
This volume is a product of the staff of the International Bank for Reconstruction and Development / The World Bank. The World Bank does not guarantee the accuracy of the data included in this work. The findings, interpretations, and conclusions expressed in this paper do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent.

The material in this publication is copyrighted.

FINANCIAL SECTOR ASSESSMENT PROGRAM

ALBANIA

CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE
SYSTEMS

DETAILED ASSESSMENT OF
OBSERVANCE

FEBRUARY 2014

This report was prepared in the context of a standards assessment mission in Albania during October –November 2013, overseen by the Financial and Private Sector Development Vice Presidency, World Bank and the Monetary and Capital Markets Department, IMF.



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

CONTENTS

GLOSSARY	2
I. BACKGROUND INFORMATION ON THE ASSESSMENT	3
II. METHODOLOGY USED FOR THE ASSESSMENT	3
III. INSTITUTIONAL AND MACROPRUDENTIAL SETTING, AND MARKET STRUCTURE OVERVIEW	4
A. SUPERVISORY ENVIRONMENT	4
B. OVERVIEW OF THE FINANCIAL SYSTEM.....	4
IV. GENERAL PRECONDITIONS FOR AN EFFECTIVE DEPOSIT INSURANCE SYSTEM	5
A. MACROECONOMIC ENVIRONMENT	5
B. SOUND GOVERNANCE OF AGENCIES COMPRISING THE FINANCIAL SAFETY NET.....	5
C. STRONG PRUDENTIAL REGULATION AND SUPERVISION.....	6
D. WELL-DEVELOPED LEGAL FRAMEWORK	6
E. SOUND ACCOUNTING AND DISCLOSURE REGIME.....	7
V. MAIN FINDINGS	7
VI. ASSESSMENT OF THE OBSERVANCE OF THE CORE PRINCIPLES	9
TABLE 1: CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS ASSESSMENT SUMMARY TABLE	10
TABLE 2: SUMMARY OF COMPLIANCE WITH THE DEPOSIT INSURANCE CORE PRINCIPLES	20
TABLE 3. RECOMMENDED CORRECTIVE ACTION PLAN TO IMPROVE COMPLIANCE WITH THE DEPOSIT INSURANCE CORE PRINCIPLES	23
TABLE 4. DETAILED ASSESSMENT OF DEPOSIT INSURANCE PRINCIPLES	25

GLOSSARY

ADIA	Albania Deposit Insurance Agency
AFSA	Albanian Financial Supervisory Authority
ALL	Albanian Lek
BOA	Bank of Albania
CAR	Capital Adequacy Ratio
DIS	Deposit Insurance System
EBRD	European Bank for Reconstruction and Development
EU	European Union
EWS	Early Warning System
FIRST	Financial Sector Reform and Strengthening Initiative
FSAG	Financial Stability Advisory Group
FSAP	Financial Sector Assessment Program
LOB	Law on Banks
MOF	Ministry of Finance
MOJ	Ministry of Justice
MOU	Memorandum of Understanding
NBFIs	Non-bank Financial Institutions
NPLs	Non-performing Loans
P&A	Purchase and Assumption
PPOs	Public Policy Objectives
SCA	Savings and Credit Cooperatives Association
SCC	Savings and Credit Cooperatives

I. BACKGROUND INFORMATION ON THE ASSESSMENT¹

1. **This assessment of compliance with the Core Principles for Effective Deposit Insurance Systems (Core Principles) was conducted as a part of the Financial Sector Assessment Program (FSAP) performed by the International Monetary Fund and the World Bank at the request of the Albanian government. This assessment was conducted by Claire McGuire, Senior Financial Sector Specialist with the World Bank, during a mission to Albania from October 28th to November 11th, 2013.**

II. METHODOLOGY USED FOR THE ASSESSMENT

2. **The evaluation of the compliance with the Core Principles for Effective Deposit Insurance Systems was conducted on Albania’s deposit insurer, the Albanian Deposit Insurance Agency (“ADIA”) utilizing the Methodology for Compliance Assessment adopted in December 2010 by the Bank for International Settlements and the International Association of Deposit Insurers. The Assessment addresses ADIA’s compliance with the Core Principles with respect to its operations as an insurer of deposits in 16 banks. ADIA was also recently given responsibility for developing rules for insuring the deposits in 126 savings and credit cooperative associations (SCAs). In accordance with the Methodology, the Assessment is designed to assess to the extent possible whether the criteria are fulfilled in practice and not just in theory (Methodology at 2).**

3. **The assessment was based on a review of relevant laws, regulations and regulatory and supervisory practices related to the banking sector and the operations of ADIA.** Multiple meetings were held with various employees of the Bank of Albania (BOA), Ministry of Finance (MOF), the Banker’s Association, the two Savings and Credit Associations, and ADIA. ADIA completed a self-assessment in preparation for the FSAP.

4. **There have not been any failures of an insured institution since ADIA’s establishment in 2002.** As a result the Assessment looked at the relevant provisions of the amended legal framework without consideration of how the laws had been applied in practice or interpreted by the courts. Several weaknesses in the legal framework have been noted in this Assessment.

5. **The Core Principles assessor would like to express her sincere gratitude to ADIA, BOA and MOF authorities for their assistance.** The assessor received excellent cooperation from the Albanian authorities and private sector representatives with knowledge of the financial sector.

¹ This Detailed Assessment Report has been prepared by Claire McGuire, WB. It was prepared in the context of an FSAP assessment mission led by Michael Edwards, World Bank and S. Erik Oppers, IMF which are respectively overseen by the Financial and Private Sector Development Vice Presidency, World Bank and the Monetary and Capital Markets Department, IMF.

III. INSTITUTIONAL AND MACROPRUDENTIAL SETTING, AND MARKET STRUCTURE OVERVIEW

A. SUPERVISORY ENVIRONMENT

6. **The financial system is concentrated.** In Albania, banks dominate the financial system, accounting for 94% of financial system activity, equivalent to 88 percent of GDP in 2012 (up from 76 percent in 2005). Subsidiaries of foreign banks represent about 93 percent of total banking assets. Bank credit is funded largely by local deposits.

7. **BOA supervises the domestic banking system, saving and credit cooperatives, and other nonbank financial institutions, and the Albanian Financial Regulatory Authority (AFSA) supervises insurance companies, pensions and investments funds.** The BOA intends to implement Basel II by 2015 and complement the current focus on compliance with a forward-looking risk-based approach to supervision. It cooperates with a number of home supervisors of European banking groups that operate in Albania.² A high level financial stability advisory group (FSAG) chaired by MOF was formed in 2006 and became fully operational in 2012. It meets on a quarterly basis to monitor developments and risks to the financial system. ADIA is administered by a Board of Directors appointed by BOA and is managed by an executive, the General Manager.

B. OVERVIEW OF THE FINANCIAL SYSTEM

8. **The largest banks dominate the financial system.** The top banks comprised almost three-quarters of total financial assets as of year-end 2012. As a result of legal changes in 2012, all foreign banks operate as subsidiaries. There are 15 foreign-owned bank subsidiaries of major international banks, including banks from neighboring countries (Greece, Italy, Turkey and the largest bank, Raiffeisen, from Austria). Greek banks account for one-fifth of Albania's banking system. The non-bank financial institution (NBFI) sector constitutes a small but growing share of the total financial system, with about 6.4% of financial system assets.

9. **Albania's banking CAR and liquidity ratios are high, offset by significant NPLs.** As of March 2013, the banking system's capital adequacy ratio (CAR) was 16.8 percent. Overall the banking sector is characterized by moderate liquidity risk and adequate capitalization. However, nonperforming loans (NPLs) reached 24 percent of gross loans, the highest in the region. Credit risk thus represents the biggest challenge in the operation of the financial sector.

10. **The remainder of the financial system is small (6.4 percent of financial system assets).** As of mid-2013, it included 11 insurance companies, an investment fund, 126 savings and credit associations largely in two unions, 6 pension funds, and 21 other non-bank (that is, non-deposit-taking) financial institutions.

² The BOA has signed Memoranda of Understanding with supervisory authorities in Bulgaria, Germany, Greece, Italy, Kosovo, Macedonia, Montenegro, and Turkey and the regional supervisory authority.

IV. GENERAL PRECONDITIONS FOR AN EFFECTIVE DEPOSIT INSURANCE SYSTEM

A. MACROECONOMIC ENVIRONMENT

11. **The Albanian economy is projected to grow at a rate of 1.7% in 2013 after growing just 0.5% in 2012.** Inflationary pressures are and will continue to remain low. However, public debt continues to increase as budgetary spending rises. By the end of 2013 the MOF expects that public debt will reach 69% of GDP. A large amount of outstanding government obligations to businesses, estimated to be as much as Euro 400 million, also impacts the fiscal outlook. Addressing these arrearages will add to the public debt burden.

12. **Albania successfully avoided a serious economic slowdown since the outbreak of the financial crisis in 2008.** Now, however, with the ongoing Eurozone problems, the economy has slowed and the financial sector is exposed to domestic and external risks. The authorities have strengthened financial sector supervision, crisis preparedness and bank resolution frameworks.

13. **BOA has adopted macro-prudential measures to safeguard financial stability.** Introduced in late 2011, these have helped protect against contagion, particularly related to Greece: (i) foreign bank branches were converted into subsidiaries; (ii) the required ratio of liquid assets to short-term liabilities was raised from 20 percent to 25 percent, with a more restrictive definition of liquid assets, and haircuts applied to eligible assets based on their credit rating;³ (iii) the regulation on related party exposure was tightened; and (iv) the risk-weighting on unhedged foreign currency exposures was increased from 100 percent to 150 percent.

B. SOUND GOVERNANCE OF AGENCIES COMPRISING THE FINANCIAL SAFETY NET

14. **BOA has as its principal objective the achievement and maintenance of price stability.** The Bank is governed by a Supervisory Council with the Governor as its Chairman.

15. **There is also a high level committee, the FSAG, staffed by BOA, AFSA and MOF and attended by ADIA.** The Committee meets quarterly and shares information, discusses general economic policy, and engages in contingency planning and crisis preparation. ADIA reports on issues of importance to its operations and solvency in accordance with a Memorandum of Understanding entered into by the parties in February 2012.

16. **BOA has the authority to enter into arrangements with domestic and foreign supervisory authorities to coordinate financial stability measures if relevant.** BOA has entered into a number of agreements with foreign supervisory authorities and participates in some of the Supervisory Colleges for its largest banks. ADIA has the authority to enter into agreements for information sharing with foreign deposit insurers but has not done so to date.

³ For Greek banks the liquidity requirements were more stringent (30 percent for overall liquidity, and 25 percent for domestic and foreign currency individually).

C. STRONG PRUDENTIAL REGULATION AND SUPERVISION

17. **The Bank of Albania (BOA) supervises the domestic banking system, saving and credit cooperatives, and other nonbank financial institutions.** The AFSA supervises insurance companies and pension and investment funds. The BOA intends to implement Basel II by 2015 and complement the current focus on compliance with a forward-looking risk-based approach to supervision. It cooperates with a number of home supervisors of European banking groups that operate in Albania.⁴ The FSAG meets on a quarterly basis since early 2012 to monitor developments and risks to the financial system. It last met in November 2013.

18. **BOA is broadly compliant with the Basel Core Principles for Effective Banking Supervision.** BOA conducts regular reviews of individual banks and bank groups. The quality of banking supervision has improved significantly since the last FSAP in 2005 and is moving towards alignment with the EU legal and regulatory framework.

