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INDONESIA DEPOSIT INSURANCE CORPORATION (IDIC)

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FSB UPDATES

The FSB issued updated list of G-SIBs and two consultative proposals on guidance to implement Key Attribute for Effective Resolution Regimes in November 2017. At the same month, four RCG meetings were organized in Europe, Sub Sahara Africa, MENA and Asia to discuss various issues related to financial stability, fintech, bank risks and supervision.

In December 2017, the FSB complete peer review for Korea and issued consultative document on methodology for assessing the implementation of the Key Attributes of Effective Resolution Regimes in the insurance sector. Two RCG meeting were conducted in this month, which were in CIS and American regions.

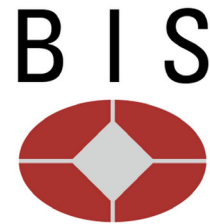
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BCBS UPDATES

BCBS issued document entitled Basel III: Finalising post-crisis reform and consultative documents on Basel III: Treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio; and Stress testing principles. Other than these, BCBS also issued discussion paper on the regulatory treatment of sovereign exposures; Basel III Monitoring Report – Results on the cumulative impact study; and Progress report on the implementation of principles for effective supervisory colleges.

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IDIC UPDATES AND ACTIVITIES

IDIC, supported by the World Bank, SECO, and KDIC organised IDIC-KDIC Knowledge Sharing Program, titled Bank Resolution, Asset Management and Recovery that took place in JW Marriott Hotel Jakarta on 5-7 December 2017. Some information and updates on deposit insurance program in Indonesia is also provided in this section.

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OTHER UPDATES

IDIC Annual Conference on 11-12 October 2017

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IDIC Global Updates is a periodical newsletter issued by IDIC International Affairs Group aims to update IDIC Staffs and relevance stakeholders on international initiatives in promoting stability and resilience of financial services industry



FSB UPDATES - November 2017

A

FSB News and Releases

FSB considers financial stability implications of artificial intelligence and machine learning

1 November 2017

The Financial Stability Board (FSB) published a report that considers the financial stability implications of the growing use of artificial intelligence (AI) and machine learning in financial services.

The FSB's analysis reveals a number of potential benefits and risks for financial stability that should be monitored as the technology is adopted in the coming years and as more data becomes available:

- The more efficient processing of information, for example in credit decisions, financial markets, insurance contracts and customer interactions, may contribute to a more efficient financial system. The applications of AI and machine learning by regulators and supervisors can help to improve regulatory compliance and increase supervisory effectiveness.
- Applications of AI and machine learning could result in new and unexpected forms of interconnectedness between financial markets and institutions, for instance based on the use by various institutions of previously unrelated data sources.
- Network effects and scalability of new technologies may in the future give rise to third-party dependencies. This could in turn lead to the emergence of new systemically important players that could fall outside the regulatory perimeter.
- The lack of interoperability or auditability of AI and machine learning methods could become a macro-level risk. Similarly, a widespread use of opaque models may result in unintended consequences.

As with any new product or service, it will be important to assess uses of AI and machine learning in view of their risks, including adherence to relevant protocols on data privacy, conduct risks, and cybersecurity. Adequate testing and 'training' of tools with unbiased data and feedback mechanisms are important to ensure applications do what they are intended to do.

FSB statement on identification of global systemically important insurers

21 November 2017

The Financial Stability Board (FSB), in consultation with the International Association of Insurance Supervisors (IAIS) and national authorities, has decided not to publish a new list of global systemically important insurers (G-SIIs) for 2017.

The policy measures set out in the FSB's 2016 communication on G-SIIs as updated in February 2017 as concerns the higher loss absorbency (HLA) standard will continue to apply to the firms listed in the 2016 communication.

In November 2018 the FSB will review the situation based on the progress made by the IAIS in developing the Activities-Based Approach at that time. In the meantime, the IAIS will continue to collect data for the G-SII identification process and to support the development of the Activities-Based Approach to systemic risk in the insurance sector and to allow for further improvements to its G-SII assessment methodology.



FSB publishes 2017 G-SIB list

21 November 2017

The Financial Stability Board (FSB) today published the 2017 list of global systemically important banks (G-SIBs) using end-2016 data and an assessment methodology designed by the Basel Committee on Banking Supervision (BCBS).

The list comprises 30 banks. One bank (Royal Bank of Canada) has been added to the list of G-SIBs identified in 2016 and one bank (Groupe BPCE) has been removed, and therefore the total number of G-SIBs remains the same.

G-SIBs in alphabetical order within each bucket:

Bucket	Banks	Bucket	Banks
5	None	1	Agricultural Bank of China Bank of New York Mellon Credit Suisse Groupe Credit Agricole ING Bank Mizuho FG Morgan Stanley Nordea Royal Bank of Canada Royal Bank of Scotland Santander Societe Generale Standard Chartered State Street Sumitomo Mitsui FG UBS Unicredit Group
4	JP Morgan Chase		
3	Bank of America Citigroup Deutsche Bank HSBC		
2	Bank of China Barclays BNP Paribas China Construction Bank Goldman Sachs Industrial and Commercial Bank of China Limited Mitsubishi UFJ FG Wells Fargo		

FSB consults on proposed guidance to support resolution planning and promote resolvability

30 November 2017

The Financial Stability Board (FSB) has issued for consultation two proposals for guidance on the implementation of particular aspects of its Key Attributes of Effective Resolution Regimes for global systemically important banks (G-SIBs), thereby supporting the application of the overall policy framework to end “too-big-to-fail”.

