

2019

The 1st IADI APRC Study Visit

# Challenges and Tasks of Financial Safety-Net in the Asia-Pacific Region After the Global Financial Crisis

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# OUTLINES



**1. Functions of Financial Safety Net**

**2. Cooperation and Coordination among Financial Safety Net Participants in Asia-Pacific Region**

**3. Taiwan's Financial Safety Net**

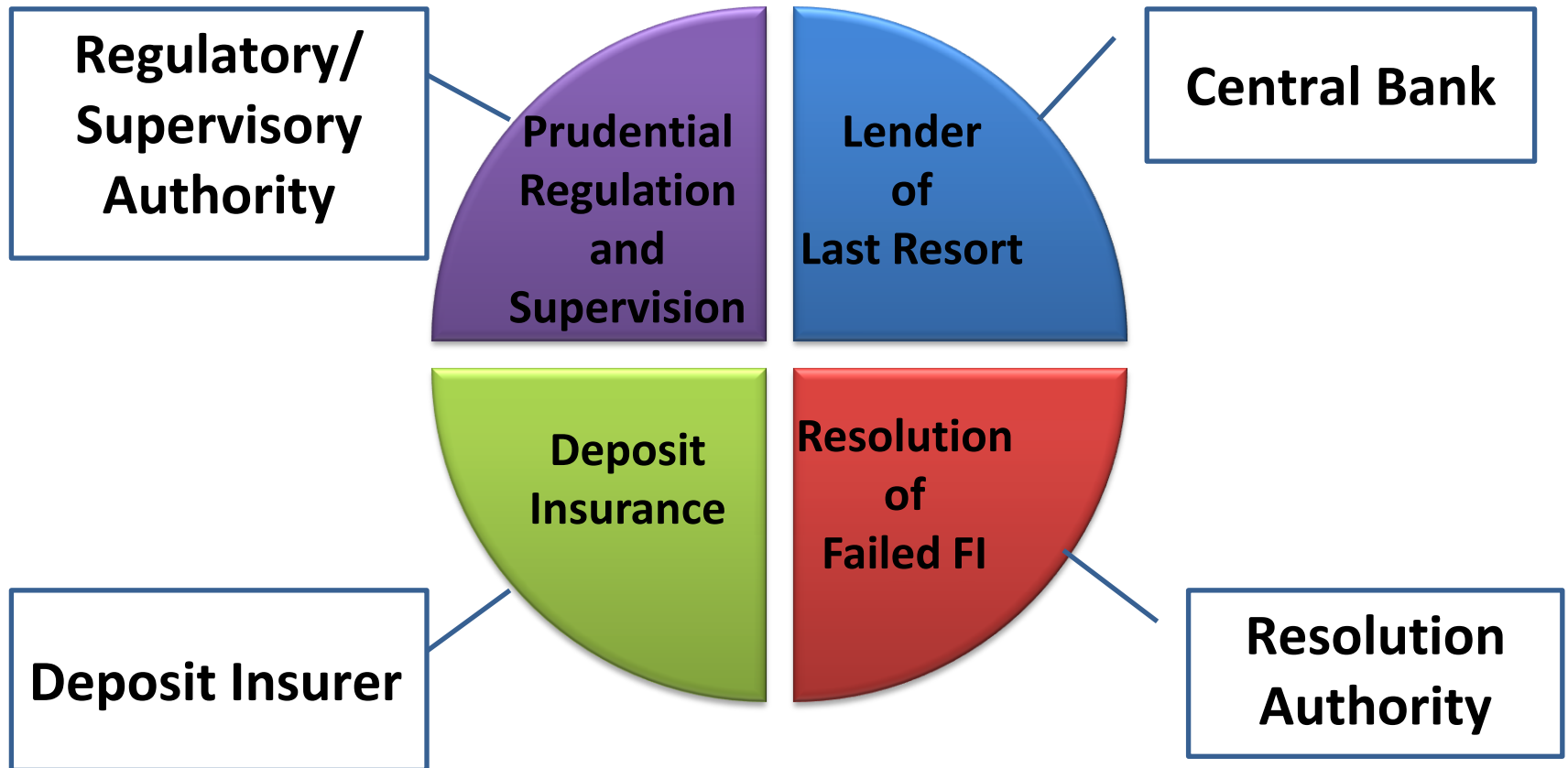
**4. Future Prospects**

# Functions of Financial Safety Net (FSN)

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# Financial Safety Net Structure

