



**FRAMEWORK FOR CONTINGENCY PLANNING AND  
SYSTEMIC CRISIS MANAGEMENT**

**JULY 2014**

## **ABBREVIATIONS**

CEO	-	Chief Executive Officer
CMU	-	Crisis Management Unit
DPC	-	Deposit Protection Corporation
MDFSC	-	Multidisciplinary Financial Stability Committee
IPEC	-	Insurance and Pensions Commission
SIFI	-	Systemically Important Financial Institution
SEC	-	Securities and Exchange Commission
RBZ	-	Reserve Bank of Zimbabwe

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## **A. EXECUTIVE SUMMARY**

1. This document outlines the framework for financial sector regulators' policy responses in preventing and resolving systemic crises. The framework is aimed at enhancing the Zimbabwean financial safety net and limiting losses to taxpayers resulting from resolving troubled financial institutions.
2. The framework for Contingency Planning and Systemic Crisis Management (hereafter referred to as the Framework) consists of a set of policies, actions and processes necessary for the prevention, management and containment of banking systemic distress and crisis.
3. There are key components of contingency planning and systemic crisis management. These include, sound institutional arrangements with explicit inter-agency coordination mechanisms and powers that allow for the early intervention into a problem bank to prevent its failure. The role of the deposit guarantee scheme and, as a last resort, solid but flexible arrangements for providing government financial support are also outlined in the Framework.
4. Financial problems can emerge unexpectedly, spread rapidly and give rise to substantial economic costs. Against this background, the Framework recognizes the importance of sound and prudent management and board oversight at the individual financial institutions as the first line of defence in the event of a financial crisis.

5. The Framework also takes cognizance of crisis prevention policies in the areas of regulation, supervision and financial stability monitoring as the second line of defence, failing which public authorities may intervene as the third line of defence to mitigate the risk of economy-wide effects.
6. In light of the foregoing, this Framework not only lays a foundation for contingency planning and systemic crisis management, but is an integral component of ongoing financial stability initiatives.

## **B. BACKGROUND**

7. The need for contingency planning and systemic crisis preparedness emanates from the vital role played by the financial system in the economy. Because of its complexities and interconnectedness however, the financial system is vulnerable to internal and external shocks that can lead to extensive economic and social costs. History is replete with examples of systemic crises that were resolved using public funds including the 2007-2009 global financial crisis.
8. The Framework is designed to enhance the preparedness of Government and regulatory authorities in the face of systemic financial stress. Engaging in contingency planning prior to a crisis will help the supervisory authorities to identify the types of actions that may be necessary during a crisis, as well as the skills, policies and processes that would be required to support these actions.

9. The Framework also espouses the following:
  - a) Methodology for determining systemically important financial institutions (SIFIs)/ situations;
  - b) Requirements for SIFIs in respect of recovery and resolution plans;
  - c) The composition, terms of reference and resolution powers of the Resolution Authorities namely, the Multidisciplinary Financial Stability Committee and the Crisis Management Unit.
10. The multidisciplinary approach contained herein is designed to address the weaknesses associated with a narrow focus that fails to adequately incorporate all the significant segments of the financial system.
11. Problems may erupt in financial institutions, markets or in financial infrastructure. Accordingly, the Contingency Planning and Crisis Management Framework is designed with a focus on the financial sector as a whole, in keeping with the COMESA Framework for Financial Stability.

### **C. OBJECTIVES**

12. This Framework seeks to:
  - a) Promote prevention of systemic failures through adequate pre-crisis preparation;

- b) Ensure continuity of systemically important financial services including payments, clearing and settlement systems in the event of a crisis;
- c) Provide for speed, transparency and predictability through legal certainty and procedural clarity coupled with advanced planning for orderly resolution;
- d) Enable fast and decisive action to ensure that non-viable financial institutions can exit the market in an orderly fashion;
- e) Provide credible resolution tools which ensure competitive neutrality and limit distortions of competition;
- f) Facilitate cooperation, information exchange and coordination locally and with relevant foreign resolution authorities before and during a crisis;
- g) Enhance the credibility of resolution authorities and thereby promote market discipline and provide incentives for market based solutions;
- h) Avoid unnecessary destruction of value and minimize the overall costs of resolution and where consistent with other objectives, losses for creditors;
- i) Protect, where applicable and in coordination with the relevant insurance schemes and arrangements such as depositors, insurance policy holders and investors as are covered by such schemes and

arrangements, and ensure the rapid return of segregated client assets;

j) Allocate losses to shareholders and unsecured, uninsured creditors in a manner that respects the hierarchy of claims; and

k) Reduce moral hazard problems by desisting from relying on public solvency support and dispelling the expectation that such support will be available in the event of a crisis which ultimately reduces the social costs of bank failures.

