



Savings Deposit Insurance Fund of Turkey

(A member of international association of deposit insurers)



DEPOSIT INSURANCE AND DIFFERENTIAL PREMIUM SYSTEM IN TURKEY

IADI Annual Conference, October 22, 2003



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ECONOMY AND THE BANKING SYSTEM IN TURKEY

Reasons of Repetitive Crises

- High budget deficit, financed by domestic and external borrowing,
- High, persistent and volatile inflation rate, which increased the risk premium,
- High real interest rates,
- Tax revenues spent on interest
 - 31 % in 1990
 - 87 % in 2002



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Banking Sector

- Large short FX position,
- Significant government bonds in banks' assets,
- Low asset quality,
- Liquidity problems,
- High intermediation costs,
- Insufficient financial market deepening,



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- Resulting banks' profitability to decline and capital base to erode through
 - FX- rate losses,
 - Decrease in asset value due to sharp increase in interest rates,
 - Rapid climb in the amount of non-performing loans.

- Turkish Government(s) initiated several economic programs, mostly supported by a stand-by arrangement with the IMF, but they all failed.

- Currently, Turkey is under a new program that proved to be successful so far.



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SAVINGS DEPOSIT INSURANCE FUND

- **The Savings Deposit Insurance Fund (SDIF)** was established in **1983** to insure savings deposits in banks.
- Initially, SDIF was administrated by the Central Bank of Turkey (CBT).
- In **1994** Fund's duties were expanded and the SDIF was charged in strengthening and restructuring the financial condition of banks when necessary.
- Since **2000**, SDIF is being administered & represented by **BRSA**.



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MAIN OBJECTIVES OF DEPOSIT INSURANCE

- Protecting small depositors' funds,
- Helping to avoid or resolve a crisis,
- Guarding the payment system,
- Providing a formal mechanism for resolving failed banks,



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MEMBER INSTITUTIONS AND THEIR DEPOSIT PROFILE

- Fund members are the deposit taking banks,
- Membership to the scheme is compulsory,



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Table 1: # of Member Institutions and Saving Deposits by Ownership, June 2003

(Million USD)	1998	1999	2000	2001	2002	June 03
Asset Size of the Deposit Taking Banks	112,203	127,167	148,047	114,887	124,345	142,289
- Public Banks	41,141	46,625	53,154	37,596	41,5	50,18
- Private Banks	63,026	63,497	76,738	68,978	73,093	82,574
- Foreign Banks	6,627	9,539	5,208	3,638	4,056	4,43
- SDIF Banks	1,409	7,506	12,948	4,675	5,696	5,104
Total Saving Deposits	55,183	64,808	68,492	63,576	69,69	75,521
- Public Banks	18,755	22,41	22,31	19,426	21,73	24,92
- Private Banks	33,93	31,888	36,375	41,629	43,208	46,222
- Foreign Banks	1,464	2,429	592	544	1,735	1,692
- SDIF Banks	1,034	8,081	9,215	1,976	3,016	2,687
Saving Deposits As % of Asset Size	49	51	46	55	56	53
- Public Banks	46	48	42	52	52	50
- Private Banks	54	50	47	60	59	56
- Foreign Banks	22	25	11	15	43	38
- SDIF Banks	73	108	71	42	53	53
Number of Member Institutions	60	62	61	46	40	38

- Fund members dropped in substantial amount, by 23
- Fund had a total of 37 members as of September 2003



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- Savings deposits which amount to 75 billion US \$, constitute 53 % of banking activities in Turkey.
- Saving deposits with amount equal or less than 50 billion TL, which is the coverage limit in liquidation case, constitutes 40 % of total savings deposits, and 99 % of total number of accounts.
- The first 3 banks hold almost 50 %, first 10 banks hold almost 90 % of the total savings deposits in the banking system.



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SPECIAL FINANCE HOUSES

- Although, they are not under the control and responsibility of SDIF, it is worth to mention the financial institutions, known as Special Finance Houses (SFHs), which also have the license to collect funds from the public.
- There are five SFHs operating in Turkey to provide Islamic banking. The ratio of their asset size to that of banking sector is 2 % with total asset size being 3 billion US \$.
- Special Finance Houses have their own “Insurance Fund”.



