



Role of Deposit Insurance in Bank Resolution

- International Guidance & Taiwan Experience

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***"History does not repeat itself,
but it does rhyme."***

~ Mark Twain



Outline

- I. Lessons learned
- II. Key areas of convergence
- III. International guidance on bank resolution
- IV. Taiwan experience
- V. Conclusion



Lessons Learned:

Why do we need deposit insurance?



Why do we need deposit insurance?

- **Lessons from the past**

- Explicit deposit insurance as a means to protect small depositors and maintain public confidence

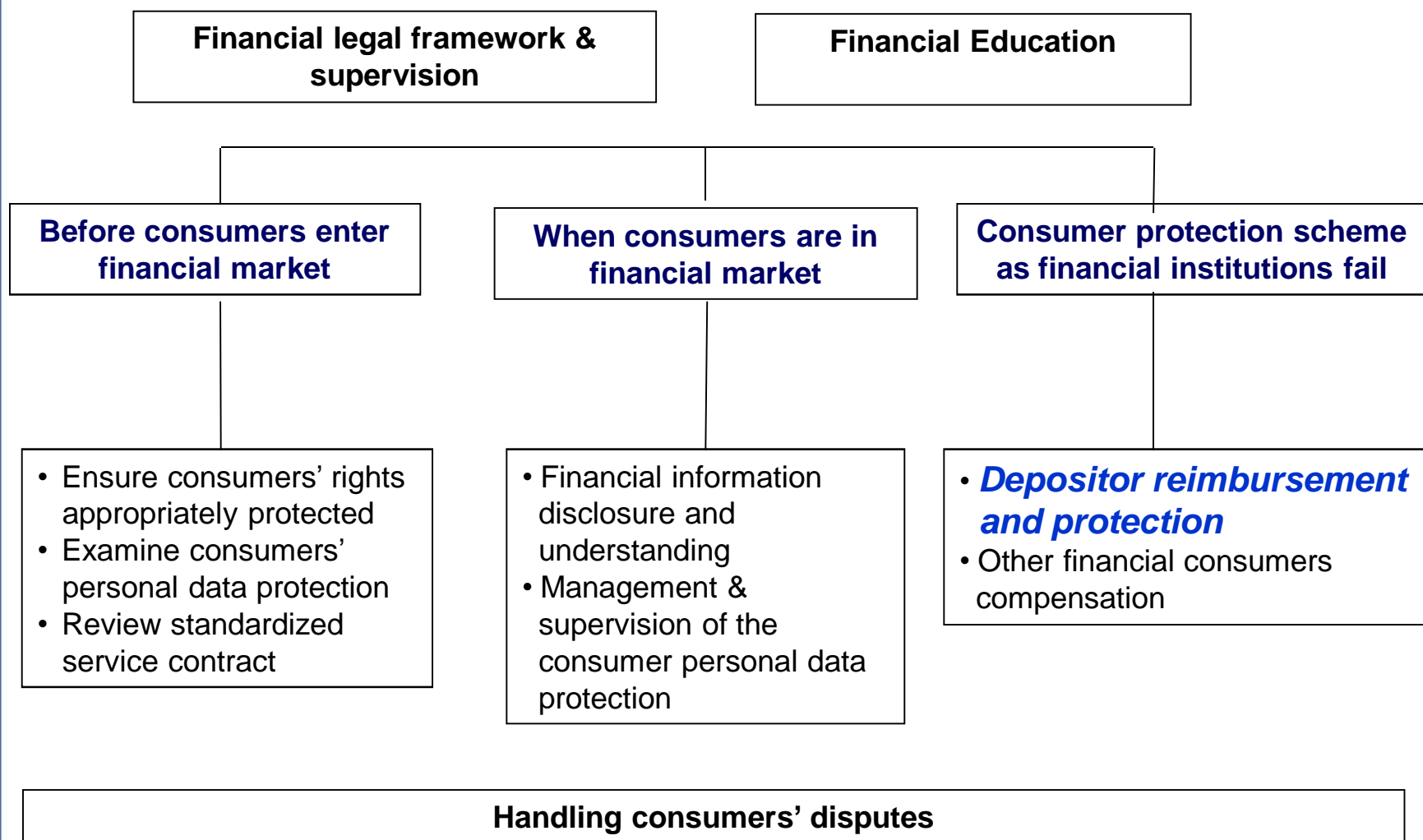
56 DIs before 1995 v.s. 111 DIs in March 2011

- **Lessons from the present**

- Needs for better financial consumer protection
- Needs for speed & more available tools for orderly resolution
- Needs for more effective & coordinated deposit insurance systems



Financial Consumer Protection





Key Areas of Convergence



Convergence in DIS - Resolution

- **Mandate and Powers: broader mandates**
 - From “paybox” to risk minimizer (including risk management and failure resolution)
 - *About 2/3 have mandate more than a “paybox”*
- **Reimbursing Depositors**
 - A quick payout: e.g. EU DI Directive
 - Impact factors: quality and security of bank deposit records, deposit insurers’ access to data, systems and capability of the deposit insurers and legal/accounting regimes.
- **Failure Resolution Options**
 - *Over 70% DIS have more than one resolution tools/options*
 - Over 50% have authority to conduct purchase and assumption transactions