13. The Framework is hinged on the principles highlighted hereunder:

a) sound and prudent management and board oversight at the individual financial institutions serve as the first line of defence in the event of a financial crisis;

b) Crisis prevention policies in the areas of regulation, supervision and financial stability monitoring make up the second line of defense;

c) If these efforts fail, public authorities provide the third line of defence and may intervene to mitigate the effects of the crisis on the real economy; and

d) The interventions should weigh carefully the need to preserve stability of the financial system against an often inevitable risk of moral hazard.

14. Thus, this Framework shall act as an incentive for the private sector to find solutions well in advance because the public sector will not

readily provide a bail out to shareholders or preserve managers' jobs. The Framework also seeks to reassure depositors and other creditors that authorities are capable of addressing bank failures to minimize systemic disruption to the provision of financial services.

#### **D. SCOPE**

15. Systemic distress refers to a situation where the solvency and/or liquidity of many or most financial institutions have suffered adverse shocks and have shaken public confidence with the potential to negatively impact the real economy and the financial system. According to this Framework, a systemic distress is said to have occurred when at least two of the following situations arise:
  - a) where banking institutions that are critically distressed control at least 5% of the total assets in the industry;
  - b) 15% or more of total banking sector deposits are threatened; and
  - c) 25% of banking sector total loans is not performing.
16. The Framework shall apply to both systemically and non-systemically important financial institutions; and financial infrastructure (incorporating clearing, payment, and settlement systems).
17. A financial institution shall be deemed to be systemically important if its failure will severely affect the financial system (comprising financial institutions, financial markets, financial infrastructure) and the real economy.

18. For the purposes of this Framework, an institution is deemed to be systemically important if<sup>1</sup>:
- a) Its market share of assets exceeds 5% of total market share;
  - b) Its interconnectedness in terms of deposits has bearing on the national payment systems;
  - c) There is no direct, indirect or close substitute for the financial services / infrastructure that the institution provides;
  - d) The institution’s activities are deemed to be complex;
  - e) The institution has cross border activities; and
  - f) The applicable regulatory authority considers it so based on any other factors not outlined above.
19. The Framework also covers:
- a) Financial holding companies or financial groups; and
  - b) Non-regulated operational entities within a financial group or conglomerate that are significant to the business of the group or conglomerate.

## **E. CONTINGENCY PLANNING REQUIREMENTS FOR REGULATED FINANCIAL INSTITUTIONS**

20. All institutions that are identified by the Multidisciplinary Financial Stability Committee to be of systemic importance to the financial system shall be required to have “living wills” i.e. contingency

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<sup>1</sup>The criteria are adopted from the Financial Stability Oversight Council, 2010, Final Rule on Authority to Designate Financial Market Utilities as Systemically Important.

recovery and resolution plans including group resolution plans. The recovery and resolution plans shall be expected to cover, at a minimum, a set of key elements as may be determined by the committee from time to time.

21. The plans, to be championed by financial institutions executives and driven by business requirements, will ensure continuity and survival of the business, protection of the institution's assets, as well as provide for control of risks and exposures, and preventative measures where appropriate.
22. SIFIs shall also be subject to regular resolvability assessments; as well as institution-specific cross-border cooperation agreements.
23. All other regulated institutions shall be required to prepare contingency plans and these should be guided by the relevant regulatory authority's minimum requirements for contingency plans.

## **F. RESOLUTION AUTHORITY**

24. In order to ensure effective oversight, the resolution function shall be coordinated by the Multidisciplinary Financial Stability Committee (hereafter referred to as the MDFSC / the Committee).
25. The Committee comprises the Governor of the Reserve Bank of Zimbabwe (RBZ), CEO of the Deposit Protection Corporation (DPC), Commissioner of the Insurance and Pensions Commission (IPEC) and the CEO of the Securities Commission of Zimbabwe (SEC). Due to

the role played by fiscal authorities in the resolution Framework, the Ministry of Finance / Treasury shall be a member of the resolution authority.

