

**OECD ECONOMIC SURVEY OF THE RUSSIAN FEDERATION 2004:**  
**RUSSIA'S DEPOSIT INSURANCE LAW**

*This is an excerpt of the OECD Economic Survey of the Russian Federation, 2004,  
from the section on deposit insurance in chapter 5 together with annex 5.1.*

***Deposit insurance***

Russia's deposit insurance (DI) legislation, which reached the statute books at the end of 2003, is perhaps the most important banking reform adopted in recent years.<sup>1</sup> The government's motivations for adopting the DI law, as set out in the 'explanatory note' that accompanied its submission to parliament,<sup>2</sup> largely reflect the arguments employed in support of DI elsewhere.<sup>3</sup> Above all, DI is meant to increase public confidence in the banking sector and thereby to promote financial stability by reassuring depositors and so preventing socially costly runs in times of stress. It is also intended to help attract into the banking system the large volume of household savings still held as (usually foreign) cash -- the population's so-called 'mattress money'. This has been variously estimated at USD 40–80bn, as compared with total household bank deposits of around USD 48bn.<sup>4</sup> The government also hopes that this will make it easier for the banks to attract badly needed long-term liabilities. Household deposits are normally banks' principal source of long funds, but the Russian Civil Code (GK) currently requires retail deposits to be available on demand, even if they have been contracted for a specified term. In short, all retail deposits are effectively demand deposits. The authorities explicitly linked the adoption of the DI law to the amendment of this GK provision.<sup>5</sup>

DI is also meant to enhance competition in the retail sector by 'levelling' the competitive playing field between state-owned and private banks. The main object here is to enable private banks to compete with Sberbank. Creating a more competitive environment in the retail sector is particularly important in view of the rapid growth of both retail lending and retail bank deposits. The household sector is becoming an increasingly important source of funding for banks (see Table 5.6). However, competitive conditions will not be equalised immediately. Under the law as it stands, Sberbank will retain its state guarantee until 2007 (the guarantees enjoyed by other state-owned banks have already been removed). Moreover, Sberbank's DI accounts will remain entirely segregated from those of other banks until its share of retail deposits falls below 50 per cent or until 2007, whichever comes first -- meaning that it will effectively remain outside the system for several years. Sberbank's market share is already falling by several percentage points each year. However, pension and other social payments will probably continue to be channelled primarily through Sberbank for some time, which will help it retain a dominant position. Government-sponsored amendments to the DI law submitted to the Federal Assembly in early 2004 would, however, limit the guarantee covering any deposits opened after 1 November 2004 to just Rb100,000, the level of coverage extended under the DI law. Only older deposits would enjoy full state guarantees.

**Table 5.6. Net debtors and creditors of the banking system**

Per cent of bank assets

	January 2000	July 2003
<i>Net debtors</i>		
Central Bank of Russia	9.37	11.19
State	6.76	4.28
Non-residents	17.53	2.14
Enterprises	0.91	23.15
<i>Net creditors</i>		
Russian banks	-1.30	-0.03
Individuals	-3.34	-10.11
Securities	-7.99	-16.51
Shareholders	-17.60	-9.58
Other	-4.34	-4.54

Source: Interfax Rating Agency, 2003.

Although DI schemes have proved increasingly popular around the world, there is growing scepticism among economists about their benefits, as well as increasing concern about the risks they pose. A growing body of empirical work suggests that DI can increase the risk of financial instability.<sup>6</sup> The presence of DI (or even the implicit insurance of an expected bailout) can reduce incentives for regulators and creditors to monitor banks, while encouraging bankers to run greater risks. Cross-national research suggests that the seriousness of this moral hazard problem depends largely on the institutional environment. Where the rule of law is weak, regulation is lax and creditors' rights are poorly protected, DI is more likely to contribute to financial instability and less likely to facilitate financial deepening.<sup>7</sup> The implications of this finding for Russia, which matches this description of a poor institutional environment all too well, are clear. The introduction of DI therefore needs to be accompanied -- preferably preceded -- by major improvements in bank transparency, prudential regulation and the administration of law. The Russian authorities are well aware of this. Their bank reform strategy explicitly links the introduction of DI to the imposition of more rigorous requirements concerning the financial soundness and transparency of banks.<sup>8</sup>