D. WELL-DEVELOPED LEGAL FRAMEWORK

19. **The legal system in Albania is not well-developed.** There is a need to strengthen property rights, improve contract enforcement and simplify the tax system. There is an effective credit registry in operation that reflects both positive and negative information on borrowers. The registry became operational for banks in 2008 and later, in 2009, for SCAs. Judicial enforcement of creditor rights is weak, with enforcement of secured claims taking on average three years or more.

20. **Laws are in place under which the banking system and the deposit insurer can operate.** The legal structure in Albania has an adequate framework for the supervision of the banking sector.

21. **A legal framework exists for handling a bank failure that includes a method for failure resolution.** BOA's statute provides for various methods by which a bank can be resolved, although the failure resolution regime for SCAs is less developed. In that it requires involvement of the general assembly of the SCA for dissolution. ADIA is a paybox system and its law allows it to participate in the various resolution methods for banks by providing funds that represent the claims of insured depositors. This Assessment contains a number of recommendations as to how that resolution framework can be improved and made more effective.

22. **Banking laws and regulations are updated as necessary to ensure that they remain effective and relevant to a changing industry.** BOA's current law was passed in 2006 and amended in 2011. ADIA's law was passed in 2002 and was amended in 2012. There is an ongoing review of what changes may be needed to the law to improve ADIA's operations. Legal reform will increase the authority of ADIA without changing its paybox mandate and make its legal independence more robust.

⁴ The BOA has signed Memoranda of Understanding with supervisory authorities in Bulgaria, Germany, Greece, Italy, Kosovo, Macedonia, Montenegro, and Turkey and the regional supervisory authority.

23. **Information exchange between the deposit insurance system participants and the supervisor is legally protected for all measures necessary in order to protect the deposits and to enable safety-net participants to intervene in case a bank is at risk.** All members of the safety net are governed by bank secrecy laws and there are no identified legal impediments to information sharing among the participants. However, there is a need to increase the type and amount of information ADIA receives from the supervisory authority to better prepare the deposit insurer for any possible payout.

24. **Appropriate participants in the financial safety net are entitled to protect depositors through a number of options including transferring deposits from a troubled bank to a healthy bank.** BOA has the ability to enter into purchase and assumption agreements and establish a time-limited bridge bank.

25. **Relevant authorities can take legal action against the management of a failing bank.** There is authority to take action against those responsible for a failing or failed bank.

E. SOUND ACCOUNTING AND DISCLOSURE REGIME

26. **Accounting and disclosure regimes support:**

- a. The ability of the supervisor and deposit insurer to adequately evaluate the health of individual banks and the banking system as a whole. Banks annual audited financial statements are publicly available as required by law.
- b. The accurate and timely identification of information on depositor accounts for the purposes of prompt reimbursements.
- c. The collection of premiums under the premium system adopted by the deposit insurer.

27. **The deposit insurer has the right to carry out or provide for an audit or inspection of a member bank in a timely manner to verify deposits or the premium assessed.** ADIA has the power to inspect its member institutions for the purpose of verifying accounts, checking the integrity of records, and determining the accuracy of the premium calculation and public awareness information provided by banks on the insurance scheme. ADIA may also participate in BOA examinations upon request under Article 9 of its law.

V. MAIN FINDINGS

28. **The deposit insurance framework in Albania, managed by ADIA, broadly conforms to best international practice.** ADIA was established in 2002 pursuant to Law No. 8873, as amended in 2009 and 2012. ADIA administers a Deposit Insurance System (DIS) which covers deposits in 16 banks. It will also take on the responsibility for insuring deposits in SCAs in the future as provided under the 2012 amendments to its governing law. ADIA does not have a statutory target ratio per se, but under Article 24 of its law it has the authority to reduce annual

insurance premiums if its assets exceed 5% of the average of total insured deposits. It is projected that as of December 31, 2013, ADIA's fund will be at approximately 3.68% of insured deposits.

29. **ADIA is funded by annual premiums collected from member institutions.** The rate is 0.5 percent of the average amount of insured deposits held by the banks at the close of business of the last calendar quarter of the preceding year. Premiums are paid on a quarterly basis; there is no risk based element to the premiums. ADIA also has the authority to collect advance premiums and, with the approval of BOA, special contributions where needed to replenish its fund.

30. **ADIA is managing an investment portfolio that has reached almost 20 billion ALL or approximately 1.4 percent of GDP at end-September 2013.** Potential payouts from the fund to insured depositors would be in ALL but insured deposits are denominated both in ALL and foreign currencies (largely Euro). Investment policies of ADIA are based on its law and an internally approved policy appropriately focused on safety and liquidity over return. Current investments are focused on safe investments in Treasury bills up to twelve months.

31. **As the portfolio grows and more information becomes available on its liability structure it would be prudent for ADIA to adopt principles of asset-liability management.** This would entail taking into account the currency risk related to foreign denominated deposits and an appropriate investment horizon. ADIA's share of the twelve month Treasury bill portfolio is growing and is now close to 10% of outstanding Treasury bills which makes it increasingly difficult for ADIA to roll over its portfolio.

32. **Deposit insurance is compulsory for all banks.** ADIA protects only natural persons, up to the maximum of 2.5 million ALL (about \$25,000) per depositor. Foreign denominated deposits are insured to the same amount, but are paid in ALL, with the exchange rate set under Article 4 of ADIA's law as that in effect on the date of intervention. ADIA is legally mandated to reimburse depositors within 3 months of the intervention by BOA in an insured bank, with the ability to ask that this time be extended for no more than six additional months. ADIA insures approximately 95% of individual depositors and 58% of deposits in the banking system.

33. **ADIA is Compliant or Largely Compliant with 13 of the 18 Core Principles (one Principle is Not Applicable).** ADIA has a number of strengths, including its ability to attract qualified staff, its efforts to build a computerized data collection system and its cordial working relationship with BOA as an entity within the central bank. However, there are several areas for improvement, including its public awareness program particularly as it relates to investment products offered by one of its member institutions, its governance framework which requires ratification of many of its actions by BOA, the absence of full implementation of the information sharing agreement between BOA and ADIA (including the lack of access to supervisory information about member institutions that could impact ADIA's preparedness for a payout), its overly restrictive legal requirements for approved investments and the limitations on legal protection for its current and former employees as well as those acting at its direction. A summary of the detailed assessment of compliance with the Core Principles is presented below.

VI. ASSESSMENT OF THE OBSERVANCE OF THE CORE PRINCIPLES

34. **The ratings for compliance were awarded according to the methodology prescribed in the Core Principles Methodology (December 2010).** This methodology established five levels of compliance: compliant, largely compliant, materially non-compliant, non-compliant and not applicable. The criteria for awarding these ratings are as follows:

- **Compliant** – When the Essential Criteria are met without any significant deficiencies.
- **Largely Compliant** – When only minor shortcomings are observed and the authorities are able to achieve full compliance within a prescribed time frame.
- **Materially Non-compliant** – Severe shortcomings which cannot be rectified easily.
- **Non-compliant** – No substantive implementation of the Core Principle.
- **Not Applicable** – Not considered given the structural, legal and institutional features of the deposit insurance system.

**TABLE 1: CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS
DEPOSIT INSURANCE SYSTEMS ASSESSMENT SUMMARY TABLE**

<p>Core Principle 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.</p>	
Description	ADIA’s public policy objectives (PPOs) are not clearly specified in its law. Its 2012-2014 Strategic Plan, Annual Report and public awareness materials specify various public policy objectives, such as protection of small depositors, contributing to the strengthening of the financial system and strengthening public trust in the banking and financial system. There is no review as to whether ADIA is meeting any of these various PPOs.
Assessment	Largely Compliant
Comments	ADIA’s public policy objectives are not formally specified. ADIA is a part of the FSAG which was established in 2012 and therefore does play a role in ensuring financial stability. ADIA should amend its law to include its PPOs and establish a regular process for determining whether its operations do, in fact, meet its PPOs.
<p>Core Principle 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.</p>	
Description	There is limited deposit insurance coverage for deposits held by natural persons (currently the approximate equivalent of \$25,000 per person per institution). Foreign denominated accounts are insured at the same level. ADIA charges flat rate premiums to its member banks.
Assessment	Compliant
Comments	At this stage of its development ADIA should not consider adopting risk based premiums. Such premiums can be appropriate in some circumstances for mature deposit insurers with adequate funding and resources to administer what can often be a complex system.
<p>Core Principle 3: Mandate. It is critical that the mandate selected for a deposit insurer is clearly and formally specified and that there is consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer.</p>	
Description	ADIA has a paybox mandate to act as an insurer of deposits. This mandate is clearly specified in ADIA’s governing statute in Article 6.
Assessment	Compliant

Comments	There are some areas in ADIA’s law that need to be made clearer as to its role when its funds are used to assist BOA in resolving a bank through the use of a P&A or bridge bank tool.
Core Principle 4: Powers. A deposit insurer should have all powers necessary to fulfil 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.	
Description	Under Article 8 of ADIA’s law it has operational and financial autonomy. It has powers consistent with its paybox mandate, including the power to get information from member banks, to reimburse insured deposits, to enter into contracts without regard to public contracting laws when making insured deposit payments, to decide on the admission and exclusion of banks in the deposit insurance system, to share information with other members of the safety net and to engage in contingency planning. However, many of its actions need to be ratified by the BOA, including its internal operating budget, and it does not have the direct power to compel member institutions to meet their obligations to pay premiums and provide information on deposit accounts. There is no formal process by which ADIA and BOA determine when ADIA’s funds will be used for a P&A or bridge bank resolution.
Assessment	Largely Compliant
Comments	ADIA has the power to enter into sharing agreements with foreign deposit insurers but it has not done so to date. It would be prudent to have such agreements in place given the presence of a significant number of foreign banks in Albania. See discussion under CP 7, Cross-border issues. Although it is exempt from public procurement rules for the purposes of completing an insured deposit payment, such exemption should be extended to include work done in preparation for such payment and to prepare for a transfer of funds.
Core Principle 5: Governance. The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry influence.	
Description	ADIA is a public legal entity supervised by BOA. There are five members of ADIA’s board appointed for staggered five year terms. A Chief Executive Officer is selected by BOA and appointed by the Board of Directors. Members of the Board are appointed by BOA, with two members selected by BOA, two members selected by MOF and one member selected by the Professional Union of Public Accountants. Board members cannot be employed by an insured entity, must meet certain other qualifications, and can only be dismissed for specified cause under Article 13 of ADIA’s law. The Chairman of the Board is selected by the Board from among its members but cannot be the Chief Executive Officer. Representatives of insured entities can attend Board meetings at the request of the Board. Qualifications for Board