The guidance are:

- Consultation on Principles on Bail-in Execution
- Consultation on Funding Strategy Elements of an Implementable Resolution Plan



B

FSB Meeting and Events

FSB organized a number of Regional Consultative Group (RCG) meetings in November 2017. The following table provides highlights of the meetings:

Dates	Areas	Topics
10 November 2017	Europe	<p>Regional financial developments, experiences in banking supervision and macroprudential practices</p> <p>In this meeting, RCG members discussed current financial vulnerabilities and key financial stability issues and exchanged views on global and regional macroeconomic and financial market developments and their potential impact on the region.</p> <p>Members of the RCGs received an update on changes that have taken place in European Union (EU) banking supervision since the financial crisis including the supervisory framework and work by the European Banking Authority to promote consistent application of EU legislation and regulation.</p> <p>The members also discussed the framework for the use of macroprudential tools in the EU and the experience of some jurisdictions in applying measures, including the importance of effective cooperation on the use of micro and macroprudential tools.</p>
15 November 2017	Sub-Saharan Africa	<p>G20 Compact with Africa, FSB agenda, correspondent banking, cybersecurity and cross-border crisis management</p> <p>In this meeting, members of the RCG received an update on the progress made by the G20 Compact with Africa which was launched during the German G20 Presidency to support private investment, sustainable infrastructure financing, and employment in African countries.</p> <p>RCG members also discussed global and regional macroeconomic and financial market developments as well as their potential impact on economies in Sub-Saharan Africa.</p> <p>The RCG members recognized the need for enhanced capacity for effective implementation of global standards to address challenges engendered by global “de-risking” with particular reference to AML/CFT.</p> <p>Cross-border crisis management and effective recovery and resolution planning were also discussed by the members. Members of the RCG considered the challenges of cross-border cooperation between authorities in home and host countries, particularly in stressed conditions.</p> <p>The RCG was updated on the FSB’s stocktake on cybersecurity regulations and supervisory practices and discussed possible risks to financial institutions and to financial stability in the region from possible cyber attacks.</p>
20 November 2017	Middle East and North Africa	<p>FSB work, financial stability in the region, FinTech and misconduct risks</p> <p>The RCG was updated on the FSB’s ongoing work and priorities related to the international post-crisis policy reforms. They also discussed global and regional macroeconomic and financial market developments as well as their potential impact on economies in the region.</p> <p>The meeting further considered the financial stability implications of rising debt levels globally and concerns about the debt dynamics of corporates and sovereigns, particularly in a rising interest rate environment.</p>



		<p>The RCG members also discussed work on FinTech by the FSB and the Basel Committee on Banking Supervision, the extent to which FinTech is changing the landscape of financial system and implications for financial stability and banking supervision in the region. Members also discussed the FSB’s stocktake on cybersecurity regulations and supervisory practices and developments on this issue in the region.</p> <p>Other issues discussed by the members are: issue of non-performing loans (NPLs) and approaches that have been considered to value and reduce NPLs are also been discussed by the members. The RCG members group also discussed the implementation of the Key Attributes for Effective Resolution Regimes in the region.</p> <p>Members of the group were updated on progress in the FSB’s workplan to reduce misconduct risks in the financial sector, including through measures concerning corporate governance, guidance on compensation practices, and benchmark reforms, and shared information on efforts in the region to strengthen financial market practices.</p>
<p>28 November 2017</p>	<p>Asia</p>	<p>FinTech, correspondent banking, macroprudential policies and financial market integrity</p> <p>The discussion began by considering vulnerabilities in the global financial system, including complacency in global markets about risks and their potential impact on Asia. It continued with discussion on equity market valuations and the growth of Japanese banks’ overseas operations.</p> <p>The RCG members received an update on the FSB’s current activities which focus on continued implementation of the agreed post-crisis policy reforms to support a level playing field and reduce regulatory arbitrage opportunities and evaluating the effects of the reforms in order to inform adjustments, where needed, without compromising their objectives.</p> <p>The members considered FinTech and the changes that it might bring to the financial sector. They shared their recent experiences in regulating virtual currencies, e-payments and FinTech credit based upon their own market developments, and the considerations of setting up sandboxes. They noted the need to balance financial innovation and financial stability through risk-focused, proportionate regulatory approaches.</p> <p>Members turned their attention to challenges resulting from the withdrawal of correspondent banking and remittance service providers’ access to the banking system. The decline in the number of correspondent banking relationships remains a source of concern because, in affected jurisdictions, it may impact the ability to send and receive international payments, or drive some payment flows underground, with potential adverse consequences on trade, growth, financial inclusion, as well as the stability and integrity of the financial system.</p> <p>The meeting concluded with a discussion of initiatives to strengthen financial market integrity. The first was the FX Global Code, a set of principles designed to promote the integrity and effective functioning of the wholesale foreign exchange market that was published in May 2017. The second area discussed was the role that a firm’s culture plays in misconduct. Members considered cultural factors that can undermine the effectiveness of governance frameworks and lead to misconduct, and how governance frameworks can be used to manage those factors.</p>



FSB UPDATES - December 2017

A

FSB News and Releases

FSB completes peer review of Korea

6 December 2017

The Financial Stability Board (FSB) published its peer review of Korea. The peer review examined two items, namely: the crisis management and resolution framework and the regulation and supervision of non-bank depository institutions (NBDIs).

The peer review finds that good progress has been made in recent years on both topics. The resolution framework already includes a number of the resolution powers set out in the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) and has been tested in previous crises. The authorities have also taken steps to strengthen and more closely align prudential standards in the NBDI sector to those of banks, and to enhance regulatory cooperation on mutual credit cooperative (MCC) issues through the establishment of the MCC Policy Council in 2013.

Notwithstanding this progress, the review concludes that there is additional work to be done:

On crisis management and resolution:

- implementing, on a timely basis, planned resolution reforms to close the gaps vis-à-vis the Key Attributes with respect to recovery and resolution planning requirements as well as bail-in and temporary stay powers;
- developing triggers that facilitate early entry into resolution and permit the use of the full range of resolution tools under the framework; and
- further strengthening crisis preparedness arrangements.

On the regulation and supervision of NBDIs:

- strengthening the role of the Financial Services Commission and the Financial Supervisory Service in the regulation and supervision of MCCs;
- enhancing MCC and mutual savings bank (MSB) prudential requirements;
- increasing the focus on MCC federations, in terms of regulatory and supervisory oversight and systemic risk analysis; and
- developing measures to proactively manage the orderly consolidation of the MCC/MSB sectors.

FSB consults on methodology for assessing the implementation of the Key Attributes of Effective Resolution Regimes in the insurance sector

21 December 2017

The Financial Stability Board (FSB) published a consultation document on a methodology for assessing the implementation of the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) in the insurance sector. The Key Attributes Assessment Methodology for the Insurance Sector sets out criteria for assessing the compliance of a jurisdiction's insurance resolution frameworks with the Key Attributes. It is designed to promote consistent assessments across jurisdictions and to provide guidance to jurisdictions when adopting or reforming insurance resolution regimes to implement the Key Attributes. It will be used by the International Monetary Fund (IMF) and the World Bank as part of the regulatory assessments they undertake.



