

Resolution of Problems Banks -The Taiwan Experience

Central Deposit Insurance Corporation

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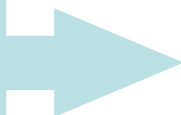


Introduction of DIS in Taiwan



Establishment of CDIC

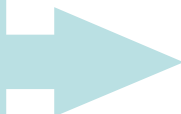
Organization



State-owned institution

**Jointly invested by
Ministry of Finance &
Central Bank**

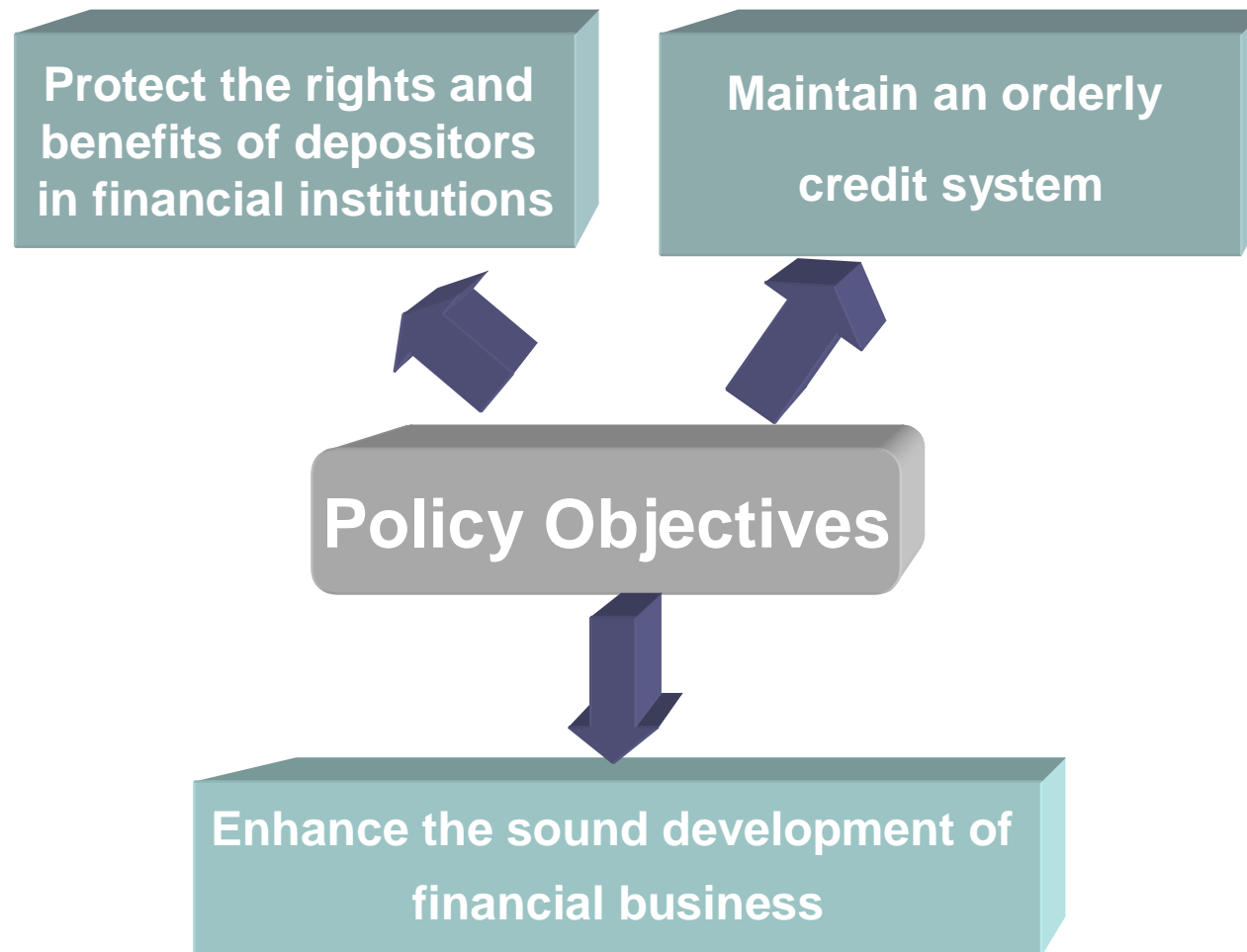
Paid-in capital



US\$ 327 million



Public Policy Objectives





Financial Safety Net Liaison System





Membership

§ Mandatory application, but subject to CDIC's approval

§ Number of insured institutions

As of July 2010

Competent Authority	Types of insured institutions	No.	No. of branches
Financial Supervisory Commission	Domestic banks	37	3,285
	Local branches of foreign banks	28	132
	Credit cooperatives	26	259
	Post Co.	1	1,321
Council of Agriculture	Credit dept. of farmers' associations	274	814
	Credit dept. of fishermen's associations	25	42
Total		391	5,853