A detailed description of the new DI system and an analysis of the likely impact of various provisions is provided in Annex 5.1. The general conclusion that emerges from this analysis is that Russia's DI law is unlikely to give rise to a serious moral hazard problem. DI schemes tend to generate greater volatility if they are generous in terms of the scope and extent of coverage.<sup>9</sup> The Russian scheme is certainly not overly generous. It covers only a limited range of retail deposits and extends coverage only to the first Rb100,000 (about USD 3,400). This is a relatively modest sum, even by Russian standards, as compared with *per capita* GDP in 2003 of about Rb92,265. This ratio of insured maximum to *per capita* GDP is low by the standards of both developed and developing economies.<sup>10</sup> In short, DI will protect small individual depositors who are least able to monitor banks effectively anyway. There should be no reduction in other creditors' incentives to monitor banks closely: in the event of liquidation, their claims are satisfied only after those of depositors.<sup>11</sup> In any case, the ending of state guarantees for deposits in state-owned banks should eliminate an important source of moral hazard.

If the risks posed by DI in Russia are rather limited, the benefits are likely to be as well, at least initially. It is often asserted that the absence of DI is a major reason for households' reluctance to bank their savings. However, it is far from clear that this is the case. The reluctance of many retail savers to

avail themselves of the guarantees hitherto offered by state-owned banks suggests that the decision to hold savings in cash reflects something more than just a concern about the soundness of particular banks. Moreover, the very limited nature of the scheme, while positive in terms of avoiding moral hazard, is likely to limit the extent to which the establishment of DI will, on its own, act as a 'magnet' for mattress money. DI should, however, make it easier for private banks to compete with Sberbank for the custom of cautious depositors. Much depends on DI being accompanied by other steps to foster competition in the sector.

The most important benefit of the introduction of DI may well be to strengthen prudential regulation. Banks wishing to enter the scheme will undergo an intense examination by the Central Bank of Russia (CBR) before being admitted. If the CBR finds them wanting, they may be excluded and thus barred from the retail market. The CBR is determined to use the introduction of DI to tighten up prudential supervision. The law's screening provisions are therefore to be welcomed. Implementing them, however, will not be easy. It will require the CBR to conduct thorough reviews of over 1,000 banks in a very short time and to exclude even large, well connected banks from the system if they do not meet the admissions criteria. If the CBR is unable or unwilling to enforce the criteria strictly and to exclude weaker banks, the DI scheme's credibility will suffer, as will the credibility of all CBR regulatory reform efforts. By contrast, the exclusion of significant numbers of banks would -- on the basis of transparent criteria, consistently applied -- send a powerful signal of the CBR's determination to regulate the sector effectively.

## ANNEX 5.1: RUSSIA'S DEPOSIT INSURANCE LAW

Legislation on the establishment of a system of deposit insurance was finally adopted in December 2003, more than a decade after the first proposals were introduced into parliament. The system is intended to strengthen banking sector stability, to protect retail savers, to enhance competition and to foster financial deepening by mobilising the large volume of unbanked savings held by Russian households (so-called 'mattress money') for intermediation by the financial system. Its transitional provisions establish a screening mechanism for banks entering the new deposit insurance scheme that will enable the authorities to use the creation of deposit insurance arrangements as an opportunity to tighten prudential supervision. This appendix provides a short overview of the main elements of the legislation and an assessment of its likely impact, drawing where possible on the growing body of research into deposit insurance schemes elsewhere.

### Legislative framework

The legislative basis for the new deposit insurance (DI) system consists of six pieces of legislation approved by the Federal Assembly in the autumn of 2003 and signed into law on 23 December of that year:

- Federal Law № 177-FZ 'On insuring the deposits of physical persons in the banks of the Russian Federation' sets out the basic arrangements for establishing, financing and administering the system of deposit insurance. Unless indicated otherwise, all references to 'the law' or to specific articles in the discussion that follows are to this law.
- Federal Law № 178-FZ 'On the introduction of amendments to articles 251 and 291 of the Tax Code of the Russian Federation' ensures that the new Deposit Insurance Agency created to administer the new system will not pay taxes on insurance premia and that banks' insurance premia are classified as costs for tax purposes.
- Federal Law № 179-FZ 'On the introduction of changes to article 26 of the federal law "On non-commercial organisations"' adds deposit insurance premia to the list of income sources allowed to non-commercial organisations, since the Deposit Insurance Agency will be formed as such.
- Federal Law № 180-FZ 'On the introduction of changes to article 69 of the federal law "On the Central Bank of the Russian Federation (Bank of Russia)"' deprives the Central Bank of Russia (CBR) of the power to define the arrangements for deposit insurance, as these are now set out in statute.
- Federal Law № 181-FZ 'On the introduction of changes and amendments to the federal law "On banks and banking"' introduces a dozen minor amendments to the basic banking law in order to ensure its conformity with the new DI law; most of these consist merely of confirming the legal authority of the Deposit Insurance Agency.
- Federal Law № 182-FZ 'On the introduction of changes and amendments to the Civil Code of the Russian Federation' introduces two changes to the Civil Code, both with the effect of ensuring that the code's provisions are consistent with the new DI law. The more important of these amendments removes the state's subsidiary liability for the retail deposits of banks