	members are stated in Article 12 of ADIA’s law and require Board members to be citizens with the appropriate personal and professional background and expertise. All employees are subject to the conflict of interest provisions of Article 17 of ADIA’s statute.
Assessment	Compliant
Comments	ADIA’s salary structure has recently been made consistent in many regards with that of BOA but ADIA should explore further making its benefits package entirely consistent with that of BOA. ADIA has not had difficulty attracting qualified staff. There is also a Code of Conduct in place for ADIA employees that requires certain disclosures, including loans at member institutions. As noted under CP 4 ADIA could be made more independent in its operations if many of its actions did not require ratification by BOA.
<p>Core Principle 6: Relationships with other safety-net participants. A framework should be in place for the 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>	
Description	There is a MOU in place between ADIA and BOA that dates from 2002. The material to be shared includes monthly and quarterly financial statements, quarterly analyses of individual banks for indicators identified by BOA’s EWS, and examination ratings of insured banks. However, the materials identified in the MOU have not as a matter of practice been shared with ADIA. The FSAG has been a good vehicle for the sharing of information at a high level about potential threats to financial stability and for engaging in contingency planning. There is a MOU in place among MOF, BOA, AFSA and ADIA regarding the operation of the FSAG and the exchange of information connected with that operation. ADIA is in the process of implementing a system to obtain deposit information directly from its member institutions.
Assessment	Materially Non-Compliant
Comments	Although there is a formal agreement on information sharing between ADIA and BOA, it has not been implemented. ADIA and BOA did cooperate in a Crisis Simulation Exercise in 2010 which identified the need for greater information sharing. There appears to be a willingness on the part of BOA to improve coordination and information sharing with ADIA.
<p>Core Principle 7: Cross-Border Issues. Provided 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</p>	

reimbursement process. The deposit insurance already provided by the home country system should be recognized in the determination of levies and premiums.	
Description	ADIA has the legal authority under Article 9 of its law to enter into agreements with foreign deposit insurers for the sharing of relevant information. However, no such agreements have been made to date. Given the importance of foreign banks in Albania such agreements are essential. It is important that ADIA be able to communicate with other deposit insurers about possible payout activities in the home jurisdiction to be able to plan effective communication strategies for the subsidiaries of those banks in Albania. ADIA is only responsible for the payment of insured deposits within Albania.
Assessment	Materially Non-Compliant
Comments	ADIA should establish lines of communication with deposit insurers in the relevant jurisdictions where parent banks of member institutions operate to both assist it in developing an effective communication strategy and to understand risks seen by those deposit insurers to their banking system. ADIA has met with authorities in Kosovo where there is a branch of an Albanian bank.
Core Principle 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.	
Description	All banks licensed by BOA are members of the DIS. ADIA's law provides (in accordance with its amendment in 2012) for the entry of SCAs into the deposit insurance scheme. After amendment of its law to address the issue of deposit insurance for SCAs ADIA prepared an Instruction entitled For Insurance Of Deposits With The Savings And Credit Associations which set forth a detailed process for application by the SCAs for entry into the deposit insurance scheme. However, all necessary applications have not been completed by the SCAs and ADIA's Board recently extended the period for completion of the process by six months. In addition to the requirement that SCAs complete an application to join the deposit insurance scheme, the Government of Albania agreed in the 2012 amendments to ADIA's law to provide initial funding for such purposes to ADIA in the amount of 50 million ALL. To date that funding has not been provided.
Assessment	Largely Compliant
Comments	Under Article 11 of its law, ADIA does have a role in deciding on the admission of banks to the deposit insurance scheme. On the issue of the SCAs, it is imperative that BOA and ADIA work together expeditiously in 2014 to complete the enrollment of any currently active eligible deposit taking SCA into the deposit insurance scheme and to provide for appropriate

	decisions (i.e. license withdrawal, restriction on deposit taking or closure) on the significant number of SCAs that are inactive or not in compliance with all prudential requirements.
Core Principle 9: Coverage. Policymakers should define clearly in law, prudential regulations or by-laws what is an insurable deposit. 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.	
Description	ADIA insures deposits of natural persons in both local and foreign currencies up to 2.5 million ALL per person per institution. However, there are a large number of exclusions enumerated in Article 5 of the ADIA law which exceed those enumerated under the EU Draft Directive on deposit insurance. For example, the deposits of shareholders holding more than 5% ownership interest in the bank are excluded from coverage. Current coverage levels cover 95% of individual depositors, 69% of all individual deposits and approximately 58% of all bank deposits. There is no established process for review of coverage rules and limits. The 2012 amendments to ADIA’s law clarified that set-off of insured deposits would only occur against past due loans.
Assessment	Compliant
Comments	The large number of exclusions from coverage in the law may complicate payout calculation and be difficult for depositors to understand (see CP 17). The coverage limit for SCAs has been set at the same amount as for deposits in banks (2.5 million ALL) although average deposit accounts in SCAs are much lower than the average in banks. The lack of coverage for enterprises is not consistent with the Draft EU Directive on deposit insurance.
Core Principle 10: 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 moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period.	
Description	There has not been a blanket guarantee in place since ADIA’s establishment as an independent deposit insurer.
Assessment	Not applicable
Comments	
Core Principle 11: Funding. A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositor’s 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. For deposit insurance systems (whether ex-ante, ex-post or hybrid) utilizing risk-adjusted differential premium systems, the criteria used in the risk-adjusted differential premium system should be transparent to all participants. As well, all necessary resources should be in place to administer the risk-adjusted differential premium system appropriately.

Description	<p>ADIA manages an <i>ex ante</i> fund. There was an initial contribution to the Fund by the government which forms part of the capital of ADIA. Once the fund reaches 5% of insured deposits ADIA may reduce the level of premiums it collects. By year end 2013 it will be at approximately 3.68% of insured deposits. As of end-September 2013 the fund had a total portfolio of approximately 19.3 billion ALL, an amount sufficient to provide coverage for net insured deposits in 8 of the 16 banks insured by the scheme. Additional funds come from the initial contributions by members entering the insurance scheme, premiums paid by member institutions, investment income, proceeds from loans and liquidations and any special contributions made by member institutions. Back-up funding for an insured deposit payout is provided in accordance with Article 20/1 of the ADIA law and pursuant to a tri-partite agreement with MOF, BOA and ADIA signed in March 2012. However, such back-up funding is not available for transfer of funds by ADIA in support of a P&A or bridge bank operation. ADIA is also negotiating with EBRD on a contingent line of credit up to 100 million Euro for back-up funding purposes, to be called upon if needed to fulfill its obligations to insured depositors. ADIA has an investment policy, but the law restricts its investments to securities with a maturity term of no more than one year. ADIA also holds only a small percentage of its investment portfolio in foreign currency although there is a sizeable portion of insured funds in such currencies.</p>
Assessment	Largely Compliant
Comments	<p>The back-up funding agreement entered into in December 2012 provides that the parties will cooperate in improving the framework supporting the agreement but no further procedures for implementation (for example, who would be responsible for receiving the request for such funding and in what timeframe would the request be considered) have been agreed. ADIA should review its investments and investment policy to better diversify its fund and establish a framework for its investments that mirrors its risk profile. It should also explore amending its law to provide it greater flexibility in investments with maturities of greater than one year. Its structure for investment management should address internal controls including investment compliance and separation of investment decision and back-office operations. Benchmarks should be established to measure performance, ensure risk management and provide for regular reporting to management. Even though ADIA pays insured deposits in ALL, it should carefully study its foreign exchange risk to be certain that it has sufficient investments in the currencies</p>

	<p>in which insured deposits are held so as to protect against a quickly devaluing ALL in a time of crisis which would increase the cost to ADIA of paying out insured deposits denominated in foreign currency (which exceed 40% of total deposits in the system).</p>
<p>Core Principle 12: 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>Description</p>	<p>ADIA has prepared a pamphlet that describes what is and is not covered by deposit insurance and this pamphlet is provided at events ADIA attends. The account forms prepared by member institutions for new accounts contain information about deposit insurance. There are signs about ADIA coverage on bank premises. ADIA also has information about coverage on its website and has provided information on deposit insurance to BOA to include in its education outreach on financial literacy. However, there is insufficient outreach to investors in funds that recently began to be offered by one commercial bank to be certain that those investors are aware that their investments in such funds, sold by the bank on its premises, are not covered by deposit insurance. These investment funds are growing rapidly, and offer higher returns than on deposits at the bank (the funds have more than 22,000 investors, largely individuals). ADIA has not measured the level of awareness of deposit insurance generally although there are plans to develop a survey (there is such an instrument in draft) and some examples of such surveys were provided to ADIA in connection with a FIRST funded project completed in 2012. ADIA has recently reorganized to have a dedicated public awareness group.</p>
<p>Assessment</p>	<p>Materially Non Compliant</p>
<p>Comments</p>	<p>ADIA has not developed a process to be sure that investment fund materials are accurately reflecting the non-insured nature of the product. Public awareness programs should be a constant part of a deposit insurer's operations. Although the primary responsibility for promoting public awareness of deposit insurance is with the deposit insurer, other members of the safety net and member institutions also have a role in promoting public awareness and the deposit insurer's plans should include specific plans as to how to involve those organizations in its awareness campaign. In this regard, ADIA should thus work with AFSA on the disclosure requirements for the investment funds sold by banks. In the event that AFSA determines that unit holders were not correctly informed about the uninsured status of such investments, AFSA should work with BOA and ADIA to develop a corrective plan. It also is important to realize that it can be difficult to begin or materially modify a public awareness campaign during times of crisis or stress in the financial system. A public awareness campaign should be ongoing and should include the use of all types of media.</p>

<p>Core Principle 13: 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.</p>	
Description	<p>Only ADIA employees have legal protection under Article 16/1 of its law. There is no legal protection for former employees or for those acting at ADIA’s direction. In addition employees are required to pay for the costs of their legal defense and seek reimbursement from ADIA if they are found not responsible.</p>
Assessment	<p>Materially Non Compliant</p>
Comments	<p>Legal protection for former employees and those working at ADIA’s direction is essential as deposit insurers may make use of specialized expertise in the resolution function from contractors and those individuals should be protected from suit for lawful acts taken in furtherance of ADIA’s work. In addition funds should be provided ex ante for defense costs, with recovery by ADIA if the employee is found responsible.</p>
<p>Core Principle 14: Dealing with parties at fault in a 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.</p>	
Description	<p>There are processes in place for dealing with parties at fault in a bank failure, including through the public prosecutor and BOA. ADIA is not involved in the process.</p>
Assessment	<p>Compliant</p>
Comments	
<p>Core Principle 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.</p>	
Description	<p>BOA does have an Early Warning System (EWS) for the banks it supervises. ADIA does not receive information from BOA about banks that are part of the EWS and thus is not part of the early detection framework. BOA does have the power to use a variety of resolution tools, and ADIA under Article 7 of its law can contribute to a P&A or bridge bank, up to the amount of insured</p>

	deposits.
Assessment	Largely Compliant
Comments	ADIA should be part of the early detection framework in place.
<p>Core Principle 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; minimise resolution costs and disruption of markets; maximise 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 activities).</p>	
Description	ADIA is involved in the resolution process once the BOA determines to place a bank into liquidation (this is defined as an “intervention” under ADIA’s law). Its role is limited to either completing an insured deposit payout or contributing funds in that amount to a P&A or bridge bank transaction. There is no formal process for ADIA to participate in the decision as to the use of its funds in resolution.
Assessment	Compliant
Comments	
<p>Core Principle 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 a 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.</p>	
Description	ADIA is in the process of developing an automated system for the payment of insured deposits with the cooperation of its member banks. The system would allow it to perform a payout in less than the current time it is provided in its law (three months). ADIA is able currently to make a determination of which deposits are insured at a member institution for purposes of verifying premium payments. Once its automated system is operational ADIA intends to conduct a simulation exercise to test its readiness for a payout. ADIA’s law was amended in 2012 to eliminate set-off for other than overdue loans, thereby simplifying calculations for a payout. However, there are still significant exclusions from coverage which could complicate the payout

	process (See CP 9). There is no authority to make advance or interim payments to depositors in case of delay. The LOB provides in Article 117 that the liquidator shall send formal notice of his appointment to ADIA within 3 days and should cooperate with the deposit insurer for the compensation of depositors although the time frame for such cooperation is stated as having to occur within two months of his appointment.
Assessment	Largely Compliant
Comments	ADIA is working to position itself to be better able to make a prompt payout of insured deposits. Any changes in its law on timeframes for payment to insured depositors should be coordinated with the changes in the receivership framework set forth in the LOB. It has worked with BOA on a Manual for Receivership and Liquidation that provides that the receiver upon request from ADIA will provide information on depositors at the bank which can then be checked against information ADIA will have in its own records. Once operational the automated system should be regularly audited for accuracy and simulations of payouts should be conducted to assure ADIA of the system's capabilities. ADIA should also seek authority to make interim payments to depositors.
Core Principle 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.	
Description	ADIA is subrogated to the claims of depositors it pays under its insurance obligation. Adequate judicial processes exist to allow for asset recovery although the process of realizing on collateral can be slow.
Assessment	Compliant
Comments	The Law on Banks in Article 121 should make clear that expenses of ADIA in compensating depositors should be treated as first priority claims for recovery.

