



Early Intervention and Bank Resolution Taiwan Experience

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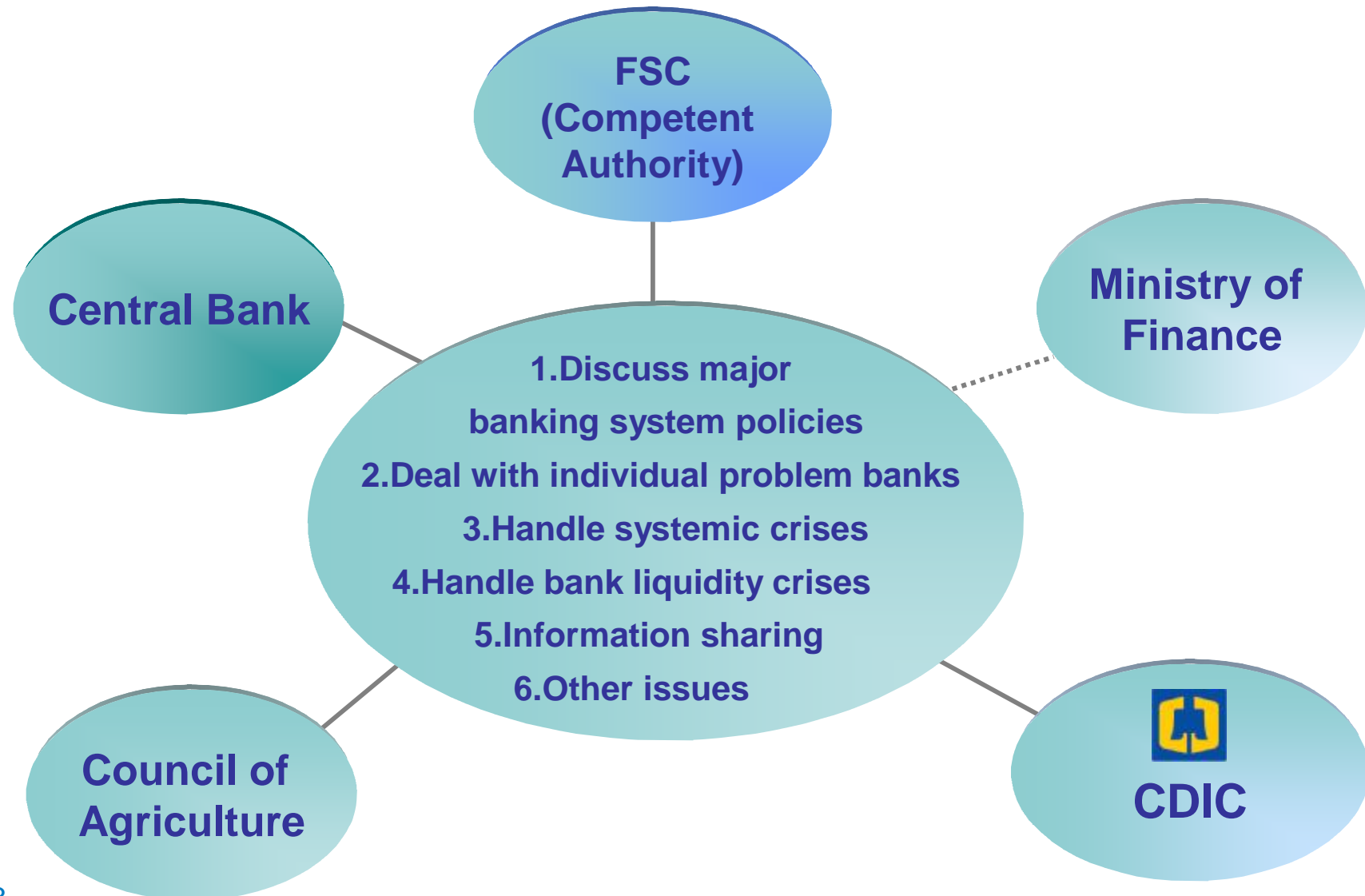
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& early