

**Republic of Serbia: Financial Sector Assessment Program Update—
Technical Note on Deposit Insurance**

This Technical Note on Deposit Insurance on the Republic of Serbia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on March 2010. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Republic of Serbia or the Executive Board of the IMF.

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**International Monetary Fund
Washington, D.C.**

FINANCIAL SECTOR ASSESSMENT PROGRAM UPDATE

REPUBLIC OF SERBIA

DEPOSIT INSURANCE

TECHNICAL NOTE

MARCH 2010

INTERNATIONAL MONETARY FUND
MONETARY AND CAPITAL MARKETS
DEPARTMENT

THE WORLD BANK
FINANCIAL AND PRIVATE SECTOR DEVELOPMENT
VICE PRESIDENCY
EUROPE & CENTRAL ASIA REGION VICE PRESIDENCY

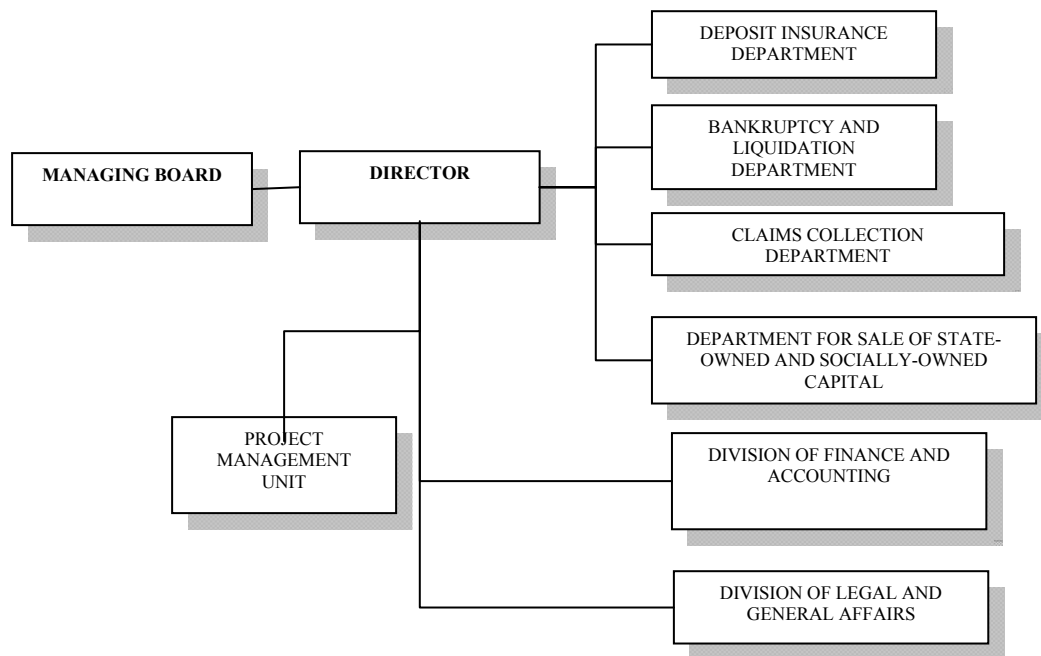
Background

1. This note focuses on the deposit insurance scheme. An analysis of the deposit insurance agency (DIA) is provided to the extent that it is relevant to the management of the deposit insurance scheme and no detail analysis of the other functions performed by the DIA, e.g. bank resolution, is included. Policy recommendations on the bank resolution are included in the Aide Memoire.

The Deposit Insurance Agency

2. **The deposit insurance scheme is managed by the DIA, which has a multi-faceted mandate.** The DIA was established as the legal successor to the Agency of the Federation for Deposit Insurance and Bank Rehabilitation, which dated from 1989. The DIA is in charge of the deposit insurance fund (DIF) management and payout functions, and is also the designated bank resolution agency for closed bank resolution (see Box 1 for a summary of bank resolution framework). In addition, the DIA is tasked by GoS to manage state- and socially-owned bank shares on behalf of the state, and collect GoS debt in the context of the Paris-London club negotiations. An organizational chart is presented in Figure 1 below.