TABLE 2: SUMMARY OF COMPLIANCE WITH THE DEPOSIT INSURANCE CORE PRINCIPLES

[Key: C = Compliant; LC = Largely Compliant; MNC= Materially Noncompliant; NC =Noncompliant; NA = Not Applicable]

1. Public Policy Objectives (PPOs)	LC	ADIA does not have a set of specified Public Policy Objectives.
2. Mitigating Moral Hazard	C	ADIA has limited deposit insurance coverage although the current amount covers the vast majority of individual depositors. The coverage level planned for SCAs may be higher than is necessary to provide adequate coverage for depositors in those institutions.
3. Mandate	C	ADIA’s mandate as a paybox is formally specified in its law.
4. Powers	LC	ADIA has extensive powers available to it in fulfilling its mission. It has the ability to request information directly from its member institutions and go on site to review records of its members. However, it does not have the power to enforce such requests, and must seek ratification of many of its actions from BOA. It is exempt from the provisions of public contracting laws when making an insured deposit payment. ADIA is tax exempt under Article 8 of its law.
5. Governance	C	ADIA is a public legal entity that is part of the BOA. It has a five member board and board members are governed by conflict of interest rules. Active bankers are not permitted on the board.
6. Relationship with Other Safety Net Participants	MNC	Although ADIA has a MOU for the purposes of sharing information with BOA that MOU has not been implemented. ADIA is involved in the FSAG process which allows it to attend FSAG meetings and be part of the information flow associated with such meetings.
7. Cross-border Issues	MNC	Although ADIA has the explicit legal authority to enter into agreements with foreign deposit insurers, it has not done so.
8. Compulsory Membership	LC	All licensed banks are members of the DIS. The process for including the SCAs in the deposit insurance scheme has not been completed and the promised funds for the DIS have not been provided to ADIA by the government.
9. Coverage	C	Coverage is limited but credible, with the vast majority of individual depositors covered by insurance. The numerous exclusions from coverage and coverage only for natural persons (not enterprises) are weaknesses in the scope of

		coverage in its law.
10. Transitioning from Blanket Guarantee	NA	There have been no blanket guarantees since ADIA's creation in 2002.
11. Funding	LC	ADIA has available to it an ex ante fund as well as a back-up source of funding from the government. It is also negotiating with EBRD for a contingent credit line in the amount of 100 million Euro. However its ability to diversify its investment portfolio is too restrictive under Article 21/1 of its law and its investment policy should better reflect the risks it may face of a quickly devaluing currency at the time of an intervention when it would have to convert foreign currency deposits into ALL for a payment of insured deposits. ADIA should consider amending its law to provide it with the ability to better diversify its investment portfolio.
12. Public Awareness	MNC	ADIA has not measured the level of public awareness of deposit insurance and specifically has not developed a plan in conjunction with AFSA on what disclosures should be made to investors in uninsured products sold by a commercial bank on its premises.
13. Legal Protection	MNC	There is no protection against legal actions for former employees and no coverage for those individuals acting at ADIA's direction. Defense costs for employees are not funded on an ex ante basis.
14. Dealing with Parties at Fault	C	Public entities have the power to deal with parties at fault in the failure of a member institution.
15. Early Detection and Timely Intervention and Resolution	LC	ADIA does not receive information on BOA's EWS and therefore is not part of the framework for early detection.
16. Effective Resolution Processes	C	BOA has the power to arrange for a P&A and authority to organize a bridge bank. ADIA can contribute to such resolutions up to the amount of insured deposits. There is no formal process for ADIA to be involved in the decision to make use of its funds in a P&A or bridge bank.
17. Reimbursing Depositors	LC	ADIA is in the process of automating its access to depositor records. Its current legal framework allows it three months to make an insured deposit payout which period should be shortened. It does not have the authority to make advance or

		interim payments to depositors.
18. Recoveries	C	ADIA is subrogated to depositors' claims and shares in recoveries from the failed bank estate.

TABLE 3. RECOMMENDED CORRECTIVE ACTION PLAN TO IMPROVE COMPLIANCE WITH THE DEPOSIT INSURANCE CORE PRINCIPLES

CP 1: Public Policy Objectives	LC	Amend ADIA’s governing statute to specifically state its public policy objectives. Develop a process for measuring whether ADIA meets those objectives.
CP 4: Powers	LC	ADIA should be able to have greater autonomy from BOA in its daily operations and should have fewer of its actions (for example, its approval of an internal budget or regulations) subject to ratification by BOA. ADIA’s exemption from public procurement rules should be extended to include work done in preparation for an insured deposit payment and the transfer of funds.
CP 6: Relationships With Other Safety Net Participants	MNC	Full implementation of the MOU on information sharing between ADIA and BOA is essential to allow ADIA to prepare for the possibility of an insured deposit event. For example, ADIA should get full information on risk ratings for banks and have access to complete supervisory records, including report of examination.
CP 7: Cross-border Issues	MNC	Enter into agreements with relevant deposit insurance authorities to facilitate resolution planning and ensure an effective communication strategy if parent banks should face stress in their operations leading to a bank run or a resolution action. This is particularly important in a jurisdiction like Albania where foreign banks form a significant part of the financial system.
CP 8: Compulsory Membership	LC	ADIA and BOA need to work together to complete the process for all eligible SCSs to join the deposit insurance system; the government must comply with its obligation to provide the funding for the DIS to allow the SCAs to be covered by ADIA.
CP 9: Coverage	C	ADIA should revise the list of exclusions from coverage to align it with exclusions provided under the EU Draft Directive on Deposit Insurance and the LOB. ADIA should also study (1) the appropriate level of insurance coverage for SCAs and (2) the possibility of extending insurance coverage to enterprises.
CP 11: Funding	LC	Amend the law to allow for the ability to have greater diversification and longer maturities in ADIA’s investment portfolio; prepare an Investment Policy that reflects the risk ADIA has with regard to the presence of insured foreign deposits that would have to be converted into ALL at the time of an intervention or consider allowing ADIA the flexibility to pay such deposits in foreign currency; adopt principles of asset-liability management and internal controls on investment operations. ADIA should explore amending its back-up funding agreement to clarify that such funding is available to support its contributions to a P&A or bridge bank resolution.
CP 12: Public	MNC	Work with AFSA (and BOA if necessary) on a plan to fully

Awareness		inform investors in products sold by banks of the uninsured nature of such investments. Fully implement a Public Awareness Plan, making use of various forms of media and member institutions in advancing knowledge of the deposit insurance protection system and conducting a survey to test awareness. Continue working with BOA on a Financial Literacy Program that will include educating the target audience about deposit insurance.
CP 13: Legal Protection	MNC	Amend ADIA's governing statute to offer the same level of legal protection given to employees to former employees and those working at ADIA's direction. Provide rules for ex ante payment of defense costs.
CP 15: Early Detection and Timely Resolution	LC	Fully implement the MOU with BOA to allow access to information on member banks, including information in BOA's EWS and supervisory actions taken against member institutions.
CP 16: Effective Resolution Processes	C	BOA and ADIA should work together to develop a formal process for ADIA's involvement in the decision to use its funds in support of P&A or bridge bank resolution decisions.
CP 17: Reimbursing Depositors	LC	Amend the ADIA law to provide the authority to make advance or interim payments.
CP 18: Recoveries	C	ADIA's expenses in preparing for any use of its funds in resolution should be treated as an administrative expense under Article 121 of the Law on Banks.

TABLE 4. DETAILED ASSESSMENT OF DEPOSIT INSURANCE PRINCIPLES

Principle 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.
Description	ADIA's public policy objectives are not set forth in its governing statute. The public policy objectives as detailed in its Annual Report and 2012-2014 Strategic Plan are to protect small depositors in the banking system, to contribute to the strengthening of (1) the stability of the financial system and (2) public trust in the banking and financial system. ADIA does not regularly review its operations to determine if it is meeting these objectives.
Assessment	Largely Compliant
Comments	ADIA's statute should be amended to specifically include its PPOs.
Essential Criteria	1. The public policy objectives of the deposit insurance system are clearly defined and formally specified, for example, through legislation or documents accompanying legislation. ⁵
Description	ADIA's PPOs are not clearly defined or specified in law.
Comments	
Essential Criteria	2. The public policy objectives of the deposit insurance system are publically disclosed.
Description	The public policy objectives are disclosed in ADIA's Annual Report and Strategic Plan.
Comments	

⁵ The public policy objectives of the deposit insurance system refer to the objectives or goals the system is expected to achieve. The mandate of the deposit insurer refers to the set of official instructions or statement of purpose describing its roles and responsibilities. There is no single mandate or set of mandates suitable for all deposit insurers. Existing deposit insurers have mandates ranging from narrow, so-called "paybox" systems to those with broader powers or responsibilities, such as preventive action and loss or risk minimisation/management, with a variety of combinations in between.