International Guidance on Bank Resolution

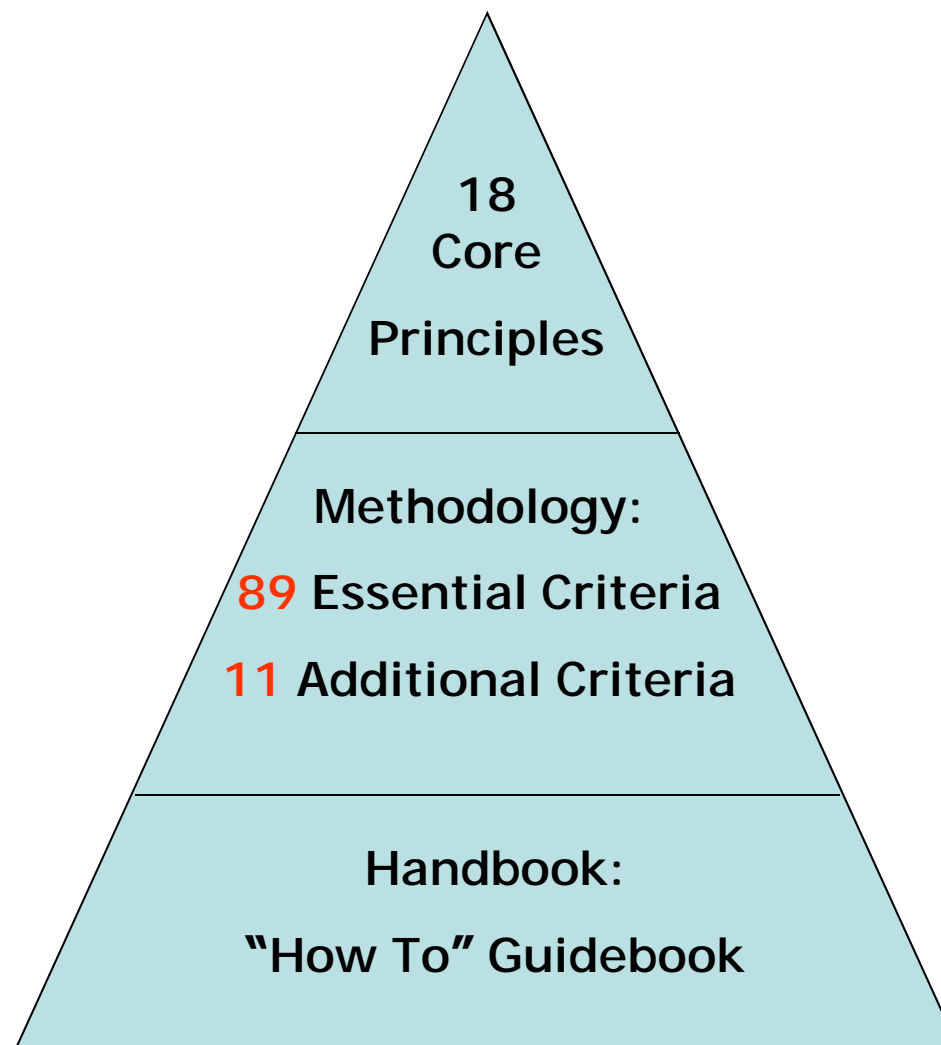


Core Principles for Effective Deposit Insurance Systems

General



Specific

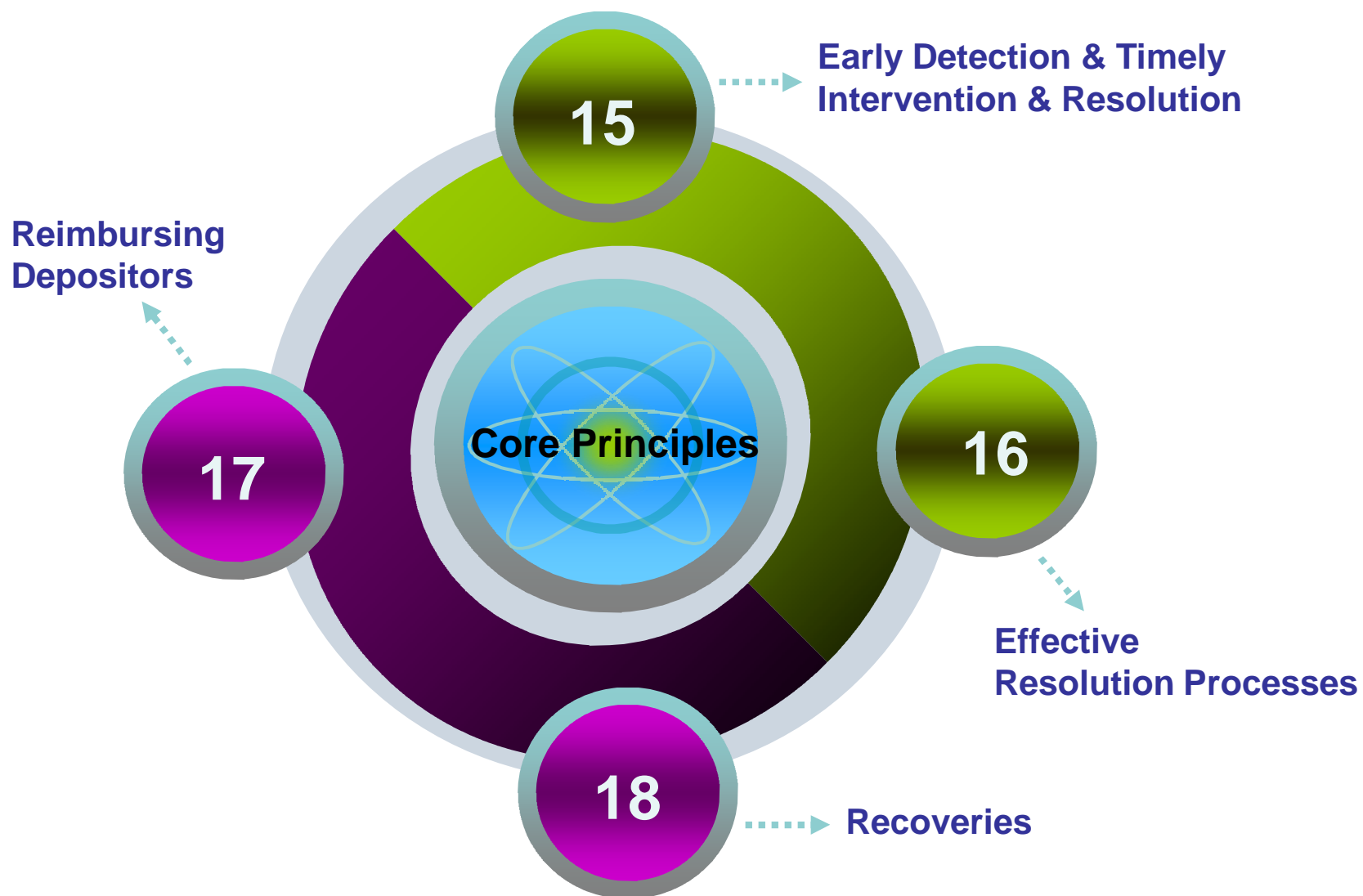


Flexibility





Major Related Phases of Bank Resolution





Core Principle 15 & 16



CP15: Early Detection & Timely Intervention & Resolution

DI is part of early
detection, intervention &
resolution framework

Clearly defined trigger
mechanism

Acted by FSN member
with operational
independence & power

CP16: Effective Resolution Processes

Facilitate DI's ability to