Coverage & Premium

§ Coverage

- Blanket guarantee from Oct. 2008 – Dec. 2010
- New coverage: After Jan. 2011, **NT\$ 3 million**
(about US\$98,000)

NT\$ 1.5 million (about US\$49,000)



§ Premium

- Risk-based system



Insured & Uninsured Deposits

Insured Deposits	Uninsured Deposits
<ol style="list-style-type: none">1. Checking deposits2. Demand deposits3. Time deposits4. Deposits required by law to be deposited in certain financial institutions5. Other deposits approved as insurable by the FSC (excluding interest)	<ol style="list-style-type: none">1. Foreign currency deposits2. Negotiable certificates of deposit3. Deposits from government agencies4. Deposits from the Central Bank5. Deposits from banks, trust and investment companies, credit cooperatives, and farmers' and fishermen's associations with credit departments6. Other deposits that the competent authority has approved as uninsurable



**Interest of deposits and foreign currency deposits
to be covered from 2011 (proposal)**



Legislative History of DI Act

Enactment and Promulgation (Jan. 9, 1985)
Establishment of Deposit Insurance System (Sept. 1985)

First Revision (Jan. 20, 1999)
Membership from Voluntary to Mandatory

Second Revision (July 9, 2001)
CDIC (Taiwan) Commissioned by the Financial Restructuring Fund
to Execute Related Missions

Third Revision (May 17, 2006)
Priority of Deposit Liabilities

Fourth Revision (January 18, 2007)



Legislative History of DI Act

Fourth Revision (January 18 , 2007)

- Reinforce the management and replenishment DIF
- Strengthen risk control
- Enhance ways to fulfill insurance responsibilities
- Establish mechanism for handling systemic risk



Role of Deposit Insurance

Pay Box



Risk Minimizer



Overview of Taiwan's Bank Resolution Experience



Taiwan's Bank Resolution Experience

§ Before deposit insurance system in place:

- State-owned bank as the top choice of the acquirer
- Policy/administrative direction and persuasion by the government

§ In the period of voluntary DIS 1985-1999:

- Non-members of CDIC:
 - Assumed through government administrative persuasion; acquirers assumed the loss
- Members of CDIC: Handled according to the *Deposit Insurance Act*; no actual cases during this period.

§ In the period of compulsory DIS in 1999 ~ 2001:

- CDIC provided financial assistance for purchase and assumption after 1999.



Establishment of Financial Restructuring Fund (FRF)

