

# Operation of Deposit Insurance Funds Mexico - IPAB

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**SHCP**  
SECRETARÍA DE HACIENDA  
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# I. Legal Framework

## Sources of funds and its use

- The legal framework for the establishment of Mexico's **Bank Savings Protection System** was introduced in 1999, creating IPAB as a decentralised government agency, responsible for the administration of such System, including the financial obligations derived from the banking crisis of 1995 (legacy debt).
- Mexico's legislation establishes **three main sources of funds** for the Bank Savings Protection System:
  1. Bank fees
  2. Financing through debt issuance or loans
  3. Public funds
- The funds may be used for **all resolution purposes**, subject to a "least cost" safeguard. The exception being the risk of a systemic crisis.



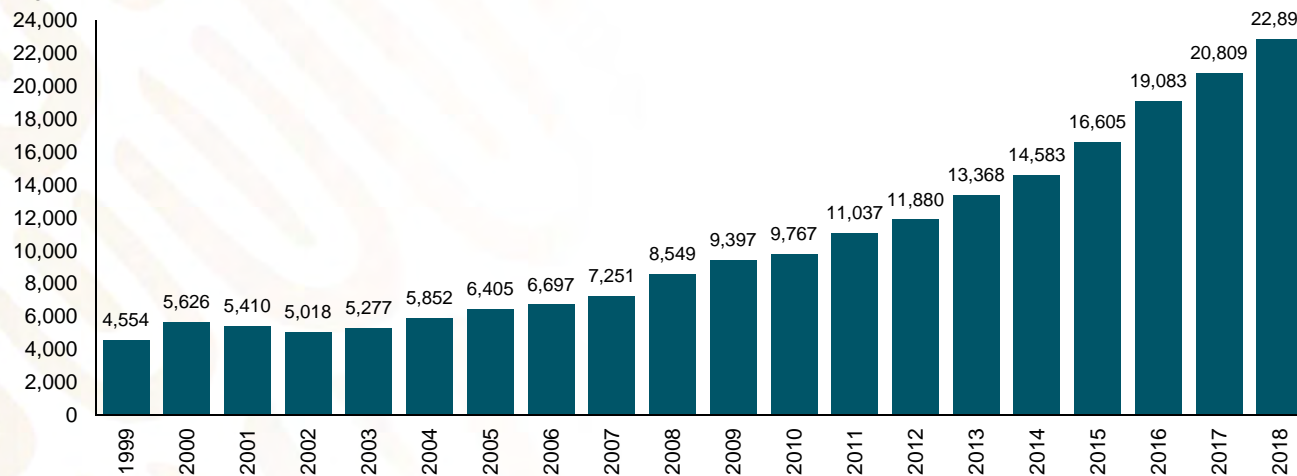
## II. Bank Fees

### Ex-ante funding

- All banks must pay (on monthly instalments) an annual fee of **at least 40bp** relative to its **total liabilities from banking operations**. These fees shall **never exceed 80bp**.
- By law, IPAB could charge different fees, based on risk, and that would imply fees beyond 40bp for the banks with higher risk.
- IPAB has always charged 40bp of total liabilities. If we put the amount collected in terms of eligible deposits, on average the fee has been around 50bp.

**Annual Fees Collected**

Million MXN



23 Billion MXN = 1.2 Billion USD  
= 0.51% of Eligible Deposits



### III. Legacy Debt

#### Refinancing Strategy

- The financial obligations that IPAB acquired upon its creation amounted a total of **688 billion MXN**, equivalent to **11.3% of Mexico's GDP at that time**.
- The law requires IPAB to use **three-quarters of annual bank fees** to service its legacy debt.
- Given the size of the debt, fee resources would not stop the debt from growing in real terms, so IPAB set the objective of paying every year at least the real cost of the debt, thus refinancing only the inflationary cost.
- In order to do this, IPAB estimates the real cost for the following year and proposes, to the Ministry of Finance, the necessary amount to be included in the government budget expense.
- This strategy has allowed a **contraction of the legacy debt, in real terms, of 44%**. And in terms of the size of the economy the reduction is also relevant: the debt now represents **3.68% of GDP**.
- At the end of 2018 the size of the debt was **902 billion MXN**. In nominal terms, the debt has grown only 31% in almost 20 years.