Figure 1: DIA organizational chart



3. **Consequently, very few DIA staff are actively involved in the core mandate of DIF management.** The DIA employs 36 staff, of which 27 are permanent. Only five staff are involved in DIF management. In addition to its permanent staff, the DIA employs temporary staff under Swiss grant funding to advise the agency in the management of state-owned banks and temporary staff in a (donor) project implementation unit for DIA and for other agencies.

Worryingly, the DIA does not have an IT department, but has outsourced its functions to the IT department of Beogradska bank that is under bankruptcy administration with DIA.

Box 1: Bank resolution framework

The present framework foresees only closed bank resolution options (i.e. resolution upon license withdrawal by the National Bank of Serbia), namely liquidation or bankruptcy. A bank is put in bankruptcy when the court estimates that the bank assets are smaller than the bank liabilities, while it is put in liquidation when the court estimates that there are enough assets to repay all creditors. In both cases the DIA is the agency in charge of administering the process. The Government is amending the bank resolution framework to expand the resolution toolkit and include also open and closed bank purchase and assumptions and bridge banks. The responsibility of restructuring open banks rests with the National Bank of Serbia, while the resolution of closed banks will remain with the DIA.

4. **DIA revenue sources are volatile and DIF related revenues are used to subsidize non-DIF related activities.** The DIA's sources of revenues include: (i) DIF premium and interest; (ii) fees obtained from collection of GoS debt to private companies in the context of the Paris-London club negotiations (3% of the debt collected); and, (iii) fees from bank resolution upon completion of the process (fees amount to cost incurred by DIA). In line with best practices, the DIA budget is annually approved by its Supervisory Board. In 2007, the bulk of the DIA revenue was generated by donors' grants, while in 2008 most revenue came from interest on DIF resources (70 percent of the DIA revenues)—DIF operating expenses amounted only to 32 percent of the DIA expenses.

5. **The legal framework is ambiguous as to whether DIF resources can be used to cover running costs of the DIA.** Article 12 of the DIA Law identifies two sources of funds for the Agency: (i) the DIF, according to the purposes specified in the DIF law (Art 13); and, (ii) others. However, the Law on the DIF (Art 7) clearly specifies that DIF resources cannot be used for purposes other than those related to deposit insurance.

6. **To improve transparency and ensure sustainability of the DIF, the legal framework should be amended to clarify the use of DIF resources and cap use for operating costs.** The DIF Law should be amended to unambiguously clarify that DIF resources can be used for DIF operating expenses, but with a cap. Best practice is to use not more than 50 percent of interest earned on invested DIF's resources to cover operating expenses, with the remaining revenues dedicated to building the deposit insurance fund. Although the current use of interest earned on DIF resources is well below this threshold, such cap should be introduced in the DIA and DIF laws going forward to ensure long-term sustainability of the DIF. It is also advised that the DIA statements be published annually on its website.

7. **The authorities should develop a medium term strategy for the DIA, including a funding strategy for non-DIF related activities.** The DIA currently undertakes several tasks, which though on an interim basis, appear to employ most of its staff. Moreover, some key functions like IT have been outsourced with no clear legal ownership of the data and the system. The multiplicity of functions performed by the DIA could obscure the institutional focus and mandate, dilute staff technical skills and even generate conflicts of interest. A medium-term strategy and institutional development plan should be prepared for the DIA—a funding plan for non-DIF activities should be at the core of such strategy.

The Deposit Insurance Fund

8. **The DIF fully or partially complies with 11 out of 18 Core Principle for Effective Deposit Insurance Systems¹.** The DIF fully complies with five principles, is partially compliant with a further 5 and is non-compliant with 6 principles, while it is not possible to determine compliance with one of the 18 core principles. Core principles and more details on compliance or non-compliance are presented in Box 2 below, while a full assessment is included in Annex 1. Key issues identified in the course of the assessment are presented in the remainder of the technical note.

Box 2: Core principles for Effective Deposit Insurance Systems

In June 2009, the BIS and the International Association of Deposit Insurers (IADI) published a joint paper providing core principles for effective deposit insurance systems. The paper aims at providing guidance for deposit insurance schemes in regular times, not in time of crisis, as insurance agencies are not intended to deal by themselves with systemic crises. A list of the core principles is provided below.