Dates	Areas	Topics
12 December 2017	CIS	<p>Seven Meeting of the Financial Stability Board Regional Consultative Group for the Commonwealth of Independent States</p> <p>In this meeting, Members of the RCG for the CIS were informed of the main outcomes of the FSB and G20's work in 2017 and policy priorities for 2018.</p> <p>Members expressed great interest in FinTech issues and the benefits and risks which these new technologies bring to the financial sector. Members shared the view that the main problem for regulators is how to achieve adherence to the requirements of legislation in the place of transaction, which applies in usual models of bilateral interactions between the seller and the buyer of financial service or product.</p> <p>Members also discussed other issues related to Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT). In particular, members discussed the Financial Action Task Force standards and guidance on the risk-based approach in the context of correspondent banking relationships. They also considered challenges that remittances service providers encounter when trying to obtain access to banking services.</p> <p>The meeting concluded with a discussion of financial ombudsmen, plans to implement such a practice within the region. There was a common view that a financial ombudsman can enhance the confidence of domestic investors in financial markets, by resolving individual complaints between financial businesses and their customers in a cooperative, efficient, timely and fair manner; with minimum formality and technicality; and as transparently as possible.</p>
13 December 2017	America	<p>Financial stability, FinTech, misconduct risks and long-term financing</p> <p>In this meeting, the members was updated on the FSB's ongoing work related to the international post-crisis policy reforms. Members also reviewed regional financial market developments and vulnerabilities against the background of the recent recovery in global growth. They discussed potential policy responses in the region in the event of spillovers from rising interest rates in advanced economies.</p> <p>Members next turned their attention to the recent study by the FSB of how FinTech is changing the landscape of the financial system, as well as the financial stability implications and the supervisory and regulatory issues raised by FinTech that merit authorities' attention.</p> <p>Members also discussed cyber risks to the financial system, as well as national regulatory and supervisory responses, and the types of further policy measures through which countries could strengthen the resilience of their financial systems.</p> <p>The group discussed the challenges posed by the reduction in correspondent banking relationships and in remittance service providers' access to the banking system particularly in the Caribbean. The group was also updated on the outcome of the recent workshop of the RCG's working group on shadow banking, which has the goal of achieving a better understanding of the scope and structure of the shadow banking in the Americas, including the characteristics of the sector in the region.</p> <p>Members of the group discussed the progress in the FSB's workplan to reduce misconduct risks in the financial sector, including through a toolkit to strengthen corporate governance, guidance on compensation practices, and reforms to major international benchmarks. Members also shared information on work by authorities in the region to strengthen financial market practices.</p>



BCBS UPDATES - December 2017

BCBS issued various publications in December 2017, range from standard, guidelines, to implementation report, as well as other types of publications. The documents are as follows:

Dates	Type of Publication	Titles
7 Dec 2017	Standard	Basel III: Finalising post-crisis reform
7 Dec 2017	Other	Basel III Monitoring Report – Results on the cumulative impact study
7 Dec 2017	Other	The regulatory treatment of sovereign exposures – discussion paper
20 Dec 2017	Guidelines	Stress testing principles – consultative document
20 Dec 2017	Other	Supervisory and bank stress testing: range of practices
21 Dec 2017	Standard	Basel III: Treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio – consultative document
21 Dec 2017	Implementation	Progress report on the implementation of principles for effective supervisory colleges

Basel III: Finalising Post crisis reform

7 December 2017

The Basel III framework is a central element of the Basel Committee's response to the global financial crisis. It addresses shortcomings of the pre-crisis regulatory framework and provides a regulatory foundation for a resilient banking system that supports the real economy.

Revision has been made to the Basel III with the objective to reduce excessive variability of risk-weighted assets (RWA). At the peak of the global financial crisis, a wide range of stakeholders lost faith in banks' reported risk-weighted capital ratios. The Committee's own empirical analyses also highlighted a worrying degree of variability in banks' calculation of RWA.

The revisions to the regulatory framework will help restore credibility in the calculation of RWA by:

- enhancing the robustness and risk sensitivity of the standardised approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios
- constraining the use of internally modelled approaches
- complementing the risk-weighted capital ratio with a finalised leverage ratio and a revised and robust capital floor



Basel III Monitoring Report - Results of the cumulative quantitative impact study

7 December 2017

BCBS undertake quantitative impact study (QIS) to monitor impact of the implementation of Basel III. The QIS is based on end-2015 data provided by 248 banks that participated in the exercise.

The report also does not reflect any additional capital requirements under Pillar 2 of the Basel II framework, any higher loss absorbency requirements for domestic systemically important banks or any counter-cyclical capital buffer requirements. Such factors may result in the report overstating the actual impact. On that basis, the report shows that the finalisation of Basel III results in no significant increase in overall capital requirements, although effects vary among banks.

The regulatory treatment of sovereign exposures – discussion paper

7 December 2017

Basel Committee on Banking Supervision set up a high-level Task Force on Sovereign Exposures in January 2015 to review the regulatory treatment of sovereign exposures and recommend potential policy options. Results of the Task Force is presented in this report.

Overall, the report views that all sovereign exposures entail risks but notes that they also play an important role in the banking system, financial markets and the broader economy. Sovereign risk has various dimensions. Historically, banking crises have preceded, accompanied and followed sovereign crises. The “sovereign-bank nexus” is multifaceted, potentially serving as an amplifier and/or absorber of shocks in times of stress.

In most cases, the existing treatment of sovereign exposures is more favourable than other asset classes. Most notably, the risk-weighted framework includes a national discretion that allows jurisdictions to apply a 0% risk weight for sovereign exposures denominated and funded in domestic currency, regardless of their inherent risk. This discretion is currently exercised by all members of the Committee. Sovereign exposures are also currently exempted from the large exposures framework. Moreover, no limits or haircuts are applied to domestic sovereign exposures that are eligible as high-quality liquid assets in meeting the liquidity standards. In contrast, sovereign exposures are included as part of the leverage ratio framework.

This paper sets out some ideas regarding the regulatory treatment of sovereign exposures. It starts by reviewing the existing perimeter and segmentation of sovereign exposures and presents the Committee’s discussions on possible revisions to the definition of sovereign entities to ensure greater consistency across jurisdictions. However, at this stage the Committee has not reached a consensus to make any changes to the treatment of sovereign exposures, and has therefore decided not to consult on the ideas presented in this paper.