➤ The IADI defines 4 functions of the FSN as follows



# Noticeable Improvements After Financial Crisis

## Large banks are better capitalized

### ➤ Results (from 2011 to 2017)

According to *FSB's 2018 "Implementation & Effects of G20 Financial Regulatory Reforms"*, large international active banks all fulfill BASEL III regulatory capital requirements, *almost doubled* their common equity tier 1 (CET1) capital.  
(from USD 2 trillion in 2011 to USD 3.7 trillion in 2017)

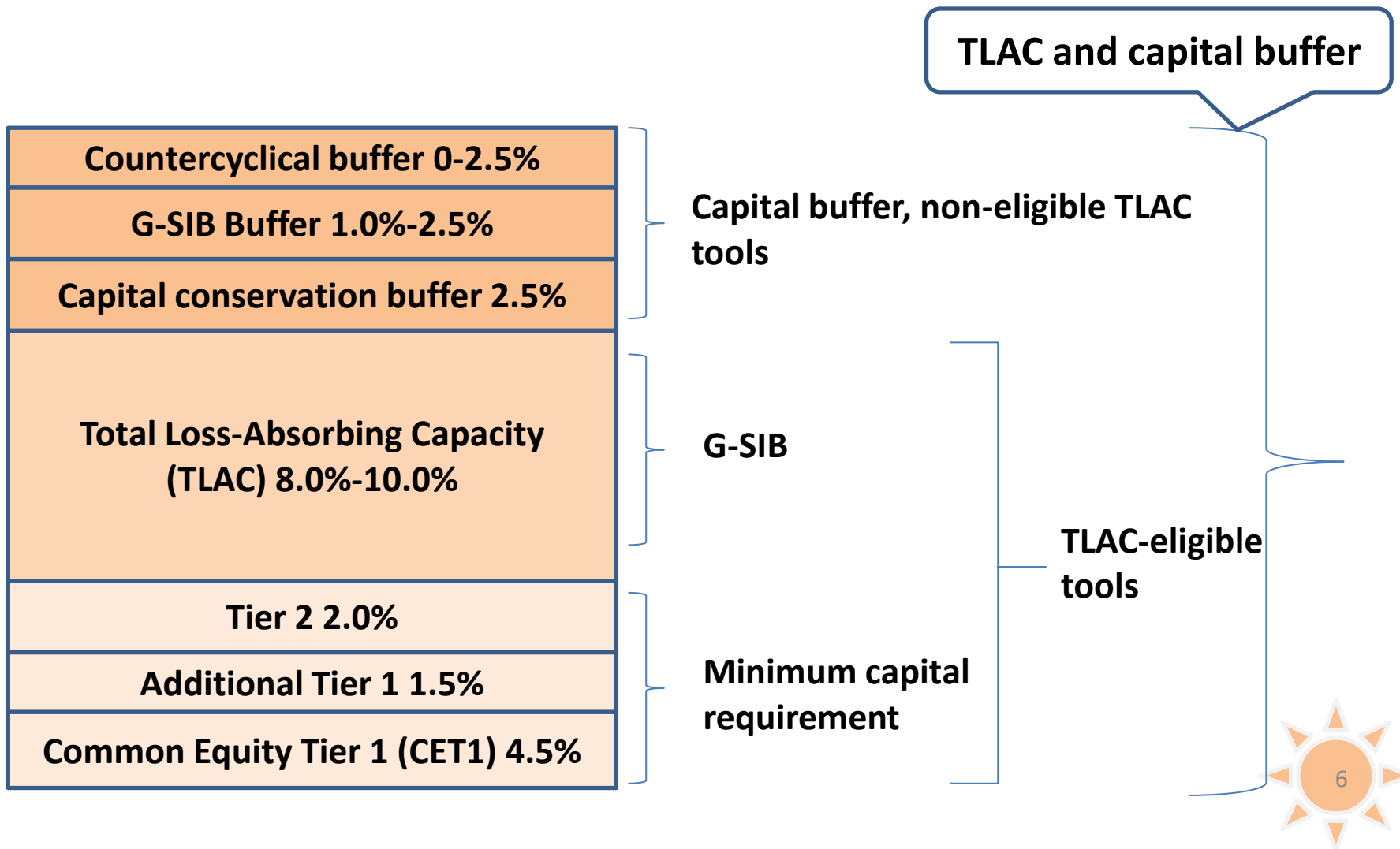
### ➤ How to achieve this?

