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Russia: Deposit Insurance Agency (2008–2009)

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Abstract

Russian authorities responded to the Global Financial Crisis (GFC) in September and October 2008 with various measures to provide liquidity to the banking sector and restore market confidence. Among these, on October 13, 2008, Russia amended its deposit insurance system. This amendment increased the deposit insurance cap from RUB 400,000 to RUB 700,000 (about USD 15,000 to USD 26,000) and abolished co-insurance, increasing the guarantee's full coverage of deposits from 90% to 100%. The Deposit Insurance Agency (DIA) administered the deposit insurance system. It covered all household deposit accounts and was mandatory for all banks operating in Russia. Banks were required to pay a quarterly premium. In 2008 and 2009, 58 institutions failed. These failures affected 599,000 depositors, totaling RUB 22.1 billion. In 2014, the State Duma further increased the deposit insurance cap to RUB 1.4 million.

Keywords: account guarantee, co-insurance, Deposit Insurance Agency, Global Financial Crisis, Russia

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering account guarantee programs. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

At the peak of the Global Financial Crisis (GFC) in 2008, Russian authorities adopted a range of policies to maintain financial stability, increasing market liquidity, cutting reserve requirements, and recapitalizing several institutions (World Bank 2008; IMF 2011).

Russian authorities also altered the country's deposit insurance system, with the goal of boosting public trust and confidence in the Russian banking system (CBR n.d.; IMF 2011). At the time, Russia's Deposit Insurance Agency (DIA) guaranteed RUB 400,000 (about USD 15,000[3]) per depositor in every bank (Chernykh and Cole 2011). The mandatory program included a co-insurance feature, in that the DIA guaranteed only 90% of amounts above RUB 100,000, up to the insured cap (Chernykh and Cole 2011). Banks were required to pay a quarterly premium to the DIA's Deposit Insurance Fund (DIF) (State Duma 2003, secs. 33–35). The deposit insurance system covered household deposits in rubles and foreign currencies (State Duma 2003, article 2[2]). The Central Bank of Russia (CBR) assisted the DIA with institutional monitoring (State Duma 2003, article 14; CBR 2009).

On October 13, 2008, the State Duma increased the deposit insurance limit from RUB 400,000 to RUB 700,000 for bank failures that occurred after October 1, 2008 (DIA 2009h). The State Duma also abolished co-insurance (Chernykh and Cole 2011). These changes automatically applied to all banks (DIA 2009h). The DIA also reduced the quarterly premium from 0.13% to 0.1%, "to decrease [the] financial burden on banks resulting from their participation" (DIA 2009h). Under the increased coverage, the

Key Terms

Purpose: To boost confidence in the banking system	
Launch Dates	Announcement: October 13, 2008 Authorization: October 13, 2008 Operation: October 13, 2008, covering depositors retroactively from October 1, 2008
End Dates	Adopted as a permanent change
Eligible Institutions	All banks in Russia
Eligible Account(s)	Household deposit accounts, including foreign currency deposit accounts
Fees	No additional fees other than quarterly premiums; quarterly premium reduced from 0.13% to 0.1%
Size of Guarantee	RUB 700,000
Coverage	Highest participation in 2008, with 937 banks insured; highest total liability in 2009, with RUB 5.4 trillion in deposits
Outcomes	In 2008 and 2009, 58 institutions failed, summing to RUB 22.1 billion
Notable Features	Abolition of co-insurance Reduction of quarterly fees Partnership with agent banks

[3] On Oct. 15, 2008, USD 1 = RUB 26.31, per Yahoo Finance.

DIA fully insured approximately 99% of accounts by number and 70% by amount (IMF 2011). The State Duma made the changes permanent in 2008 (DIA 2009h).

By year-end 2008, the DIA reported that 27 insured institutions had failed, affecting 344,000 depositors with RUB 16.3 billion in insured deposits (DIA 2009d; DIA 2010). Another 31 insured institutions failed in 2009, comprising 256,000 accounts with RUB 5.8 billion in insured deposits (DIA 2010).

In 2014, the State Duma further increased the deposit insurance cap from RUB 700,000 to RUB 1.4 million (FSB 2015; State Duma 2014).