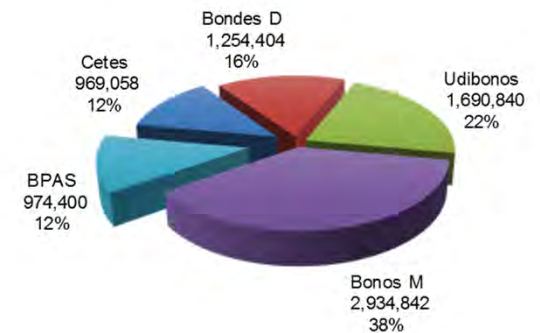
### III. Legacy Debt

#### Market relevance of IPAB as issuer

- IPAB has consolidated its position as a relevant issuer in Mexico's debt market.
- It has three types of securities, called BPAS, all floating rate notes, with monthly, quarterly and semi-annual coupons and maturities of up to 7 years.
- The bond with longer maturity (BPA182) has semi annual coupons that are inflation protected.
- In order to give certainty to the market, BPAS are issued according to a calendar that is quarterly published along with the federal government.

**Mexican Government Debt Market**

December 31, 2018. Million MXN



**IPAB Ratings**

December 31, 2018

	BPAG28	BPAG91	BPA182	Rating	S&P	Moody's	Fitch
<b>Coupon</b>	Monthly	Quarterly	Semi annual Inflation protected	<b>Global</b>	BBB+ A-2	A3 P-2	BBB+ F2
<b>Maturity</b>	Up to 3 years (1,092 days)	Up to 5 years (1,820 days)	Up to 7 years (2,548 days)	<b>Local</b>	mxAAA mxA-1+	Aaa.mx MX-1	AAA(mex) F1+(mex)
<b>Reference Rate</b>	Max (Cetes 28, TPGF)	Max (Cetes 91, TPGF)	Max (Cetes 182, II period)	<b>Perspective</b>	Stable	Stable	Negative