Through retaining earning, instead of *raising equity or shedding assets*.



# Regulatory Reforms After Financial Crisis

Strengthen banks' resilience & loss-absorbing capacities



# Central Banks' Role During Financial Crisis

## Lender of Last Resort

- **Providing Emergency Liquidity Assistance** (for banks providing eligible collaterals )
- **Providing Emergency Backup Funding** (for Deposit Insurance Fund, some DIs are able to get access to CB resources)



# An Speedy & Orderly Resolution

- FSB 2011 published “*Key Attributes of Effective Resolution Regimes for Financial Institutions*” (KA) without taxpayers’ exposure to loss of financial institutions.
  
- KA set out **12 features** of resolution regimes for all jurisdictions
  1. Scope
  2. Resolution authority
  3. Resolution powers
  4. Set-off, netting, collateralization, segregation of clients assets
  5. Safeguards
  6. Funding of firms in resolution
  7. Legal framework conditions for cross-border cooperation
  8. Crisis Management Groups
  9. Institution-specific cross-border cooperation agreements
  10. Resolvability assessments
  11. Recovery & resolution planning
  12. Access to information & information sharing





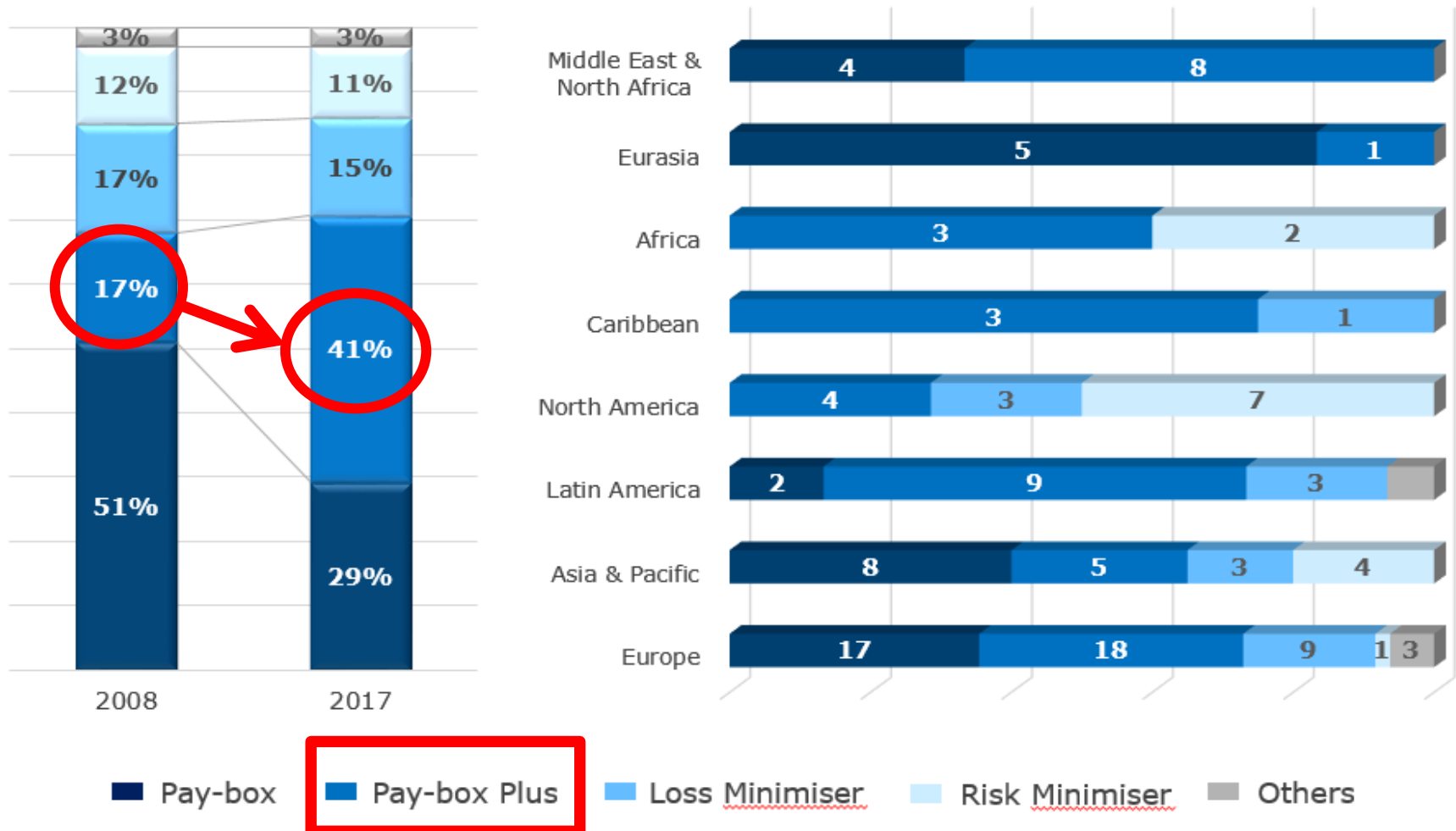
# Enhancement of DIS After Financial Crisis