Stress testing principles – consultative document

20 December 2017

The Basel Committee on Banking Supervision released a consultative document on stress testing principles to replace the existing principles published in May 2009. The existing principles were designed to address key weaknesses in stress testing practices that were highlighted by the global financial crisis.

There are nine principles in this guidelines 1) Stress testing frameworks should have clearly articulated and formally adopted objectives; 2) Stress testing frameworks should include an effective governance structure; 3) Stress testing should be used as a risk management tool and to inform business decisions; 4) Stress testing frameworks should capture material and relevant risks and apply stresses that are sufficiently severe; 5) Resources and organisational structures should be adequate to meet the objectives of the stress testing framework; 6) Stress tests should be supported by accurate and sufficiently granular data and by robust IT systems; 7) Models and methodologies to assess the impacts of scenarios and sensitivities should be fit for purpose; 8) Stress testing models, results and frameworks should be subject to challenge and regular review; 9) Stress testing practices and findings should be communicated within and across jurisdictions.

Each principle is followed by a short description of considerations that are equally relevant for both banks and for authorities. This description is followed by two additional sets of points applicable to either, where relevant:

- Additional points for banks: These cover additional points with particular relevance to (a) banks' own internal stress testing activities, and (b) their participation in bank-run supervisory stress tests.
- Additional points for authorities: These cover additional points with particular relevance to (a) supervisor-run stress tests, and (b) the authorities' role in bank-run supervisory stress tests. They also cover the role of authorities in their oversight of banks' internal stress testing activities.

Supervisory and bank stress testing: range of practices

20 December 2017

This describes and compares supervisory and bank stress testing practices and highlights areas of evolution. The report finds that, in recent years, both banks and authorities have made significant advances in stress testing methodologies and infrastructure. Stress testing is now a critical element of risk management for banks and a core tool for banking supervisors and macroprudential authorities.

The report draws primarily on the results of two surveys, completed respectively by Basel Committee member authorities and by banks (54 respondent banks from across 24 countries, including 20 global systemically important banks). The survey results are supplemented by case studies and other supervisory findings. A stress testing taxonomy is included with a common set of definitions for stress testing terms to aid the dialogue among banks and supervisors.



Basel III: Treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio - consultative version

21 December 2017

To promote a consistent global implementation of the Basel framework, the Committee regularly monitors and reviews issues that arise from the implementation of its standards. Where necessary, it publishes clarifications and interpretative guidance. The following text would be added to paragraph 29 and applies to extraordinary liquidity-absorbing monetary policy operations:

“In the case of exceptional central bank liquidity absorbing operations, claims on central banks may receive a reduced RSF factor. For those operations with a residual maturity equal to or greater than six months, the RSF factor must not be lower than 5%. When applying a reduced RSF factor, supervisors need to closely monitor the ongoing impact on banks’ stable funding positions arising from the reduced requirement and take appropriate measures as needed. Also, as further specified in paragraph 31, assets that are provided as collateral for exceptional central bank liquidity providing operations may receive a reduced RSF factor which must not be lower than the RSF factor applied to the equivalent asset that is unencumbered. In both cases, supervisors should discuss and agree on the appropriate RSF factor with the relevant central bank.”

Progress report on the implementation of principles for effective supervisory colleges

21 December 2017

This document is an updated Progress report on the implementation of principles for effective supervisory colleges, issued in 2010 and revised in 2014. The Basel Committee monitors member jurisdictions’ adoption of these principles and last published a progress report in July 2015, which identified three home-host related challenges, namely (i) Information-sharing (Principle 3), (ii) Coordinated risk assessment (Principle 5), and (iii) Crisis preparedness (Principle 7).

Since 2015, the Basel Committee has examined these topics in greater detail. Overall, the implementation of these principles has improved. Supervisors have made clear progress towards enhanced information-sharing as well as in coordinated risk assessment activities in supervisory colleges. In addition, in the last few years, there has been progress in colleges’ contribution to crisis preparedness.

To address ongoing challenges related to the effectiveness of supervisory colleges, the Basel Committee’s report identifies a set of sound practices, which include placing emphasis on the work between (or outside) formal college meetings and encouraging home and host supervisors to reach out to each other to clarify expectations.

IDIC UPDATES AND ACTIVITIES

A Deposit Insurance Data

Banking industry in Indonesia experiences positive deposit growth in 2017. Up to November 2017, the deposit growth has reached 9,78%, slightly higher than end year growth in 2016, which was 9,53% (yoy). There is opportunity that the growth will increase in at the end of 2017, considering previous trend which shows that total deposit always increase on December every year.

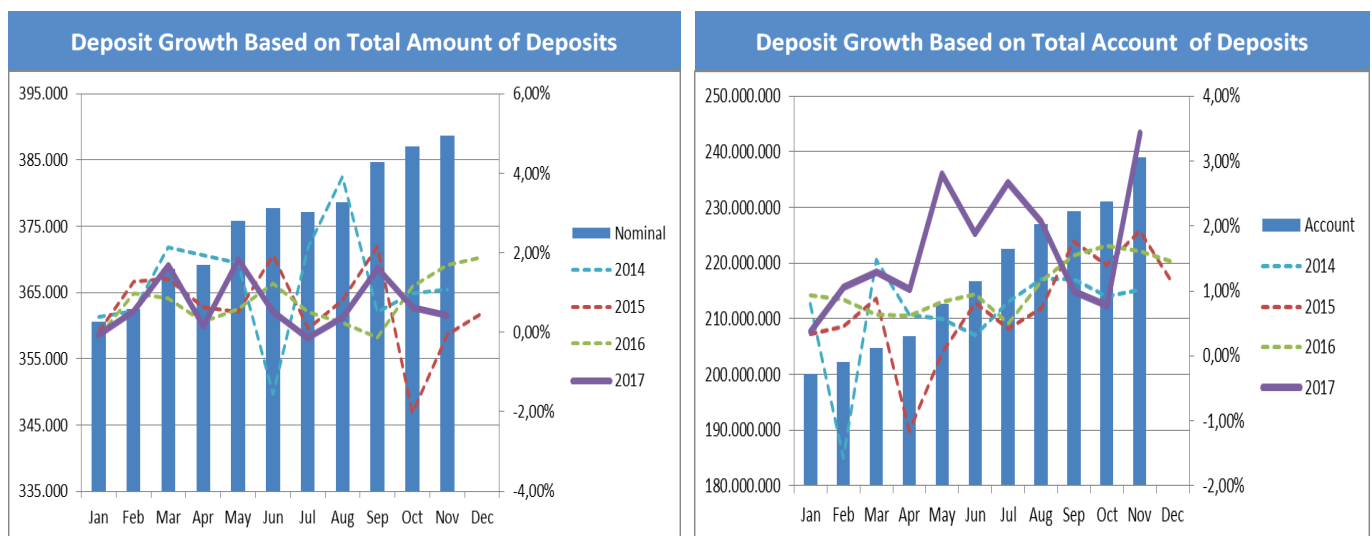
The highest growth experienced by Indonesian banking industry is supported by tremendous growth of new deposit accounts as a result of massive campaign of financial inclusion program. As shown in Table 2 below, up to November 2017, number of deposits in the banking industry increased 21,65%. This figure is extremely high as compared to growth of previous year which was 13,56%. However, this growth was already high as compared to deposit growth based on number of deposit accounts in 2014 and 2015.