Principle	Compliance/ Non-compliance
Public policy objectives	no
Mitigating moral hazard	no
Mandate	not fully
Powers	not fully
Governance	yes
Relationships with other safety-net participants	yes
Cross-border issues	no
Compulsory membership	yes
Coverage	not fully
Transitioning from a blanket guarantee to a limited coverage deposit insurance system	n/a
Funding	not fully
Public awareness	no
Legal protection	no
Dealing with parties at fault in a bank failure	yes
Early detection and timely intervention and resolution	no
Effective resolution processes	not fully
Reimbursing depositors	yes
Recoveries	yes

9. **Following recent amendments, the DIF covers households and SMEs accounts up to EUR 50,000 per depositor per bank and payouts should be started within three days of bank closure.** In 2005, the DIF coverage was established at EUR 3,000 per household per bank. However, in response to the banking crisis, the level of coverage was expanded to Euro 50,000 per depositor per bank in December 2008. At the same time, the list of covered depositors has also been extended to include sole entrepreneurs and SMEs. Finally, the amendments shortened the period by which the DIA has to start paying insured depositors from 30 days to three days.

¹ BIS/IADI Report on “Core Principles for Effective Deposit Insurance Systems”, Basel, June 2009.

10. Depositors of liquidated banks and bank employees remain outside the DIF coverage. Depositors of banks in liquidation are outside of the DIF coverage; hence, they have a claim on the liquidated banks for the full amount of their deposit². Based on the recent amendments, however, the liquidator should start payment of the deposits within three days³. If the liquidated bank does not have liquid assets to meet the 3 days payout period, the liquidator (i.e. DIF) is required by law to extend a loan to the liquidated bank for the total amount of the insured deposits. For the amounts above the insured amount, the depositors still hold a claim against the bank in liquidation, however, if the DIF has extended a loan to the liquidated banks, its claim against the liquidated bank takes precedence in the order of priority. Finally, individuals or entities connected to the bank are excluded from coverage and, based on the definition used by the DIF, bank employees are considered individuals connected to the bank

11. Depositors of liquidated banks and bank employees should be brought under the DIF coverage. The current set-up can favor the depositors of liquidated banks over all other depositors as in principle they can recover the full amount of their deposits⁴. Hence, it is recommended that the legal framework be amended to equate the treatment of the depositors of bank in liquidation to those of banks in bankruptcy. This is in line with international practice and based on the principle of availability of deposits. While individuals that can influence banks risk management and governance should be outside the DIF coverage to avoid collusion, the exclusion of bank employee deposits from DIF is excessive to the extent that regular employees have no impact on banks' risk management and governance. Therefore, the DIF is advised to revise the definition of connected parties accordingly.

12. The present level of deposit insurance might encourage market participants to take excessive risk in the long-run; hence it should be gradually decreased. As a result of the coverage increase in December 2008, both by amount insured (up to Euro 50,000) and by broadening the scope beyond household depositors, 99 percent of the deposits of the whole banking system by number and 90 percent by volume are covered by the DIF. Such high coverage may encourage excessive risk taking by the banking sector, especially by smaller banks. To enhance the credibility of DIF coverage and mitigate against moral hazard, the scope of the coverage should gradually be reduced or at least narrowed starting with the most sophisticated depositors when the risks of deposit flight have abated. While coverage of EUR 50,000 is required for EU members, this higher coverage is warranted on the basis of the higher GDP per capita of EU members.

² The Serbian legal system distinguishes between bankruptcy of banks (when the court estimates that the bank assets are smaller than the bank liabilities) and liquidation of banks (when the court estimates that there are enough assets to repay all creditors – amongst which depositors). The depositors of banks in liquidation are therefore outside of the DIF coverage, as it is assumed that their claims can be covered by the sale of the bank assets (depositors are high on the list of priorities).

³ Amendments were introduced to ensure that claims of the depositors of banks in liquidation, that subsequently are found not to have enough assets to cover liabilities (hence banks that should have been declared bankrupted to start with), are left unpaid. This happened in the past and depositors protested vigorously.

⁴ Depositors of liquidated banks will not be better off than depositors of bankrupted banks if, after initial payout of the liquidator up to insured amount, no assets are left in the bank to compensate the depositors for the amount over the insured amounts.