in which the Russian Federation or subjects of the federation hold majority stakes (*i.e.* it ends the 100 per cent state guarantee hitherto enjoyed by such banks under Civil Code art. 840.1).

## Coverage

The extent of coverage provided under the new system is to be very limited. The law explicitly states that only the deposits of physical persons will be covered: no coverage whatsoever will be extended to corporate or interbank deposits (art. 2). Also excluded will be bearer bonds, deposits opened by physical persons in connection with their business activities,<sup>12</sup> deposits placed in trustee management,<sup>13</sup> and deposits paying exceptionally high rates of interest (art. 5.2).<sup>14</sup> Deposits held in the foreign branches of Russian banks will not be insured either. Coverage of insured deposits extends only to the first Rb100,000 (art. 11). Although it would reportedly cover around 85 per cent of all retail deposits,<sup>15</sup> this is a relatively modest sum, even by Russian standards, being not much more than the level of GDP *per capita* for 2003. Since the law does not provide for any indexation of this limit, inflation will probably erode it further, even as incomes and output continue to rise. The ratio of the insured maximum to *per capita* GDP is thus likely to fall fairly rapidly. By contrast, the US DI scheme covers deposits up to a limit of USD 100,000, almost three times *per capita* GDP, while coverage limits in EU member states range from €20,000 to €103,000, with Italy being the most generous.<sup>16</sup> In some developing countries, the maximum payout envisaged is 13-15 times annual *per capita* GDP.<sup>17</sup>

As noted in Chapter 5, the relatively ungenerous nature of the scheme should go a long way to mitigating any concerns about moral hazard. Coverage is largely confined to those of a bank's creditors who have the least incentive and the least ability to monitor its activities effectively -- small, private depositors. Even many private depositors will still stand to lose in the event of a bank failure, and the incentives facing other creditors will remain unchanged. In the event of liquidation, the demands of a bank's other creditors are met only after those of its retail depositors, so their claims are *de facto* subordinate to those of retail savers.<sup>18</sup> Moreover, any increase in moral hazard that might result from the introduction of a system of explicit DI is likely to be offset by the reduction in moral hazard that should result from the eventual scrapping of the state guarantees covering deposits in state-owned banks (see below). Finally, given that the authorities are likely to come under political pressure to bail out depositors in the event of a crisis, explicit DI may help the state to *limit* its liability by stipulating *ex ante* what will be insured and what will not.

It is an article of faith for many Russian observers that the lack of DI has been an impediment to drawing mattress money into the banking system. However, there is no solid empirical evidence to support this belief. Indeed, the fact that the populace has chosen to keep cash at home despite the explicit state guarantees extended to state-owned banks suggests that something other than the fear of bank failures is at work.<sup>19</sup> This, taken together with the restricted nature of the coverage envisaged by the scheme, means that the direct impact of the introduction of DI on households' propensity to place unbanked savings into the financial system will be limited. This need not matter a great deal, given that ordinary Russians' inclination to bank their savings appears to be growing anyway. Where DI may well have more impact is in enabling private banks to compete for Sberbank's relatively cautious clientele. Given the growing importance of retail savings as a source of funding for Russian banks, this is a desirable end in itself. Over time, moreover, greater competition might contribute indirectly to the deepening of the deposit base. If, as the authorities hope, competition leads to the appearance of new products and better service on the retail banking market, it may well lead to faster growth of the deposit base.