26. The Committee shall operate in normal times and in crisis situations, meeting quarterly, and, as and when necessary on an ad-hoc basis.
27. In addition, the MDFSC shall conduct crisis simulations on an annual basis in order to test the robustness of this crisis management and resolution Framework.
28. The Committee's mandate of fostering financial stability through ongoing surveillance of the financial system, diagnosis of potential risks and vulnerabilities, and adoption of preventive and remedial measures provides it with the requisite leverage to undertake the crisis resolution function.
29. The MDFSC shall put in place adequate policies and operational procedures for the effective execution of its mandate.
30. In order to promote the effective resolution of financial crises, the Committee shall delegate its mandate to a Crisis Management Unit (CMU). Membership of the CMU shall be drawn from the MDFSC, senior officers of the Ministry of Finance and Ministry of Justice, Legal and Parliamentary Affairs.
31. Every member of the CMU shall have the power to make decisions on behalf of regulatory authorities they are representing.

## **G. RESPONSIBILITIES OF REGULATORY AUTHORITIES**

### **Crisis Management Unit...**

32. The key mandate of the CMU shall be to:
  - a) Implement the Contingency Planning Framework;
  - b) Coordinate the crisis management actions and procedures;
  - c) Ensure effective communication with the relevant stakeholders during and immediately post the crisis period;
  - d) Re-establish credibility, restore confidence and return the operations of financial institutions, financial market and financial infrastructure to normalcy, at the minimum possible cost to the real economy and the fiscus within a reasonably short period of time;
  - e) In the case of cross border Systemically Important Financial Institutions, enhance preparedness for, and facilitate the management and resolution through close cooperation with authorities in other jurisdictions where institutions have a systemic presence; and
  - f) Take any actions as may be deemed necessary to achieve the objectives of this Framework.
33. The CMU shall adopt a multiple point of entry approach to the execution of crisis response. Individual regulators shall be tasked with enforcing the decisions of the CMU using the powers conferred to them and enshrined in their founding Acts and Regulations.

### **Financial Sector Regulators...**

34. Each regulator shall be responsible for the resolution of institutions under its ambit as may be determined by the CMU. The Reserve Bank shall serve as the lead resolution authority tasked with coordinating the resolution of banking groups and bank holding companies and IPEC shall serve as the lead resolution authority in dealing with insurance entities.
35. The MDFSC, through the Securities Exchange Commission, has the responsibility for assessing and advising on the implications of a potential crisis situation for the financial markets and the disclosure implications of any crisis resolution actions taken with respect to publicly traded companies.

### **H. RESOLUTION POWERS**

36. Resolution powers shall be derived from the various pieces of legislation governing the institutions covered by this Framework, which include banking institutions, building societies, insurance companies and pension funds. These are; the Banking Act [Chapter 24:20], the Building Societies Act (Chapter 24:02), the Reserve Bank Act [Chapter 22:15] the Deposit Protection Corporation Act [Chapter 24:29], the Securities Exchange Act [Chapter 24:25] and the Insurance Act [Chapter 24:07], as well as the Companies Act [Chapter 24:03]; & Insolvency Act [Chapter 6:04].

## **I. RESOLUTION MECHANISM, TECHNIQUES & STRATEGIES**

37. Resolution shall be initiated when a financial institution is no longer viable or likely to be no longer viable, and has no reasonable prospect of becoming viable.
38. Resolution strategies will be guided by timely and early intervention before the institution's capital solvency is threatened or all equity has been fully wiped out, in line with the Troubled Bank Resolution Framework.
39. For the purposes of ensuring finality and timely resolution of an identified weak, troubled, problem or insolvent banking institution, as the case may be, the CMU shall to the extent permissible at law, establish and implement, or cause implementation of, a plan of resolution based upon any one or any combination of the following:
  - a) Merge a banking institution with another banking institution;
  - b) Acquisition of a banking institution by another banking institution;
  - c) Purchase and assumption of any asset or liability of a banking institution, including assets held in trust;
  - d) Transfer any asset or liability of a banking institution, including assets held in trust;
  - e) Establish and own temporarily, a bridge banking institution which may acquire part or all of the assets and liabilities of the subject banking institution on the basis of the resolution plan;