intervention mechanisms
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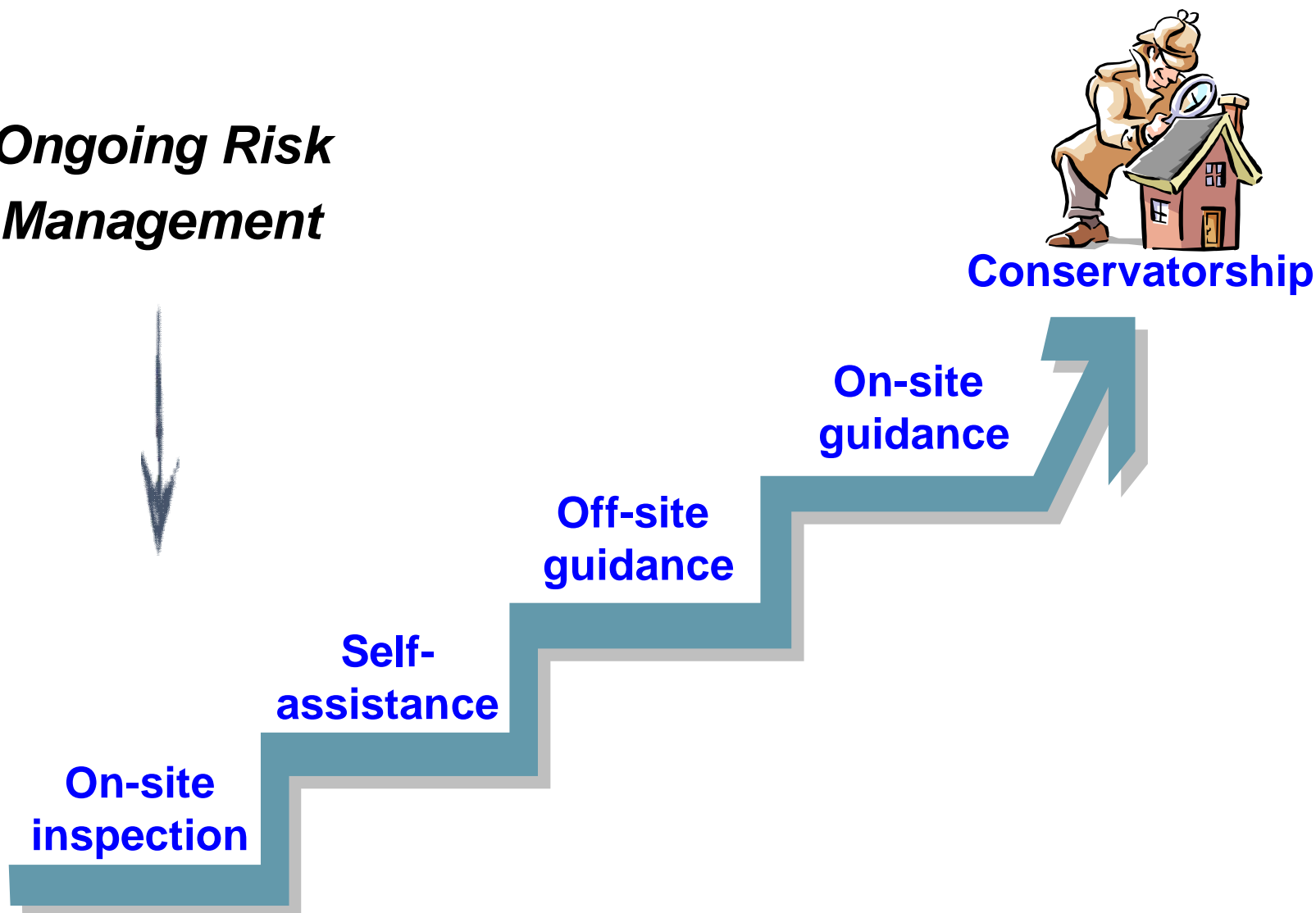
Financial Safety Net & Its Liaison System