## Financing

The financing arrangements for the system are set out in articles 33-42. The law provides for both *ex ante* funding and, if necessary, further *ex post* state support for the insurance fund. The DI system began with Rb3bn paid in by the Agency for the Restructuring of Credit Organisations (art. 50.1), two-thirds of which will form the basis for the fund and one-third of which will serve to finance the new Deposit Insurance Agency that will administer the scheme (arts 14-25). In addition to this contribution, participating banks will themselves pay each quarter a premium of no more than 0.15 per cent of the average value of their insured deposits in the preceding quarter (art. 36.4). This maximum rate will fall to 0.05 per cent once the fund has accumulated the equivalent of 5 per cent of the insured deposit base (art. 36.6). In specified circumstances, however, it could be raised to 0.3 per cent for up to 18 months (art. 36.5). There is not, however, any actual cap set on the size of the fund, such as exists in some systems.<sup>20</sup>

The actual premia will be set by the Agency's board of directors (art. 36.7). The rate applied will be the same for all banks and will not be risk-weighted (art. 35.1). The fund may also draw income from penalties charged for late payment of premia, from the investment of the fund's assets -- the range of permitted investment instruments is specified in article 38.3 -- and from other sources not prohibited by law (art. 34.7). Finally, if the fund is unable to meet its obligations, the Agency may apply to the government for budgetary support. The government may make funds available from its cash reserves (art. 40.2) or in the form of zero-interest budgetary loans to the Agency (art. 41.2). If the Agency's expected deficit is to exceed Rb1bn, it may apply for direct budgetary support, in which case the government may have to submit amendments to the federal budget to the State Duma in order to authorise such support for the fund (art. 41.3).

The proposed Russian premia are far higher than those levied in the United States and Western Europe.<sup>21</sup> However, this does not necessarily mean that the Russian premia are too high: Russian banks are indeed riskier than their western counterparts. Moreover, there is reason to believe that some western systems significantly under-price risk, as the FDIC has acknowledged with respect to the US system.<sup>22</sup> Moreover, despite these relatively high premia, there is a good chance that budgetary support will be needed. The basic premia would allow the fund to accumulate a sum equal to well under 3 per cent of the value of the insured deposits over a five-year period, assuming, as is likely, that the volume of insured deposits continued to grow fairly rapidly.<sup>23</sup> This might not be sufficient to handle one major bank failure without external support. It would not, of course, be sufficient to handle a serious crisis in the sector, but this need not be seen as a problem. Systemic crises everywhere tend to require state intervention. DI schemes are not established to cope with them, nor should they be: it would be both difficult to accumulate sufficient funds to cope with a large-scale crisis and economically undesirable to tie up such large funds for long periods of time when they might be more profitably invested elsewhere. Major banking crises virtually always require more extensive state intervention.

The financing arrangements set out above raise a number of questions. Some comparative research suggests that *ex ante* funding is time-inconsistent and may therefore induce *more* risk-taking: once premia have been paid, banks have no incentive to reduce their risk exposure and may even choose to increase it in order to justify the cost of insurance. Moreover, premia paid into the fund *ex ante* are sunk costs and thus provide banks with little incentive to monitor their peers.<sup>24</sup> There is also some evidence to suggest that state funding intensifies the problem of moral hazard, which is mitigated if funds are provided by participating banks.<sup>25</sup> This is especially the case if the scheme is funded *ex post*. *Ex post* funding by participating banks gives the banks an added incentive to monitor one another, as they may be required to contribute if and when the fund falls below a given threshold as a result of pay-outs to depositors. Participants know that they could in future be liable for each other's errors. A further problem with *ex ante* funding is that it may encourage other bank creditors to

expect a bailout. If depositors are covered by the fund, it may be harder for the government to say no to other claimants than it would be if the state were already scrambling to cover small depositors' demands.<sup>26</sup>

In practice, however, the arrangements set out in the DI law might well be better suited to Russian conditions. The credibility of the scheme, at least in its infancy, is likely to require both *ex ante* funding and some subsidiary state support. Depositors are less likely to have much confidence in a scheme that is to be funded *ex post*. There would, indeed, be some basis for their doubts, since the lack of a pool of accumulated liquid reserves in an unfunded system could prevent the authorities from dealing with insolvent institutions quickly. Moreover, in Russia's still relatively weak contracting environment, a commitment by the authorities to collect *ex post* from participating banks would lack credibility, especially given the likelihood that they would be pressed to collect from the banks at a time of financial stress. This does, however, mean that incentives for peer monitoring will be somewhat weaker than otherwise.