- f) Take possession, control of an identified weak, troubled, problem or insolvent institution with specific powers to establish and institute a definitive and timely plan of resolution; and/or
- g) Take any action necessary to give effect to the plan of resolution in respect of the concerned banking institution, including the sale or closure of any branch, agency, or other office of the institution and, subject to any other law, the dismissal of any of its officers or employees.
- h) Operate and resolve the institution, including powers to terminate contracts, continue or assign contracts, purchase or sell assets, write down debt and take any other action necessary to restructure or wind down the institution's operations;
- i) Override rights of shareholders of the firm in resolution, including requirements for approval by shareholders of particular transactions, in order to permit a merger, acquisition, sale of substantial business operations, recapitalization or other measures to restructure and dispose of the firm's business or its liabilities and assets;
- j) Transfer or sell assets and liabilities, legal rights and obligations, including deposit liabilities and ownership in shares, to a solvent third party, notwithstanding any requirements for consent or novation that would otherwise apply;

- k) Establish a separate asset management vehicle (for example, as a subsidiary of the distressed institution, an entity with a separate licence, or as a trust or asset management company) and transfer to the vehicle for management and run-down non-performing loans or difficult-to-value assets; and
  - l) Implement a plan of resolution that ensures adequate competition, fair and consistent treatment of bidders or offerors that seek to acquire assets of the subject banking institution.
40. The CMU may apply one or a combination of resolution powers, with resolution actions being either combined or applied sequentially or different types of resolution powers to different parts of the firm's business (for example, retail and commercial banking, trading operations, insurance); and initiate a wind-down for those operations that, in the particular circumstances, are judged by the authorities to be not critical to the financial system or the economy.
41. In applying resolution powers to individual components of a financial group, the CMU shall take into account the impact on the group as a whole and on financial stability in other affected jurisdictions, and undertake best efforts to avoid taking actions that could reasonably be expected to trigger instability elsewhere in the group or in the financial system.

### **Lender of Last Resort...**

42. The Lender of Last Resort facility shall be guided by criteria that recognize importance of minimizing moral hazard while avoiding the provision of liquidity to banks with no prospects of recovery and/or expropriation by banks' insiders, of the liquidity provided.
43. The provision of the temporary liquidity support shall be subject to acceptable collateral.
44. Conditions for temporary funding shall include the following:
  - a) determination that the provision of temporary funding is necessary to foster financial stability and will permit implementation of a resolution option that is best able to achieve the objectives of an orderly resolution, and that private sources of funding have been exhausted or cannot achieve these objectives; and
  - b) the allocation of losses to equity holders and residual costs, as appropriate, to unsecured and uninsured creditors and the industry through ex-post assessments, insurance premium or other mechanisms.

### **Problem Loan Resolution...**

45. Some of the resolution strategies that may be employed by the CMU include the following:

- a) **Private sector asset management company approach**, in which private AMCs purchase NPLs from distressed banks using own capital.
- b) **The centralized approach** based on a public sector asset Special Purpose Vehicle (SPV): Under this arrangement, government creates and capitalizes an AMC to purchase NPLs from institutions concerned. NPLs are exchanged with government issued or backed bonds or cash. This process is typically facilitated by a full diagnostic audit and forward looking assessment of banks' assets and capital. The process enables banks to restart lending activities, while the SPV disposes of or restructures the NPLs for future sale.
- c) **The decentralized public sector SPV**, for a single bank or group of banks: In this case, the authorities create and capitalize an SPV to purchase NPLs from a single large bank or a selected group of banks. The processes and underlying conditions and standards to support the SPV are identical to those discussed under the centralized approach.
- d) **The bank-centric approach**, in which private banks manage their own NPLs through various means, including internal SPVs, nominees or work out units.