- Depositors' protection increased through fast payout, raising minimum coverage limit, etc.
- In 2009, BCBS and IADI jointly issued *Core Principles for Effective Deposit Insurance Systems*
  - ✓ Endorsement by FSB
  - ✓ Used by the IMF and WB in the context of Financial Sector Assessment Program (FSAP)
- In 2014, IADI revised *Core Principles for Effective Deposit Insurance Systems*, ensuring consistency with the FSB Key Attributes and strengthening the DI standards in several major areas:
  - ✓ Reimbursement (7-working day payout)
  - ✓ Funding (ex-ante funding mechanism)
  - ✓ Governance (building strong operational independence)
  - ✓ Deposit insurer's role in crisis preparedness and management as well as cross-border issues (early intervention and resolution, and participation of developing a contingency plan)



# Evolution for Mandates of DIs

- **Mandates** of certain DIs have been **expanded** or clarified following the financial crisis.
- The number of Pay-box Plus DIs has **exceeded** Pay-box DIs after crisis.



# **Cooperation and Coordination among Financial Safety Net Participants in Asia- Pacific Region**

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# IADI Core Principles for Effective Deposit Insurance Systems

## CP 4 – Relationships with other FSN Participants

A **formal and comprehensive framework** in place for the close **coordination** of activities and **information sharing**, on an ongoing basis, between the deposit insurer and other FSN participants.

## CP 6 – DI's Role in Contingency Planning & Crisis Management

A development of **system-wide crisis preparedness strategies** and **management policies** should be the **joint responsibility** of all safety-net participants.

# Relationship with Other Safety Net Participants

## ➤ Arrangements among FSN in Asia-Pacific Region

1. According to **2018 IADI Annual Survey**, 2 members of the APRC does **not** have an **arrangement** in place with *other safety-net participants*.
2. The coordination arrangement takes forms of
  - (1) Stipulation in law
  - (2) Regulation
  - (3) Memorandum of Understanding (MOU)/Letter of Exchange (LOE)
  - (4) Agreement

# Key Gaps relating to CP 4 & CP 6

## Gaps identified in the APRC Survey 2019 (19 jurisdictions)

<b><i>Relationship with other FSN participants</i></b>	<ul style="list-style-type: none"><li>✓ Lack of formal or comprehensive framework for coordination on an ongoing basis</li><li>✓ Insufficient or incomplete sharing information</li><li>✓ FSN committee is incomplete</li></ul>
<b><i>Contingency planning &amp; crisis management</i></b>	<ul style="list-style-type: none"><li>✓ Need to develop or formalize a crisis management framework</li><li>✓ Need to enhance crisis preparedness &amp; coordination among FSN participants</li></ul>

# Key Initiatives relating to CP 4 & CP 6

## Initiatives identified in the APRC Survey 2019 (19 jurisdictions)

### *Relationship with other FSN participants*

- ✓ Establish a centralized database and data exchange among FSN participants
- ✓ Enhance DI's relationship at a senior level among its stakeholders and strategic partners