Summary Evaluation

The DIA wrote that the expanded deposit insurance system "had [a] positive stabilizing influence on [the] household deposit market" (DIA 2009c). Total deposits grew by 14.7% in 2008 and by 26.8% in 2009, reaching RUB 7.5 trillion that year (DIA 2009c; DIA 2010).

In its 2011 Financial System Stability Assessment on the Russian economy, the International Monetary Fund (IMF) urged Russian authorities, including the CBR, to share more information with the DIA going forward (IMF 2011). It noted that the working group that Russia established in 2010 to monitor financial conditions did not include the DIA (IMF 2011).

The IMF, though, did praise Russia's deposit insurance system as "well-structured," highlighting how payouts were completed within seven to 14 days (IMF 2011). They also highlighted that Russia's deposit insurance scheme was adequately funded (IMF 2011). However, the IMF criticized the CBR and the DIA for banning banks that miss certain financial ratios from taking deposits; it said that this policy could have unintended consequences for financial stability (IMF 2011).

Context: Russia 2008–2009	
GDP (SAAR, nominal GDP in LCU converted to USD)	$1.664 trillion in 2008 $1.232 trillion in 2009
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	$11,635 in 2008 $8,563 in 2009
Sovereign credit rating (five-year senior debt)	Data for 2008: Moody's: Baa1 S&P: BBB+ Fitch: BBB+ Data for 2009: Moody's: Baa1 S&P: BBB+ Fitch: BBB
Size of banking system	$33.62 billion in 2008 $34.02 billion in 2009
Size of banking system as a percentage of GDP	2.02% in 2008 2.76% in 2009
Size of banking system as a percentage of financial system	71.03% in 2008 75.62% in 2009
Five-bank concentration of banking system	28.97% in 2008 36.36% in 2009
Foreign involvement in banking system	13% in 2008 12% in 2009
Government ownership of banking system	Data not available for 2008 Data not available for 2009
Existence of deposit insurance	Yes, in 2008 Yes, in 2009
Sources: Bloomberg, World Bank Global Financial Development Database, World Bank Deposit Insurance Dataset.	

Key Design Decisions

1. **Purpose: Changes to the Russian deposit insurance system were designed to bolster depositor confidence, given global economic instability.**

On October 10, 2008, the G-7 in a statement urged countries to maintain sound deposit insurance schemes (Group of Seven 2008). On October 13, Russia's State Duma amended the country's deposit insurance system (DIA 2009h). It increased the insured deposit cap from RUB 400,000 to RUB 700,000 and abolished co-insurance by insuring 100% of deposits up to the cap, replacing the 90% insurance previously available on amounts above RUB 100,000 (Chernykh and Cole 2011; DIA 2009h). These measures were meant to boost public confidence in the Russian banking system (CBR n.d.; IMF 2011).

2. **Part of a Package: Russia adopted a suite of monetary and fiscal policy measures, including cutting reserve requirements and recapitalizations. The DIA also reduced quarterly premiums. Russia also provided the DIA with capital to finance the restructuring of banks with new owners.**

Russia took several monetary and fiscal measures to restore financial stability during the GFC, which included increasing market liquidity, cutting reserve requirements, and recapitalizing several institutions (World Bank 2008). In September 2008, the DIA had also reduced quarterly premiums to "decrease [the] financial burden on banks resulting from their participation in [the] DIS [deposit insurance scheme]" (DIA 2009h).

At the end of October 2008, the State Duma passed a law that allowed the CBR and the DIA to cooperate to resolve failing banks that posed a systemic risk (State Duma 2008b). The CBR could ask the DIA to intervene in bankruptcy prevention activities for systemically important banks (DIA 2009a). The DIA was allowed to provide such institutions with loans, purchase assets, acquire shares and equity, and administer the failing institution (DIA 2009a). In some instances, the DIA utilized "purchase and assumption transactions," in which solvent banks purchased some of the failing institution's assets, while the remaining part of the insolvent bank underwent the standard bankruptcy procedure (DIA 2009f). The DIA argued that this allowed depositors constant access to their funds and required less resources than liquidation (DIA 2009f). By January 1, 2010, the DIA had carried out rehabilitation measures in relation to 14 banks, the majority of its actions occurring in 2008 (DIA 2010). The Russian government injected RUB 200 billion into the DIA to allow it to rehabilitate banks in need of financial support; these funds did not contribute to the DIF (DIA 2009b; DIA 2010). By 2010, the DIA, along with the CBR, had become more involved in bankruptcy prevention and insolvency proceedings (CBR 2011).