Table 1: Deposit Growth of Banking Industry

	Dec 14	Dec 15	Dec 16	Nov 17
Growth (YoY) Based on Total Amount of Deposit	12.46%	7.32%	9.53%	9.78%
Growth (YoY) Based on Total Account of Deposit	8.98%	9.09%	13.56%	21.65%

Based on Figure 1 below, total amount of deposit increased sharply during April to May and August to September 2017. Nevertheless, Growth of total account of deposit was increased significantly during October – November 2017 because of the government program, namely Program Keluarga Harapan.

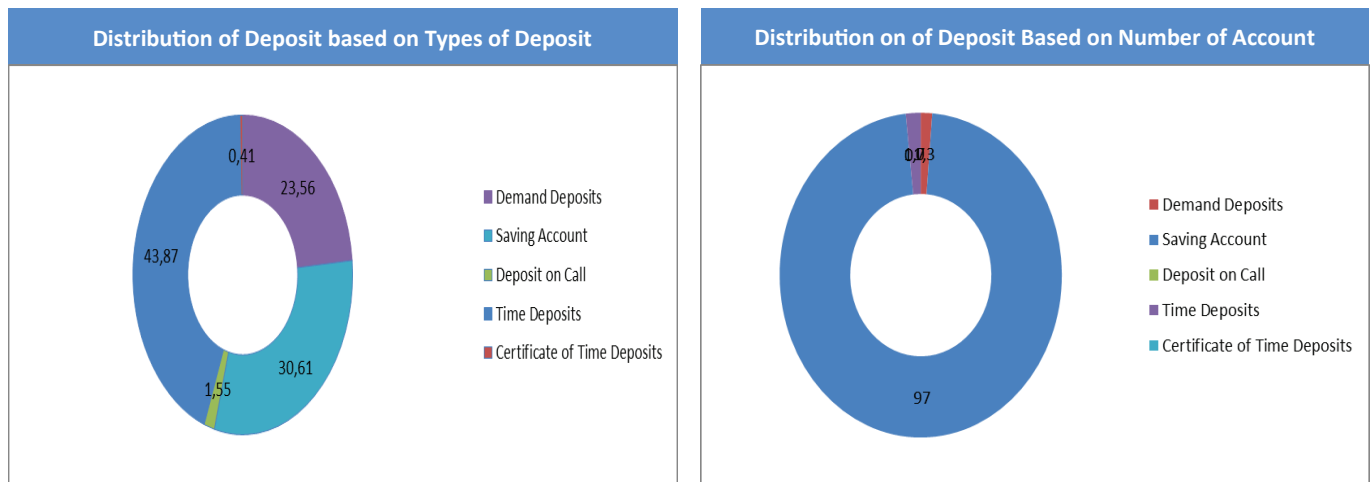
Figure 1: Deposit Growth based on Total Amount of Deposit and Total Account of Deposits



in USD Million

Based on Figure 2 below, around 43,87% of deposits (based on amount) in November 2017 are in form term deposit. However, only 1,7% of deposit based on number of account are in form of term deposit. Differently, 97% of deposit based on number of account in November 2017 are in form of saving account. This constitutes 30,61% of total deposit (based on amount) in Indonesia's banking industry.

Figure 2: Distribution of Deposit based on Type of Deposit



In line with the explanation above, based on number of account, 99.9% of deposits in Indonesia can be categorized as insured deposit. As shown in Table 1 below, only 0.1% of deposit accounts in Indonesia own fund more than IDR 2 billion (maximum limit of insured deposit). Nevertheless, based on Table 2, those who on 0.1% of deposit accounts own 48% of funds in the banking industry.

Table 2: Distribution of Insured Deposit based on Number of Accounts

Information	Categories	Total Accounts	%
Accounts for Fully Insured Deposits	≤ IDR 2 Billion	238,763,058	99,90%
Accounts for Partially Insured Deposits	> IDR 2 Billion	249,274	0,10%
Total Account		239,012,332	100%

Table 3: Distribution of Insured and Uninsured Deposit based on Total Amount

Information	Categories	Total Amount	%
Insured Deposits	≤ IDR 2 Billion (Fully Insured)	166.815	
	> IDR 2 Billion (Partially Insured)	36.706	
Total Amount of Insured Deposit		203.521	52%
Uninsured Deposits	> IDR 2 Billion	185.208	
Total Amount of Uninsured Deposit		185.208	48%
Total Amount of Deposit		388.729	100%



B

IDIC Activites

KDIC Sharing Program on Bank Resolution, Asset Management, and Recovery

Indonesia Deposit Insurance Corporation (IDIC) hosted the IDIC- Korea Deposit Insurance Corporation (KDIC) Knowledge Sharing Program, titled Bank Resolution, Asset Management and Recovery that took place in JW Marriott Hotel Jakarta on 5-7 December 2017. The main objective of the three-day-program was to examine the various resolution tools with individual case studies.

The course started with the overview of the financial system in Indonesia and Korea and to learn from KDIC's past experiences and lessons learnt. The course discussed the practicality of least cost test, the resolution framework and case studies. The training also covered the closing process and depositor reimbursement and elaborated the receivership and the asset management processes

This training is a form of respectable cooperation between IDIC, KDIC, World Bank, SECO as well as with the other safety net members, namely Central Bank, Financial Services Authority, and Ministry of Finance. We also hope that through this course, the coordination among the institutions will be strengthened and shall be beneficial to the financial services industry.