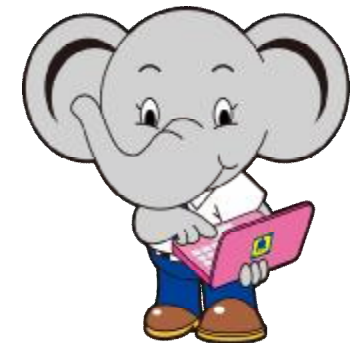
Early Intervention & Resolution Mechanism in Taiwan

*Ongoing Risk
Management*





Risk Management & Early Intervention





Entry of DIS – Membership Application

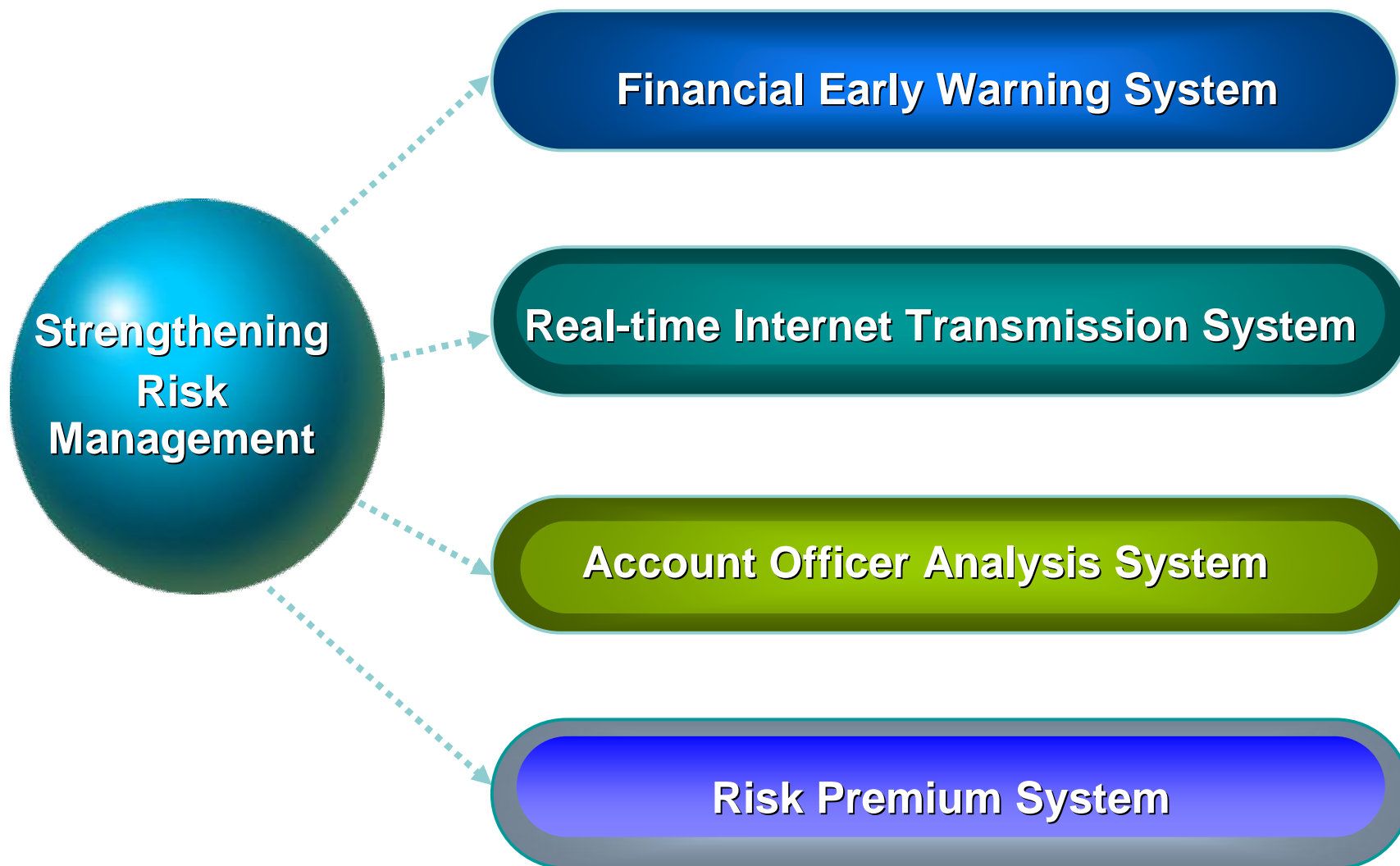
§ Mandatory application, but subject to CDIC's on-site inspection and review

- If applying institution doesn't conform to the Approval Standard, CDIC urges it to make improvements within certain timeframe