## **Set-off, Netting, Collateralisation, Segregation of Client Assets**

46. Resolution shall take cognizance of set-off rights, contractual netting and collateralisation agreements and the segregation of client assets in a manner that does not hamper the effective implementation of resolution measures.
47. Subject to adequate safeguards, entry into resolution and the exercise of any resolution powers shall not trigger statutory or contractual set-off rights, or constitute an event that entitles any counterparty of the institution in resolution to exercise contractual acceleration or early termination rights provided the substantive obligations under the contract continue to be performed.
48. Should contractual acceleration or early termination rights nevertheless be exercisable, the resolution authority shall have the power to stay temporarily such rights.
49. Where they arise by reason only of entry into resolution or in connection with the exercise of any resolution powers, they shall:
  - a) be strictly limited in time; and
  - b) be subject to adequate safeguards that protect the integrity of financial contracts and provide certainty to counterparties.

## **J. FUNDING OF INSTITUTIONS IN RESOLUTION**

50. In the face of insolvency, the first line of defense in any resolution strategy shall be private sector or individual institution's driven initiatives. These include recapitalization initiatives, non-performing loans resolution where, in the case of disposal, the authorities will facilitate involvement of private sector asset management companies.
51. Subject to availability of resources, the second line of defence shall be public sector support which may be in the form of public ownership or bail-out funds may be relied upon as a means of resolving troubled institutions.
52. In instances where, as a last resort and for the overarching purpose of maintaining financial stability, there is need to place an institution under temporary public ownership and control; or avail temporary funding, in order to continue critical operations, while seeking to arrange a permanent solution such as a sale or merger with another financial institution, provision shall be made to recover any losses incurred by the state from unsecured creditors or, if necessary, the financial system more widely.
53. The losses incurred shall be recovered from:
  - a) shareholders and unsecured creditors subject to the "no creditor worse off than in liquidation" safeguard; or
  - b) if necessary, from the financial system more widely.

## **K. SAFEGUARDS**

54. The CMU and the directors and officers of the institution under resolution shall be protected in law for all actions taken in good faith, while complying with the decision of the resolution authority.
55. In order to maintain financial stability and to restore post-crisis confidence, the CMU shall ensure clarity and certainty in the treatment of shareholders and creditors and the allocation of losses among them during the resolution process.
56. At a minimum, the CMU shall ensure that creditors at least recover amounts equal to what they would have received in the liquidation of the financial institution, following the resolution of the institution. In exercising its resolution powers, the CMU shall ensure that equity suffers the first loss and that no loss is imposed on senior debt holders until all subordinated debt has been entirely written off.
57. However, the decisions of the CMU taken in good faith and in line with applicable powers shall not be reversible but creditors shall reserve the right to seek adequate compensation for deprivation of protected rights through the court.

## **L. CROSS-BORDER COOPERATION**

58. Crisis resolution involving cross border operations shall be guided by legislative provisions and Memoranda of Understanding (MOU).

59. The MDFSC shall ensure the adequacy of these provisions which must clearly:

- a) define the roles and responsibilities of the authorities involved pre-crisis (that is, in the recovery and resolution planning phases) and during a crisis;
- b) set out the process for information sharing before and during a crisis;
- c) set out the processes for coordination in the development of the Recovery and Resolution Plans for financial entities involved, including parent or holding company and significant subsidiaries, branches and affiliates that are within the scope of the agreement, and for engagement with the regulated institution as part of this process;
- d) include agreed procedures for the home authority to inform and consult host authorities in a timely manner when there are material adverse developments affecting the institution and before taking any significant action or crisis measures; and
- e) include agreed procedures for the host authority to inform and consult the home authority in a timely manner when there are material adverse developments affecting the institution and before taking any discretionary action or crisis measure.

## **M. RESOLVABILITY ASSESSMENTS**

60. The MDFSC shall regularly undertake resolvability assessments that evaluate the feasibility of resolution strategies and their credibility in light of the likely impact of the individual institution's failure on the financial system and the overall economy.
61. In undertaking resolvability assessments, the MDFSC will, in coordination with other relevant authorities assess, in particular:
  - a) the extent to which critical financial services, and payment, clearing and settlement functions can continue to be performed;
  - b) the nature and extent of intra-group exposures and their impact on resolution if they need to be unwound; and
  - c) the capacity of the institution to deliver sufficiently detailed accurate and timely information to support resolution.