meet its obligation

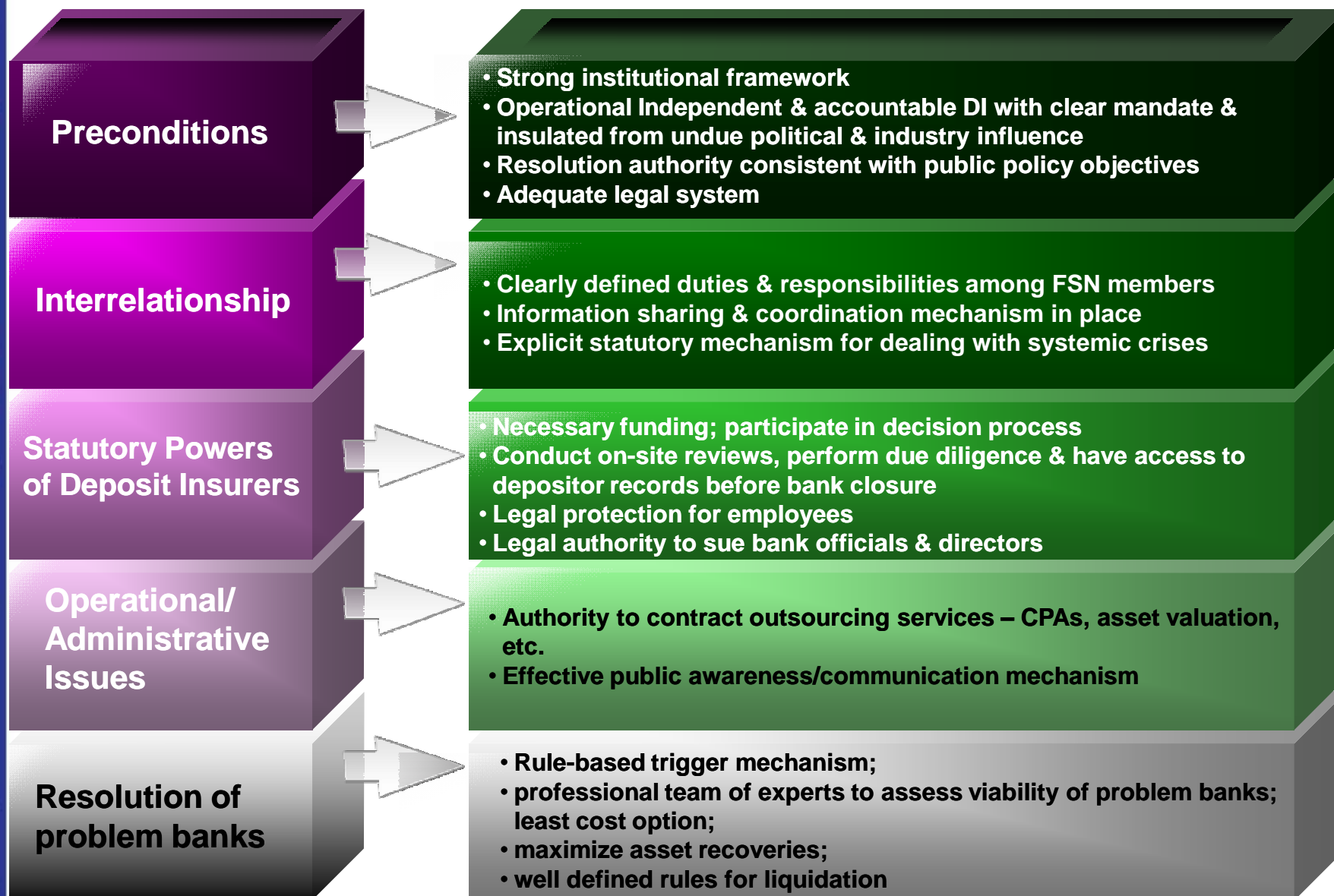
Minimize resolution cost
& market disruption

Maximize asset recoveries

Reinforce discipline
through legal actions



IADI Guidance on Bank Resolution





Resolution Options

DI's resolution tools:

- *One (27%), Two (24%), Three or more (49%)*

1. Reimbursement (Paybox) – 82%
2. Purchase and Assumption (P&A) – 55%
3. Bridge Bank – 26%
4. Open Bank Assistance – 35%

... most appropriate option depends on a jurisdiction's legal framework (e.g., insolvency laws) and DI's mandate and authorities.