13. **In parallel, the draft Law on Banking Sector Stability should be approved to give the authorities latitude to protect the depositors in time of crisis.** Based on the law, the Government (upon proposal of the National bank of Serbia) can declare a systemic crisis, subject to prior opinion of the Ministry of Finance and DIA. Under such circumstances, blanket guarantee on all deposits and, if needed all bank liabilities, can be extended. More details on the Law and on the Crisis Framework are included in the Technical Note on the Crisis Management Framework.

14. **The current DIF size appears adequate to cover the failure of a mid-size bank and no premium increase seems warranted at this time.** In the absence of a risk assessment model, the rule of thumb is that a deposit insurance scheme should be able to deal with small and medium size bank failures, as opposed to systemic bank failures or systemic crises. With a fund size of EUR 75 million at 2008 YE, the DIF can perform adequately by covering 9 of the smallest banks collectively or any of the 20 smallest banks individually. The fund has a coverage ratio of 1.8 percent (measured as the size of the fund to the amounts of eligible deposits)⁵, which is in line with similar figures in other new EU member states (see Table 1 below).

15. **To better target the fund size, the DIF needs to develop risk assessment capacity and employ actuarial tools to assess if its reserves are commensurate with the risks.** To be able to target the right size of the fund, the DIF should develop a risk assessment model of the banking sector and use the information received from the NBS to monitor risk levels in the sector. Best practice indicates that the fund size should be determined by a combination of the following: size of exposure; effectiveness of supervision and intervention; macro-economic situation; corporate governance standards in the banking sector; level of risk taken by the banks; number and diversity of insured banks; size of largest bank; priority of depositors in liquidation; level of capital in banks; emergency funding arrangements available to the DIF; and, speed with which DIF investment can be liquidated and risk level of such investments.⁶

Table 1: Coverage ratio new EU member states, 2005

New Member states	Coverage ratio (%)
Lithuania	2.30
Bulgaria	1.58
Estonia	1.54
Romania	1.19
Slovakia	0.72
Hungary	0.62
Latvia	0.58
Poland	0.38
Czech Republic	0.31
Malta	0.05
Cyprus	0.02

Source of these data: EC, Joint Research Centre- Investing the efficiency of EU DIFs

⁵ Although this is a crude indicator, it is the only one available, as the DIF does not have a risk assessment tool.

⁶ Source: IADI: Funding of Deposit Insurance Systems, July 2008

16. **The DIF should establish emergency funding arrangements to cover systemic crisis or failure of a systemic bank.** As of end-September 2009, the DIF did not have sufficient financial resources to cover the insured depositors of any of the largest 16 banks individually or more than the sum of the 9 smallest banks in the system. Different articles of the DIF law list additional funding sources when DIF resources are insufficient. These include an extraordinary premium up to 0.4 percent annually and, should these not suffice, borrowings. In addition, the DIF law also mentions that the DIF is fully backed by GoS. Despite these provisions, no emergency funding arrangements have been set-up and no line-item included in GoS budget, which is a pre-requisite for GoS support. It is advised that the DIF arrange contingency funding at the earliest either by: (i) including in the Law on Banking Sector Stability the possibility of obtaining an emergency line of credit from GoS under urgent procedures; or, (ii) negotiating a standby line with the EBRD or private banks. Details of best practice funding arrangements and examples of funding arrangement sources are presented in Box 3 below.

17. **The DIA has operational limitations in effectively handling large scale payouts, as it does not have a payout strategy nor an adequate IT system.** The DIA does not have any internal policies on payout processes and in the past it used an *ad hoc* approach. Processes were conducted in part manually and in part automatically (i.e. by using a software), thus hampering accuracy as no logical controls could be applied. Moreover, different software was used at different times. First the DIA used Access, then Oracle, and then it reverted back to Access. The Oracle database and software, which is technically more appropriate than Access, was never implemented partially due to understaffing at the DIA IT department. The introduction of legal amendments aimed at shortening the payout period has further emphasized the need to develop and approve such a strategy and an adequate IT system.