## **N. ACCESS TO INFORMATION AND INFORMATION SHARING**

62. The MDFSC shall ensure that, through appropriate Memoranda of Understanding:
  - a) sharing of all information relevant for recovery and resolution planning and for resolution is possible in normal times and during a crisis at a domestic and a cross-border level;
  - b) the procedures for the sharing of information relating to SIFIs is set out in institution-specific cooperation agreements; and

- c) where appropriate and necessary to respect the sensitive nature of information, information sharing may be restricted, but should be possible among the top officials of the relevant home and host authorities.
63. Responsible authorities shall require institutions to maintain Management Information Systems (MIS) that are able to produce information on a timely basis, both in normal times for recovery and resolution planning and in resolution.
64. Information shall be available at the group level and the legal entity level (taking into account information needs under different resolution scenarios, including the separation of individual entities from the group).
65. Institutions shall be required, in particular, to:
- a) maintain a detailed inventory, including a description and the location of the key MIS used in their material legal entities, mapped to their core services and critical functions;
  - b) identify and address exogenous legal constraints on the exchange of management information among the constituent entities of a financial group (for example, as regards the information flow from individual entities of the group to the parent);
  - c) demonstrate, as part of the recovery and resolution planning process, that they are able to produce the essential information

needed to implement such plans within a short period of time (for example, 24 hours); and

- d) maintain specific information at a legal entity level, including, for example, information on intra-group guarantees and intra-group trades booked on a back-to-back basis.

## APPENDIX I: LIMITATIONS

### Legislative Constraints ...

66. The effective implementation of this Framework is currently hindered by the following weaknesses:
- a) The Multidisciplinary Financial Stability Committee has no statutory mandate for the resolution of failing financial institutions and for the maintenance of financial stability. As such, it currently serves as a de-facto advisory committee rather than a de-jure resolution authority.
67. *It is recommended that the Multidisciplinary Financial Stability Committee be given a statutory mandate for the effective execution of financial stability responsibilities in terms of this Framework and in keeping with the COMESA financial stability Framework.*
68. The current regulatory framework for banking institutions needs to be enhanced to provide for effective troubled bank resolution. The current Banking Act [Chapter 24:20] will need be amended to include provisions relating to the following:
- a) Prompt corrective actions including powers to issue prudential standards on prompt corrective action programs (PCAs);
  - b) Director culpability; and
  - c) For the Reserve Bank to effect mergers, acquisitions, purchase and assumptions, etc.

### **Macroeconomic and Microstructure Constraints...**

69. The lender of last resort pool is not adequately capitalized to enable the RBZ to effectively avert an impending liquidity crisis. Currently, the LOLR is funded to the tune of \$7 million against a budgeted amount of \$100 million. Furthermore, the budgeted amount falls short of the expected level in terms of best practice where the LOLR pool is pegged at between 25% and 30% of the total deposit base.

*It is recommended that the Reserve Bank be adequately capitalized to enable it to effectively execute the lender of last resort function.*

