

Early Intervention and Bank Resolution Taiwan Experience

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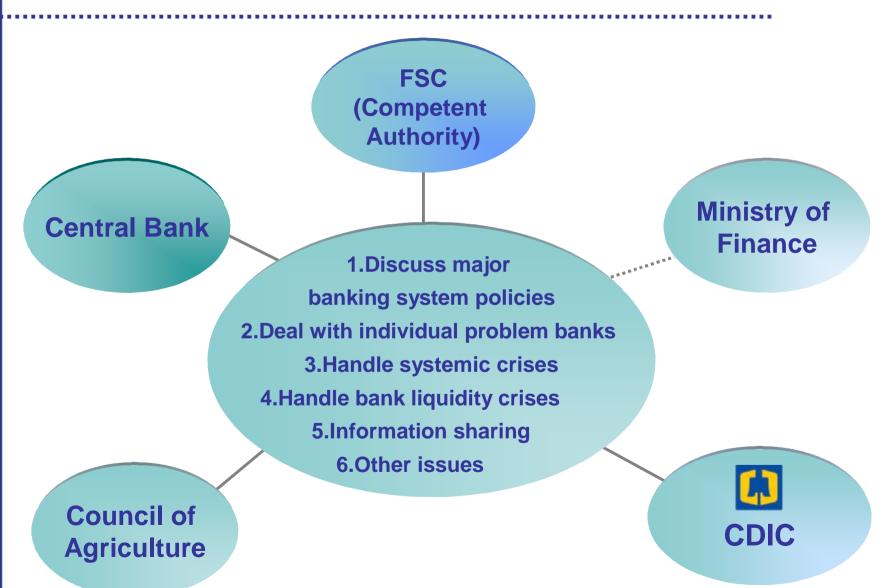
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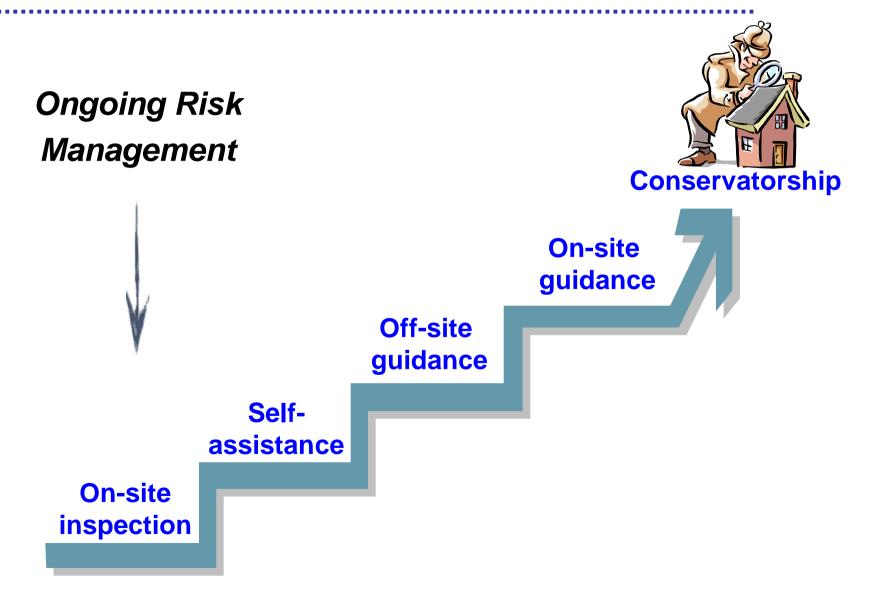


Financial Safety Net & Its Liaison System



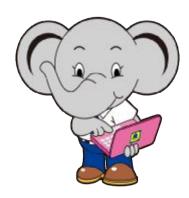


Early Intervention & Resolution Mechanism in Taiwan





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

Strengthening Risk Management **Real-time Internet Transmission System**

Account Officer Analysis System

Risk Premium System



Financial Early-warning System (EWS)

 CAMEL system using statistical models On-site examination data **EWS** Off-site call report data on quarterly basis



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

CDIC **Close coordination Account Officer** Competent **Authority Close monitoring** Insured Institutions



Risk Premium System

- § Adoption of risk premium system since 1999
- § The new modified system has been
 - implemented from Jan. 2011