Essential Criteria	3. There is a review of the extent to which a deposit insurance system is meeting its public policy objectives on a regular basis (e.g. between two to five years or on a more frequent basis as deemed necessary). This review takes into consideration the views of stakeholders.
Description	There is no specific process for the review of ADIA’s public policy objectives. Such a review should include measuring the effectiveness of ADIA’s operations in meeting its public policy objectives. For example, ADIA could review its practices with regard to insuring only the accounts of natural persons to measure whether such a practice is effective in terms of the overall public policy to strengthen public trust in the banking and financial system.
Comments	
Principle 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 (see Core Principles for Effective Deposit Insurance Systems “Preconditions” paragraph 16).
Description	There is a limited coverage amount for deposits (approximately \$25,000) and various exclusions from coverage. ADIA appropriately applies a flat rate premium system.
Assessment	Compliant
Comments	
Essential Criteria	1. The design of the deposit insurance system recognises the existence of moral hazard and mitigates it as much as possible in-line with public policy objectives. Specific design features that mitigate the risk of moral hazard may include: limited deposit insurance coverage and scope; where appropriate, deposit insurance premiums that are assessed on a differential or risk-adjusted basis; and, minimizing the risk of loss through timely intervention and resolution by the deposit insurer or other participants in the safety net with such powers.
Description	ADIA applies a limited deposit insurance system, with limitations on both amount and scope. There has been no experience with bank resolution but an adequate framework is in place for intervention in banks; there are some weaknesses in the framework for intervention as regards SCAs (for example, dissolution of a SCA requires the involvement of the organization’s general assembly).
Comments	

Essential Criteria	2. The financial safety net creates and supports appropriate incentives to mitigate moral hazard. These may include: the promotion of good corporate governance and sound risk management of individual banks, effective market discipline and frameworks for, and enforcement of, strong prudential regulation, supervision and laws and regulations (to be assessed through a review of “Preconditions”, see pages 8-9.).
Description	BOA promotes sound risk management at individual banks and is in the process of working with ADIA on a plan for the SCAs that will require changes in the operations or closures of those deemed inactive or at risk.
Comments	
Principle 3	Mandate It is critical that the mandate selected for a deposit insurer is clearly and formally specified and that there is consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer.
Description	ADIA’s paybox mandate is formally specified in its law in Article 9 to require it to provide compensation for insured deposits up to the level specified by law and to effectively administer its fund.
Assessment	Compliant
Comments	
Essential Criteria	1. The deposit insurer has a mandate that is clearly defined and formally specified, for example, through legislation or documents accompanying legislation. The mandate clarifies the role and responsibilities of the deposit insurer within the financial safety net.
Description	ADIA’s mandate is clearly defined in its law.
Comments	
Essential Criteria	2. The mandate is consistent with the stated public policy objectives and the powers, roles and responsibilities given to the deposit insurer.
Description	ADIA has the needed powers to advance its mandate to insure deposits and pay compensation although it could benefit from certain additional powers as detailed in this assessment.
Comments	
Principle 4	Powers A deposit insurer should have all powers necessary to fulfil 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.
Description	ADIA has extensive powers available to it in fulfilling its mandate. It has the ability to request information directly from its member institutions and enter its member institutions to review information. However, ADIA must refer requests to enforce its demands for information to BOA and must seek ratification of many of its actions from BOA. ADIA is tax exempt and is exempt from the application of public contracting laws when making an insured deposit payment.
Assessment	Largely Compliant
Comments	
Essential Criteria	1. The powers (legal authority) of the deposit insurance system are clearly defined and formally specified in law or regulation (including approved self-regulation in the context of private or public deposit insurance systems).
Description	ADIA’s law establishes its powers. ADIA only acts as a paybox but may not have adequate information to prepare. As it shortens the target period for payout it may need more information than it currently has access to.
Comments	
Essential Criteria	2. The powers of the deposit insurer are aligned to its mandate and public policy objectives.
Description	ADIA largely has powers consistent with its mandate.
Comments	
Essential Criteria	3. The deposit insurer has the following minimum powers:
Description	
Comments	
	a. compel member banks to comply with their obligations to the deposit insurer, or request that the supervisor or another safety-net participant do so on behalf of the deposit insurer;
Description	Article 26 provides that ADIA may recommend that BOA take action to enforce the obligations of member banks regarding payment of premiums and

	other requirements set by ADIA.
Comments	
	b. have the legal authority and capability to reimburse depositors;
Description	ADIA has the legal authority and capability to reimburse depositors when BOA intervenes in an insured entity. Intervention is defined as the liquidation of an insured entity. ADIA also has the power to contribute funds for a P&A or bridge bank up to the amount of its insured deposit obligation. ADIA has three months within which to compensate depositors under Article 7 of its law. ADIA will have direct access to deposit information through its computerized data system.
Comments	
	c. enter into contracts (e.g., agreements/transactions to obtain goods and services/insurance);
Description	ADIA has the authority to enter into contracts but in most circumstances it must comply with public procurement law. Its exemption from such laws could be expanded to include its ability to enter into contracts in preparation for an insured deposit transfer.
Comments	
	d. set internal operating budgets and internal policies and procedures (e.g. in areas such as human resources and information technology);
Description	ADIA's budget must be ratified by BOA under Article 11 of its law. ADIA is tax exempt.
Comments	
	e. access timely and accurate information to promptly meet their obligations to depositors;
Description	ADIA can access deposit information from its member institutions and will be able to do so on an ongoing basis directly from its member institutions based on the computerized system under development.
Comments	
	f. share information with other safety-net participants;
Description	ADIA can and does share information with other members of the safety net and is a participant in FSAG.

Comments	
	g. engage in information sharing and coordination agreements with deposit insurers in other jurisdictions (subject to confidentiality when required); and
Description	ADIA has the explicit power to enter into such agreements but has not done so to date.
Comments	
	h. engage in contingency planning.
Description	ADIA has the power to engage in contingency planning. It has not done a simulation of a payout but it did take part in the Crisis Simulation Exercise conducted in 2010 with other safety net members. It intends to do a simulation exercise for a payout once its computerized deposit records system is functional.
Comments	
Essential Criteria	4. In support of the deposit insurance system, the other participants in the financial safety net are provided with all powers necessary to fulfil their mandates (see Preconditions).
Description	All members of the financial safety net have the necessary powers to implement their mandates although several of the powers have not been utilized and may need to be tested by use of simulation exercises.
Comments	
Principle 5	Governance The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry influence.
Description	ADIA is a public legal entity that is part of BOA. There are no active bankers on the Board.
Assessment	Compliant
Comments	
Essential Criteria	1. The deposit insurer is able to use the powers and means assigned to it without undue influence from external parties. There is in practice no significant evidence of government or industry interference in the operational independence of the deposit insurer and its ability to obtain and deploy the resources needed to carry out its mandate.

Description	There is no evidence of political or undue influence from external parties. ADIA’s involvement in the FSAG process also provides it with an important voice on financial stability issues.
Comments	
Essential Criteria	2. The operational funding of the deposit insurer is provided in a manner that does not undermine its autonomy or independence and permits it to fulfil its mandate. Examples include:
Description	ADIA is funded from premium assessments on its member institutions and returns on its Fund.
Comments	
	a. Salary scales that allow it to attract and retain qualified staff;
Description	ADIA has aligned its salary structure with that of BOA. It has not had difficulty attracting qualified staff.
Comments	
	b. The ability to hire outside experts to deal with special situations, subject to appropriate confidentiality restrictions;
Description	ADIA has the ability to contract with private experts to assist it in its work.
Comments	
	c. A training budget and programme that provides appropriate training opportunities for staff;
Description	ADIA has a training budget and also participates in training programs organized by BOA and the International Association of Deposit Insurers (IADI).
Comments	
	d. A budget for computers and other equipment sufficient to equip its staff with tools needed to fulfil its mandate; and
Description	ADIA has sufficient budget resources to obtain the tools necessary for meeting its mandate.
Comments	
	e. A travel budget that allows appropriate on-site work.
Description	There is sufficient budget for travel as needed to accomplish its work.

Comments	
Essential Criteria	3. The governing statute, internal policies of the deposit insurer or other relevant laws or policies specify:
Description	
Comments	
	a. the governing body and management are fit and proper persons and have the requisite knowledge or experience;
Description	Qualifications for Board members are stated in Article 12 of ADIA’s law and require Board members to be citizens with the personal and professional background and expertise in the field. There is a Code of Conduct which applies to all ADIA employees. All employees are also covered by bank secrecy rules.
Comments	
	b. members of the governing body (with the exception of ex-officio appointees) and the c. head of the deposit insurer are subject to limitations on their term of appointment; and
Description	Members of the Board and the General Director are subject to 5 year terms under Article 12 of its law. Terms of Board members are staggered.
Comments	
	d. members of the governing body can be removed from office during their term only for reasons specified or defined in law or rules of professional conduct, and not without cause.
Description	Members of the governing body can only be removed for cause under Article 13 of ADIA’s law.
Comments	
Essential Criteria	4. The members of the governing body (e.g., directors or officers) and management of the deposit insurer are held accountable to a higher authority, whether public or private, through a transparent framework for the discharge of the system’s duties in relation to its objectives and mandate.
Description	ADIA reports annually on its activities through the General Director in the Parliamentary Commission of Economy. ADIA also reports to BOA and the Council of Ministers.

Comments	
Essential Criteria	5. The deposit insurer operates in a transparent and responsible manner. It discloses and publishes on a regular basis appropriate information on its activities, governance practices, structure and financial results.
Description	ADIA publishes extensive information on its website and also publishes an Annual Report.
Comments	
Essential Criteria	6. The deposit insurer is structured such that the potential for conflicts of interest for or between members of the governing body and management is minimised and that they are subjected to appropriate codes of conduct/ethics.
Description	All ADIA employees are subject to a Code of Conduct and Board members are subject to the conflict of interest policies set forth in Article 15 of the law. There are no private bankers on the Board.
Essential Criteria	7. The deposit insurer takes into consideration the views of stakeholders.
Description	ADIA can request representatives of insured entities to attend Board meetings under Article 12 of its law. Its General Director also meets regularly with bankers and the Banker's Association. Annual reports with appropriate information on its activities and financial results are delivered to all stakeholders and published on ADIA's website.
Comments	
Essential Criteria	8. Where decision making is delegated by the governing body of the deposit insurer to its employees, the governing body has appropriate procedures to oversee the exercise of delegation.
Description	ADIA is a relatively small organization with 19 employees. Decision making is held largely at the Board level with appropriate procedures in place to oversee the work of all the employees. Where necessary appropriate delegations are in place.
Comments	
Essential Criteria	9. The deposit insurer is subjected to regular external audits with reports provided to the authority to which it is accountable.
Description	Annual external audits are carried out by independent chartered accountants.

	ADIA is also subject to audit by the state authority.
Comments	
Essential Criteria	10. The deposit insurer has a governing body approved strategic plan in place. ⁶
Description	ADIA has a 2012-2014 Strategic Plan in place, approved by the Board of Directors.
Comments	
Essential Criteria	11. Regular board meetings are held (e.g. on a quarterly basis or more frequently as deemed necessary).
Description	ADIA’s Board meets on a monthly basis and can meet more often if necessary.
Comments	
Additional Criterion	1. The deposit insurer adheres to best practices in corporate governance, such as:
Description	
Comments	
	a. Regular assessments of the extent to which the governing body is meeting its objectives are carried out. Systems and practices are in place to facilitate assessments of its effectiveness; and
Description	The Board of Directors makes an annual analysis of the activity of ADIA in its first meeting of the new year.
Comments	
	b. The governing body has a well-defined charter that outlines the specific powers reserved for the board and those delegated to management.
Description	
Comments	
Principle 6	Relationships with other safety-net participants A framework should be in place for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the

⁶ The term “strategic plan” refers to a document which sets out an organisation’s goals and how it plans to achieve them.