### *Contingency planning & crisis management*

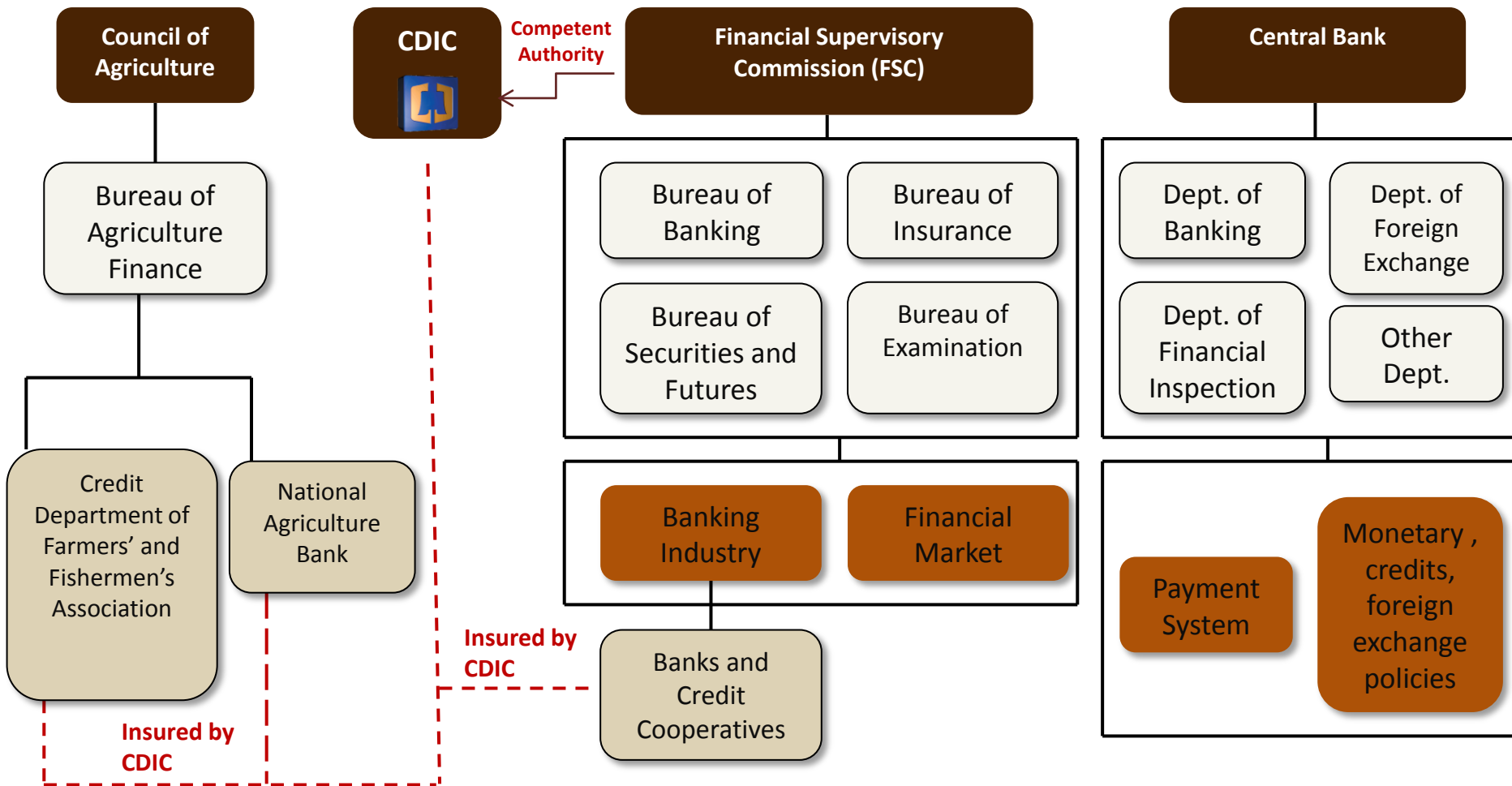
- ✓ Conduct a joint simulation between relevant safety net participants
- ✓ Improve/enhance overall preparedness to ensure intervention & failure resolution to be ready
- ✓ Develop a crisis communication framework
- ✓ Look into FIs' preparedness in responding to emergencies

