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The Institutional Work of SDIF: A Historical Perspective on Rhetorical Clashes

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Abstract

Emergence of regulatory organizations around the world have different historical backgrounds. The history of SDIF viewed by an organizational institutionalist lens allows us to explain different periods in history distinguishable by their institutional pressure mechanisms and by the different rhetorical clashes resulted from these pressures. We identified three different time periods with different rhetorical strategies (Suddaby and Greenwood 2005). Regarding to the ever-clashing nature of global and local institutional logics during different time periods in history the SDIF's organizational identity continuously reestablished due to the rhetorical clashes. Those rhetorical clashes are the result of three different historical periods, and they clash while he SDIF organization shapes its organizational identity and purpose.

Keywords: Institutional Work, Savings and Deposit Insurance Fund (SDIF), Rhetorical Clashes
Jel codes: G20, G21, J65

1. Introduction

Banks are institutions that act as intermediaries for the conversion of savings into investments. If the process of encouraging savings and channeling them into investments is interrupted for any reason, it will seriously threaten economic stability. Therefore, even the monetarily disruption of the payment flow on which economic life is based will adversely affect social life. On the other hand, with the spillover effect in the banking sector, a problem in one bank may affect other banks and create a general problem for the whole system. For this reason, many countries provide security for bank deposits and create a security perimeter for deposit protection through final lending and supervisory mechanisms (Güneş, 2015: 46).

Governments make an effort to accumulate capital for economic growth and development which requires a stable savings policy to encourage transferring savings into investments. The essential organization in the conversion of savings into investments is banks. In this regard, states take legal and administrative measures to prevent bank failures. Deposit insurance systems are implemented to ensure confidence and stability in the banking system and to protect depositors in case banks go bankrupt for any reason. This system can be described as a solution to the spread and contagious effect of the condition. In order to avoid the cost of banking crises, governments create a financial safety net. This financial safety net includes various tools to protect the financial system from negative effects in case of possible banking crises. Among these instruments, deposit insurance is one of the most important measures.

2. Bank Failure and Deposit Insurance

The deposit insurance practice has emerged as a regulation that ensures that depositors are compensated in case banks are unable to meet their possible obligations since the savers are a vast financially vulnerable group. In general, the deposit insurance system is created to partially or completely secure the deposits of small savers deposited in banks or other savings institutions who may lack financial literacy. However, in addition to this function, the deposit insurance system also ensures the maintenance of trust in the banking sector which is affected by the crises that may arise in the economy and the financial system, by transferring the risk of the banking sector, to deposit insurance institutions. From a macro point of view, deposit insurance contributes to the stability of the financial system, as it has a function to prevent savers from panicking and taking their savings out of the banking system (Ayzit, 2004:4; Demirgüç- Kunt & Sobacı, 2000: 2). Deposit insurance has been described as the most important consumer protection regulation because depositors are a kind of consumers who do not have the opportunity to monitor and evaluate banks constantly. If banks lose solvency, insurance reduces the losses of depositors, and in some cases covers them completely (Benston 2000, 195).

Since the beginning of the 1980s, it has been noted that the number of financial failures in the banking sector has increased globally. Empirical studies demonstrate that financial failure in the banking sector generally occurs due to the weakness in the macroeconomic environment of the country. In particular, the risk of fiscal failure increases in countries with low economic growth, high inflation, high real interest rates, inadequate legal regulations, and direct savings deposit insurance. (Demirgüç; Detragiache, 2000: 9).

Although deposit insurance was first tried in Europe in Czechoslovakia in 1924, it was first implemented institutionally and nationally in the USA in 1933 after the 1929 economic depression. In the USA, the institutional structure was completed in 1934 with the establishment of the Federal Deposit Insurance Corporation (FDIC). The first application of deposit insurance in The Republic of Türkiye started in 1933. Deposit insurance has become a much more popular practice in the wake of bank crises. It was applied in 100 countries before the 2008 global banking crisis and started to be implemented in 19 more countries immediately after the crisis (Ji et.al., 2018: 268-269).

The modern practice of American deposit insurance started with the establishment of the Federal Deposit Insurance Corporation (FDIC) in 1934 based on the Banking Law enacted in 1933 in order to provide confidence and stability to the economy and the banking system. This was due to the failure of many banks as a result of the Great Economic Depression of 1929. A total of 14,807 (9,000 between 1929 and 1933) banks went bankrupt in the U.S. between 1921 and 1933 alone. The ratio of these insolvent banks to the total banking sector in the USA is at the level of 5% per year, which represents a very high rate. These periods, when deposit insurance has not yet been implemented, are the periods when the public does not deposit their money in banks and stays away from banks (FDIC, 2024). The number of banks that went bankrupt decreased to less than 15 per year after the establishment of the FDIC until 1981 (Mishkin & Eakins, 2012: 426).