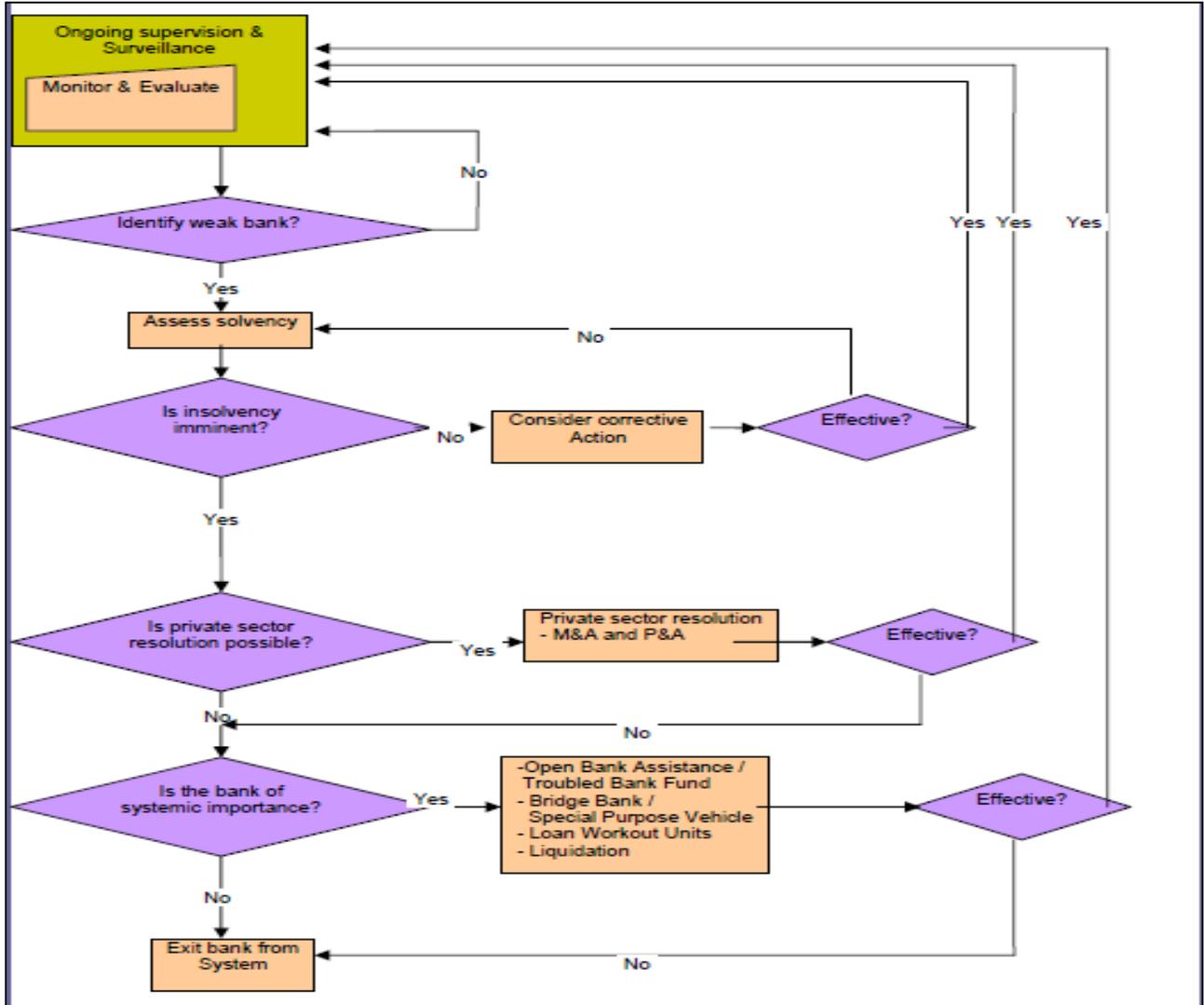
70. The government is currently facing liquidity challenges resulting from the general illiquidity in the economy which has led to depressed revenue generation. In this regard government is currently hamstrung with regards to public sector interventions.

71. At \$500, the current level of deposit insurance may not be adequate to provide confidence required for effective crisis resolution.

*It is recommended that the Deposit Protection Corporation be adequately capitalized.*