IDIC Annual Conference on 11-12 October 2017

IADI organized IADI Annual Conference on 11-12 October 2017. Main theme of this conference is "Deposit Insurance for All – Adapting the Core Principles to Different Structures, Mandates and Types of Institutions." There were four sessions in the conference and below are the summary.

Session 1: Adapting International Standards and the IADI Core Principles

The first session was moderated by Ms. Diane Ellis, Director of the Division of Insurance and Research, Federal Deposit Insurance Corporation (FDIC). There were three presenters in this section, Mr. Dominique Laboureix, Director of resolution planning and decisions, Single Resolution Board (SRB); Mr. Alex Kuczynski, Director of Corporate Affairs, Financial Services Compensation Scheme (FSCS); and Mr. Jan Philipp Nolte, Senior Financial Sector Specialist, World Bank.

Mr. Dominique Laboureix explained institutional arrangement that support financial stability in Europe, which is translated into three pillars:

- Pillar 1: Single Supervisory Mechanism by the European Central Bank (ECB) (established in 2013);
- Pillar 2: Single Resolution Mechanism by the Single Resolution Board (SRB) (established in 2014);
- Pillar 3: European Deposit Insurance, a legislative project in progress.

These three institutions work closely with relevant authorities in respective jurisdictions. Focus on resolution, the SRB has mission to ensure an orderly resolution of failing banks and ascertain minimum impact of financial crisis on the real economy and on the public finances of the participating Member States of the Banking Union. For example, SRB works together with national resolution authority in developing single resolution mechanism. The SRB has direct responsibility to 110 systemic banks and 15 cross border bank groups (for the year 2017). On the other hand, national resolution authorities responsible to the rest of the banks in their own jurisdictions. The objectives of Resolution or the goals of SRB action are to ensure continuity of critical functions, maintain financial stability, protect public funds, protect depositors and investors, protect client funds and assets.



European Deposit Insurance Scheme (EDIS) as third pillar of the banking union will complement deposit guarantee scheme (DGS) in member countries. The EDIS will be built on the existing DGS architecture, where depositors will continue to enjoy the same level of protection, i.e. EUR 100.000. This scheme will be mandatory for Member States of the Banking Union and it will be open for other EU Member States which would like to join the BU.

The European Commission intends to introduce EDIS under three stages. The first stage would be a re-insurance scheme and would apply for 3 years until 2020. In this stage, EDIS would provide a specified amount of liquidity assistance and absorb a specified amount of the final loss of the national scheme in the event of a pay-out or resolution procedure.

The second stage would be a co-insurance scheme and would apply for 4 years until 2024. For this phase, a national scheme would not have to be exhausted before accessing EDIS. EDIS would absorb a progressively larger share of any losses over the 4-year period in the event of a pay-out or resolution procedure. In the final stage, EDIS would fully insure deposits and would cover all liquidity needs and losses in the event of a pay-out or resolution procedure.

The second presenter, **Mr. Alex Kuczynski**, addressed that IADI Core Principles (CPs), which first published in 2009 and last updated in 2014 are not in prescriptive details. Therefore, it is adaptable to a broad range of jurisdictional circumstances, settings and structures.

As such, the presenter discussed FSCS' experience in United Kingdom in adopting the IADI CPs for Effective Deposit Insurers. FSCS is a paybox deposit insurer and offers an integrated protection scheme, which includes deposits, investments, insurance, home finance, and debt management.

For deposit insurance, FSCS insured deposits of members banks. FSCS has adopted the 7-days-payout guidance. To make this happen, FSCS applies Single Customer View (SCV) and develops proper contingency planning and sufficient resolution funding.

For insurance on investments products, FSCS' coverage is only limited to return of money/assets, mis-selling claims, and Special Administration Regime. Whereas for protection on policyholder, it covers only the return of premium/policy claims.

With regards to FSCS' role as a deposit insurer, members of deposit insurance range from the largest, global banks to the smallest, local credit unions. FSCS's coverage is universal and consistent; it means that all depositors have the same protection under FSCS – all firms contribute to the levies, and depositors are assured of the same treatment and outcome.

According to FSCS, IADI CPs are applicable to a broad range of insurance program. There are some Core Principles which are directly applicable, while the rest need various degree of adjustment. Among principles that can be directly adopted are: public policy objectives, mandate and powers, governance, other safety net players, contingency planning and crisis management, membership, coverage, funding, legal protection, and recoveries. Other CPs are less applicable but still relevant, such as cross border, awareness, early detection and timely intervention, failure resolution, and reimbursing depositors.

The third presenter, **Mr. Jan Philipp Nolte**, started his presentation with explaining the definition of international standards and objective the standards, and how international standards, particularly IADI CPs are applied across the globe. He also addressed that differences between jurisdictions/financial sectors exist. He noted that it is important to address the differences, such as: a) the size, structure, and complexity of the financial system, b) the different stages of development of a deposit insurance system/financial system, c) the mandates of the Deposit Insurer, and d) the type of institutions covered in assessing applicability of the core principles.

In principle, Mr. Nolte agree that IADI CPs are designed to be adaptable to a broad range of jurisdictional circumstances, settings and structures. However, he stressed that the CPs do not take into account principle of proportionality (which is adopted in FSB Key Attributes).



Based on his experiences from undertaking Financial Sector Assessment Program (FSAP) and his observation on IADI members self-assessment on application of Core Principles, there are some lesson learnt that he may concluded:

- a) The specific mandate of the Deposit Insurance System (DIS) from pay box to loss minimizer does not pose a challenge when assessing the IADI CPs. The standard allows for sufficient flexibility.
- b) A large number of IADI CPs are applicable to all types of deposit insurers in different jurisdictions without the need for amendment. Such CPs are: public policy objectives (CP 1) and powers (CP 2), strong relationships within the safety-net (CP 4) contingency planning (CP 6), credible ex-ante funding (including secured back-up financing) (CP 9), public awareness (CP 10), legal protection for management and staff (CP 11), and dealing with parties at fault (CP 12).
- c) Some IADI CPs raise questions of proportionality, such as: the achievability of the 7 day pay-out (CP 15), recovery and resolution (CP 13 and 14), operational independence and governance (CP 3).
- d) Certain IADI CPs lack guidance when it comes to the types of institutions covered by the Deposit Insurance System. For example, Membership (CP7), in which, need further explanation on should MFIs be included in DIS in the absence of strong supervision; and Coverage (CP 8) in which, should coverage levels for banks and cooperatives being justified on the basis of differences in the average size of deposits.