3. The History of Deposit Protection in Turkey

The aim of deposit insurance applications is to increase the small savers confidence in the banking system, therefore contributing to the stability of the system by holding the small savers inside the system. While in the USA, a risk-based premium system has been applied from the very beginning, Türkiye's transition from the fixed premium system to the risk-based premium system has been achieved over time. While the management of the deposit insurance system in EU countries is public, private or mixed, the deposit insurance system in Türkiye was established in 1933 and has continued to be managed by the public institutions and funds since 1983 (Akyol: 2018: 7). Many countries in the world have turned to deposit insurance against the banking crises they have experienced. The institutionalization of the deposit insurance system gained momentum after the 1980s. The first legal regulation specific to banking in the Republican period was the Deposit Protection Law No. 2243 published in 1933. With the Banks Law No. 2999 published in 1936, a special law was enacted for banks. This Law maintained its existence with amendments until the Banks Law No. 7129, which entered into force in 1958. Law No. 7129 remained valid with some important amendments until the Banking Law No. 3182 came into force on 02.05.1985.

With the Banking Law No. 4389 published on 23.06.1999, the Banking Regulation and Supervision Agency (BRSA) was established as a public institution with financial and administrative autonomy. Thus, all regulatory and supervisory powers regarding banking, which were previously in the Central Bank of the Republic of Turkey (CBRT) and the Ministry of Treasury, were transferred to a new public institution independent of the central administration and the budget. However, in the 1999-2002 period, Turkey faced the most severe financial and economic crisis in its history. During this period, many banks experienced a transfer or liquidation process with the decision of the BRSA. On 01.11.2005, the Banking Law No. 5411 entered into force. The new Law has been designed in detail, comprehensively, and in a long way compared to previous laws, considering the regulations of the Basel Committee on Banking Supervision, the developing and changing international banking rules and practices, and the experiences of the severe crisis. This Law, which has undergone numerous amendments and is still in force to date, has expanded the BRSA's mandate to include financial companies other than banks within the framework of the needs of the diversifying and developing financial system. As an additional outcome of this historical process, the Savings Deposit Insurance Fund (SDIF), which was previously part of the BRSA, has been turned into a separate and independent autonomous institution (Tiryaki, 2012: 74-76). For the financial system to operate in a safe and sound environment, the public authorities should perform four main functions in coordination with each other. These are a prudent regulation and control mechanism, being the final source of liquidation, deposit insurance and liquidation process (Schich, 2008: 4-5). These functions are currently carried out by the BRSA, the CBRT and the SDIF in terms of the banking system in Turkey.

Since the second half of the 1990s, regulatory institutions with administrative and financial autonomy and public legal personality have been established in order to make public activity more effective (Tüsiad, 2002: 22). The trend of globalization of the economy inevitably effected Türkiye and a regulatory institution for different fields and sectors was needed. The 2001 crisis and the accession process to the European Union have brought to the fore the urgency of reforms that have been neglected for many years, which has raised awareness of the necessity and usefulness of market-oriented, responsible and transparent institutions. This necessity has paved the way for outdated, meaningless and ineffective practices and regulations that will enable the exit from institutional structures. (OECD, 2002: 44-45).

Emergence of regulatory organizations around the world have different historical backgrounds. The main reason of establishing regulatory organizations in the USA was due to Congress' distrust to presidency, in Europe, it was the inadequacy of the judiciary. In addition to these factors, the economic crises experienced in the 1994 and 2000-2001 periods, the demands of the European Union, during the negotiation process, and the IMF's stabilization program, gave regulatory institutions a significant realm of existence in Türkiye (Kartal, 2012: 64). 2003 was the date SDIF were given autonomous status with law no:5020. This was followed by achieving authority to make regulation in 2005. Within the scope of the State of Emergency announced following the attempted coup of July 07, 2016, provided that the SDIF should be assigned the duties and powers of trusteeship in companies to which a trustee was/was to be appointed pursuant to Article 133 of the Code of Criminal Procedure for belonging to, being attached to, or being connected with terrorist organizations, and the same Decree Law brought provisions regarding the sale and liquidation of such companies and assets. (SDIF 2022 Annual Report). The historical analysis of SDIF shows that different environmental pressures and socioeconomical demands shapes the organization's identity, purpose and legitimacy. To better understand the factors that molded the organizational structure and the purpose of SDIF, a classification of historical periods by implementing an "organizational institutionalist" (Greenwood et al. 2017) approach is discussed below.