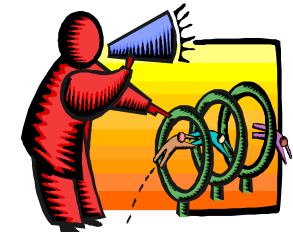
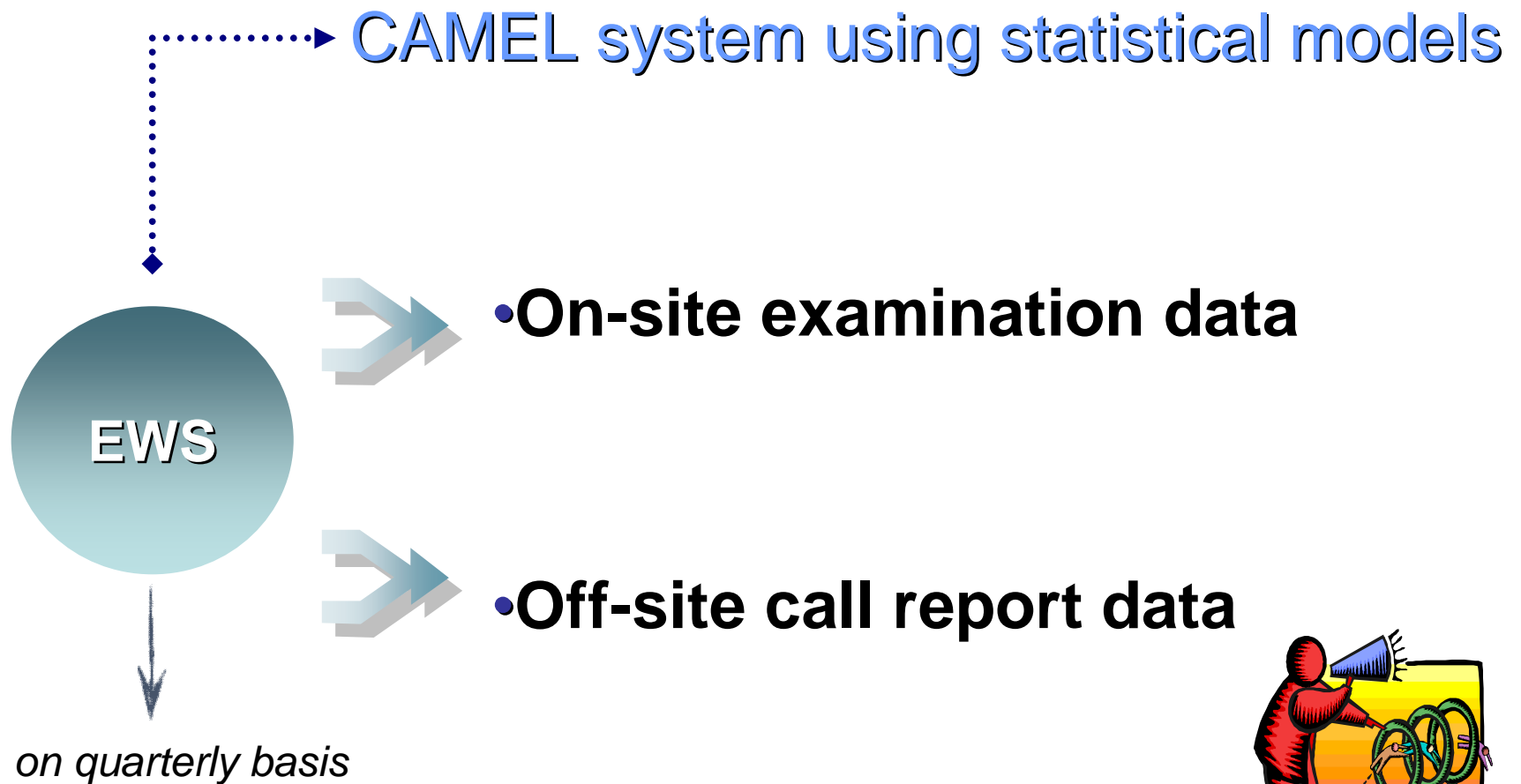


Ongoing Risk Management





Financial Early-warning System (EWS)