# Taiwan's Financial Safety Net

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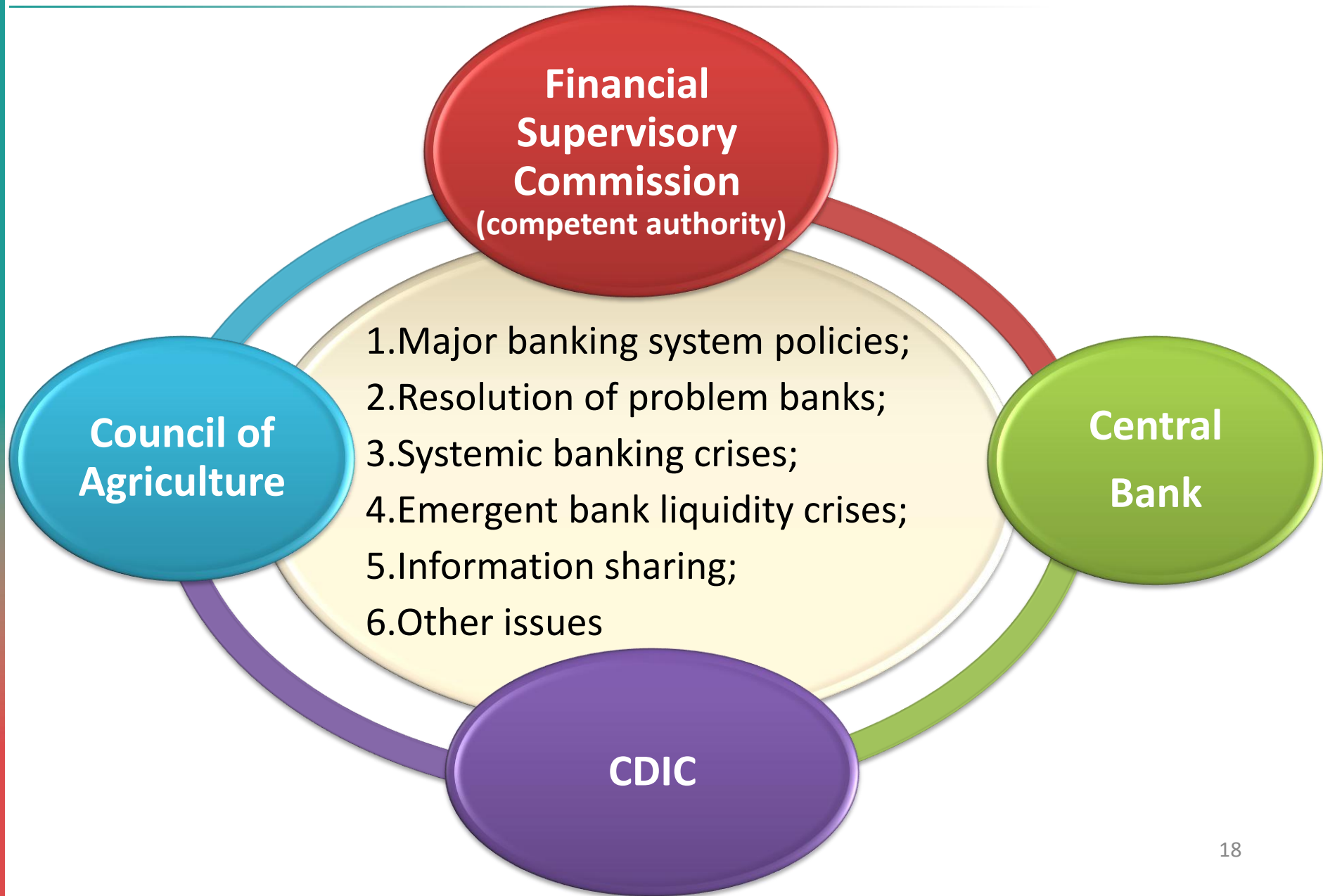