Box 3: Emergency funding - various models

Emergency funding arrangements of DIF around the world vary. Some are explicit (e.g., the DIF law specifically mentions the various options), and others are implicit (the DIF law simply mentions government backing of all DIF obligations). Some DIF, for which emergency funding arrangements are explicitly spelt out, have gone further and actually put in place lines of credit. Best practice funding arrangements are explicit (as these reduce uncertainty in times of crisis) and allow for fast funding availability. Moreover, they do not include increased premia amongst the possible sources either in times of crisis or if the resources required are large. Sources for funding arrangements can include public entities, governments or, more rarely, central banks, international institutions, and private banks. Examples of the various funding arrangements are presented below.

Public sources: Bulgaria, Estonia, Sweden have an explicit mention of government support. In case of need, governments finance the DIF from current reserves and subsequently budget adjustment are approved through parliament. Occasionally, the DIF borrows from central banks (e.g., Russia, Poland, Slovakia, Spain).

Private sources: The Romanian DIF has an open line of credit with several Romanian banks, which is guaranteed with future premium collected. The Czech DIF can issue bonds. However, as the procedures to issue bonds can be long, the Czech DIF registered shelf issue of bonds with the securities and exchange commission. The Bulgaria DIF can require banks to pay the annual premium in advance (e.g., banks have to pay a premium for 2010 in 2009).

International institutions: The Bosnian DIF has access to a line of credit from the EBRD with a government guarantee.

Sources: Investigating the efficiency of EU Deposit Guarantee Schemes - European Commission, Joint Research Centre, Unit G09, Ispra Italy; 2007. Webpages of the listed DIFs.

18. **The recent draft payout procedure is adequate and should be tested and adopted as soon as possible.** The payout procedure, which is now in final drafting phase, consists of internal policies on the whole payout processes (such as staffing arrangements and responsibilities, flow of documents, detailed instructions for transferring data from bankrupted bank, control functions, process of the calculations, control of insured amounts and similar) and templates for the related documents. The draft payout procedure is adequate; however, as the process is technically and technologically complex, it should be tested upon completion and prior to approval.

19. **In parallel to the development of a payout procedure, software is being designed by IT experts of Beogradska bank. The hardware and software should be purchased by the DIA.** IT experts from Beogradska bank are working on the development of software that will cover the three phases of deposit payout (transfer of data from bankrupted bank to the DIF, reimbursement process via payout agents, and recording reimbursements in the DIF). Currently, part of the IT equipment belongs to the DIA, but most of it to Beogradska bank. It is not advisable that equipment is placed outside the DIA premises – because of potential risk of misuse, loss, lack of controls etc. Hence, it is strongly advised that the DIA purchase all the equipment and software rights and recruit IT staff.

20. **The law should provide for legal protection to DIF staff for decisions taken in good faith.** The current DIA and DIF laws do not provide for the deposit insurer, and individuals working for the deposit insurer, to be protected against lawsuits for their decisions and actions taken in “good faith” while discharging their mandates. While this has not yet occurred in Serbia, in other countries depositors have sued individuals working in deposit insurance schemes due, for example, to delays in payout. To address this issue, the Law on the DIA and DIF should be amended and provide such legal protection.

21. **The DIF should develop a public information campaign on an ongoing basis.** The DIF does not conduct public awareness campaigns on an ongoing basis, nor has it identified a target audience. Information is crucial especially in a time of crisis; hence a structured information campaign should be designed and implemented as soon as possible.

Recommendations

22. Key recommendation include in this technical note are summarized in the table below.

Recommendations	Priority
DIA	
Amend legal framework to clarify allowed use of DIF resources and cap use for operating expenses	Short-term
Develop medium term strategy for the Agency including funding for non DIF related activities	Short-term
DIF COVERAGE	
Amend the DIF Law to include depositors of liquidated banks under DIF coverage and change definition of “persons related to the bank” to exclude bank employees	Immediate
Reduce coverage to more credible levels	Short-term
DIF SIZE	
Develop risk assessment capacity	Medium term
Set-up emergency funding arrangements	Immediate
DIF PAYOUR PROCEDURES	
Test and approve payout strategy	Immediate
Finalize and purchase IT software and equipment and recruit own staff	Short- term
LEGAL PROTECTION FOR DIF STAFF	
Amend DIF and DIA Law to provide for legal protection of staff for decisions taken in good faith	Short-term
PUBLIC INFORMATION OF THE DIF	
Develop an on-going public information campaign	Short-term