§ Background of FRF

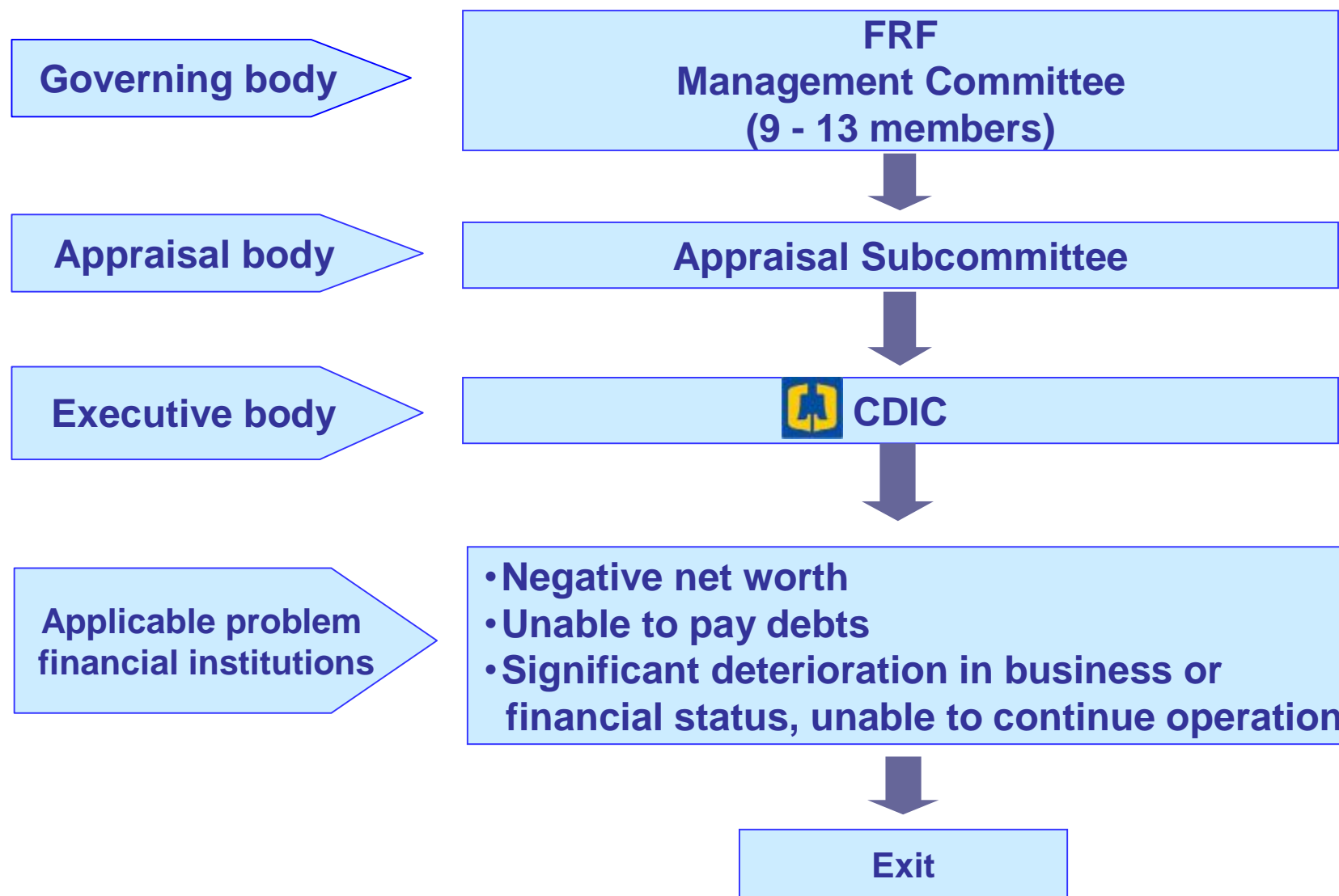
- Real estate market mired in recession in the 1990's.
- The recession exacerbated by the 1997 Asian Financial Crisis
- Shocks of earthquake in 1999
- Growing NPLs
- Rampant rumors of possible systemic financial risk