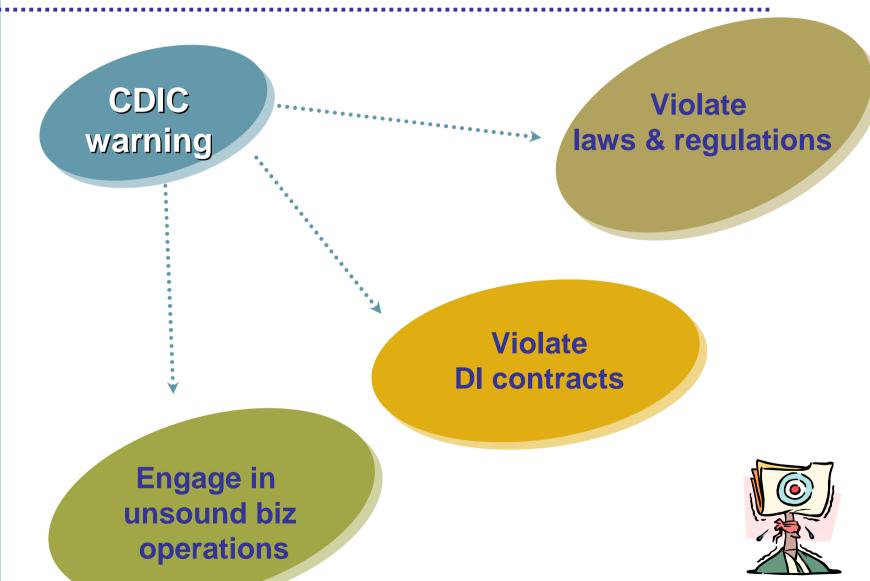
§ Increase premium rates and spreads



Part of CDIC's ongoing risk management mechanisms

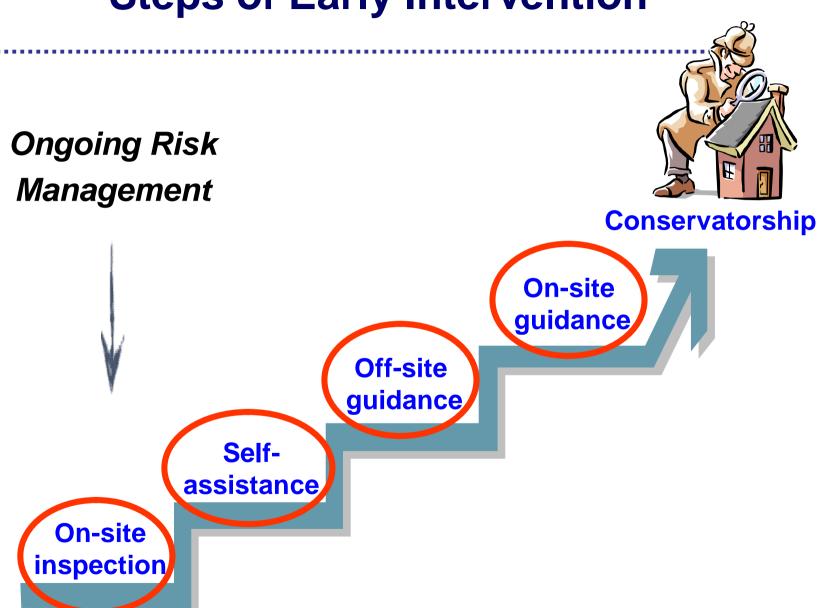


Exit of DIS – Warning & Termination





Steps of Early Intervention





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

Banking Act

Bank should also be taken over

Standard for market withdrawal: Capital adequacy (BIS) ratio

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

In case a bank:

- Is unable to pay its liabilities and could harm depositors' interests; or
- Has losses exceeding 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

compliant

Core Principles

for Effective Deposit Insurance Systems

Principle 15 – Early detection and timely intervention & resolution

Resolution methods Deposit transfer Bridge bank Open bank assistance P&A **Payout** (systemic crisis) (systemic crisis) Friday: Recruit financial **Entrusted** Bank closure consultant to draw bank Transfer of Conditions: Nondisposition strategies makes domestic Problem bank is transfer of payout on businesses. critically under-Sunday: assets and behalf of Submit the strategies good capitalized and put Print & mail **CDIC** to FSC and get liabilities assets and approval under letter notices some conservatorship to depositors, necessary Open bid announcement Bank failure will including Receivership liabilities payout trigger a systemic Due diligence by potential investors amount crisis Decide reserve price Competent **CDIC** authorities deem it Open bid **Bridge** non-viable and shall Monday: bank **Depositors** Sign P&A contract with winner be closed receive notices and Settlement can receive P&A payout **Others** Loans CDIC continues to deal with payment soon unsettlement items **Deposits**



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

				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



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



Key Factors



- 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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