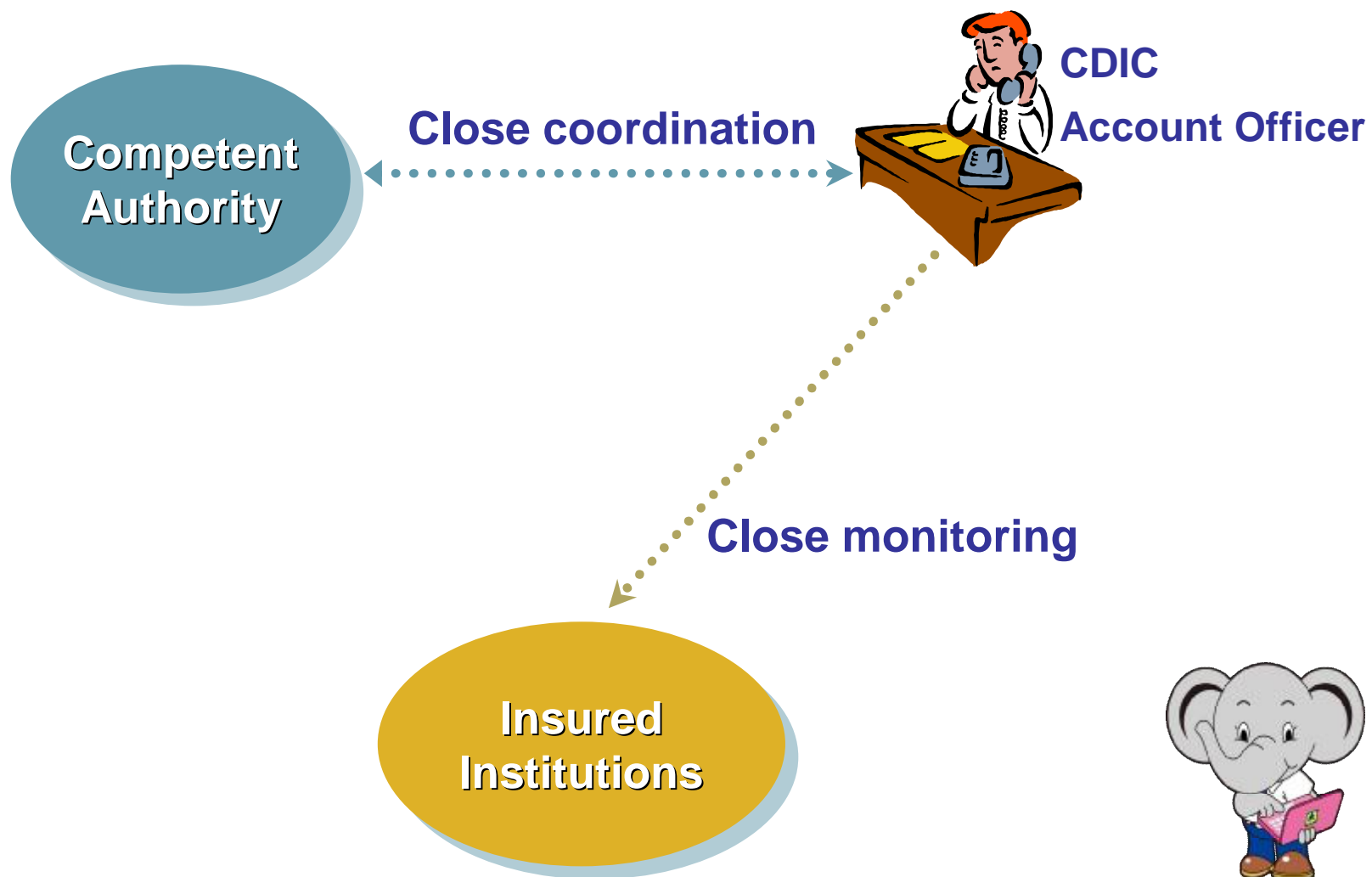


Real-time Internet Transmission System

- § Financial institutions transmit major financial information to CDIC on a daily basis
- § CDIC can promptly discover and respond to warning signals



Account Officer System



