without undue influence from external parties, including political forces, the financial services industry or other safety-net participants. There is in practice no significant evidence of government or industry interference in the operational independence of the deposit insurer and its ability to obtain and deploy the resources needed to carry out its mandate.

Governance...

- The deposit insurer is financed in a manner that does not undermine its autonomy or independence and permits it to fulfill its mandate. This includes, among other things:
 - Salary scales that allow it to attract and retain qualified staff;
 - A training budget and programme that provides regular training opportunities for staff;
 - A budget for computers and other equipment sufficient to equip its staff with tools needed to fulfill its mandate; and
- Accountability: The governing body and management of the deposit insurance system are held accountable through a transparent framework for the discharge of the system's duties in relation to its objectives and mandate.

Governance...

- Transparency and disclosure: The deposit insurer operates in a transparent manner and discloses appropriate information on its activities, governance practices, structure and financial results.
- Integrity issues: The deposit insurance system is structured such that the potential for conflicts of interest respecting members of the governing body and management is minimised.
- The members of the governing body can be removed from office during their term only for reasons specified or defined in law.

Governance...

- Audit and Legal protection:
- There should be independent validation of the state of the deposit insurer by external auditors. The deposit insurer needs a sound internal control system (e.g. with the head of internal audit reporting to an audit committee and CEO).
- Those working for the deposit insurance organization should receive legal protection for their actions, or omissions, taken in good faith in the fulfillment of their duties and obligations.

Governance...

In conclusion, governance is about leadership...

- Leadership which is independent but accountable.
- Leadership that is honest and transparent.
- Leadership with responsibility and integrity.

- *John Chikura (2009)*

2. Mandates

■ Definition:

- The mandate of an organisation is a set of official instructions or statement of purpose.
- There is no single mandate or set of mandates suitable for all deposit insurers.
- Existing deposit insurers have mandates ranging from narrow, so-called “paybox” systems to those with broader powers or responsibilities, such as preventive action and loss or risk-minimisation/ management, with a variety of combinations in between.

Core Principles: Mandates

- **Principle 3 – Mandate:** It is critical that the mandate selected for a deposit insurer be clear and formally specified and that there be consistency between the stated public-policy objectives and the powers and responsibilities given to the deposit insurer.

- **Trends in Mandates for deposit insurers:**

- A general broadening in mandates since the 1990s – e.g.
 1. Greater access to information on member banks
 2. Expanded role in off-site risk assessment
 3. Growing decision-making roles in failure resolution

Powers and responsibilities

- **Principle 4 – Powers:** A deposit insurer should have all powers necessary to fulfill its mandate and these powers should be formally specified. All deposit insurers require the power to:
 - finance reimbursements;
 - enter into contracts;
 - set internal operating budgets and procedures; and,
 - access timely and accurate information to ensure that they can meet their obligations to depositors promptly.

Powers...

Supporting guidance

1. The powers and responsibilities of the deposit insurance system are clearly defined and formally specified in law or regulation.
2. A deposit insurance system charged with a broader mandate (e.g. loss or risk-minimisation/ management) has the powers necessary to fulfill its mandate and, as appropriate, can:
 - control entry and exit from the deposit insurance system
 - Assess/ manage risks and may conduct/request examinations
 - provide financial assistance to resolve failed banks in a manner that minimises losses to the deposit insurer
 - set regulations and undertake or request enforcement actions
 - resolve failed banks at least-cost to the deposit insurer

QUESTIONS?