TPFG: Daily Government Funding Rate

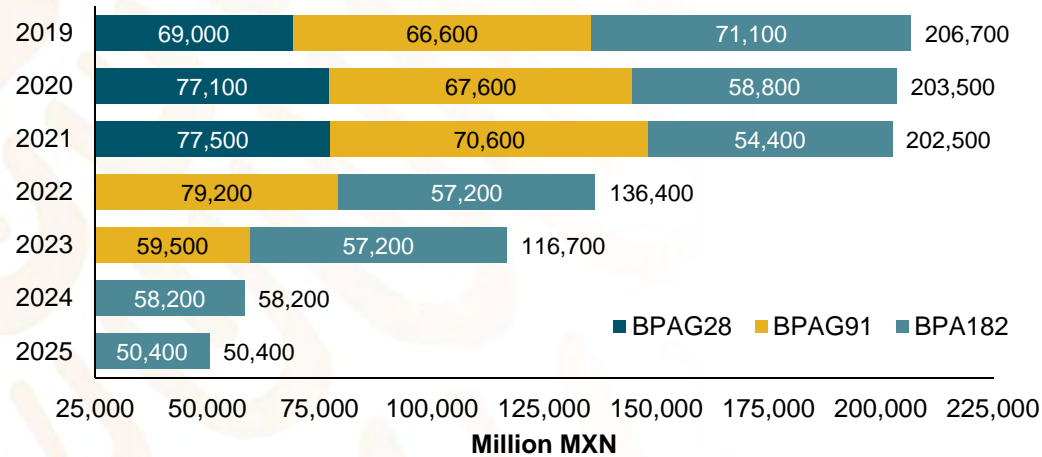


### III. Legacy Debt

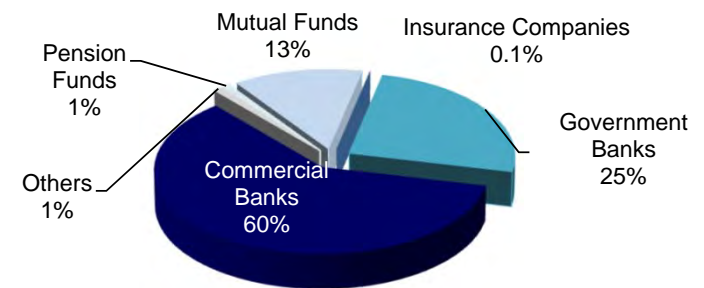
#### Sustainable Debt Maturity Profile

- IPAB’s debt maturity profile is well balanced over the following years, with the objective of avoiding any additional pressure on Mexico’s financing needs.
- Commercial Banks are the main buyers of BPAS, followed by Government Banks and Mutual Funds.

**Debt Maturity Profile**  
As of December 31, 2018



**BPAS Holders**  
As of December 31, 2018



**Total amount outstanding**  
**974 Billion MXN**



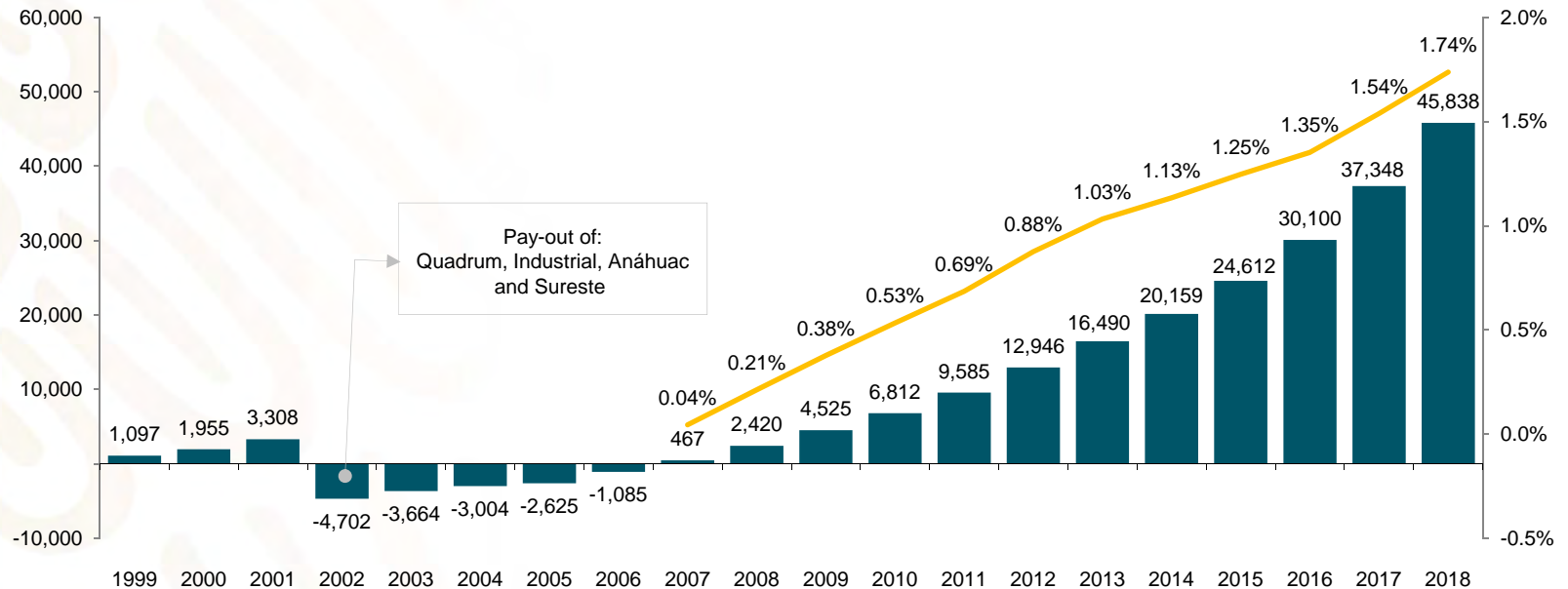
## IV. Bank Savings Protection Fund

### Pay-out and Resolution purposes

- The remaining 25% of bank fees are added to the Bank Savings Protection Fund, after covering IPAB's operating expenses. The Protection Fund was depleted in 2002 after successive pay-outs and it took five years to come into black figures but now it has a size equivalent to 1.74% of total covered deposits.