	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 formalised.
Description	Although ADIA and BOA have a MOU governing information sharing it is not fully implemented. ADIA does not get risk ratings for banks or complete examination reports or information on institutions subject to BOA’s EWS. ADIA does receive quarterly financial stability reports and materials associated with FSAG meetings. Although it is working on a system for gaining access on a timely basis to depositor level data at member institutions no such system is currently in place.
Assessment	Materially Non Compliant
Comments	The MOU in place should be reviewed and updated as it dates from 2002. Any agreement for information sharing must also be implemented so that ADIA has access to all necessary information in managing its operations. Contingency planning should also take place between ADIA and BOA for resolution purposes.
Essential Criteria	1. A framework for timely information sharing and the coordination of actions among the deposit insurer and other safety-net participants, on a routine basis as well as in relation to particular banks, is explicit and formalised through legislation, regulation, memoranda of understanding, legal agreements or a combination of these instruments.
Description	There are no legal impediments to the sharing of information among members of the safety net and specific agreements are in place between all relevant parties in the safety net.
Comments	
Essential Criteria	2. Planning and operations of safety-net participants, both individually and together, not only cover past and ongoing circumstances but also consider plausible future scenarios.
Description	The process of contingency planning is underway with BOA as part of the FSAG process. There was a crisis simulation exercise in 2010. ADIA plans to conduct testing of its payment system once developed. ADIA reports to FSAG about its finances and solvency and its readiness to conduct a deposit payout.
Comments	
Essential Criteria	3. All deposit insurers are provided with information on a timely basis to be able to reimburse depositors’ claims promptly including information on the amount of insured deposits held by individual depositors.

Description	ADIA is not currently provided with information on a timely basis with depositor level data but is in the process of developing a system for ongoing access to depositor level information at its member institutions.
Comments	
Essential Criteria	4. Rules regarding confidentiality of information apply to all safety-net participants and the exchange of information among them.
Description	All members of the safety net are governed by bank secrecy laws.
Comments	
Essential Criteria	5. The safety-net participants make information on banks that are in financial difficulty or are expected to be in financial difficulty available to the deposit insurer in advance and, where confidentiality requirements prevent this, or where the information is not available from other safety-net participants, the deposit insurer has the power to collect information directly from such banks.
Description	Information sharing has not been done on a systematic basis and the provisions of the existing MOU between ADIA and BOA have not been fully implemented.
Comments	
Additional Criterion	1. A deposit insurer with a broader mandate, such as “loss-” or “risk-minimisation”, has access to timely and accurate information so that it can assess the financial condition of individual banks, as well as the banking industry. These deposit insurers may also need access to information regarding the value of the bank’s assets and the expected time frame for the liquidation process, given that the value of a bank’s assets depends, in part, on the time necessary to liquidate them.
Description	
Comments	
Principle 7	Cross-border issues Provided 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 recognised

	in the determination of levies and premiums.
Description	ADIA has the power to enter into information sharing agreements with deposit insurers in other jurisdictions but has not done so to date. There are no cross-border agreements in place.
Assessment	Materially Non Compliant
Comments	
Essential Criteria	1. Appropriate cross-border bilateral/multilateral agreements are in place in circumstances where, due to the presence of cross-border banking operations, coverage for deposits in foreign branches is provided by the deposit insurer in another jurisdiction or by a combination of deposit insurers in different jurisdictions. For example, where the home country system provides coverage for the branches of its domestic bank, banks in the host countries and/or the host country system provides supplementary coverage for foreign bank branches.
Description	ADIA is responsible for deposits within Albania.
Comments	
	a. The agreements involve appropriate home and host deposit insurers as well as other appropriate financial safety-net participants when appropriate, including in circumstances where one deposit insurer will be solely responsible for coverage.
Description	Although ADIA has the power to enter into such agreements there are none yet in place.
Comments	
	b. The agreements provide for ongoing close coordination and information sharing between home/host deposit insurers and possibly other safety-net participants, as well as in relation to particular banks when necessary.
Description	ADIA itself does not have share agreements in place and it does not receive information from BOA about supervisory issues and concerns in home jurisdictions other than as part of the FSAG process.
Comments	
	c. The agreements specify which deposit insurer or insurers will be responsible for reimbursement as well as premium assessment, cost sharing, and the deposit insurance public awareness issues raised by cross-border banking.
Description	No agreements are in place although ADIA would only be responsible for

	paying depositors within Albania.
Comments	
Essential Criteria	2. Depositors in the jurisdictions affected by cross-border banking arrangements are provided with clear and easily understandable information on the existence and identification of the deposit insurance system legally responsible for reimbursement and the limits and scope of coverage. Information on the deposit insurance system's source of funding and standard claims procedures and reimbursement options is also available to affected depositors (e.g. such as on the deposit insurer's website, through printed materials or similar means).
Description	Not applicable.
Comments	
Principle 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.
Description	All deposit taking banks within Albania are members of the DIS. ADIA has a role in the licensing process for new banks. The process for making SCAs part of the DIS is underway but has been subject to delay.
Assessment	Largely Compliant
Comments	
Essential Criteria	1. Membership in a deposit insurance system is compulsory for all financial institutions accepting deposits from those deemed most in need of protection (e.g. retail or individual depositors and small business depositors).
Description	DIS membership is compulsory for all banks licensed by BOA. There is ongoing work on making SCAs members of the DIS.
Comments	
Essential Criteria	2. Policymakers determine whether eligible banks will be given membership as a part of the licensing process or upon application to the deposit insurer.
Description	There have not been new banks licensed in Albania since 2005. ADIA was part of the BOA team involved in calculating the deposit insurance premium for the new bank. ADIA and BOA cooperate in connection with newly licensed banks during the 12 month provisional license period under Article 17 of the Law on

	Banks.
Comments	
Essential Criteria	3. Criteria for membership that detail the conditions, process and time frame for attaining membership are explicitly stated and transparent.
Description	BOA has procedures relating to the licensing of banks and ADIA is involved in the process. An application for membership to ADIA is part of the licensing process.
Comments	
Essential Criteria	4. If the deposit insurer does not control membership (i.e. cannot refuse membership), the law or administrative procedures describe a clear time frame in which the deposit insurer is consulted about or informed in advance of “newly licensed” banks.
Description	ADIA is involved in the licensing process and no bank can be licensed without ADIA approval. The LOB (Article 20) requires a potential licensee to submit an application for membership to ADIA.
Comments	
Essential Criteria	5. When deposit insurance membership is terminated by the deposit insurer, arrangements are in place that provide for coordination in withdrawing the bank’s operating license by the relevant authority. If relevant, an appropriate general notice is given to depositors (e.g. on the deposit insurer’s website) to inform them that any new deposits issued will not receive deposit protection.
Description	ADIA terminates membership in the DIS once the license is withdrawn by BOA. ADIA is obliged to ask BOA to take administrative sanctions against any member of the DIS if it deemed it appropriate.
Comments	
Essential Criteria	6. All financial institutions accepting deposits are subject to strong prudential regulation and supervision and are financially viable when they become members of a deposit insurance system. ⁷
Description	All financial institutions are subject to prudential regulation and supervision by BOA. The process for involving SCAs in the DIS are being developed so as not to allow inactive or ineligible SCAs into the DIS.
Comments	

⁷ See discussion “Preconditions” pages 2, 6 and 8.

Principle 9	Coverage Policymakers should define clearly in law, prudential regulations or by-laws what is an insurable deposit. 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.
Description	ADIA insures deposits of natural persons in both local and foreign currency in up to the amount of 2.5 million ALL per person per institution. ADIA sets off collateralized deposits and also insured deposits against past due loans. However, there are a large number of exclusions enumerated in Article 5 of the ADIA law, exceeding those required under the EU Draft Directive on deposit insurance and not completely consistent with definitions in the LOB (see also discussion under CP 17). Current coverage levels cover 95% of individual depositors and approximately 58% of all bank deposits. There is no coverage for enterprises.
Assessment	Compliant
Comments	There are numerous exemptions from coverage which are inconsistent with definitions contained in the LOB.
Essential Criteria	1. Insured deposits are clearly and publicly defined. This comprises the level and scope of coverage. If certain depositors are ineligible for deposit protection, the criteria are clearly defined.
Description	ADIA’s statute clearly defines coverage levels and the types of deposits covered which are limited to those of natural persons. However there are numerous exclusions which may complicate an insured deposit payout.
Comments	ADIA should work with BOA to make sure its definitions for excluded deposits are consistent with provisions in the LOB, specifically Article 4 on shareholders and persons or group of connected persons.
Essential Criteria	2. The definition of “insured deposit” reflects the public policy objectives of protecting depositors and promoting public confidence and financial stability (e.g. protect small transaction accounts).
Description	Only deposits of natural persons are covered. This may have an impact on public confidence in the deposit insurance system.
Comments	
Essential	3. The level of coverage is limited but credible (e.g. the level of coverage is high enough)

Criteria	to maintain confidence, but limited to maintain market discipline). The level of coverage is consistent with the deposit insurer's public policy objectives.
Description	The level of coverage is sufficiently high to maintain depositor's confidence but is also limited in amount. The coverage level for SCA deposits should be studied to be sure it is not in excess of what is needed to meet ADIA's PPOs.
Comments	
Essential Criteria	4. Depositors have sufficient information readily available to determine the amount of coverage for their individual deposits.
Description	ADIA has pamphlets that describe its deposit insurance coverage. The banks also provide information about deposit insurance coverage at their customer service sites.
Comments	
Essential Criteria	5. The coverage limit applies equally to all banks in a deposit insurance system.
Description	All banks licensed by BOA are covered by ADIA to the same level.
Comments	
Essential Criteria	6. The deposit insurance system does not incorporate co-insurance, where depositors absorb some portion of the loss under the coverage limit in the event of bank failure. ⁸
Description	There is no co-insurance.
Comments	
Essential Criteria	7. Deposit insurance coverage is reviewed periodically to ensure that it can meet the public policy objectives of the deposit insurance system.
Description	There is no formalized process to review the current levels of deposit insurance. ADIA should review the level of coverage planned for SCAs to be sure the level is consistent with ADIA's public policy objectives.

⁸ Although the use of co-insurance can encourage depositors to monitor bank risk taking, it presents a number of serious problems. In order to provide effective market discipline it assumes that depositors will have access to the necessary financial information and that most retail/individual depositors can accurately assess risk. And, even when depositors are in a position to make such determinations, co-insurance provides strong incentives for depositors to run on a bank to avoid even a small loss of their funds.

Comments	
Principle 10	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. ⁹ Blanket guarantees can have a number of adverse effects if retained too long, notably moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period.
Description	There has not been a blanket guarantee in place since ADIA’s establishment.
Assessment	Not applicable
Comments	
Essential Criteria	1. A situational analysis of the economic environment as it affects the banking system is conducted before a country begins a transition from a blanket guarantee to limited coverage.
Description	There has not been a blanket guarantee in place since the establishment of ADIA in 2002.
Comments	
Essential Criteria	2. The situational analysis assesses structure and soundness of the banking system including an evaluation of the condition of banks’ capital, liquidity, credit quality, risk management policies and practices, and the extent of any problems; and an evaluation of the number, type and characteristics of banks.
Description	Not applicable.
Comments	
Essential Criteria	3. The situational analysis assesses the strength of prudential regulation and supervision, the effectiveness of the legal framework, and the soundness of the accounting and disclosure regimes.
Description	Not applicable.

⁹ A “blanket guarantee” is a declaration by authorities that in addition to the protection provided by limited coverage deposit insurance or other arrangements, certain deposits and perhaps other financial instruments will be protected. A wide range of factors need to be considered when introducing blanket guarantees, including decisions on the scope of the guarantee (e.g. the type of institutions, products and term maturities covered) and whether the banks utilising the guarantees will be required to contribute in some manner to the costs of providing the guarantees.