### **Administration**

The DI system is to be administered by a new Deposit Insurance Agency, which is to be created using funds transferred from the Agency for Restructuring Credit Organisations (ARKO), the state body created to deal with the aftermath of the 1998 financial collapse. The Deposit Insurance Agency is to be a state corporation, independent of, but working closely with, the CBR. Its board of directors will consist entirely of representatives of the government and the CBR, along with the general director of the agency itself. The CBR will nevertheless play a crucial role in the administration of the scheme, as banks will be allowed to join it only with CBR approval and will be expelled if the CBR removes their licences to take retail deposits. Banks will not be obliged to join the system, but they will, at the end of the planned transition period, lose the right to work with retail clients if they do not secure admission to the scheme (arts 6, 46-47).<sup>27</sup> This will not only bar them from accepting household deposits, it will effectively exclude them from a range of other potentially lucrative lines of business, such as handling company payrolls. Requiring all banks taking retail deposits to join the scheme should contribute to stability by increasing the size of the insurance pool and preventing low-risk banks from opting out.

Compulsory membership will be combined with screening, for banks wishing to enter the scheme will have to undergo an intense examination by the CBR before being admitted. The law requires the CBR to examine every bank wishing to join the system in order to assess its fitness with respect to the quality and sufficiency of both capital and assets, management quality (including such issues as ownership transparency, risk management and internal control), profitability and liquidity. Banks who fail to win CBR approval have one month in which to address the central bank's concerns and apply for a second inspection. If they fail the second inspection, or fail to apply for a second inspection, then they will be excluded from the system and thus barred from the retail market. The CBR sees the law as a major opportunity to tighten up its prudential supervision of banks and is determined to make the most of it.<sup>28</sup> Since most banks will want to retain the right to work with retail clients, this screening process will effectively give the CBR a chance to re-licence most of the banking sector, to higher standards than before.

The implementation of this ambitious screening process will be a tremendous challenge for the CBR, not least because of the very demanding time-scales set out in the legislation (art. 45). The law entered into force on 27 December 2003 (the date of its official publication in *Rossiiskaya gazeta*). The deadline for banks to apply for admission to the scheme expires on 27 June 2004. The CBR in turn must complete its four-stage examination of each bank-applicant within nine months of its application. In short, the CBR will need to conduct intensive reviews of the vast majority of banks in

the sector (probably over 1,000) by 27 March 2005 at the latest. Banks rejected at first application and applying for a second review must apply by 27 April 2005, and the CBR is required to act on all repeat applications by 27 September 2005. Banks rejected a second time have one month in which to appeal to the CBR's Committee for Banking Supervision, which must decide such cases within one month of the appeal.<sup>29</sup> This process will not only stretch the supervisory resources of the CBR, it will also test its ability and willingness to enforce much more rigorous standards in the sector.

### **The status of Sberbank**

One of the explicit aims of the DI legislation is to level the competitive playing field between the state-owned savings monopolist Sberbank and its privately owned rivals. The treatment of Sberbank in the transitional provisions of the DI law was therefore a matter of considerable controversy. Sberbank accounted for 64.9 per cent of all retail deposits as of 1 September 2003. While this share is falling steadily by 4-5 percentage points per year, Sberbank's dominance of the retail market means that, if it entered the new DI system immediately, it would provide almost two-thirds of the funding and would effectively be underwriting insurance for its commercial rivals. When the DI law was under discussion, Sberbank executives insisted that their institution should remain outside the new system for some considerable period. The compromise eventually enshrined in art. 49 of the DI law is as follows:

- The state guarantee extended to all Sberbank deposits under the law 'On banks and banking' will remain in force until 1 January 2007. (This guarantee is separate from that extended to other state banks under Civil Code art. 840.1 and is not affected by the amendment to that article discussed above.) However, the DI system will still pay out in the event of difficulties at Sberbank, with the state covering all pay-outs in excess of those stipulated by the DI law.
- Sberbank will pay into the system from its foundation, but Sberbank's DI premia will be maintained in a separate account until its share of household deposits falls below 50 per cent or until 1 January 2007, whichever comes first.<sup>30</sup>
- The funds accumulated in this separate Sberbank DI fund may only be used for pay-outs on Sberbank deposits until such time as Sberbank's DI fund is merged with the rest of the fund.

As noted above in Chapter 5, however, the authorities are already planning to modify this position. Government-backed amendments submitted to the Federal Assembly would restrict the unlimited state guarantee on Sberbank deposits to those opened before 1 November 2004. The guarantee on deposits opened on or after that date would be capped at Rb100,000. If adopted, this measure should help to level the competitive playing field in the retail market somewhat sooner than otherwise.