Annex 1
Comparison of Serbian DIS with Core Principles for Effective Deposit Insurance Systems

Core Principle Groups and No	Description	Serbian DIF	Compliance with Core principles and explanations
Setting objectives		<i>Law on deposit insurance, Official Gazette No 61/05 and 116/08</i>	
1	Public policy objectives: The first step in adopting a deposit insurance system or reforming an existing system is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the deposit insurance system. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and protect depositors.	The DIF Law does not specify any public policy objectives. Rather, Art. 1 of the Law states that the DIF is created to protect the deposits of physical persons, entrepreneurs and small and medium legal entities in the case of bank bankruptcy.	<i>The DIF is not in compliance with the 1st Core principle.</i>
2	Mitigating moral hazard: Moral hazard should be mitigated by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety net. Moral hazard may be mitigated by DIS (limiting coverage, exclusion of certain categories of deposits / depositors and imposing risk based premium) and by other elements of the financial safety net such as good corporate governance, sound risk management, prudential regulation etc.	The coverage level is set at EUR 50.000 per deposit per bank for households and SMEs. Depositors of banks in liquidation and depositors who are connected to the bank are not covered. There are 4 groups of exclusions such as: deposits of legal and physical persons connected with the bank, anonymous deposits, deposits arising from money-laundry activities and deposits of bank's auditors. Currently, 99 percent of the deposits in number and 90 percent in volume are covered; this is almost akin to a blanket guarantee for depositors. Such a high coverage, coupled with the fact that the DIF does not levy risk-based premium, can increase moral hazard.	<i>The DIF is not in compliance with the 2nd Core principle.</i>
Mandates and powers			
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	The DIF has the mandate of a pay-box with no regulatory or resolution responsibilities. However, the DIF is housed in the Deposit Insurance Agency	<i>The DIF is not fully in compliance with the 3rd Core principle.</i>

<i>Core Principle Groups and No</i>	<i>Description</i>	<i>Serbian DIF</i>	<i>Compliance with Core principles and explanations</i>
	policy objectives and the powers and responsibilities given to the deposit insurer.	<p>that has a number of other mandates, including:</p> <ul style="list-style-type: none"> (i) bank resolution agency for closed bank resolution (ii) management of state- and socially-owned bank shares on behalf of the state, (iii) collection of GoS debt in the context of the Paris-London club negotiations. <p>The DIF has clearly identified funding sources, but no established emergency funding arrangements.</p> <p>The multiple functions performed by the DIA make the mandate of the Agency confusing. Moreover, the lack of emergency funding arrangements undermines the pay-box mandate of the DIF.</p>	
4	Powers: A deposit insurer should have all powers necessary to fulfill its mandate and these 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.	<p>The DIF does not have all the powers necessary to fulfill its mandate and especially the ability to assess and manage its own risks or to control reports and data received on deposits.</p> <p>Art. 6 enables the DIF to receive information from National Bank of Serbia (NBS), but the practice has started only recently. Art. 16 requires banks to provide data on deposits and depositors only, but the DIF does not have the capability to verify the data received.</p> <p>DIF can enter into contracts, set operating budgets and procedures (although many important procedures e.g. payout procedures have not yet been fully developed).</p>	<i>The DIF is not fully in compliance with the 4th Core principle.</i>
Governance			
5	Governance: The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry	The DIF is an independent legal entity and it has the status of public Agency (by Law on Deposit Insurance Agency - Official Gazette No 61/05 and	<i>The DIF is in compliance with the 5th Core principle.</i>