Taiwan Experience

CDIC's early intervention & resolution mechanism



CDIC Profile

- ü Established in Sep. 1985
- ü Government agency: under
- ü Competent authority: Financial Supervisory Commission
- ü Mandate

§ Handle deposit insurance issues
§ Control insured risks
§ Deal with problem financial institutions
§ Special inspection

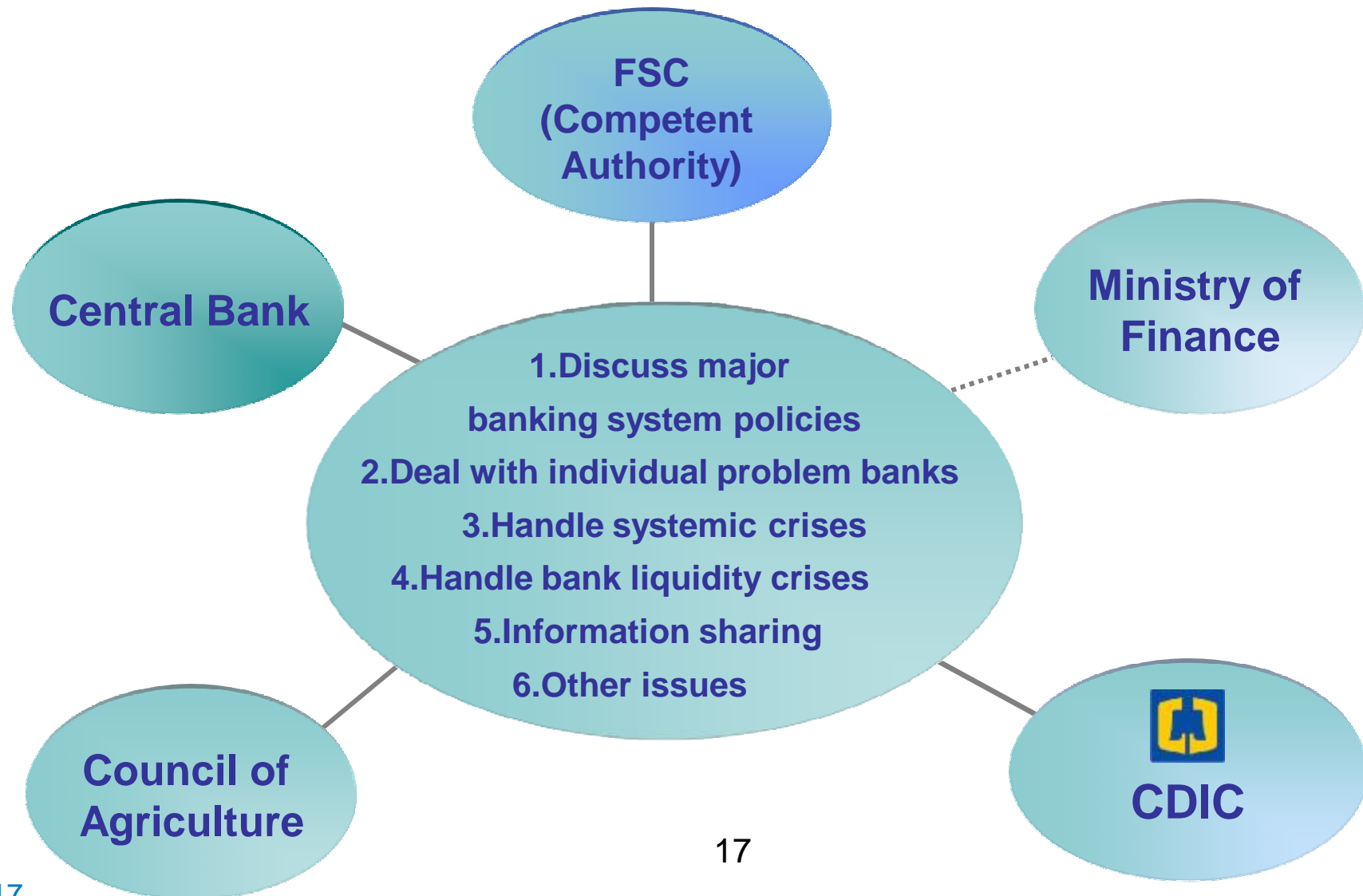
Pay Box



Risk Minimizer

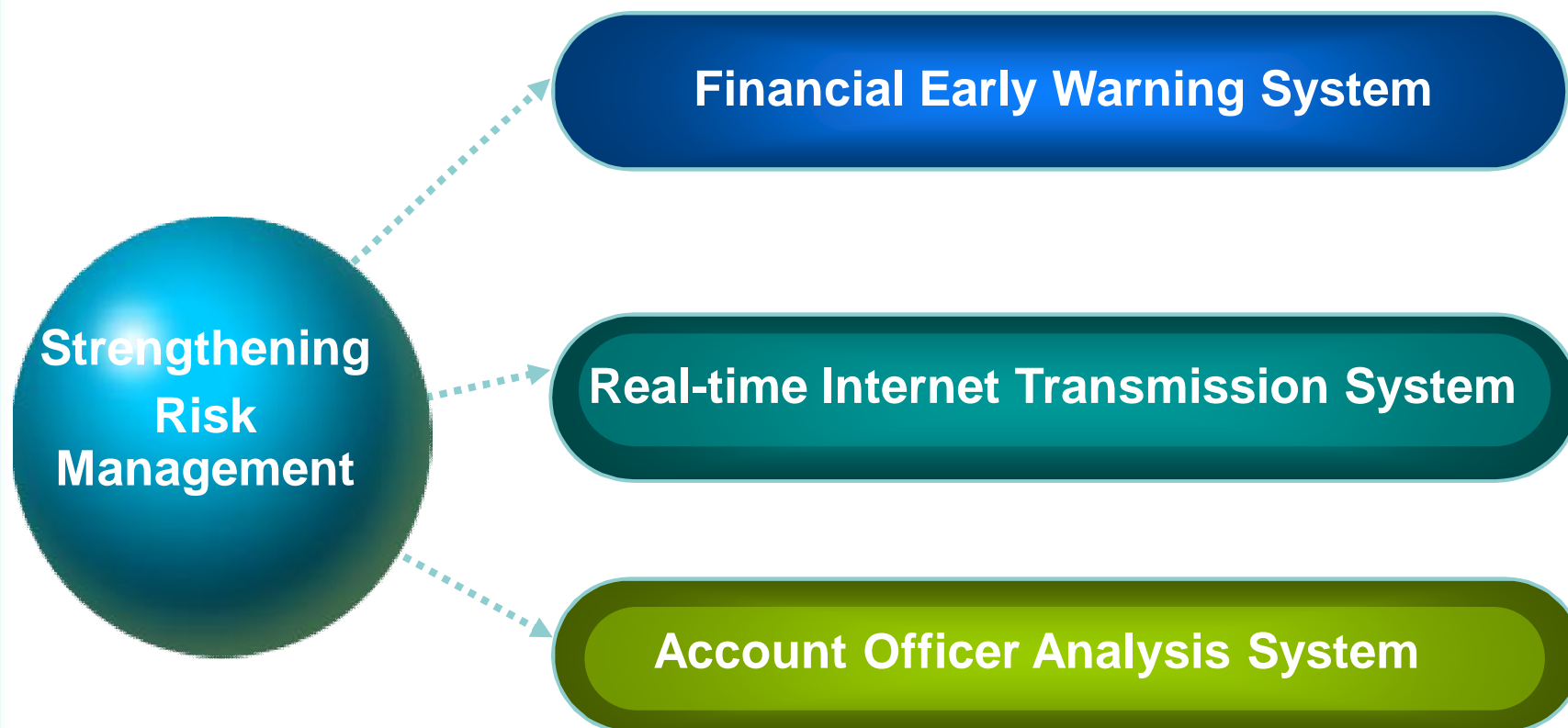


Financial Safety Net & Its Liaison System





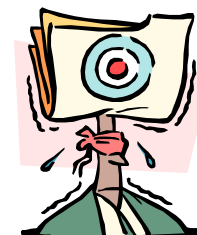
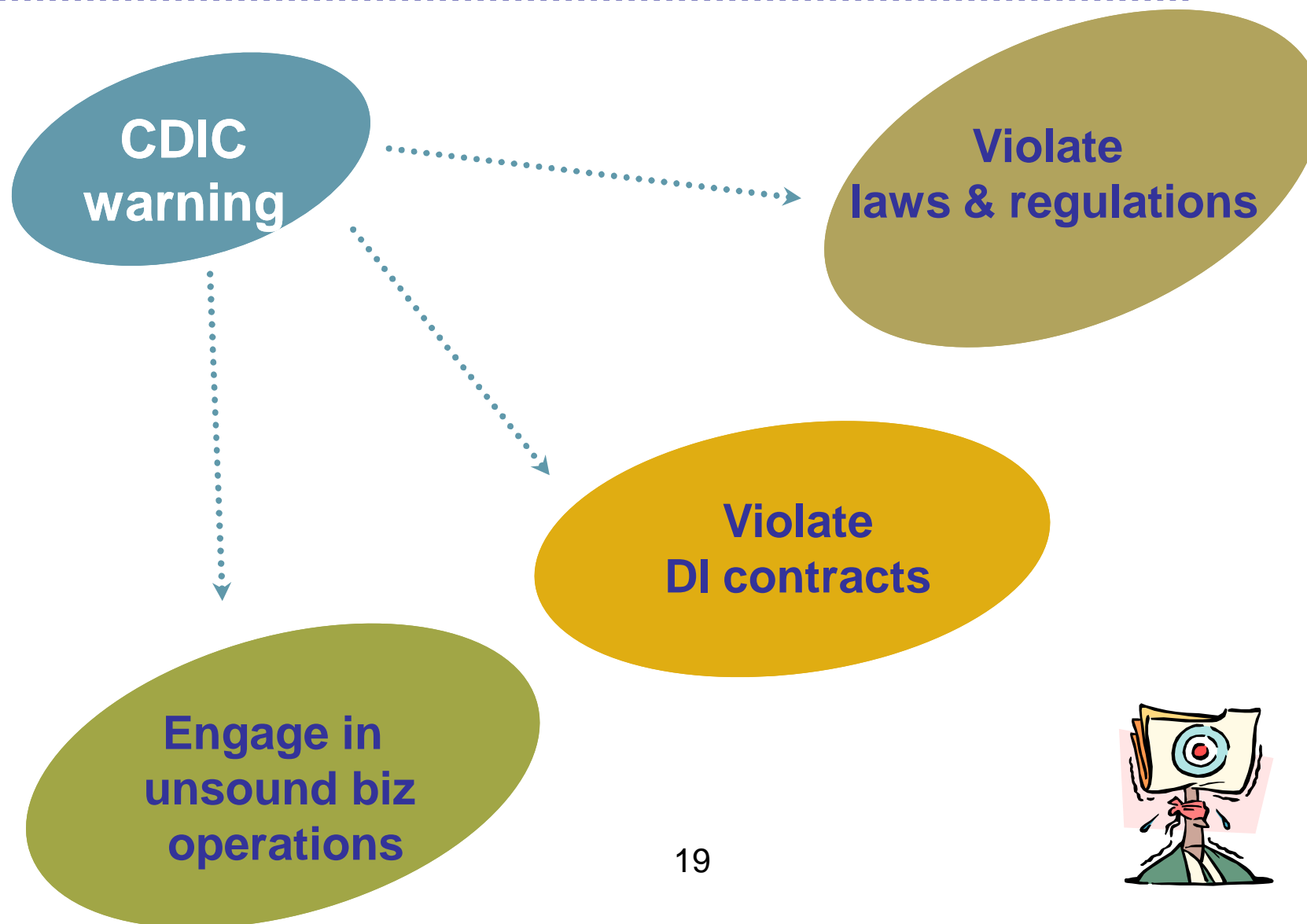
Risk Management Mechanisms