Session 2: Structures and Mandates

The second session chaired by Hiroyuki Obata, Deputy Governor, Deposit Insurance Corporation of Japan. There are three presenters in this session: Dr. Ralf Benna, Head of department, National Association of German Cooperative Banks Institutional Protection Scheme (BVR) ; Ms. Antoinette McKain, Chief Executive Officer, Jamaica deposit Insurance Corporation; and Ms. Rym Ayadi, Director of the Alfonse and Dorimene Desjardins International Institute for Cooperative (IIC), Founding Director of the International Research Centre on Cooperative Finance (IRCCF), and Visiting Professor at the Department of International Business HEC Montreal.

Dr. Ralf Benna explained about the deposit guarantee for Cooperatives Banks in Germany. The deposit guarantee program (hereinafter referred to as BVR-IPS) is part of the German banking initiative to initiate bank deposits including Cooperatives Bank. In addition, there is the German Central Bank which focuses on financial system stability, statistical data, Ministry of Finance that focuses on the drafting of laws, and European Central Bank and BaFin which are in charge of bank supervision.

Guarantee by BVR-IPS can be regarded as very successful because since 1930 none of the banks have failed. Therefore, they never pay claims. Bank run also never happened; hence, public confidence in the banking type is relatively good. As such, BVR-IPS never advertise at all.

BVR-IPS also focuses on helping Cooperatives Bank to maintain its business continuity. Therefore, BVR implements Risk Based Contribution (RBC). With the mandate as Risk Minimizer, BVR-IPS has the function of risk assessment and early intervention to ensure bank risk is well managed so that bank failures can be avoided and consumer rights can be protected.

In carrying out its activities, BVR-IPS focuses on prevention and rehabilitation. BVR-IPS does not have a resolution mandate. Nevertheless, it focuses primarily on rehabilitation of problem banks so that it can ensure that no bank fails.

BVR-IPS has the powers to require banks to change their internal policies, to prepare restructuring plans, to change bank personnel, and to ask the bank to meet certain ratios. BVR-IPS may also request the annual report of the audited bank, data as requested by the supervisor. They can also audit the bank, create watch list, to apply risk based contribution, to ask for clarification regarding bank rating to participating bank, to request a special report on the bank, and to call bank management or bank commissioners.

BVR-IPS also provides the following facilities to participating banks: permit the use of capital and reserves to a certain extent, provide guarantees and loans, develop a bank restructuring plan, stopping unprofitable business, cost cutting (reduction of work and labor), moving bad assets of banks, mergers, and others.



Ms. Antoinette McKain started his presentation with an overview of the Caribbean Financial Sector. Since the 2008 global crisis, there has been increasing regional financial integration and the intensification of crossborder financial activities that has resulted in a concentrated and interconnected Caribbean regional financial system. As a result, national regulators are challenged to adequately manage risks and promote financial stability. This led to the importance of enhancing the region's capacity to effectively monitor financial risks and implement policies to preserve regional financial stability.

Some jurisdictions are still grappling with the choice between the single regulator concept and the multiple regulators approach. Capital frameworks for the respective sectors may need to be enhanced in line with international trends. May require the implementation of a special regulatory regime to deal with systemically important financial institutions.

Financial Cooperatives include Credit Unions, Mutuals, and Cooperative Banks. Financial cooperatives are distinguished from other financial institutions by their objectives, ownership Structure, business model. Objectives of financial cooperatives are to promote the economic interest and social and economic benefits of their members/customers and formed on ideas such as mutuality, solidarity, cohesion and ethics etc.

Financial Cooperatives Sector in the Caribbean offers savings and loan products and services similar to banks and promote financial inclusion. Financial cooperatives are not generally a part of financial groups nor engage in cross-border activities, have a significant impact on financial system stability, are an important component of the financial eco-system, and financial cooperatives within the Caribbean continue to encourage thrift for lower income earners and provide an easier access to credit for their membership, compared to the banking sector.

Financial cooperatives in Bahamas and Barbados are regulated by the Central Bank and the respectively, whereas financial cooperatives in Jamaica and Trinidad are self regulated and are at different phases of being regulated by banking supervisors. Financial cooperatives are not members of the explicit government DIS. Jurisdictions are at different stages of bringing financial cooperatives under the DIS. In total, there are approximately 126 financial cooperatives compared to 60 deposit taking institutions that are members of the DIS.

Financial cooperatives play a significant role in the economy and are subject to risks in the performance of macro economy as are banks. Financial cooperatives have unique concentration risks based on their business model and given their membership reach in the economy. Financial cooperatives should be subject to sound prudential regulation and supervision and subject to appropriate accounting standards.

The structure and mandate of the DIS consistent with the Core Principles are applicable to Financial cooperatives. Resolution tools used for banks can be used for financial cooperatives but they may have to modified given their ownership structure. The resolution of financial cooperatives can be funded either by a resolution fund dedicated to resolution, the deposit insurance fund or a mix of these two funds as in the case of banks.

Ms. Rym Ayadi explained results of a study that she conducted on banking business models in Europe and the United States, including the existence of Financial Cooperatives toward institutions' stability. Based characteristics of the owner, this study grouped banks into commercial banks, cooperative banks, nationalized banks, public banks, and savings banks. Based on business focus, it divides banks into retail-focused banks (type 1 and type 2), wholesale banks, and investment banks. Then, for business scale, banks are divided into micro, very small, small, medium and large scale.

This study then calculated the possibility of bank failure by using Distance-to-Default (Z-Score, Weighted Average) approach. The results shows that bank in Europe, especially retail-focused banks (type 1) are the most distant banks to failure. By contrast, the nationalized banks are the ones closest to failure due to the high volatility they generate. Conversely, the distance to default banks in America is relatively more evenly distributed. A more striking difference is found in banks with micro scales that have the highest distance to default while medium banks have the lowest distance to default.