1. For the text of the law itself, see 'O strakhovanii' (2003).
2. 'Poyasnitel'naya zapiska' (2003).
3. Kane and Demirgüç-Kunt (2001:3-4, 21). See also Diamond and Dybvig (1983).
4. For a plausible estimate of around USD 44bn in mattress money, see Hainsworth and Keeley (2003).
5. 'Ob utochnenii' (2003), para. 9.3.
6. See, e.g. Kane and Demirgüç-Kunt (2001); Cull *et al.* (2000); Barth *et al.* (2002).

7. For cross-national comparative work, see Kane (2000); Kane and Demirgüç-Kunt (2001); and Cull *et al.* (2000). For studies of specific cases, see Brewer (1995), de la Cuadra and Valdes (1992), and de Krivoy (1995).
8. ‘Ob utochnenii’ (2003), para. 9.2.
9. See Cull *et al.* (2000); Demirgüç-Kunt and Detragiache (2000); and Barth *et al.* (2002).
10. See Fantini (2003:6); and Kane and Demirgüç-Kunt (2001:7).
11. ‘O nesostoyatel’nosti’ (2002), art. 49. This provision actually contradicts article 64.1 of the GK, but the Supreme Arbitration Court ruled in favour of the former in February 2003 (Vysshii Arbitrazhnyi 2003).
12. This refers to an established legal category -- ‘individuals engaged in entrepreneurial activity without the formation of a legal person’ (PBOYuL). Deposits opened and operated by such individuals for business purposes are not covered.
13. This is to prevent corporates from insuring corporate deposits opened in the name of their employees or affiliated persons and then transferred back to the trustee management of the company.
14. Specifically defined as rates that are more than one-and-a-half times the CBR’s refinancing rate.
15. Hainsworth (2004).
16. Fantini (2003:6).
17. Kane and Demirgüç-Kunt (2001:7)
18. Russia has thus, more or less accidentally, acted on a suggestion made by Kane (2000:30) with a view to interpolating a thick layer of subordinated debt between retail savers and shareholders.
19. At the very least, one must consider the possibility that tax rather than the lack of DI constitutes the major deterrent to banking one’s savings. Lack of faith in the rouble could also be a factor, though this is diminishing. There is widespread public awareness that the currency is strengthening and, in any case, it is not difficult to open forex deposits at Sberbank.
20. Fantini (2003:6) points out that the US DI fund is capped at 1.25 per cent of deposits, which is far lower than the level at which the Russian legislation would cap the premia. If the US fund exceeds this level, the FDIC must lower premia regardless of actual risk.
21. Fantini (2003:6).
22. Fantini (2003:6), drawing on data from FDIC (2001).
23. The (understandably) conservative range of instruments in which the fund may invest means that investment income is unlikely to do much to close the gap between actual resources and potential liabilities.
24. See Demirgüç-Kunt and Detragiache (2000); and Barth *et al.* (2002). Cull *et al.* (2000) go further, arguing that this effect may be stronger if premia are high or if they are risk-weighted, although Demirgüç-Kunt and Detragiache think risk-weighted premia may *reduce* incentives to risk-taking by making it more expensive.

25. Demirgüç-Kunt and Detragiache (2000).
26. While *ex ante* systems predominate, three European countries have *ex post* systems and six more operate mixed systems; see Fantini (2003:6).
27. Some critics, including the Association of Russian Banks, object to the requirement that banks dealing with retail clients join the scheme, arguing that this violates the rights of both the banks and depositors. There may be some attempt to challenge this provision on the basis of Civil Code art. 840, which treats deposit insurance as only one of the possible means of ensuring the protection of citizens' deposits.
28. This would appear to have been one of the reasons for the long delay in passing the law. Many banks would not welcome such scrutiny, which might reveal the extent to which they 'window-dress' their financial reporting and could lead to their exclusion from the retail market.
29. Banks that fail to meet the deadlines for application or re-application will not be eligible to enter the system (art. 46). The law is silent with respect to any consequences that may ensue should the CBR fail to meet the deadlines set.
30. To be precise, the provision lapses either on 1 January 2007 or on the first day of the next calendar quarter after the release of CBR data showing that Sberbank's retail market share is below 50 per cent.

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