# Financial Safety Net in Taiwan

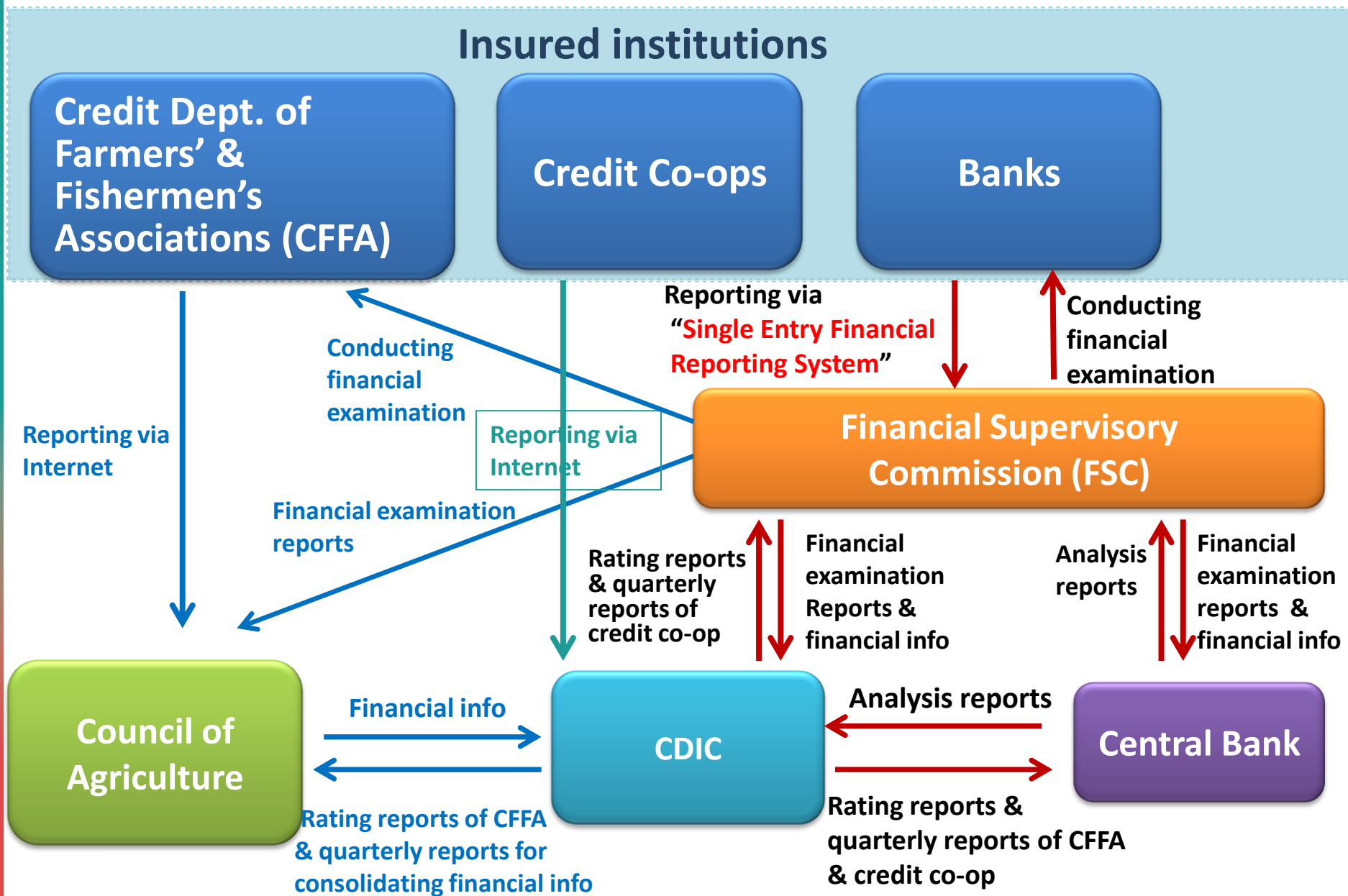


Note: The Ministry of Finance is the guarantor of loans from Central Bank to CDIC.