<i>Core Principle Groups and No</i>	<i>Description</i>	<i>Serbian DIF</i>	<i>Compliance with Core principles and explanations</i>
	influence.	116/08). The DIF has its own statute and organization, management and managing board. It submits its annual operational report to the Parliament, Government, NBS and Ministry of Finance. Audited financial reports are submitted to the Government and NBS by July 15h for the previous year. The DIF has its own web page.	
Relationship with other safety-net participants and cross-border issues			
6	<p>Relationships with other safety-net participants: A framework should be in place for close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety-net participants. Such information should be accurate and timely (subject to confidentiality when required). Information sharing and coordination arrangements should be formalized.</p> <p>In the case when the functions are assigned to different organizations, issues related to information sharing, allocation of powers and responsibilities, and coordination of actions among different functions are more complex and need to be addressed clearly and explicitly.</p> <p>In addition to the banks themselves, the supervisory authority usually is the primary source of information on banks. Such information can include that needed to meet depositors' claims when necessary.</p>	The Law allows for the exchange of information between DIF and the NBS, and it empowers the DIF to collect information directly from banks (Art. 6 and 13). To formalize the exchange the DIF and NBS signed a bilateral MoU in 2006 with a detailed list of information that should be exchanged. The MoU is applied.	<i>The DIF is in compliance with the 6th Core Principle.</i>
7	Principle 7 – Cross-border issues: Provided	The DIF does not have the any procedures on this	<i>The DIF is not in compliance with</i>

<i>Core Principle Groups and No</i>	<i>Description</i>	<i>Serbian DIF</i>	<i>Compliance with Core principles and explanations</i>
	confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety-net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognized in the determination of levies and premiums.	matter. This issue is, however, not all that relevant, as no branches of foreign banks operate in Serbia.	<i>the 7th Core Principle.</i>
Membership and coverage			
8	Compulsory membership: Membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (e.g. retail and small business depositors) to avoid adverse selection.	Art. 3 of the Law prescribes compulsory membership of: (i) the Serbian banks, (ii) branches of foreign banks when operating on Serbian territory when there is no deposit insurance in their country, or if the coverage threshold in the home country is lower than in Serbia; and (iii) branches of Serbian banks operating in other countries if they do not subscribe to a deposit insurance scheme or if the coverage threshold in that country is lower than in Serbia.	<i>The DIF is in compliance with the 8th Core Principle.</i>
9	Coverage: Policymakers should define clearly in law, prudential regulations or by-laws what an insurable deposit is. The level of coverage should be limited but credible and be capable of being quickly determined. It should cover adequately the large majority of depositors to meet the public policy objectives of the system and be internally consistent with other deposit insurance system design features.	The coverage level is set at EUR 50.000 per deposit per bank for households and SMEs. Depositors of banks in liquidation and depositors who are connected to the bank are not covered. Following the latest amendments on the DIF coverage, the depositors of liquidated banks are potentially favored over all other depositors, as in principle they can recover the full amount of their deposits.	<i>The DIF is not fully in compliance with the 9th Core Principle.</i>

<i>Core Principle Groups and No</i>	<i>Description</i>	<i>Serbian DIF</i>	<i>Compliance with Core principles and explanations</i>
		<p>The exclusion of deposits of banks employees from DIF is putting this class of depositors at a disadvantage for no sound reason, as regular employees have no impact on banks risk management and governance.</p> <p>The calculation of insured amount is complex as for each depositor the net amount of the claims and liabilities has to be determined. The payout is done in two different currencies – RSD for deposits in domestic currency and in Euro for all FX deposits.</p>	
10	<p>Transitioning from a blanket guarantee to a limited coverage deposit insurance system: When a country decides to transition from a blanket guarantee to a limited coverage deposit insurance system, or to change a given blanket guarantee, the transition should be as rapid as a country’s circumstances permit. Blanket guarantees can have a number of adverse effects if retained too long, notably an increase in moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period.</p>	<p>Following the recent amendments of the coverage of the deposit insurance, DIF is providing a quasi “blanket guarantee” and has not yet transitioned to a limited coverage. Therefore DIF has no experience on this.</p>	<p><i>Compliance of DIF cannot be determined.</i></p>
Funding			
11	<p>Funding: A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors’ claims including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by banks since they and their clients directly benefit from having an effective deposit insurance system.</p>	<p>Art. 9 – 15. of the Law describes the funding sources of the DIF. These include:</p> <ul style="list-style-type: none"> (i) Initial contribution of banks participating in the scheme (ii) regular quarterly premium (iii) extraordinary premia, if DIF resources are not sufficient (iv) borrowing, if extraordinary premia are not sufficient. <p>In addition, the Republic of Serbia guarantees DIA’s obligations toward depositors (Art. 4). In the past, to</p>	<p><i>The DIF is not fully in compliance with the 11th Core Principle.</i></p>