4. Discussion

Organizational institutionalist approach brings together the cultural and normative dimension of organizations and regulative practices to better view the transformations in time. The new institutionalism approach (DiMaggio and Powell 1991) was focused on finding answers about why the organizations with the same purpose are so similar to each other. The idea is that organizations need legitimacy, and it is provided to them by the institutional isomorphism mechanisms. Later on, historical studies of organizations began to focus on the logics of the environment that shapes the purposes. According to this institutional logic (Thornton et al. 2012) perspective the market, the culture and the state in a social environment, shapes different logics for the organizations and these logics clash inside the organizations, creating a complexity about the discourses, rhetoric and strategic goals. To cope with this complexity organizations, construct their strategies rhetorically to benefit from their history by making society remember or forget different historic events (Suddaby and Greenwood 2005). This complexity increases when external institutional pressures are added into this isomorphism mechanism. The contemporary Scandinavian institutional approach (Boxenbaum 2005; Czarniawska 2009) refers to the translation of external practices by local organizations.

The history of SDIF viewed by an organizational institutionalist lens allows us to explain different periods in history distinguishable by their institutional pressure mechanisms and by the different rhetorical clashes resulted from these pressures. We identified three different time periods with different rhetorical strategies (Suddaby and Greenwood 2005). The figure below demonstrates them with the important milestones related with them.

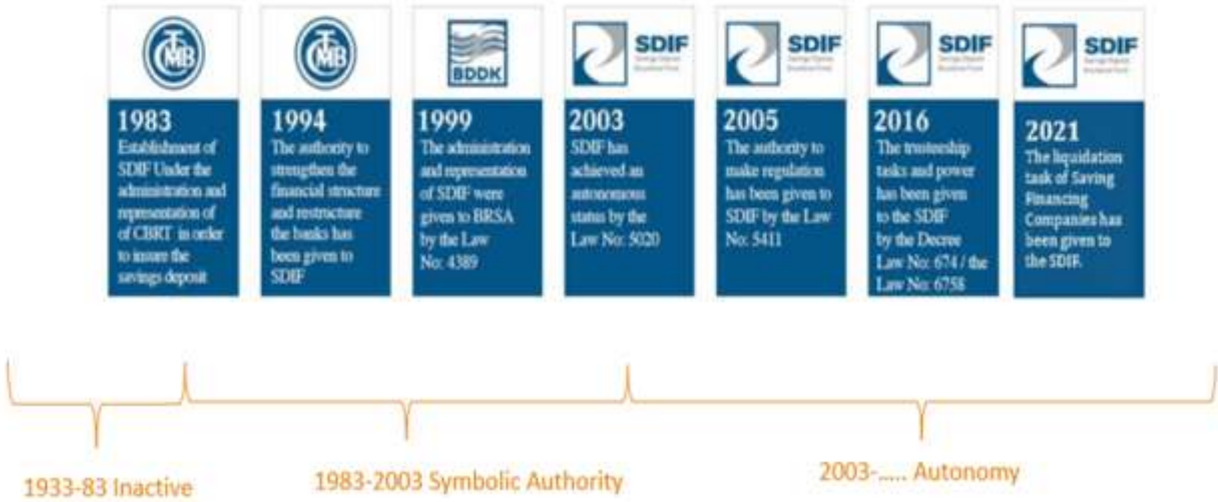

Figure 1: Historical Background of SDIF

Source: Derived from SDIF 2022 Annual Report

The first period includes a mandatory institutional translation (Czarniawska 1997, 1998) from USA for the reason of 1929 economic crisis environment and bank collapses. This period is identified as an Inactive period. During this period the transformation from a law and regulation to an institution happened. Between 1983-99 SDIF was a ceremonial presidency under Central Bank. 1994 - 1998 Financial crises lead to 26 bank collapse hence the external, coercive isomorphism (Dimaggio and Powell 1991) pressures mainly from International Money Fund (IMF) changes the organizational structure of SDIF. From 1999 the number of personnel increased dramatically and the representation and administration of the SDIF was assigned to the Banking Regulation and Supervision Agency (BRSA). We named this timeframe as symbolic authority period. The third period is finally an autonomy period but this time the rhetoric and purpose of the SDIF had changed due to its new authorization over the trusteeship issues and private sector influence. We observe an institutional change during this period.

5. Conclusion

Regarding to the ever-clashing nature of global and local institutional logics during different time periods in history the SDIF's organizational identity continuously reestablished due to the rhetorical clashes. We argue that during the first period, resistance to the external coercive isomorphism resulted the organization to adopt a "ceremonial presidency" rhetoric. This was replaced by an "autonomy" rhetoric because of the neo-liberal global institutional logics. The third period was socially influenced by the localization logic and increasing demand of the state to control political unrest. This period changed the organizational identity of SDIF, and the new trusteeship duty transformed the organizational identity with a rhetoric which can be named as a "holding rhetoric" where the holding refers to the main actor of the Turkish business system for shareholders. Those rhetorical clashes are the result of three different historical periods, and they clash while he SDIF organization shapes its organizational identity and purpose.

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