Cambodian banks are looking at a deposit-insurance system

Under a Cambodian law that came into effect at the end of 1999, 29 private banks—mostly foreign-owned—were given a year to renew their licenses. This gave the central bank, the National Bank of Cambodia, a chance to scrutinize the viability of each bank. At the same time, it was able to strengthen the whole banking system.

After 6 months, all but one of the banks had applied to be relicensed. The central bank decided to shut down three, including the one that did not apply for a new license. It then liquidated their assets. Crowds of frustrated customers appeared outside branches of banks that had closed their doors.

It's been almost 2 decades since the central bank moved to clean up the country's private banks. Back then, Cambodia didn't have a single ATM.

Today, branches with ATMs are common in provincial areas, deposits have increased, and credit has grown quickly. Minimum capital requirements have been raised. And in a country where cash was once king, electronic payments are now widespread.

In addition to a dozen specialized banks, Cambodia now has almost 40 private commercial banks. Foreign banks still dominate. But there have been multiple new entrants, notably from the People's Republic of China, Viet Nam, the Republic of Korea, and Malaysia.

Rapid growth in credit—albeit from a very low base—has come with increased risks.

The International Monetary Fund—the IMF— says the ratio of bank credit to GDP is now close to 70%. During its latest annual mission to Cambodia in July, the IMF welcomed central bank efforts to tackle these risks, including higher capital requirements.

Partly because of these measures, credit growth has slowed in 2017. But the ratio of credit to GDP is still increasing.

Much of Cambodia's bank credit continues to be funded from outside the country.

At the end of its 2-week mission to Cambodia, the IMF issued a statement.

Local authorities, it said, should keep taking steps to make the country's financial system more resilient. Steps proposed included better managing credit risks and developing a crisis-management framework.

Into this environment, the Asian Development Bank Institute—the ADBI—has stepped with plans to develop a deposit-insurance system for the people who keep their money in banks in Cambodia.

With an extremely young population, Cambodia has seen the numbers of bank depositors grow enormously in recent years.

Most are too young to remember the three bank closures of 1999. And, unlike their parents or grandparents, many young Cambodians are wary of keeping their savings in gold or in cash at home under the bed.

The move toward deposit insurance in Cambodia is being spearheaded by Naoyuki Yoshino, dean of the Tokyo-based ADBI, which provides input to policy makers in member countries.

Dean Yoshino says he discussed the idea with a deputy governor of the National Bank of Cambodia, Neav Chanthana [neh-ahv chahnt-hah-nah], on a recent visit to Phnom Penh.

> She was very much interested in deposit insurance, and how deposits should be protected in Cambodia. In many developing countries there is no deposit-insurance system. In case of some uncertainty, there's a possibility of a bank run. It is important to guarantee deposits of the small investors. That will create a very safe and stable supply of money. And each country, especially in Cambodia, I think domestic savings have to be promoted to finance domestic investment.

Dean Yoshino worked for the Deposit Insurance Corporation of Japan for more than 15 years and helped set up the Japanese system of insuring bank deposits. He believes insuring bank deposits in Cambodia will help promote domestic savings.

> If the central bank introduces a deposit-insurance system, people will be very secure. Even if they have deposits, they are guaranteed. Domestic

savings can be promoted by the central bank of Cambodia. That is why we are discussing the establishment of a deposit-insurance system in Cambodia. And what amount of deposit should be guaranteed is now under discussion by the Cambodian central bank. Each commercial bank has to contribute a certain amount of insurance premium in order to run the deposit-insurance system. ADB Institute and ADB are helping with the optimal ratio of deposit-insurance fees for each bank.

For Cambodia, the timing is good. With GDP growth averaging about 7% a year since the aftermath of the global financial crisis a decade ago, the country is growing faster than most other economies in Southeast Asia.

When the Asian financial crisis hit 20 years ago, Cambodia was very much "underbanked," with most people still holding their savings in livestock or cash. Cash was mainly in dollars—by far the mostly widely used currency in circulation. This was one of the reasons why the Asian crisis had little direct impact on Cambodians. The people most affected were those in northwest provinces bordering Thailand, who tended to keep their cash savings in Thai baht. In 1997, the baht collapsed against the dollar, along with other currencies such as the Korean won, the Indonesian rupiah, and the Malaysian ringgit.

Today, the US currency is still Cambodia's main means of exchange. Yet savings are much more likely to be held in banks. With IMF warnings about credit risks and the need for a framework to manage any future crisis, deposit insurance makes sense—especially if bank credit is largely funded from abroad.

Twenty years ago, Asia was faced with the Asian financial crisis because many Asian countries relied on overseas money rather than utilizing domestic savings. Twenty years ago, domestic savings were very scarce in Cambodia and other countries. However, economic development encouraged the growth of the middle-income classes in Cambodia, and small businesses have started to sell their products. So, I think that domestic savings are growing gradually in Cambodia.

That was Naoyuki Yoshino, dean of the Asian Development Bank Institute in Tokyo, talking about current efforts to set up a system to insure bank deposits in Cambodia.

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