Comments	
Essential Criteria	4. The pace of the transition to limited coverage is consistent with the state of the banking industry, prudential regulation and supervision, legal framework and accounting and disclosure regimes.
Description	Not applicable.
Comments	
Essential Criteria	5. Policymakers are aware of the tradeoff between the length of time it takes for the transition to the limited coverage system and the degree of moral hazard in the system, and have planned the transition accordingly.
Description	Not applicable.
Comments	
Essential Criteria	6. Policymakers are aware of and anticipate the reaction of the public to a reduction in coverage levels. Policymakers develop effective communication strategies to mitigate adverse public reaction to the transition.
Description	Not applicable.
Comments	
Essential Criteria	7. Where there is a high level of capital mobility, and/or a regional integration policy, the decision to lower coverage levels (and/or scope) considers the effects of different countries' protection levels and related policies.
Description	Not applicable.
Comments	
Essential Criteria	8. The new limited-coverage deposit insurance system has access to adequate funding during and after the transition. Policymakers consider the capacity of the banking system to fund a limited-coverage deposit insurance scheme. If the banking system is unable to fund the cost of the blanket guarantee, government funding may be needed.
Description	When the deposit insurance system was established the government provided ADIA with initial funding of 400 million ALL pursuant to Article 19 of its law.
Comments	
Principle 11	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. For deposit insurance systems (whether ex-ante, ex-post or hybrid) utilising risk-adjusted differential premium systems, the criteria used in the risk-adjusted differential premium system should be transparent to all participants. As well, all necessary resources should be in place to administer the risk-adjusted differential premium system appropriately.
Description	ADIA's law allows for the use of advance payments of premiums as well as the ability to recommend the levy of special assessments on member institutions. Once the fund reaches 5% of insured deposits ADIA may reduce the level of premiums it collects. By year end 2013 it will be at approximately 3.68% of insured deposits. Back-up funding for an insured deposit payout is provided in accordance with Article 20/1 of the ADIA law and pursuant to a tri-partite agreement with MOF, BOA and ADIA signed in March 2012.
Assessment	Largely Compliant
Comments	
Essential Criteria	1. Funding arrangements for the deposit insurance system are provided on an ex-ante or an ex-post basis or some (hybrid) combination of these and are clearly defined and established in law or regulation.
Description	ADIA's funding is on an ex-ante basis.
Comments	
Essential Criteria	2. Funding arrangements for the deposit insurance system ensure the prompt reimbursement of depositors' claims and include a pre-arranged and assured source(s) of back-up funding for liquidity purposes. Such sources may include a funding agreement with the central bank, a line of credit with the government treasury, or another type of public fund or market borrowing. If market borrowing is used by the deposit insurer it should not be the sole source of back-up funding. The deposit insurer should not be overly dependent on a line of credit from any single private source.
Description	ADIA has the ability to have the government repurchase its securities in advance of their maturity date and also has access to back-up funding from the government if needed for an insured deposit payout. It can also request a government guarantee for the purposes of obtaining a loan. However, such back-up funding is not available for a transfer of funds for purposes of a P&A or bridge bank. ADIA also has negotiated a contingent line of credit with

	EBRD which, once guaranteed by the government, will provide it access to up to 100 million EURO for purposes of fulfilling its obligations towards insured depositors in accordance with its law.
Comments	
Essential Criteria	3. Primary responsibility for funding the deposit insurance system is borne by member banks and is enforceable by the deposit insurer.
Description	ADIA collects premiums from its member institutions.
Comments	
Essential Criteria	4. If an ex-ante deposit insurance fund is established the size of the fund (e.g. the fund reserve ratio) is defined on the basis of clear, consistent and well-developed criteria that aim at meeting the public policy objectives. If an ex-post funding arrangement is used the main source of funding is credible and readily available.
Description	ADIA can (but does not have to) consider a reduction in its premiums assessed on member institutions under Article 24 of its law; it may also increase deposit insurance premiums to not more than 0.7 per cent of average insured deposits.
Comments	
Essential Criteria	5. The deposit insurance fund has sound investment policies and procedures, internal controls and disclosure and reporting systems. These are approved by the deposit insurer's governing body and subjected to regular review by an independent party. Investment policies emphasise the need to ensure the preservation of fund capital and liquidity.
Description	ADIA's investment policy and law setting restrictions on the maturity of its investments should be reviewed to be sure its investment strategy accurately reflects its risk profile, including the risks associated with foreign denominated insured deposits in the banking system. ADIA should also adopt principles of asset-liability management with the guiding principles remaining as safety and liquidity over return. ADIA should also adopt a set of internal controls for its investment management function.
Comments	
Essential Criteria	6. For deposit insurers that use risk-adjusted differential premium systems:
	a. the system for calculating premiums is transparent to all participants;

Description	ADIA appropriately does not have a risk adjusted premium system.
Comments	
	b. The ratings and rankings resulting from the system pertaining to individual member banks are kept confidential; and
Description	Not applicable.
Comments	
	c. policymakers ensure that the deposit insurer has the necessary authority, resources and information in place to carry out its responsibilities with regard to the operation of such systems.
Description	Not applicable.
Comments	
Essential Criteria	7. In so far as the funds of the deposit insurer may be used by other members of the safety net for the purposes of depositor protection and/or bank resolution, those circumstances are clearly stated and public and known to member banks. The deposit insurer has adequate information to:
Description	ADIA’s law and the LOB describe the circumstances under which ADIA funds can be used for depositor protection purposes through the use of a P&A or bridge bank transaction. Such funds are limited to the amount of insured deposits. ADIA needs to amend its back-up funding agreements to reflect the possibility of a contribution of funds to such transactions in the case where its resources could be depleted. ADIA should participate in the decision to use its funds as part of a resolution transaction and should provide for an audit of the use of its funds after the fact.
Comments	
	a. understand the use of the funds;
Description	ADIA’s law makes clear how its funds can be used in bank resolution.
Comments	
	b. seek reimbursement for the estate of the failed bank or participate in recoveries from the bank;
Description	ADIA is subrogated for its payment of insured deposits. However, it does not receive first priority for its administrative expenses in preparing for an insured deposit payout.
Comments	

	c. restrict the resolution or depositor reimbursement amount to the costs the deposit insurer would otherwise have incurred without such intervention or resolution.
Description	The law provides under Article 7 that ADIA’s contribution to a P&A or bridge bank transaction is limited to its obligation to pay insured deposits.
Comments	
Principle 12	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.
Description	ADIA has a pamphlet describing its deposit insurance coverage levels and insured institutions must display a sign saying their deposits are insured by ADIA. There is also extensive information about coverage on ADIA’s website. ADIA has also developed a template for the use of banks in incorporating information about deposit insurance into their account documentation. ADIA is developing a survey instrument to measure the level of public awareness. ADIA has also cooperated with BOA on its financial education program for schools. ADIA has recently reorganized to have a dedicated public awareness group. However ADIA has not developed a plan for insuring that investors in funds recently made available through a commercial bank understand that such funds are not deposits and therefore are not insured by ADIA. There has been no measurement of public awareness and ADIA is still in the process of working on reimbursement processes and making information about such processes part of its public awareness program.
Assessment	Materially Non Compliant
Comments	
Essential Criteria	1. The deposit insurer is responsible for promoting public awareness of the deposit insurance system and how the system works, including its benefits and limitations, on an on-going basis.
Description	ADIA is responsible for promoting public awareness.
Comments	
Essential Criteria	2. The objectives of the public awareness programme are clearly defined and consistent with the public policy objectives and mandate of the deposit insurance system.
Description	ADIA is working on increasing its public awareness activities.

Comments	
Essential Criteria	3. The public awareness programme or activities convey information about the following:
	a. which financial instruments are covered by deposit insurance and which are not (e.g. whether the system covers foreign deposits);
Description	ADIA’s pamphlet explains coverage levels and exclusions from coverage. However there needs to be additional outreach in conjunction with AFSA on making clear the uninsured nature of the investment products sold by one of the commercial banks.
Comments	
	b. which financial institutions offer insured deposits and how they can be identified;
Description	Financial institutions are required to display a banner showing that they are insured by ADIA. Insured financial institutions are also listed on ADIA’s website and in its Annual Report.
Comments	
	c. deposit insurance coverage limits and the potential for losses on deposits in excess of those limits; and
Description	Coverage limits are explained in ADIA’s pamphlet. The limited amount of such coverage is clearly set forth.
Comments	
	d. the reimbursement process – how, when and where depositors may file claims and receive reimbursements in the event of a bank failure.
Description	Processes for reimbursement in the case of a liquidation are being developed as part of ADIA’s planning process. There have not been any bank resolutions since ADIA was formed in 2002.
Comments	
Essential Criteria	4. There is an effective contingency planning process for public awareness and communication that addresses plausible future scenarios and that involves the cooperation and coordination of other safety-net participants as appropriate.
Description	ADIA has the power to engage in contingency planning and is in the process of developing manuals. It plans to engage in a simulation once its computerized deposit system is in place.

Comments	
Essential Criteria	5. The deposit insurer works closely with member banks and other safety-net participants to ensure consistency in the information provided and to maximize awareness on an ongoing basis.
Description	There are ongoing public awareness activities with member institutions. For example, ADIA is reviewing the way banks train their employees at customer service points with regard to their knowledge about deposit insurance. ADIA has not developed a communication plan to deal with the issues that could arise of a parent bank of one if its member institutions should experience a run on deposits or a failure. However ADIA should work with AFSA and BOA on making clear to investors the lack of coverage for investment products sold by one of its member institutions.
Comments	
Essential Criteria	6. The deposit insurer receives or conducts a regular evaluation of the effectiveness of its public awareness programme or activities.
Description	There is no evaluation of public awareness of deposit insurance in place although a survey on deposit insurance is being developed by ADIA.
Comments	
Principle 13	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.
Description	Article 16/1 of ADIA’s law provides legal protection for actions taken in good faith. However, it does not provide protection for former employees or those working at ADIA’s direction and does not provide ex ante coverage of legal defense costs.
Assessment	Materially Non Compliant
Comments	Many functions ADIA would have to perform in its role in the resolution process would be performed by contractors working at its direction. Under the current law, those individuals would have to be made employees to receive protection from suit. The law also does not explicitly cover former employees

	and requires an employee who is sued to advance defense costs and seek reimbursement only after he is found not responsible.
Essential Criteria	1. The deposit insurer and individuals working for the deposit insurer are protected against lawsuits for their decisions and actions taken in “good faith” while discharging their mandates.
Description	ADIA’s employees are explicitly covered by Article 16/1, with former employees and contractors not explicitly covered.
Comments	
Essential Criteria	2. Individuals are required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable.
Description	There are codes of conduct and conflict of interest rules in place for ADIA employees.
Comments	
Essential Criteria	3. Legal protection is defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified.
Description	Legal costs for employees are only covered on an ex ante basis.
Comments	
Principle 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.
Description	BOA and the public prosecution authorities have the right to deal with parties responsible for contributing to the failure of a bank.
Assessment	Compliant
Comments	
Essential Criteria	1. The conduct of parties responsible for or who contributed to the failure of a bank (e.g. officers, directors, managers, auditors, asset appraisers and related parties of the failed bank) are subject to investigation by the deposit insurer or other relevant national authority. The investigation of the conduct of such parties may be carried out by one or more of the following: the deposit insurer, supervisor or regulatory authority, criminal or investigative authorities, or a professional or disciplinary body, as applicable.