July
2001

**Government appropriated US\$ 8 billion
to provide blanket guarantee for bank resolution**

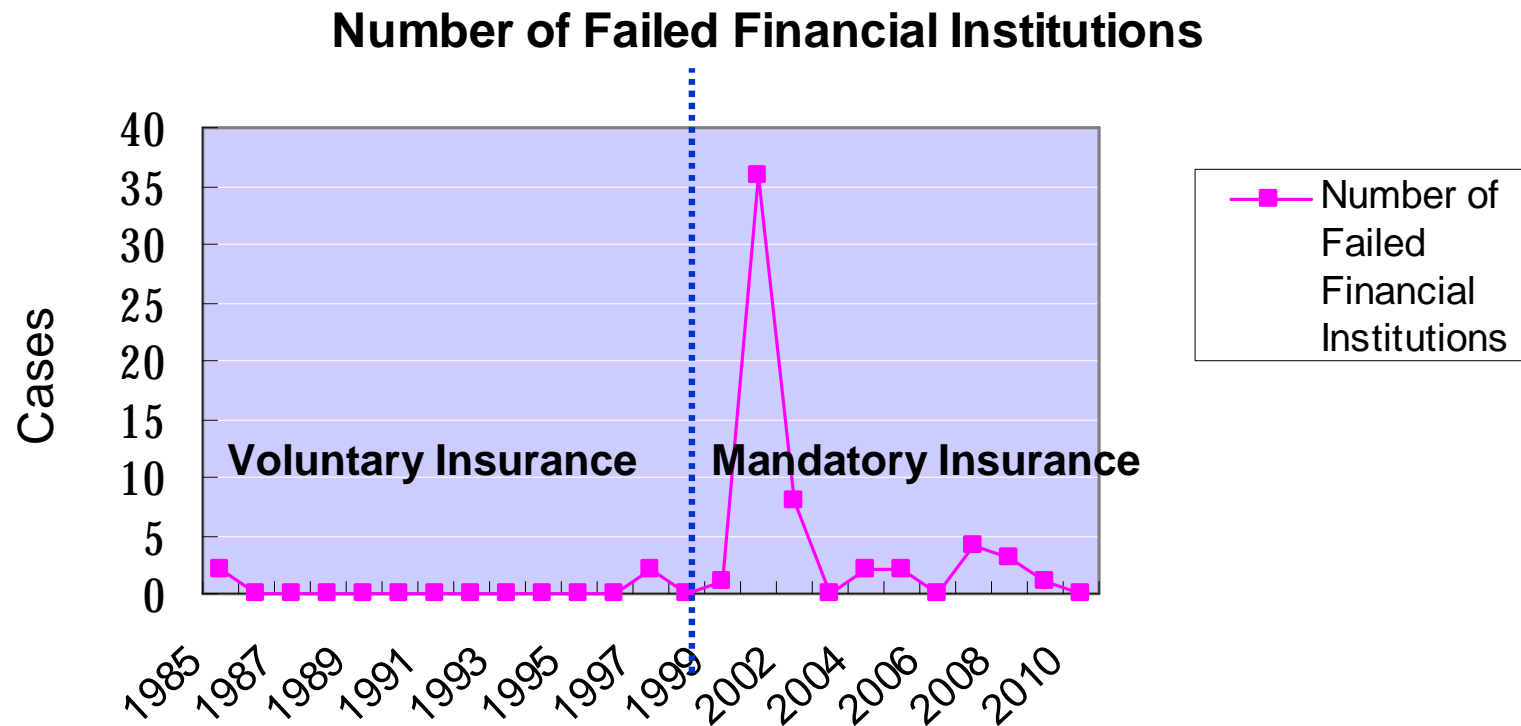


Resolution Methods under FRF