*** Warning of Deposit Insurance Contract Termination**



Warning of DI Contract Termination



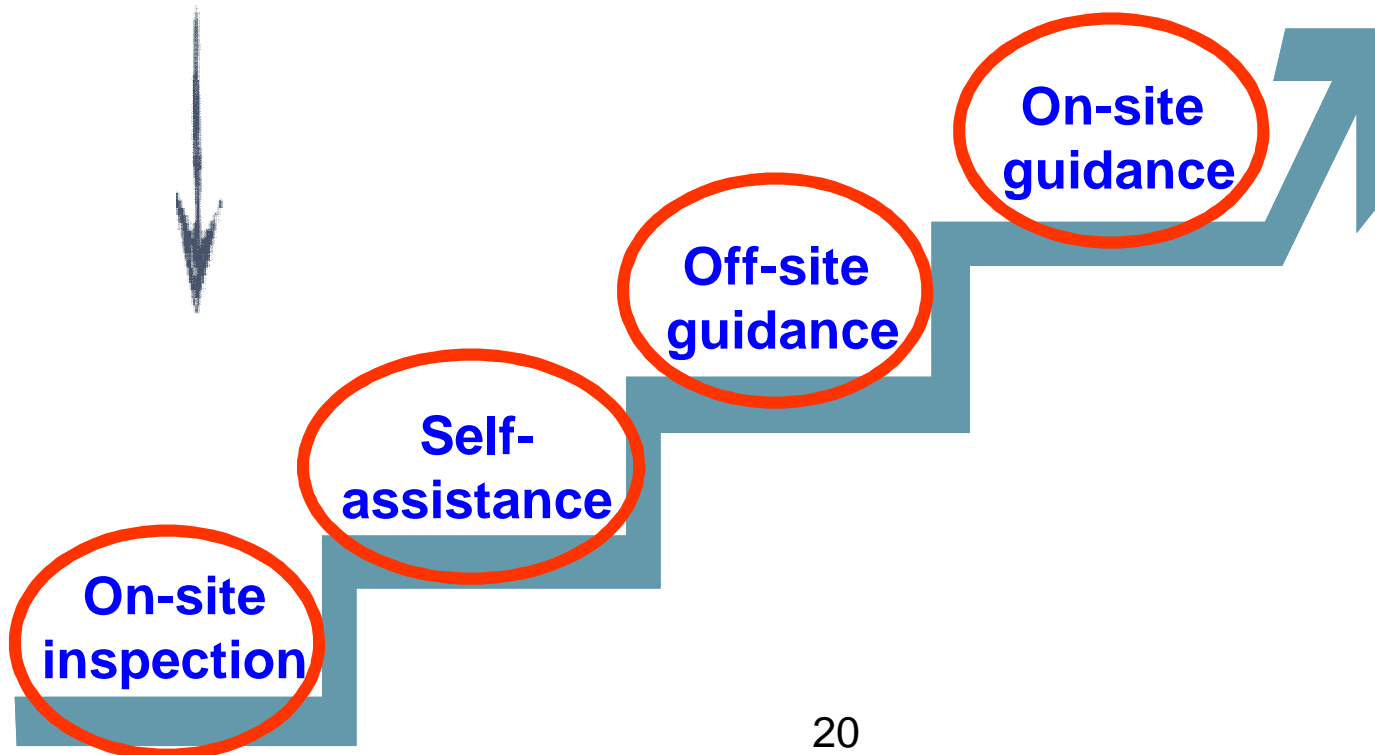


Steps of Early Intervention

Ongoing Risk Management

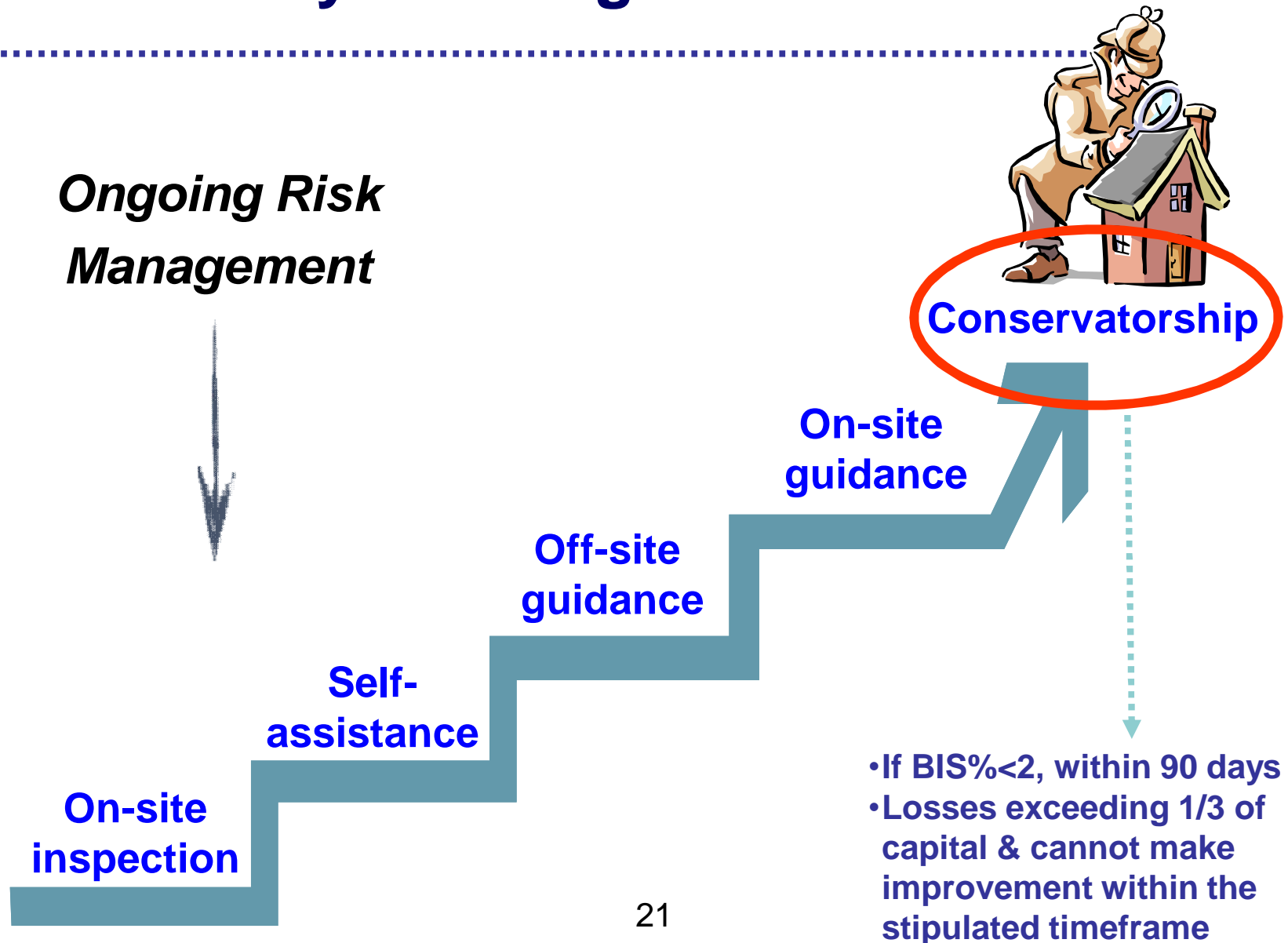


Conservatorship





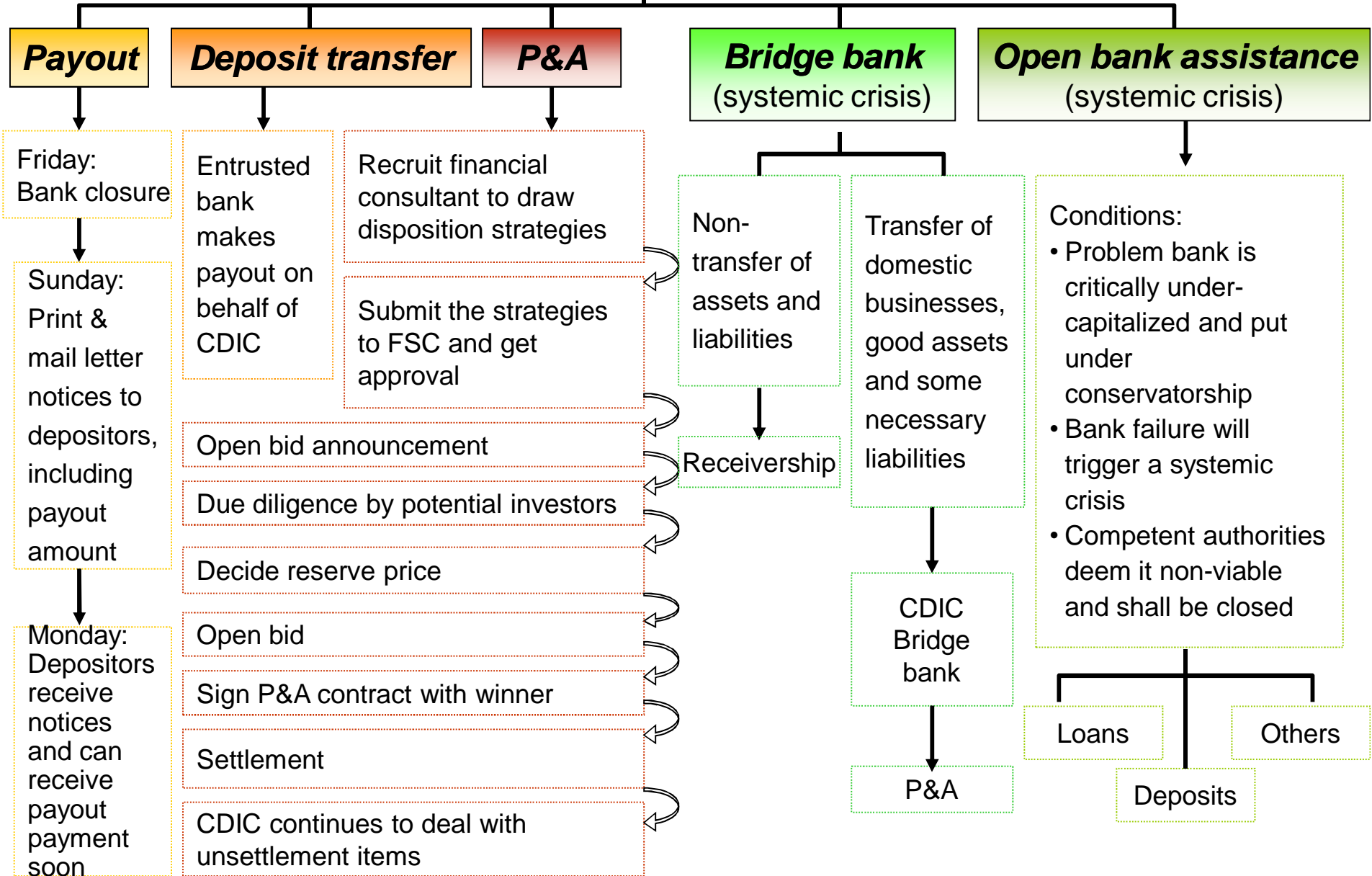
Early Banking Resolution



Resolution methods

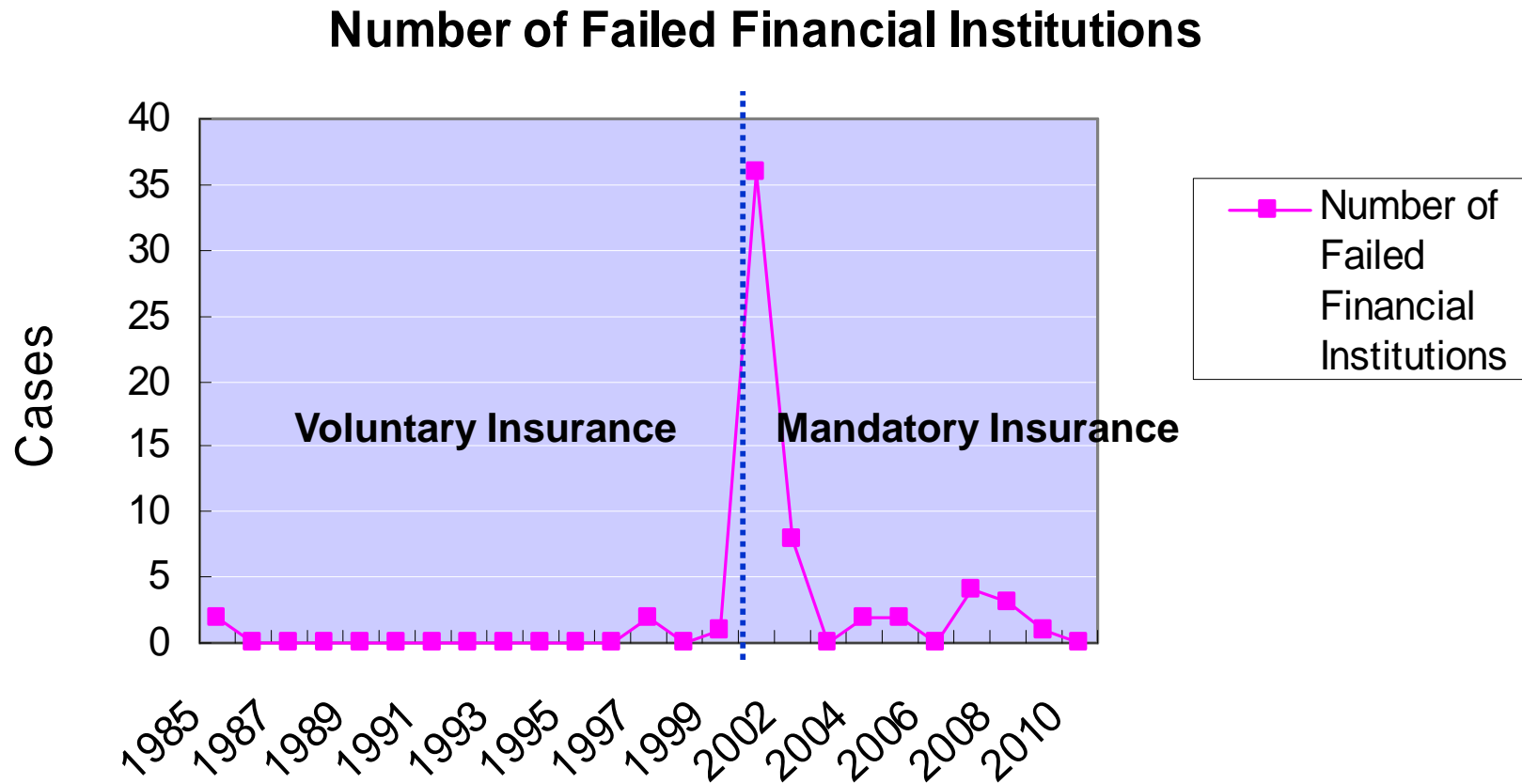
Funding Sources:

- * Premiums; Borrowing from government and market.
- * Collecting special premiums under systemic crisis.





Number of Failed Financial Institutions

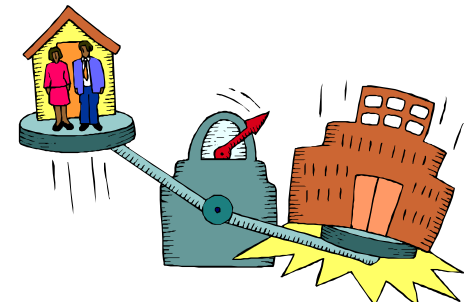


Total failed banks: 57



Purchase and Assumption

- § 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.





On-site Inspection

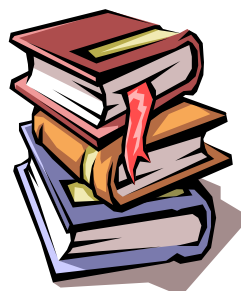
- § Any event causing termination of deposit insurance contract