Description	Relevant authorities would investigate the conduct of parties responsible for the failure of member institutions. Such authorities could include BOA or public prosecutors.
Comments	
Essential Criteria	2. If identified as culpable for the failure of a bank, such parties are subject to sanction and/or redress. Sanction or redress may include personal or professional disciplinary measures (including fines or penalties), criminal prosecution, and civil proceedings for damages
Description	Such parties could be subject to civil suit, administrative actions by BOA or criminal prosecution.
Comments	
Failure resolution	The deposit insurer may, but often does not, perform many or most of the roles identified in Core Principles 15 and 16. However, it is essential that one or more of the financial safety net participants performs these roles.
Principle 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.
Description	ADIA does not receive information from BOA about banks that are part of the EWS or other information that would allow it to prepare for a possible insured deposit payout or transfer of funds for resolution. BOA does have the power to use a variety of resolution tools, and ADIA can contribute to a P&A or bridge bank under Article 7 of its law up to the amount of insured deposits.
Assessment	Largely Compliant
Comments	
Essential Criteria	1. The deposit insurer is part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks (failure resolution framework).
Description	BOA does have a system to monitor its institutions on a regular basis that measures the quality of assets and earnings and provides opportunities for early warning of potential problems. This information is not shared with ADIA but is needed for it to prepare for any possible payout or use of its funds.

Comments	
Essential Criteria	2. The failure resolution framework is established by law or regulation, and is effective at the early detection and timely intervention and resolution of troubled banks. The failure resolution framework is insulated against legal actions that aim at the reversal of early and timely decisions related to corrective procedures, interventions and resolutions of troubled banks.
Description	The failure resolution framework is established by law, and provides BOA with a variety of resolution powers. There is no power to reverse BOA’s decision on intervention.
Comments	
Essential Criteria	3. The safety-net participants have the operational independence and power to perform their respective roles in the failure resolution framework and a clearly defined early intervention mechanism exists (including resolution tools) to ensure that appropriate action is taken (to allow the orderly resolution of a troubled bank) by the responsible party without delay.
Description	There are adequate resolution tools provided to BOA.
Comments	
Essential Criteria	4. The failure resolution framework includes a set of criteria that are used to identify banks that are or are expected to be in serious financial difficulty and are used as a basis to initiate some form of early intervention or corrective action to reduce the likelihood that a resolution would be necessary. Such action should minimise losses to the deposit insurance fund.
Description	There are established criteria about the condition of a bank that require BOA to take action.
Comments	
	a. The criteria are clearly defined in law or regulation and are well understood by banks and their stakeholders; and
Description	The criteria for placing a bank into receivership are established by Article 108 of the LOB; Article 96 specifies the rules governing conservatorship.
Comments	
	b. The criteria will be country specific and may reflect concerns about a bank’s capital, liquidity, and asset quality, among other factors.
Description	The criteria do specify concerns with liquidity, solvency or management capacity and set some specific triggers for intervention.

Comments	
Principle 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; minimise resolution costs and disruption of markets; maximise 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 activities).
Description	As a paybox ADIA is involved in the bank resolution process once the BOA determines to intervene by placing a bank in liquidation. Its role is limited to paying insured depositors or contributing funds to a P&A or bridge bank transaction. ADIA does not currently insure deposits in SCAs but the resolution framework for SCAs is not as robust as that for banks. Under its law (Article 30) the consent of depositors or shareholders is not needed for transfer to another bank or a bridge bank.
Assessment	Compliant
Comments	
Essential Criteria	1. The overall national legal framework ensures the effective and timely functioning of the failure resolution framework, permitting the orderly liquidation of the bank, the payout or transfer of insured deposits and the intervention by a receiver to carry out the resolution functions.
Description	BOA is the resolution authority and ADIA has the power to contribute to the various methods of resolution for banks that can be employed by BOA, up to the amount of insured deposits.
Comments	
Essential Criteria	2. The mandate of the deposit insurer or other safety-net participants allows for the effective resolution of banks of all sizes.
Description	There is bridge bank and P&A authority that could assist in the resolution of a large financial institution.

Comments	
Essential Criteria	3. Bank resolution and depositor protection procedures are not limited to depositor reimbursement. The deposit insurer or other safety-net participant has effective resolution tools designed to help preserve critical bank functions, to achieve a transfer of accounts or assets/businesses and/or maintain continuity of banking services.
Description	BOA does have purchase and assumption and bridge bank authority for banks.
Comments	
Essential Criteria	4. Where no single authority is responsible for all resolution processes, the mandate, roles and responsibilities of each safety-net participant is clearly defined and formally specified.
Description	The mandate and roles of BOA and ADIA are set forth in the law on the resolution process although operational details are in the process of being developed.
Comments	
Essential Criteria	5. One or more of the resolution procedures allows the flexibility for resolution at a lesser cost than otherwise likely on a depositor reimbursement in a liquidation.
Description	BOA and ADIA do consider lesser cost in their use of resolution tools.
Comments	
Essential Criteria	6. A clear and well-sustained methodology is available to the deposit insurer or other safety-net participant to provide for the transfer of insured deposits to stronger banks.
Description	There is no methodology yet in place to operationalize BOA's resolution powers.
Comments	
Essential Criteria	7. Resolution procedures clearly ensure that bank shareholders take first losses.
Description	Under Article 102 of the LOB there is the power to appoint a conservator with the authority to ask shareholders to cover losses at a financial institution by providing additional capital. If the bank is put into compulsory liquidation, the rights of shareholders are frozen (other than the right to dividends out of the liquidation estate) (Article 116). Shareholders have last priority in the recovery of assets from a failed bank estate.
Comments	

Principle 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 a 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.
Description	ADIA is in the process of developing an automated system for the payment of insured deposits with the cooperation of its member banks. The current resolution framework only requires reimbursement of depositors within 3 months of an intervention event. Procedures for informing depositors about reimbursement processes in liquidation are being developed. There are a large number of exclusions from insurance coverage that could complicate the payout process.
Assessment	Largely Compliant
Comments	
Essential Criteria	1. The deposit insurer is able to reimburse depositors promptly after the deposit insurance system is triggered by law, contract or the relevant authority. ¹⁰
Description	ADIA has not had to perform an insured deposit payout and has not tested its ability to do so. A test of its ability to do that will be undertaken once its computerized depositor information system is in place.
Comments	The process of reimbursing depositors could be complicated by the multiple exclusions from coverage in ADIA’s law. The recent amendments to its law limited set-off to accounts that are past due.
Essential Criteria	2. The time frame for accomplishing the reimbursement process is prompt and clearly stated to meet the public policy objectives of protecting depositors and promoting public confidence and financial stability of the deposit insurance system. The time frame is made public.
Description	The time frame for reimbursing depositors is set forth in Article 7 of ADIA’s statute as within three months. This is longer than good practice would require.

¹⁰ A prompt reimbursement is defined to be when depositors are reimbursed within a time frame that does not undermine financial stability and the proper functioning of payment systems.

	There has been no payout and no testing of payout processes to determine if ADIA could meet this deadline. ADIA is moving towards being able to make a payout within 20 days by adoption of a new computerized system for depositor records.
Comments	
	a. Depositors are provided information after the failure on when and under what conditions the deposit insurer will start the reimbursement process and when the process is expected to be completed;
Description	ADIA is in the process of developing processes and policies for a payout, including the development of communication materials. Its manual on deposit compensation provides samples of public communication materials.
Comments	
	b. Information on coverage limits, scope of coverage and whether advance or interim payments will be made is provided; and
Description	ADIA does not have the legal authority to make advance or interim payments.
Comments	
	c. If there is an interest-bearing account, the deposit insurer shall reimburse depositors for interest as provided by contract, law or regulation up until at least the date the deposit insurance obligation is triggered.
Description	ADIA is required to reimburse depositors for the contract rate of interest up to the date of intervention.
Comments	
Essential Criteria	3. In order to promptly reimburse depositors, the deposit insurer has:
	a. Access to necessary data, including deposit account records, to prepare for reimbursing depositors as soon as the supervisor is aware of a likelihood of failure.
Description	ADIA is working on a system to access account data through a computerized system; it can go into a member institution at any time to check or update the data.
Comments	
	b. The power to review in advance by itself (or by request from the supervisory authority) the way depositor records are kept by banks to ensure the reliability of records, to reduce the time needed for

	calculation and verification of depositors' claims;
Description	ADIA has this power.
Comments	
	c. A range of payment methods for reimbursing depositors; and
Description	ADIA can utilize a range of payment methods, including cash, transfer of funds and check.
Comments	
	d. Access to adequate and credible sources of funding (e.g. reserve fund, Ministry of Finance, central bank) to meet its obligations under the established time frames.
Description	ADIA has access to back-up funding from the Ministry of Finance in accordance with a tri-partite agreement with BOA and MOF.
Comments	
Essential Criteria	4. The deposit insurer has the capacity to carry out the reimbursement process in a timely manner, including:
Description	
Comments	
	a. Adequate information technology; and
Description	ADIA is working on building a well-functioning computerized deposit data system.
Comments	
	b. Adequate personnel (in-house or contractor).
Description	ADIA has a small staff but has the power to engage contractors as needed for its operations.
Comments	
Essential Criteria	5. In situations where there may be extended delays in reimbursements, the deposit insurer can make advance, interim or emergency partial payments.
Description	ADIA does not have this power.
Comments	

Principle 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.
Description	ADIA does share in the recovery of assets from the failed institution's estate.
Assessment	Compliant
Comments	
Essential Criteria	1. If the deposit insurer plays a role in the recovery process, its role is clearly defined in law or regulation and the deposit insurer maximises recoveries to the extent that it can from the failed bank on a commercial or economic basis.
Description	ADIA does not play a role in the recovery process.
Comments	
Essential Criteria	2. The deposit insurer shares in the proceeds of the recoveries arising from the failure of its member banks. The deposit insurer is clearly recognised as a creditor of the failed bank for the reimbursement of losses and costs it incurs; and receives recoveries from the estate of the failed bank directly.
Description	ADIA does share in the recovery of assets from the failed institution's estate and is subrogated to depositors' claims. However, ADIA's costs are not considered as an expense of the receivership as are the costs of BOA.
Comments	
Essential Criteria	3. The deposit insurer has at least the same or comparable creditor rights or status as a depositor in the conduct of the estate of the failed bank, and has access to information to make and pursue its recovery claim against the estate and to exercise the appropriate degree of influence on the conduct of the estate.
Description	ADIA is subrogated for payments of insured deposits but does not have a role in the conduct of the liquidation.
Comments	
Essential Criteria	4. If, in addition to creditor status, the deposit insurer is the receiver/liquidator/ conservator of the failed bank or of only some assets of the failed bank, then:
Description	Not applicable.

Comments	
	a. the role played by the deposit insurer for asset management and recovery is clearly defined in law or regulation; and
Description	
Comments	
	b. its asset management and recovery approaches are guided by such factors as: the quality of the assets, market conditions, expert advice, and any legal requirements. ¹¹
Description	
Comments	
Essential Criteria	5. In determining the asset management and recovery approaches, the interests of all creditors are given appropriate weight and decisions on asset disposal are made using concepts such as net present value to balance the competing goals of securing maximum value and early disposal.
Description	This is the responsibility of BOA. Under the LOB (Articles 117 and 119), the liquidator must use commercial methods to assess values in selling the bank and aim for recovery of the maximum amount from the assets of the bank.
Comments	

¹¹ In some circumstances the deposit insurer may seek to pursue the parties responsible for fraud or misconduct even though costs may exceed recoveries.