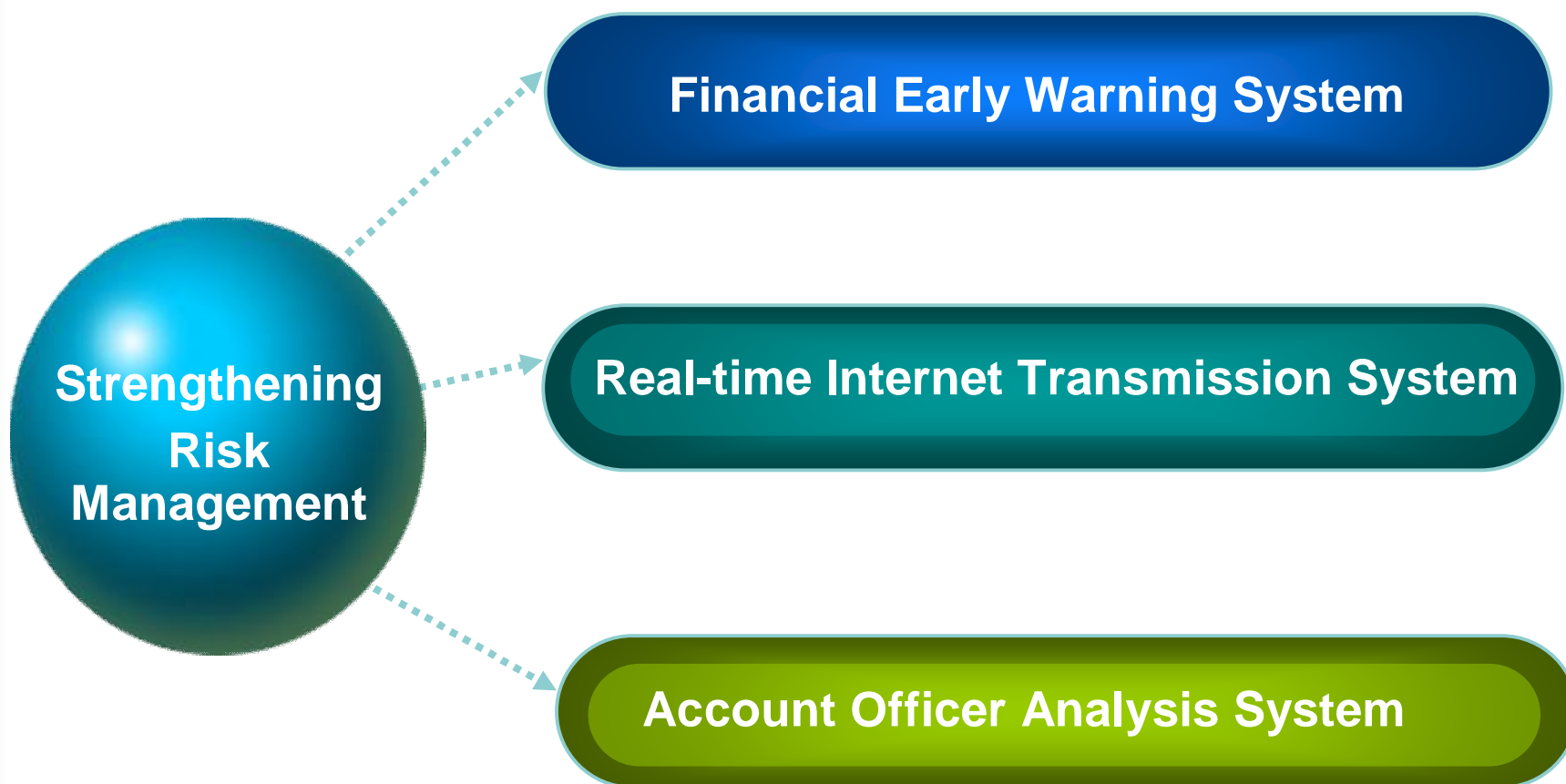


Number of Failed Financial Institutions





Post FRF - Early Banking Resolution



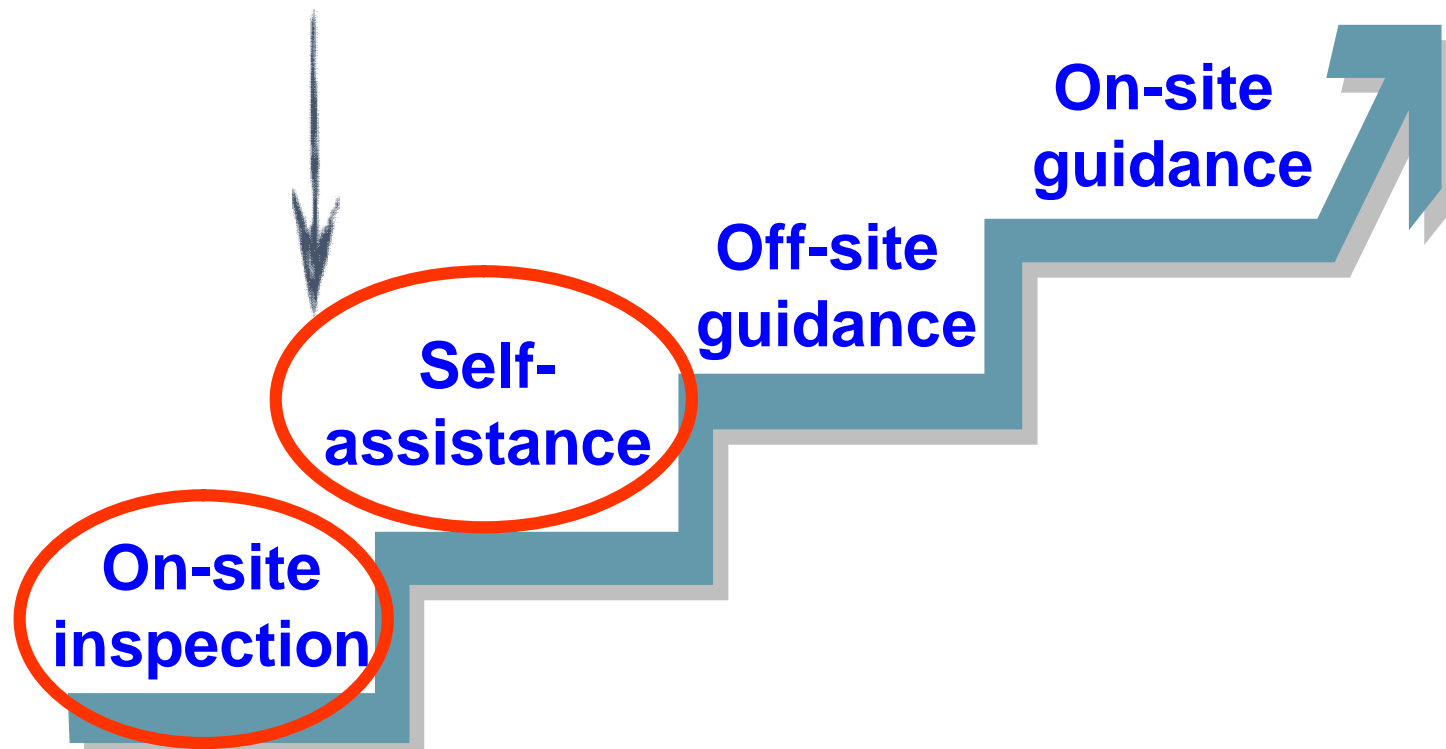


Early Banking Resolution cont.