#### Bank Savings Protection Fund

Left Axis: (Bars) Fund Balance at the end of year in Million MXN  
 Right Axis: (Line) Fund Balance in terms of Total Covered Deposits

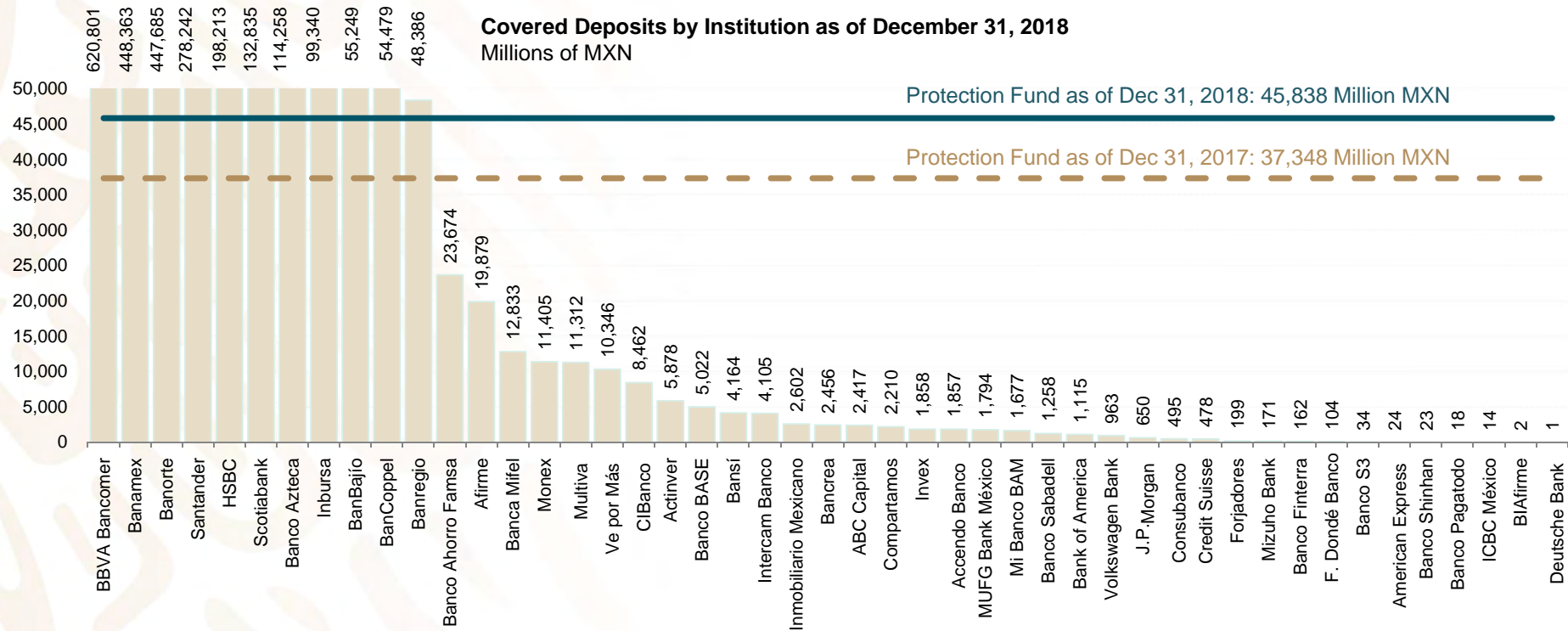




# IV. Bank Savings Protection Fund

## Pay-out and Resolution purposes

- The size of the Fund was enough to cover, on a stand-alone basis, the pay-out of 36 out of the 47 banks that held eligible deposits at the end of 2018. Nonetheless, in the event of insufficient resources to perform a bank resolution, IPAB is allowed to seek additional funding of up to 6% of the total liabilities of commercial banks, every three years. At the end of 2018 this 6% represented 507,380 million MXN.