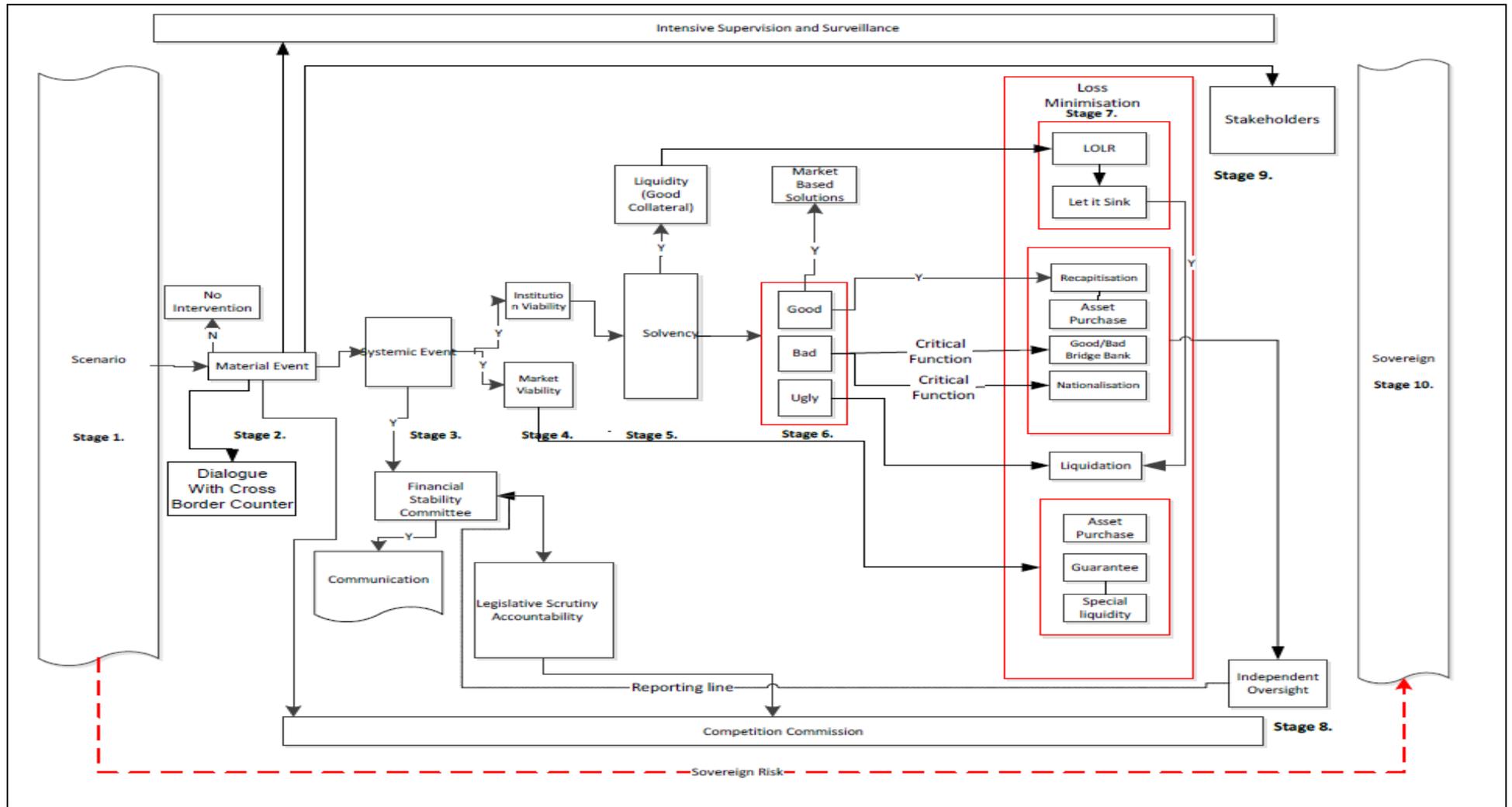


## APPENDIX II: STEPS IN PROBLEM BANK RESOLUTION



Source: Basel (2002)

## APPENDIX III: DECISION TREE SURROUNDING FINANCIAL CRISIS MANAGEMENT



Source : Singh and LaBrosse (2012), Developing a Framework for Effective Crisis Management, OECD Journal 2012, Volume 2011, Issue

72. In the event of a crisis (stage 1), particularly one involving a bank failure that becomes the focus of media attention, the resolution authority shall determine whether the crisis is a material event (stage 2). If it is not, no action may need to be taken.
73. On the other hand, a large bank failure or several small or medium-sized banks failing in a short period could be problematic and lead to a systemic event which could trigger a number of subsequent steps. Once a material event is identified by the Committee, the lead regulator responsible for the institution shall be mandated to initiate more intensive supervision and surveillance on a continuous basis until the matter is resolved (stage 7).
74. It is the expectation of the MDFSC that the risks arising are identified soon through a formal system of early intervention in order to reduce the social and economic costs of any subsequent action.
75. The MDFSC shall initiate dialogue with cross border counterparts where the institution has a material presence in order to coordinate any subsequent resolution actions. In doing so, the Committee in conjunction with cross border authorities shall create crisis managements groups (CMGs) that will oversee the management of subsequent events (stage 3).
76. Where the MDFSC determines that a financial institution is failing, a determination shall be made as to whether the institution is still viable (stage 4). The test of viability shall form the basis for further action as

it is generally considered to be a point at a higher capital level than insolvency – the latter being the stage where there is no capital left to support the bank (stages 5–6).

77. The CMU shall take every effort possible to ‘ring-fence’ a failing bank (stage 6), in order to prevent runs on other financial institutions which may deepen the crisis. In doing so, the CMU policy responses shall include measures detailed in this Framework such as liquidation and reimbursement of depositors’ claims, purchase and assumption transactions (sales) and open-bank financial assistance (Stages7-9).