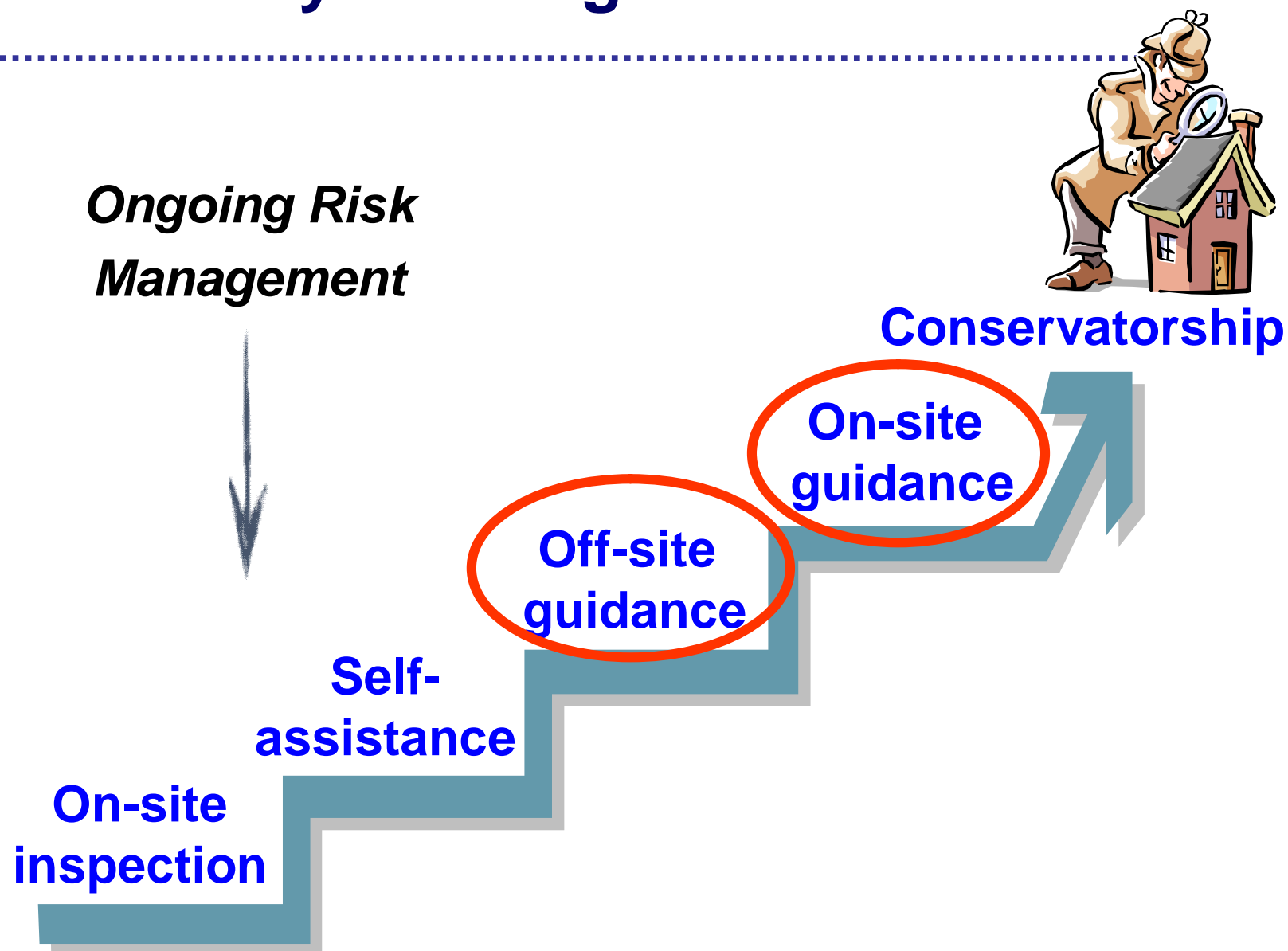
Ongoing Risk Management

Conservatorship





Early Banking Resolution cont.





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
The competent
authority may take
actions

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 does not make improvement within the stipulated timeframe



Resolution Methods

§ Payout

§ Deposit transfer to a sound bank

§ Providing financial assistance to facilitate purchase and assumption transactions

§ Handling of systemic crisis

• Bridge bank

• Open bank assistance

• Special premium





Purchase and Assumption

Purchase & Assumption

P & A is a resolution transaction in which a healthy institution or group of investors purchases some or all of assets and assume some or all of the obligations of a failed or failing financial institution.



Purchase and Assumption cont.