## V. Bank Savings Protection Fund

### Investment regime

- IPAB faces a very strict investment regime, established by law. It can only invest in Mexican Federal Government securities and hold deposits in the Central Bank. Nonetheless, for its daily operation needs, IPAB may hold deposits and repo transactions with commercial banks.
- Even though IPAB is able to invest in foreign currency denominated debt issued by the federal government, it is not contemplated because all obligations in resolution activities must be paid in pesos, and more importantly, only 5% (on average over time) of the total covered deposits are denominated in foreign currency.
- IPAB follows a strict policy for liquidity management, holding at least the equivalent of 3 months of projected payments in highly liquid assets. This time-frame typically comprises not only some principal and interest payments of the legacy debt, but also the entire balance of the Protection Fund, because of its emergency nature.
- This is why IPAB currently manages around 130 Billion MXN in the money market.



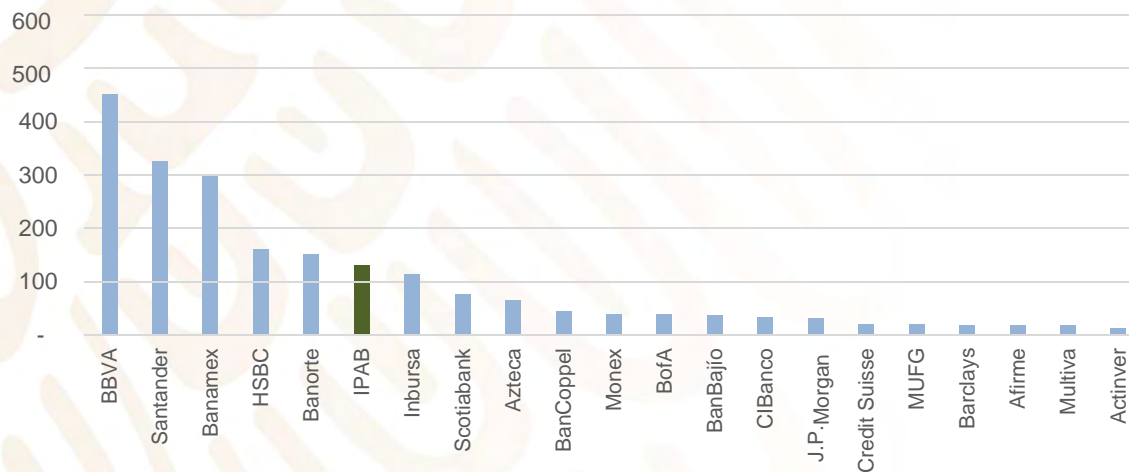
## V. Bank Savings Protection Fund

### IPAB's role in Mexico's money market

- IPAB plays an important role in Mexico's money market. If compared to commercial banks, IPAB's investment portfolio would rank sixth by size, of a total of 51 banks.
- Among the domestic Mutual Funds sector, IPAB would be seventh in size, of a total of 31 Managers.

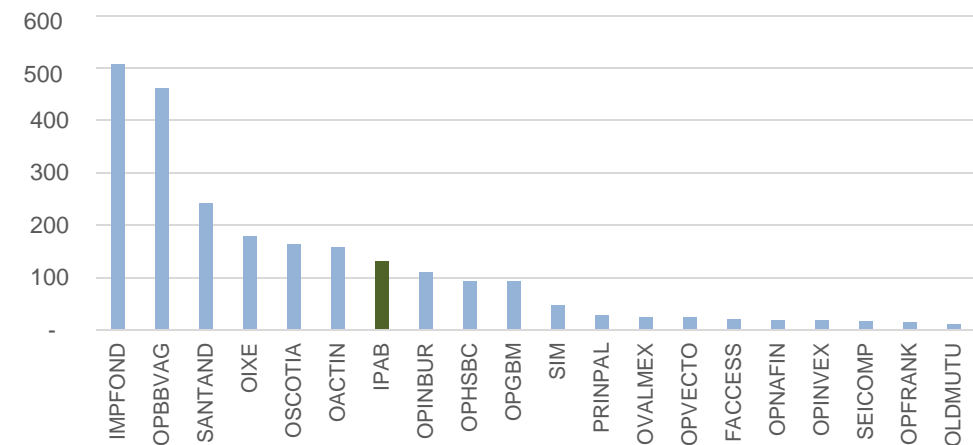
**IPAB and 20 Biggest banks by net productive assets excluding loans**