- § Assets and liabilities of insured institutions before bank closure
- § Properties of employees of failed insured institutions, who violate the laws, to pursue civil liabilities
- § Accuracy of deposit assessment base and content of electronic data files





On-site Inspection of Electronic Data Files

Legal basis

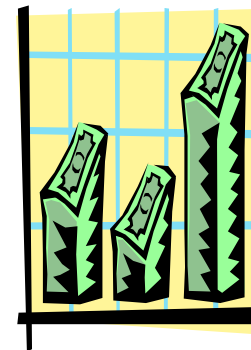


§ *Deposit Insurance Act*

- FIs are required to set up e-data files based on CDIC's format

Electronic
Data Files
- 7 categories
with 25
types
of data

Inspection emphasis



- File format
- Data type
- Data content



Retained Asset Management

- § Follow market mechanism, in principle
- § Various disposal measures per features of assets
- § Careful monitoring and management
- § Entrust specialized institutions for auction
- § **Major goal** ➔ **Disposal as soon as possible**

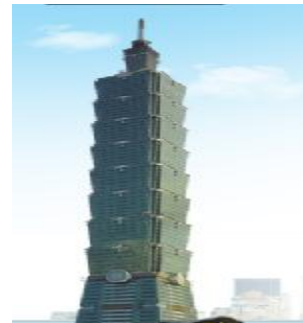
Hillside land



Hotel



Taipei 101



Chinese
antiques





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 & timely intervention & resolution

Principle 16 – Effective resolution processes



Conclusion

- § Effective DIS is an important link of financial consumer protection in bank resolution
- § Quick and accurate resolution/reimbursement is key to a successful DIS
- § Resolution mechanism will be effective when five areas are met: preconditions, interrelationship, aligned mandate & powers, operational readiness and clear legal framework
- § DIS should benchmark Core Principles for Effective DIS with appropriate legal framework



***“The Chinese use two brush strokes
to write the word crisis.
One brush stroke stands for danger;
the other for opportunity.
In a crisis, be aware of the danger,
but recognize the opportunity.”***

~ John F. Kennedy



Thank You