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	
Total	57			



Benefits of Purchase & Assumption

§ Benefits

• For a failed bank and its depositors

- Financial services of a failed bank will be less disruptive compared to a payout

• For a deposit insurer

- Reserving franchise value
- Preserving confidence in financial system

• For an acquiring financial institution

- A great opportunity for expanding its business and market share



Considerations of Purchase & Assumption

§ Considerations

• No suitable buyers

• Dilemma :

Fast disposition without optimizing asset values

VS.

Maximize asset recovery





General Procedures of Conducting P&As

§ Outsourcing services of professional financial and legal consultants

- Disposition plans
- Assets/liabilities valuation
- Open bidding processes
- Due diligence
- Real estate appraisals
- Consulting services on legal issues, tax planning and employee settlement plans



Proposed Disposition Plan for Failed Banks

Objective: To maximize the successful rates of open bid through the well-design of packaging the assets and liabilities

Principle 1

ü Understand the portfolio of the assets & liabilities and related regulations.

Principle 2

ü Identify and separate retained assets & assets to be sold

Principle 3

ü Categorize the assets to be sold into Good Bank and Bad Bank

Principle 4

ü Bad Bank: classify, combine & package different NPLs



Proposed Disposition Plan for Failed Banks cont.

Failed Banks	Good Banks	Bad Banks		Retained Assets
A Bank	1 Tranche	Corporate Accounts		-
		Consumer Accounts		
B Bank	1 Tranche	Tranche 1 (First round)	Corporate Accounts	-
			Consumer Accounts	-
		Tranche 2 (Second round)	Tranche A	-
			Tranche B	-
			Tranche C	-
C Bank	1 Tranche	Tranche A		-
		Tranche B (Credit card & cash card)		ÿCreditor’s right in retained loans
		Tranche C (Credit card & cash card)		
D Bank	1 Tranche	Specific NPLs		ÿReal estate ÿShares of 101 building



Proposed Disposition Plan for Failed Banks cont.

Failed Banks	Good Banks	Bad Banks	Retained Assets
E Bank	1 Tranche	Tranche A	ÿCreditor's right in retained loans
		Tranche B (Credit card & cash card)	
F Bank	Tranches A (specific real estate)	Tranches A	
	Tranches B	Tranches B	
G Bank	Tranche 1 (Local branches*18)	Tranche A	ÿReal estate ÿMovable property ÿAntiques
	Tranche2 (Local branches*19)	Tranche B	
	Tranche 3 (Overseas branch)	Tranche C (Credit card & cash card)	
	Tranche 4 (Credit card business)	Tranche D (Credit card & cash card)	



Proposed Disposition Plan for Failed Banks cont.

§ Provide incentives to entice potential buyers

- Branches relocation without any restrictions on area
- Upgrade basic branches offering only deposit and withdraw services to full function branches



Buyers Qualification: Good Bank

§ Types of buyers

- Domestic & foreign Banks
- Domestic & foreign financial holding companies without banks

§ Financial strength

- Total asset value should reach NT\$150billion(US\$4.9 billion)
- A net book value
 - Banks should exceed NT\$10billion(US\$ 327 million)
 - Financial holding companies should exceed NT\$ 20 billion(US\$654 million)
- BIS ratio should maintain at 8% or above



Buyers Qualification: Bad Bank

§ Types of buyers

- Domestic or foreign asset management companies (Article 15 of *the Financial Institutions Merger Act*)
- No any illegal records
- CDIC reserves the rights to reject any buyers to participate in an open bid