3. **Legal Authority: The State Duma amended Russia's existing deposit insurance law to expand Russia's deposit insurance system.**

In December 2003, the Russian State Duma passed legislation that established its deposit insurance system, administered by the DIA (State Duma 2003, para. 1). The State Duma amended the law in 2006 and 2007, increasing the deposit insurance cap and establishing a co-insurance scheme (State Duma 2003).

The State Duma amended the law on October 13, 2008, at the height of the GFC, increasing the deposit insurance limit to RUB 700,000 and abolishing co-insurance (DIA 2009h).

4. Administration: The DIA administered Russia's deposit insurance system. The CBR assisted the DIA, providing information and helping the DIA with prudential oversight.

Pursuant to Russian law, the DIA administered Russia's deposit insurance system (State Duma 2003, secs. 14–15). As such, the DIA was responsible for paying out depositors, should a bank fail, and managing the DIF (State Duma 2003, secs. 14–15, 33–35). In 2008 and 2009, the DIA also partnered with agent banks, which could make payouts on behalf of the DIA, allowing for the quick reimbursement of depositor funds (DIA 2009d; DIA 2010).

The CBR, as the country's central bank and banking supervisor, aided the DIA by providing information used for prudential oversight and by jointly conducting inspections of banks (FSB 2015; CBR 2009).

5. Governance: The DIA was governed by a Board of Directors. It was subject to yearly audits and was required to produce an annual report.

A Board of Directors governed the DIA (State Duma 2003, article 18). The Board of Directors had 13 members: seven from the Russian government, five from the CBR, and the DIA's Director General (State Duma 2003, article 18[1]). The Board of Directors' powers included the power to set quarterly premium rates, present proposals to fund the DIF if its funds were insufficient, and appoint external auditors to audit the DIA (State Duma 2003, article 19).

The DIA was required to publish both an annual report and release its balance sheet in two gazettes (State Duma 2003, article 24). The DIA was also required to annually appoint an external auditor to inspect the DIA; under extraordinary circumstances, the Board of Directors could require additional audits (State Duma 2003, article 25).

6. Communication: The DIA communicated with depositors through various channels throughout the GFC.

The DIA sought to communicate the changes in the deposit insurance system quickly and through diverse means (DIA 2009g). The DIA released more than 100 news releases and held 11 press conferences (DIA 2009g). The DIA also utilized special brochures, website content, and a hotline to answer depositors' questions (DIA 2009g).

7. Size of Guarantees: The DIA covered 100% of eligible accounts up to RUB 700,000.

The DIA insured eligible accounts up to RUB 700,000, pursuant to the State Duma's amendment (DIA 2009h; Chernykh and Cole 2011). This amendment also abolished co-insurance, meaning that the DIA would pay 100% of any losses up to the deposit cap (DIA

2009h; Chernykh and Cole 2011). Under the previous scheme, the DIA paid 90% of losses above RUB 100,000, up to the deposit cap (DIA 2009h; Chernykh and Cole 2011). In 2009, the DIA insured a total of RUB 5.4 trillion, an increase from RUB 4.2 trillion in 2008 (DIA 2010).

8. Source(s) and Size of Funding: The DIA mainly funded its guarantee through quarterly premiums.

The deposit insurance system's primary source of funding was quarterly premiums that banks paid to the DIA (State Duma 2003, secs. 33–35; DIA 2009e). The premiums contributed to the DIF, which was used to pay out depositors in the event of bank failure (State Duma 2003, article 33[2]). The DIA invested some of the DIF's funds to protect it from inflation (DIA 2010).

By year-end 2008, the DIF had grown by 28.2% to RUB 79.1 billion, meaning its coverage ratio was approximately 1.9% (DIA 2009e; DIA 2010). The DIA reported that RUB 67.3 billion came from insurance premiums, RUB 6.9 billion came from property contributions from the Russian Federation, and RUB 4.9 billion came from reinvested profit (DIA 2009e). By year-end 2009, the DIA reported that the DIF grew by 19% to RUB 93.7 billion, meaning that the DIF's coverage ratio was 1.7% (DIA 2010). The DIA reported that RUB 81.9 billion came from insurance premiums, RUB 6.9 billion came from the Russian Federation's property contributions, and RUB 4.9 billion came from reinvested profit (DIA 2010).