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RECONSTRUCTING PROCESS OF THE SDIF BANKS

➤ During the last six years, 20 banks were taken over by the SDIF.

- 5 were sold,
- 12 were merged with other SDIF banks for the purpose of operational efficiency,
- 1 of them is under the liquidation process,
- 1 of them is under the sale process,
- 1 of them is being used as a bridge bank by the SDIF.



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Table 2: Restructuring Process of the SDIF Banks

	97	98	99	2000	2001	2002	Sept., 2003	Total
Number of Banks Taken over	1	1	6	3	8	1	-	20
Number of Banks Merged	-	-	-	-	7	5	-	12
Number of Banks Sold	-	-	-	-	3	2	-	5
Number of Banks under Liquidation	-	-	-	-	-	1	-	1
Number of SDIF Banks	1	2	8	11	9	2	-	2



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➤ Savings deposits of the 20 SDIF banks were about 26 billion US \$,

- 3 billion US\$ was auctioned to other private deposit taking banks in the sector,
- 20 billion US\$ of the savings deposits were paid either by SDIF banks or by the new owners of the sold SDIF banks,
- The residual 3 billion US\$ is still in the balance sheet of two SDIF banks.

➤ Fiscal cost of the restructuring operations is 17 billion US\$, some 12 % of GDP.



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READJUSTING THE ORGANIZATIONAL STRUCTURE OF SDIF

- Substantial steps have been taken towards strengthening the organizational structure of the SDIF to handle intervened banks properly and with least cost.



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TRANSITION FROM BLANKET GUARANTEE TO LIMITED COVERAGE

- In spite of its moral risk, if a bank is intervened by the Fund, the full amount of the saving deposits paid at request,
- When banks liquidated directly without intervention, depositors have to be paid up to an amount of 50 billion TL (around 30.000 Euro),
- On July 3, 2003, BRSA has announced the limited deposit protection scheme with coverage being 50 billion TL to be effective on July 5, 2004, leaving 1-year transition period for the market participants.



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FINANCING OF SDIF

In addition to the ordinary revenues like collected premium;

- SDIF might borrow government securities from the Treasury.
- Central Bank advances money to SDIF
- If the liquidity of SDIF is insufficient to meet current needs, advances may be received from banks to be deducted from their future premium obligations.



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DIFFERENTIAL PREMIUM SYSTEM

Premium Categories and Assignment of Premium Rates

Purpose: To price the risk fairly.

Period: Deposit insurance premiums are being collected quarterly,

Premium Basis: Total savings deposits,

Premium Rates:

- {If CAR} $\geq 8\%$ \Rightarrow 25 per 10.000
- {If CAR} $< 8\%$ \Rightarrow 26 per 10.000



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- Starting from January 2003, SDIF uses the differential premium system to categorize its member institutions, and risk based premium system involves a flat rate for all banks plus “add-on”s on the basis of individual bank’s risk profile.



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Basic premium ratio is 12.5 basis points and the additions to the basic premiums are:

Quantitative Criteria:

- 2 basis points for banks with CAR of 8 % or above 8 % but below 12 %
- 5 basis points for banks with CAR which are below 8 %
- 1 basis point for banks with excessive FX position
- 3 basis points for banks with excessive connected lending
- 1 basis point for banks whose ratio of classified loans net of provision to total loans is above 5%
- 1 basis point for banks with insufficient free capital



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Other Information:

- SDIF Board has the right to increase the **basic premium** ratio by **1 fold**.
- Any adverse development on the quantitative factors other than listed above.
- Qualitative factors such as bad reputation.



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Information Requirements

- Make use of BRSA's database \Rightarrow no reporting burden.
- Cross checking the reported data with the audited information of the BRSA.



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Transparency and Disclosure

- In our system, basic framework of the deposit insurance and the factors criteria being used are disclosed to the public but the realized premium categories are only disclosed to the board of directors and the management of the related bank.



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IN THE LONG RUN

- **SDIF will continue to work toward the goals of :**
 - Reinforcing the functions of the deposit insurance mechanism properly
 - Accomplishing the mission of protecting the benefits of depositors
 - Contributing to the stability of financial markets in Turkey



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