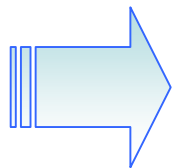


Risk Premium System

§ Adoption of risk premium system since 1999

§ The new modified system has been implemented from Jan. 2011

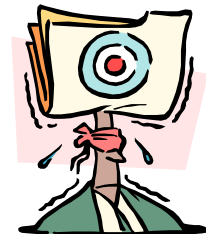
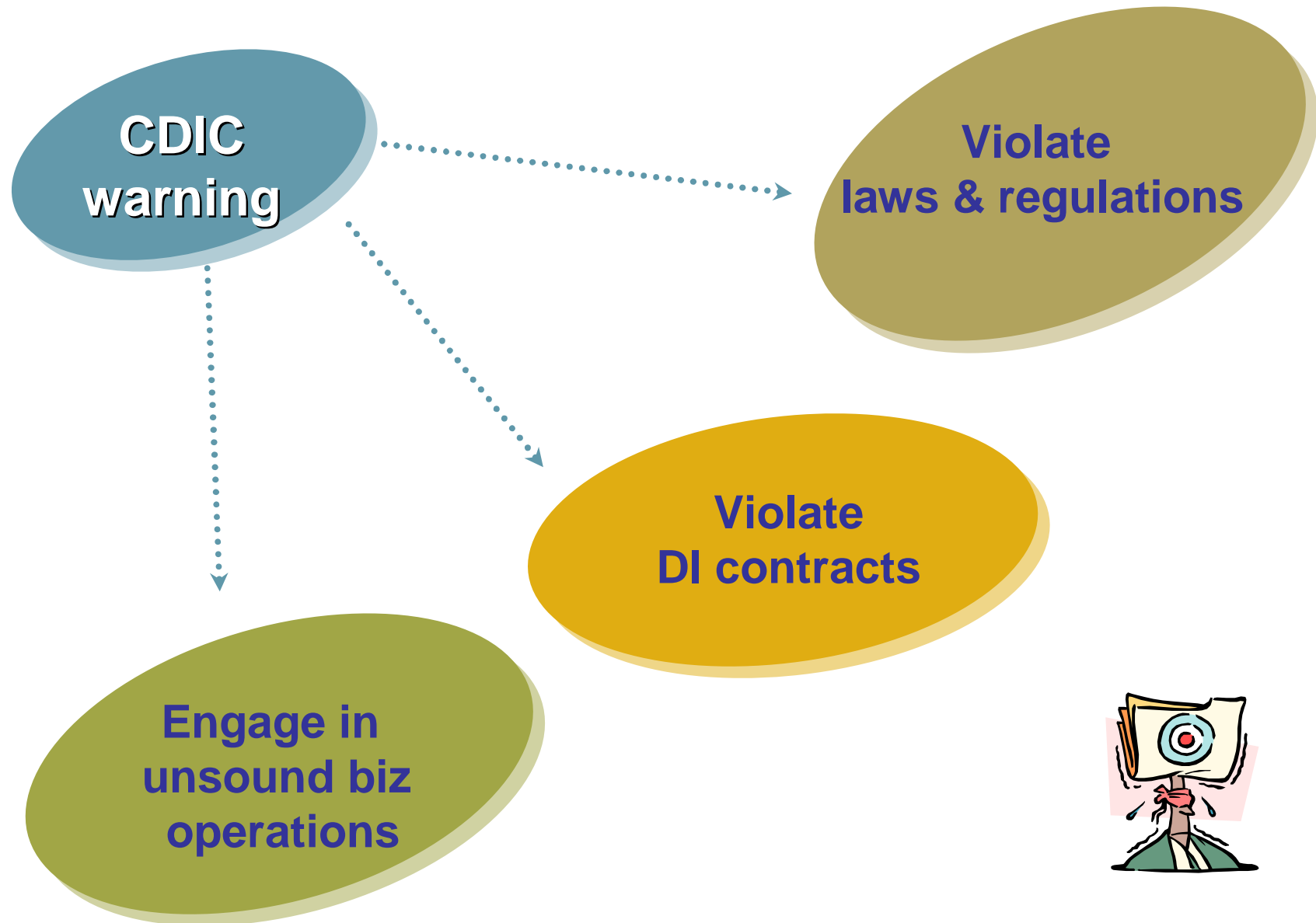
§ Increase premium rates and spreads