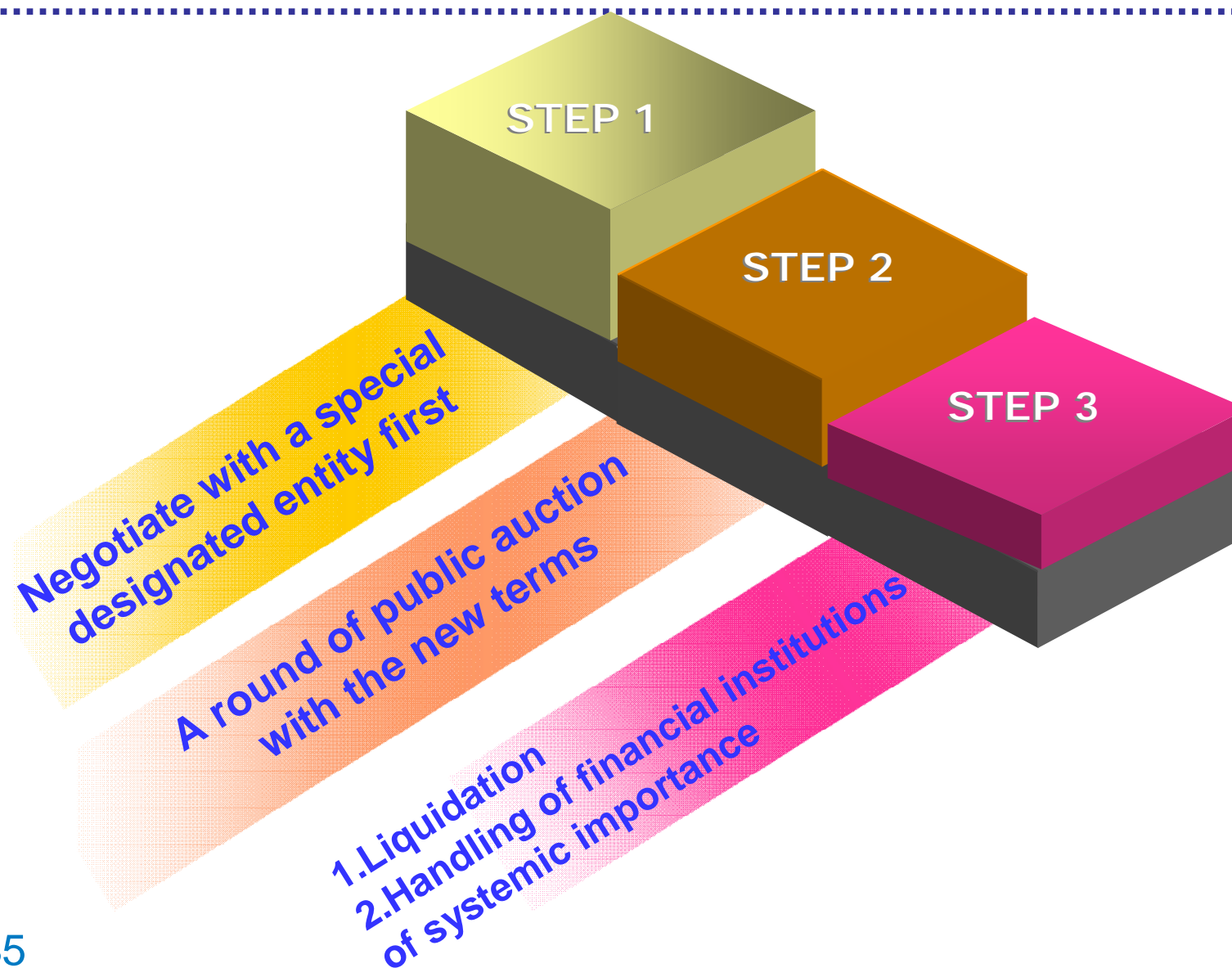


Timelines for Purchase & Assumption





Procedures after a Failed Open Bid





Key to Facilitate P&A – External Factors

- § Overall economic and financial market conditions need to be considered**
- § Benign economic and financial conditions would greatly increase the success rate of P&A transactions**



Key to Facilitate P&A – Internal Factors

§ Flexibility





Key to Facilitate P&A –Internal Factors cont.

§ Employees' rights and interests

- To give a pension and severance pay to the employees according to the *Labor Standards Law*
- To request the investor to rehire more than 50% of the employees for at least one year



Key to Facilitate P&A –Internal Factors cont.

Financial advisors appraise the value of the problem banks as reference



CDIC reviews the appraisals provided by financial advisors

Appraisal Subcommittee of the Financial Restructuring Fund (FRF) reviews the appraisal

Management Committee of FRF decides the reserve price



Key Challenges – Retained Assets

Hillside land



Hotel



Taipei 101



Chinese antiques





Key Challenges –Cross Border Issues

§ Lesson learned

ÿ Close coordination and cooperation with financial safety net players in other countries





Conclusion and Future Perspectives





Conclusion and Future Perspectives

§ In the process of amending the *Deposit Insurance Act*

§ Major amendments

- Increasing coverage limit and expanding the scope;
- Reinforcing risk management;
- Strengthening resolution mechanism for dealing with failing financial institutions; and
- Replenishing deposit insurance fund



Conclusion and Future Perspectives cont.

§ Replenishing deposit insurance fund

• The deposit insurance fund is in deficit now

• Solutions

- Bank business tax revenue will be injected into the Fund starting from 2011.
- CDIC has drafted a proposal to raise the premium rates starting from 2011 to achieve the 2% target ratio.



Thank You!

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