In 2008, the Russian government injected RUB 200 billion into the DIA to support bank resolution activities, including purchase and assumption transactions; these funds were separate from the DIF (DIA 2009b; DIA 2010).

9. Eligible Institutions: All banks in Russia were required to participate in the deposit insurance scheme.

All banks operating in Russia that had the license for attracting deposits from individuals were required to participate in its deposit insurance system (State Duma 2003, article 6[1]). As such, all such banks in Russia were insured when the State Duma altered the deposit insurance cap (DIA 2009h).

In 2008, the DIA reported that it covered a total of 937 banks (DIA 2009h). In its 2009 annual report, the DIA said that the number of operating banks declined to 925 as of January 1, 2010 (DIA 2010).

10. Eligible Accounts: All deposit accounts, including foreign currency accounts, were covered by the guarantee.

Pursuant to Russian law, the DIA's deposit insurance system covered all deposits of individuals in institutions operating in Russia (State Duma 2003, article 2[2]). Notably, it insured principle and interest on all accounts of individuals denominated in rubles and foreign currency (State Duma 2003, article 2[2]).

All deposits made in Russia were revocable, including term deposits (State Duma 2008a, article 837; Chernykh and Cole 2011).

11. Fees: The DIA collected quarterly premiums from participating institutions, which the DIA reduced from 0.13% to 0.1%.

Pursuant to Russian law, all institutions covered under the Russian deposit insurance system were required to pay quarterly premiums (State Duma 2003, articles 33-35). These premiums contributed to the DIF, which was used to pay out depositors in the case of an eligible institution's failure (State Duma 2003, article 33[2]). In September 2008, the DIA reduced the quarterly premium rate that participating institutions paid, from 0.13% to 0.1%, to decrease the financial burden on banks during the crisis (DIA 2009h). The DIA estimated that this change would collectively save banks a total of RUB 9 billion (DIA 2009h).

12. Process for Exercising Guarantee (A): Once the CBR had revoked a bank's license or imposed a moratorium on meeting creditor claims, depositors could submit claims to the DIA. The DIA would usually pay out depositors within seven to 14 days.

Depositors could make claims on the DIA once an "insured event" occurred: meaning that the CBR either revoked a bank's license or put a moratorium on meeting claims of the bank's creditors (State Duma 2003, article 8). Once this insured event occurred, depositors could make claims on the DIA (State Duma 2003, article 10). Within seven days of the insured event, the DIA was required to provide depositors with the process for making a claim on the DIA (State Duma 2003, article 12). Moreover, within a month, the DIA needed to notify all depositors of the insured event's occurrence (State Duma 2003, article 12). Depositors were required to provide proof of their identity and proof of their deposit account (State Duma 2003, article 10[4]). The DIA would then pay out the depositor, usually within seven to 14 days of the insured event (IMF 2011).

Process for Exercising Guarantee (B): The DIA partnered with agent banks to facilitate the payout process.

In 2008 and 2009, the DIA partnered with agent banks, which could make payouts on behalf of the DIA (DIA 2009d; DIA 2010). By working with these agent banks and their extensive branch networks, which were selected on a competitive basis, the DIA was able to reduce the time required for reimbursements (DIA 2009d; DIA 2010).

13. Other Restrictions on Eligible Institutions/Accounts: No additional restrictions were associated with the deposit guarantee.

It seems that there were no additional restrictions associated with Russia's expanded deposit guarantee scheme.

14. Duration: The changes to the Russian deposit insurance system were meant to be permanent.

Given that the changes to the Russian deposit insurance system resulted from Federal Law, these changes were meant to be permanent changes to the Russian banking system (Chernykh and Cole 2011; DIA 2009h). In 2014, the State Duma again amended Russia's deposit insurance system, increasing the deposit insurance cap from RUB 700,000 to RUB 1.4 million (FSB 2015; State Duma 2014).

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