Part of CDIC's ongoing risk management mechanisms



Exit of DIS – Warning & Termination



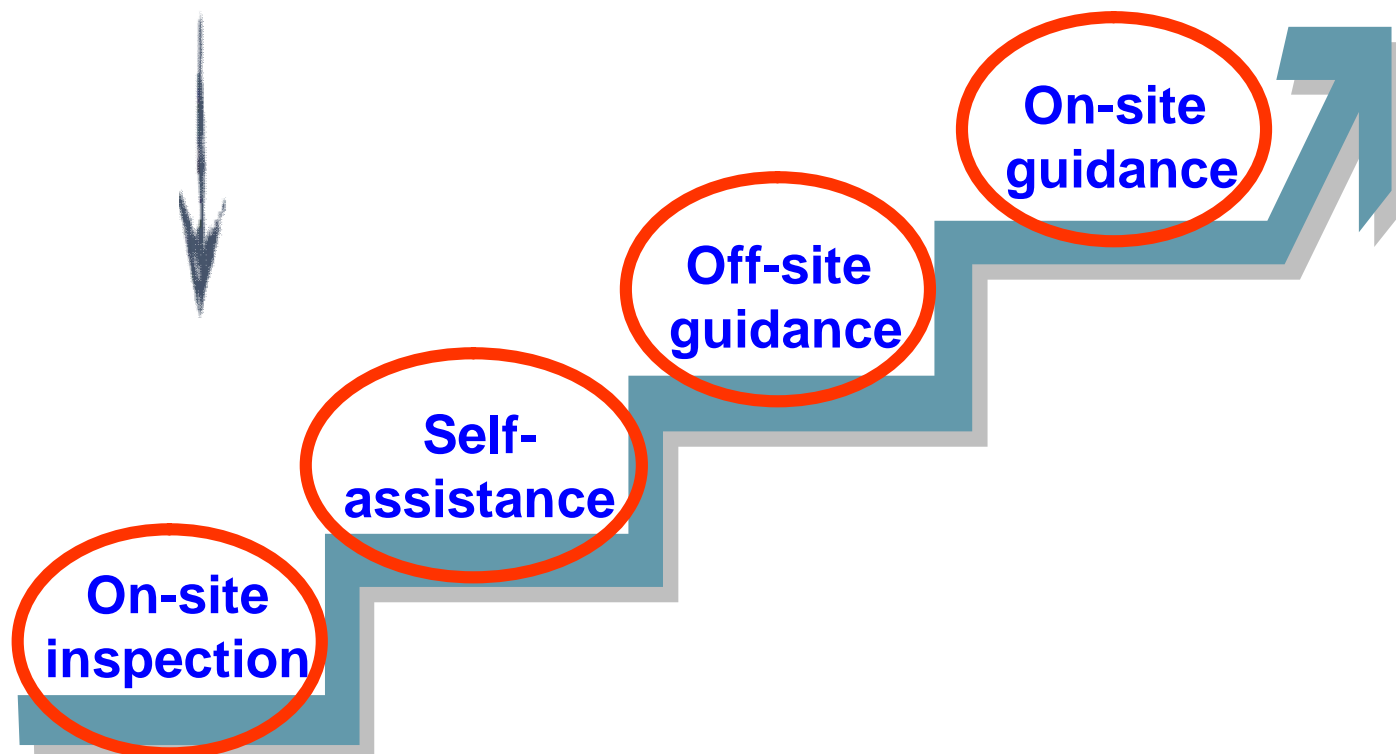


Steps of Early Intervention

Ongoing Risk Management



Conservatorship





Bank Resolution Mechanism

- § Resolved 57 problem institutions by Purchase and Assumption (P&A) method since CDIC's establishment in 1985
- § First step for early banking resolution: Conservatorship





Early Banking Resolution - Conservatorship

Banking Act

amended in Dec. 2008:
PCA mechanism

Standard for market withdrawal:
Capital adequacy (BIS) ratio

If BIS ratio $< 2\%$,
the bank to be put under
conservatorship within 90 days

Banking Act

Bank should also be
taken over

In case a bank:

- Is unable to pay its liabilities and could harm depositors' interests; or
- Has losses exceeding $\frac{1}{3}$ of capital and bank cannot make improvement within the stipulated timeframe