Balance in Billion MXN as of December 31, 2018



**IPAB and 20 Biggest mutual fund managers**

Aggregated balance of funds in Billion MXN as of December 31, 2018



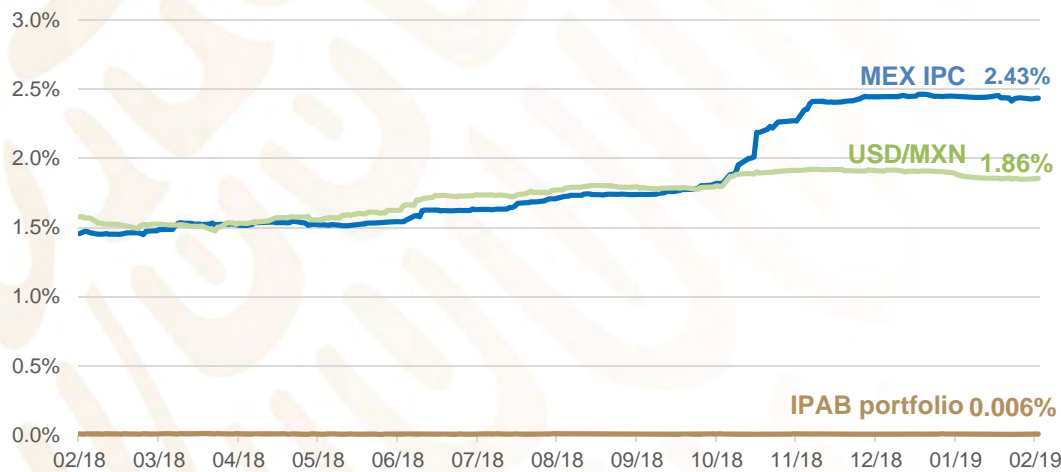


## V. Bank Savings Protection Fund

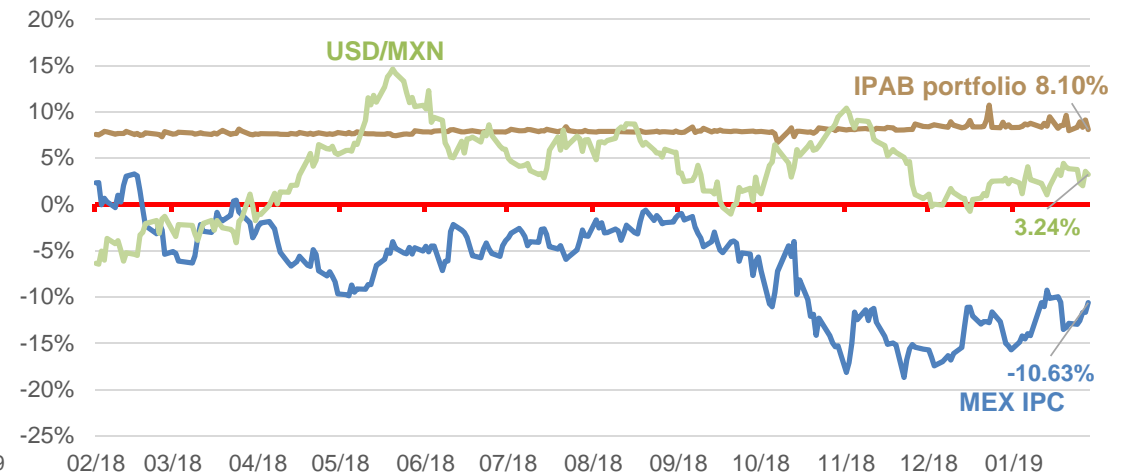
### Investment performance

- As a government entity, responsible for the Bank Savings Protection System, IPAB can not demonstrate any appetite for risk when investing resources. Nonetheless it faces the challenge of safekeeping the value of the Protection Fund over time.
- IPAB's low risk portfolio has yielded a stable return in MXN and above inflation.

Value at Risk 1d 99%



Annual return



Thank you!