# Financial Supervisory Coordination Council

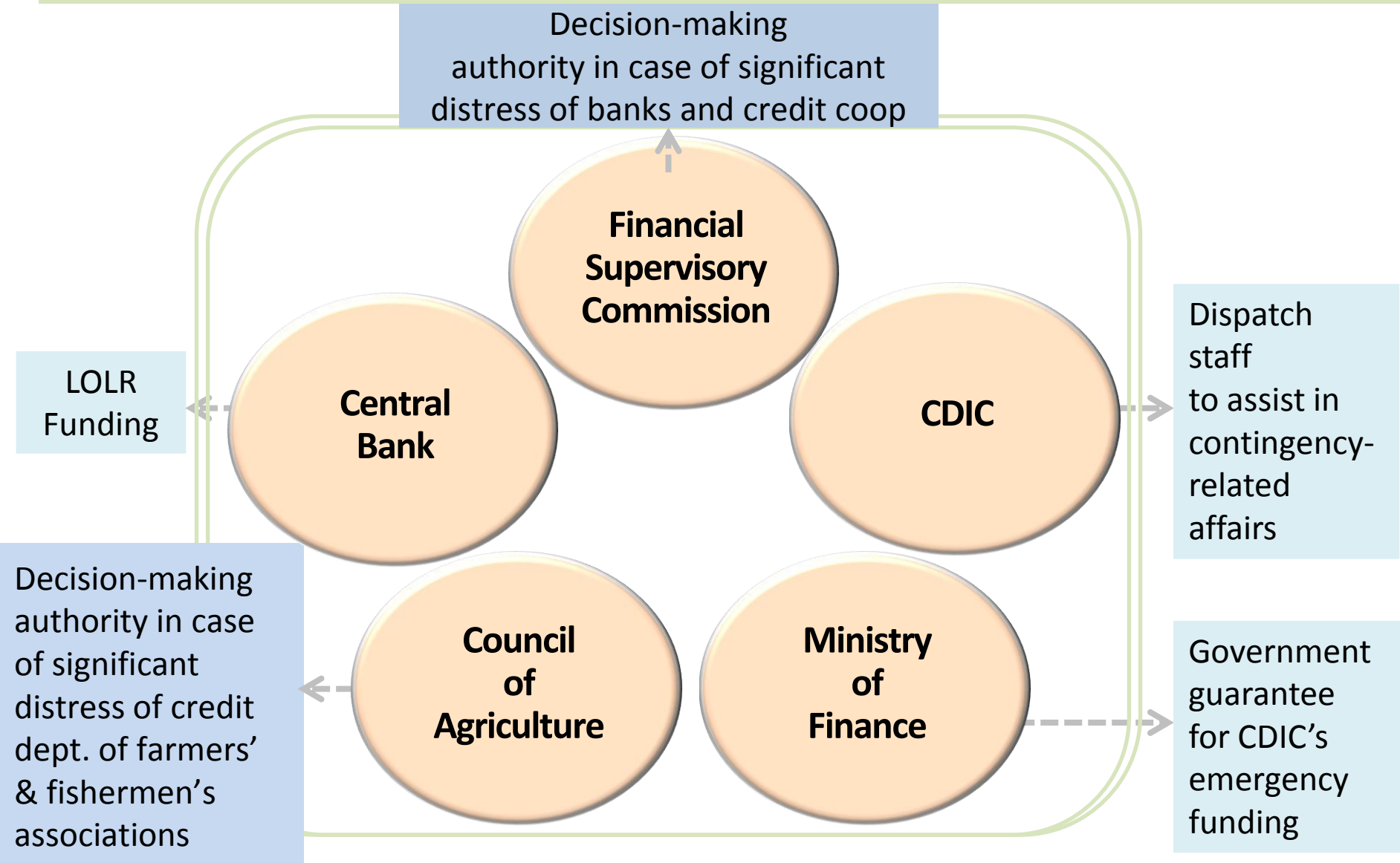


# Financial Supervisory Info Exchange & Sharing



# Taiwan's Contingency Planning & Crisis Management

*A Special Task Force will be established in case a significant distress occurs*



# Future Prospects

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# Future Prospects

- ✓ **Strengthening coordination and information sharing mechanisms among FSN participants**
  
- ✓ **Enhancing RegTech & SupTech effectiveness in line with the rapid FinTech development**
  - RegTech helps improve a financial institution's ability to meet regulatory demands in a cost-efficient manner
  - SupTech helps regulators to analyze increasingly large and complex datasets
  
- ✓ **Strengthening risk management for internet-only banks**

# Thank you very much

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