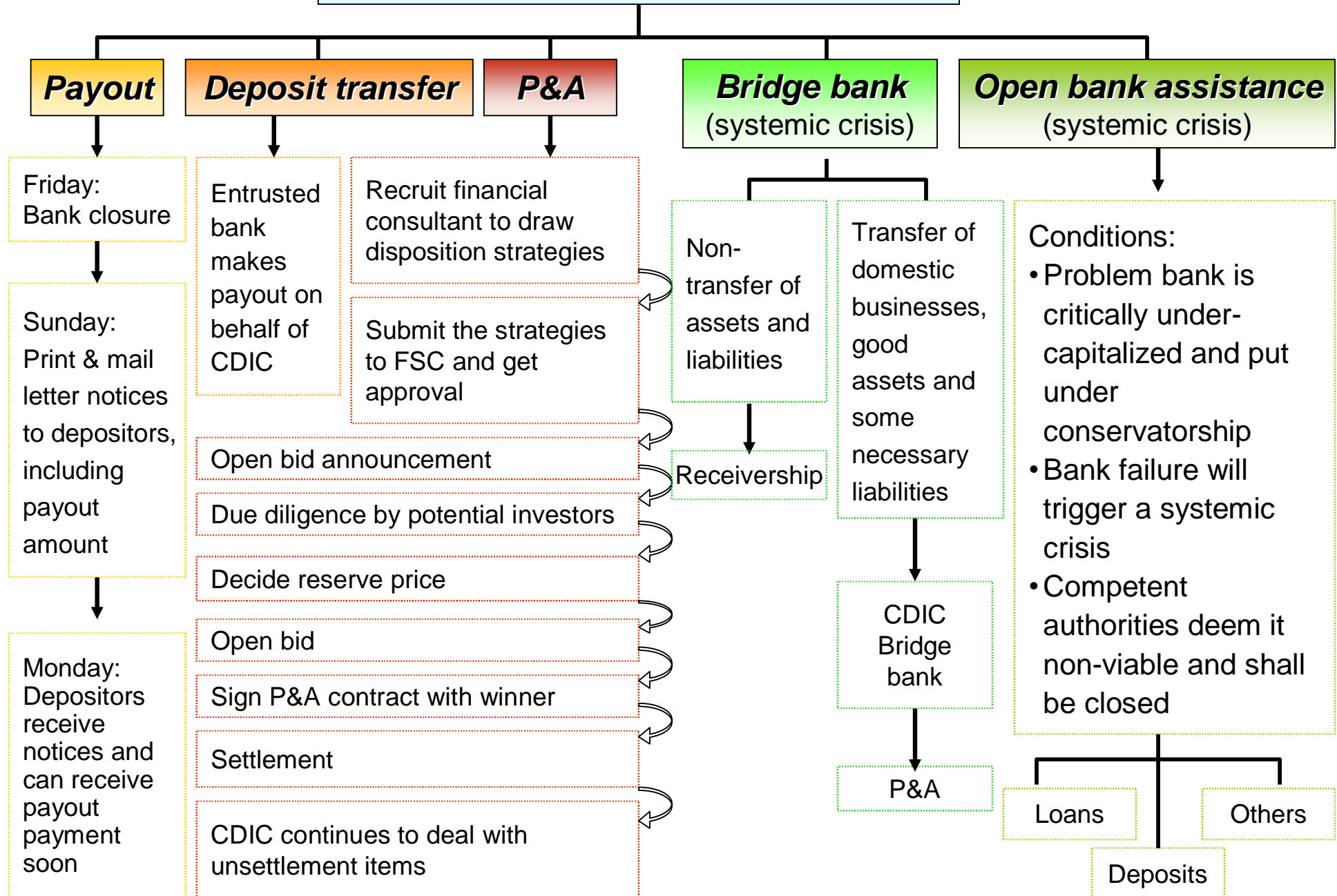
CDIC's Compliance with Core Principles

**Taiwan's early intervention &
bank resolution mechanism**



**Core Principles
for Effective Deposit Insurance Systems**
Principle 15 – Early detection and timely intervention & resolution

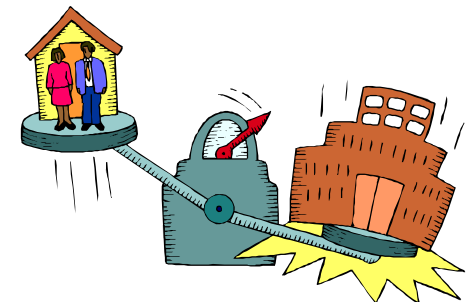
Resolution methods





Purchase and Assumption (I)

- § The only method adopted by CDIC in all the past resolution cases.
- § The most cost effective way in protecting depositors and preserving critical banking functions to minimize disruption of markets.





Purchase and Assumption (II)

As of Dec. 2010

| Year | Banks | Credit Coop. | Credit departments of farmers' & fishermen's associations | Methods |
|---------------------|-------|--------------|---|--|
| 1999 | | 1 | | Whole bank P&A |
| 2001 | | 7 | 29 | Whole bank P&A |
| 2002 | | 1 | 7 | Whole bank P&A |
| 2004 | 1 | 1 | | Whole bank P&A and Partial P&A |
| 2005 | 1 | | 1 | Whole bank P&A and Partial P&A |
| 2007 | 3 | | 1 | Whole bank P&A and Partial P&A |
| 2008 | 3 | | | Partial P&A and P&A with put back option |
| 2010 | 1 | | | Partial P&A |
| Subtotal | 9 | 10 | 38 | |
| ¹⁹ Total | 57 | | | |



Procedure of P&A Transactions

Financial consultants appraise the value of the problem banks as reference



CDIC reviews the appraisal provided by financial consultants and then an Appraisal Subcommittee reviews the appraisal

Final price decided by an open bid



CDIC's Compliance with Core Principles

Taiwan's bank resolution process



**Core Principles
for Effective Deposit Insurance Systems**

Principle 16 – Effective resolution processes



Key to Facilitate P&A



- **Design of disposition plan & reserve price**
 - Provide incentives
 - Flexible and adaptable to market needs
- **Employees' rights and interest**
 - Coordinate with employees
- **Fair appraisal**
 - Appropriate procedure

- **Economic and Market Conditions**
 - Benign economic and financial conditions would greatly increase the success rate of P&A transactions



Mechanism for Handling Systemic Crises

§ Deposit insurance mechanism is not to deal with a systemic financial crisis

- But deposit insurance plays an important role in maintaining financial stability

§ Systemic crisis mechanism stipulated in *Deposit Insurance Act* in Taiwan:

- Legal basis of implementation of blanket guarantee under global financial crisis in 2008

§ Two resolution methods for handling systemic crises

- Open bank assistance
- Bridge bank



§ If fund insufficient, CDIC may collect special premiums



Future Perspectives





Future Perspectives (I)

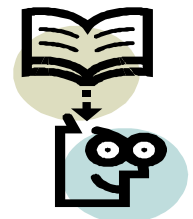
§ Amending the *Deposit Insurance Act*

1st stage

- Coverage limit increased and scope expanded

2nd stage

- Reinforcing risk management
- Strengthening resolution mechanism for dealing with failing financial institutions





Future Perspectives (II)

§ Reinforcing risk management

- Formal authority to evaluate the assets and liabilities of the problem financial institutions





Future Perspectives (III)

§ Strengthening resolution mechanism for dealing with failing financial institutions

- To receive the authority by laws to enter a failing bank in a confidential manner and prepare for bank resolution before it is closed





Future Perspectives (IV)

§ Replenishing deposit insurance fund

- Deposit insurance fund is in deficit now
- Solutions
 - Bank business tax revenue to be injected into the Fund starting from 2011
 - CDIC has raised the premium rates from 2011 to achieve the 2% target ratio





Thank You !

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