<i>Core Principle Groups and No</i>	<i>Description</i>	<i>Serbian DIF</i>	<i>Compliance with Core principles and explanations</i>
		<p>increase the size of the fund, the Government of Serbia and the German Government made a one-off contribution to the fund.</p> <p>Although the law provides for extraordinary funding arrangements, these are vague and no specific mechanism or back-up line has been set up for the purpose.</p>	
Public awareness			
12	<p>Public awareness: In order for a deposit insurance system to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.</p>	<p>While the DIF has a web page with information for depositors and DIF leaflets can be found in some bank branches, there is no on-going public information campaign with a target group and a dedicated budget. The DIF has recently completed a survey on public awareness thanks to a German Government grant, but the data collected has not yet been used to develop a systematic campaign.</p>	<p><i>The DIF is not in compliance with the 12th Core Principle.</i></p>
Selected legal issues			
13	<p>Legal protection: The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in “good faith” while discharging their mandates. However, individuals must be required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable. Legal protection should be defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified. Legal protection means specifically:</p> <ul style="list-style-type: none"> • granting legal protection to individuals from civil and criminal liability for their decisions, actions or omissions taken in the normal discharge of their legal responsibilities; • granting statutory immunity to the deposit insurance organization; 	<p>Neither the legal framework, nor the DIF Statute provides such legal protection.</p>	<p><i>The DIF is not in compliance with the 13th Core Principle.</i></p>

<i>Core Principle Groups and No</i>	<i>Description</i>	<i>Serbian DIF</i>	<i>Compliance with Core principles and explanations</i>
	<ul style="list-style-type: none"> including appropriate indemnification provisions in employment contracts; or a combination of these approaches. 		
14	Dealing with parties at fault in a bank failure: A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.	Although the Law does not explicitly prescribe such powers, it does not forbid it either. In a practice, the DIF initiated a number of legal proceedings.	<i>The DIF is in compliance with the 14th Core Principle.</i>
Failure resolution			
15	Early detection and timely intervention and resolution: The deposit insurer should be part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks. The determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and on the basis of well defined criteria by safety net participants with the operational independence and power to act.	The DIF does not have these powers.	<i>The DIF is not in compliance with the 15th Core Principle.</i>
16	Effective resolution processes: Effective failure-resolution processes should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and accurately and on an equitable basis; minimize resolution costs and disruption of markets; maximize recoveries on assets; and reinforce discipline through legal actions in cases of negligence or other wrongdoings. In addition, the deposit insurer or other relevant financial system safety net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank (e.g. providing depositors with continuous access to their funds and maintaining clearing and settlement	Based on the recent legal changes, the DIF is required to start payout in 3 days. However, with no payout procedures, nor a fully fledged IT system, the DIF is unlikely to be able to initiate large scale payouts in such timeframe.	<i>The DIS is not fully in compliance with the 16th Core Principle.</i>

<i>Core Principle Groups and No</i>	<i>Description</i>	<i>Serbian DIF</i>	<i>Compliance with Core principles and explanations</i>
	activities).		
Reimbursing depositors and recoveries			
17	Reimbursing depositors: The deposit insurance system should give depositors prompt access to their insured funds. Therefore, the deposit insurer should be notified or informed sufficiently in advance of the conditions under which reimbursement may be required and be provided with access to depositor information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits.	The DIF is legally obliged to reimburse depositors in 3 days. This can be considered very prompt access.	<i>The DIF is in compliance with the 17th Core Principle.</i>
18	Recoveries: The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. The management of the assets of the failed bank and the recovery process (by the deposit insurer or other party carrying out this role) should be guided by commercial considerations and their economic merits.	According to the Law on banking bankruptcy and liquidation, the DIF is in the 1 st line for recovery of its funds. Also, based on the recently introduced amendments, if the DIF extends a loan to the liquidated bank to reimburse the depositors, its claim takes precedence in the order of priority.	<i>The DIF is in compliance with the 18th Core Principle.</i>