This study then compares the estimated biggest losses that may be experienced by various types of banks. In the case of financial cooperatives, this study confirms that financial cooperatives have different goals than banks that tend to seek short-term gains. The focus of financial cooperatives is more to maximize the benefits gained by its members. Financial cooperatives are owned by individual members, especially those own small businesses. The capital of a cooperatives bank is not owned by a particular member but rather a donation. In most cases, ownership is at the local or regional level. Cooperatives members/clients are also depositors

Whilst there are exceptions, most of financial cooperatives' source of capital is retained profits. These profits are retained within the bank and are added to reserves (capital). Dividends are generally not paid although members may sometimes be able to vote for a limited distribution of profits. The capital base of a cooperative bank (i.e. its net asset value) does not belong to the current cohort of members. Capital is essentially a intergenerational endowment held by the cooperative in perpetuity for the benefit of current and future members. Cooperative banks are often part of a network with an integrated structure with extensive vertical and horizontal cooperation.

Session 3: Types of institutions

This session moderated by Giuseppe Boccuzzi, General Director, Interbank Deposit Protection Fund. There are two speakers in this session, namely Ms. Eva Hupkes, Adviser on Regulatory Policy and Cooperation, Financial Stability Board and Mr. Guy Cormier, President dan CEO of Desjardins Group

Ms. Eva Hupkes presented "FSB Resolution Policies – Application to Different Types of Institutions. This presentation highlighted resolution policy as mandated by Financial Stability Board (FSB). FSB issues terms of reference on how to deal with Systemic Important Financial Institutions, e.g.:

- Intensive supervision: focus on effective supervision, strengthening risk management and governance, and stronger mandate and larger resources for supervisors.
- More capital to absorb loss: G-SIB banks shall have additional capital and similar principles also applies to D-SIB and global insurance companies (on development phase)
- Credible resolution: there are several regulations, such as key attributes for effective resolution, recovery and resolution plan, cross-border partnership, and resolvability assessments.

Key Attribute of Effective Resolution Regimes applied for all financial institutions which has critical function that may disrupt financial stability if the institution fails. However, the standard might be adapted based on the deposit insurance scheme, but the adjustment must reach the purpose of resolution policy.

Topic of **Mr. Guy Cormier** presentation is Core Principles and International Standards: Some challenges for Desjardins Group. This presentation explained challenges of IADI Core Principles implementation by Desjardins Group. The challenges are: capital definition, capital consolidation, Non-Viable Contingent Capital (NVCC) and bail-in, and resolution within the group.

Mr. Cormier stressed that Basel III policy on capital requirement is difficult to apply in financial cooperatives because the capital is shared equal by all of the members. Therefore, NVCC and bail-in cannot be implemented, while for resolution, both creditors and debtors shall have equal treatment as they are all members of the cooperatives.

Session 4: Financial Inclusion

This session moderated by Gail Verlye, Independent Consultant, Deposit Insurance and Bank Resolution (DIBR) with three speakers: Juan Carlot Izaguirre, Senior Financial Sector Specialist, Consultative Group to Assist the Poor (CGAP, World Bank Group), Mohamud Ahmed, Ag. Chief Executive Officer, Kenya Deposit Insurance Corporation, David Salamanca, Managing Director, Fondo de Garantías de Instituciones Financieras – FOGAFIN (Colombia).



Topic of **Mr. David Salamanca's** presentation titled Deposit Insurance and Financial Inclusion: the Colombian Approach. In this session, he explained deposit insurance and financial inclusion based on Fogafin experience in Colombia. In Colombia, there is new types of financial institution, called SEPDES ((Sociedades Especializadas en Depósitos Electrónicos), which offers deposit collection through mobile deposit. To insure deposits in SEPDES, FOGAFIN requires SEPDES to register their clients deposits in to deposit insurance's member banks. Therefore, FOGAFIN could insured such mobile deposits up to USD17,000.

Mr. Juan Carlos Izagurre presented Deposit Insurance and Financial Inclusion in the Digital Era. This presentation describes the importance of deposit insurance program in supporting financial inclusion in digital era. Basically, deposit insurance supports financial inclusion, among others, through promoting depositors and public trust, limit depositors' exposure to problem banks, minimize systemic consequences, and reduce disruption on payment system.

However, there are challenges insuring deposit of financial cooperatives and other deposit products of financial inclusion. For example, how to define eligible deposits? Which financial services has to be include in insurance program? And how to determine eligible depositors?

From international best practices, there are three approaches that have been used to insure digital deposit:

1. Exclusion approach: digital deposits are not insured as a whole, so it needs special mechanism to protect those deposits;
2. Direct approach: digital deposits may directly categorized as insured deposits. However, such approach may apply to well-supervised financial cooperatives and are member of deposit insurance.
3. Pass-through approach: such approach is applied for financial cooperatives which are not a member of deposit insurance. However, they may place the deposits to member of deposit insurance.

The last speaker, **Mr. Mohamud A. Mohamud** chose Structures, Mandates & Types of Institutions - Financial Inclusion as topic of his presentation. This presentation describes role of deposit insurance in promoting financial inclusion in Kenya. Based on Kenyan experience, there is indirect role of deposit insurance in promoting financial inclusion. Deposit insurance protects small depositors and promote them to be part of banking system. Deposit insurers also promote financial stability by maintaining public trust to financial institution. Nevertheless, there is a need for financial literacy to promote incoming funds from small depositors in banking system.

In promoting financial inclusion, deposit insurers must balance risk management and bringing innovations to insured deposit products of financial inclusion. Based on Kenyan experience, it is important for policy makers to have clear vision and strategic policy to promote social economy and development growth. Regulators, including deposit insurers, must understand the potential risks related to innovation in promoting financial inclusion and finding the best way to manage such risks.

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www.fsb.org

<https://www.bis.org/bcbs/>

Contributors:

- Ronald Rulindo, PhD
- Steffanie Berlian Simatupang

Please feel free to direct any questions or concerns to :

IDIC International Affairs Group

Equity Tower Lt 20-21,

Sudirman Central Business District (SCBD) Lot 9

Jalan Jenderal Sudirman Kav. 52-53,

Jakarta 12190 , Indonesia

E-mail: ghin@lps.go.id



LEMBAGA
PENJAMIN
SIMPANAN

Indonesia
Deposit
Insurance
Corporation



www.lps.go.id

Equity Tower Lt. 20-21,
Sudirman Central Business District (SCBD) Lot 9,
Jalan Jenderal Sudirman Kav. 52-53,
Jakarta 12190, Indonesia

E-mail : humas@lps.go.id
Phone : +62 21 515 1000 (hunting)
Fax : +62 21 5140 1500/1600



LPS Indonesia



@lps_idic



@lps_idic



LPS_IDIC Official