

Recent Financial Topics

from APRC Perspectives

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President of CDIC, Chinese Taipei
October 18, 2018**



Agenda

- Challenges from Global Perspectives
- Challenges to Asia Pacific Region
- Conclusion and Recommendations



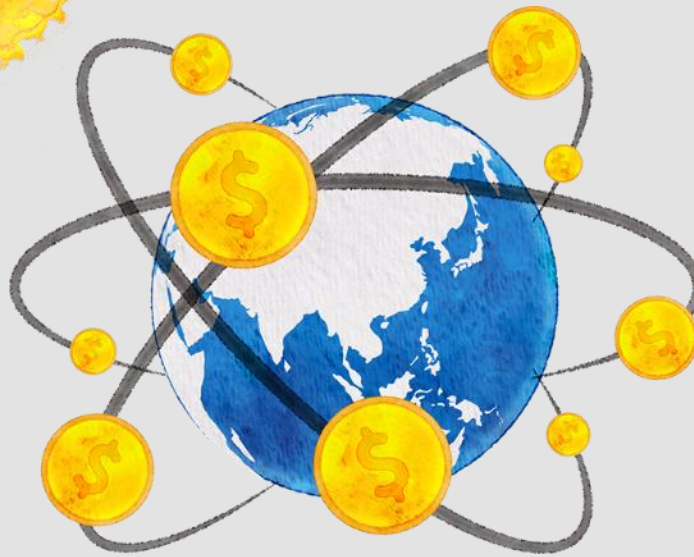
EXTREME MEETS

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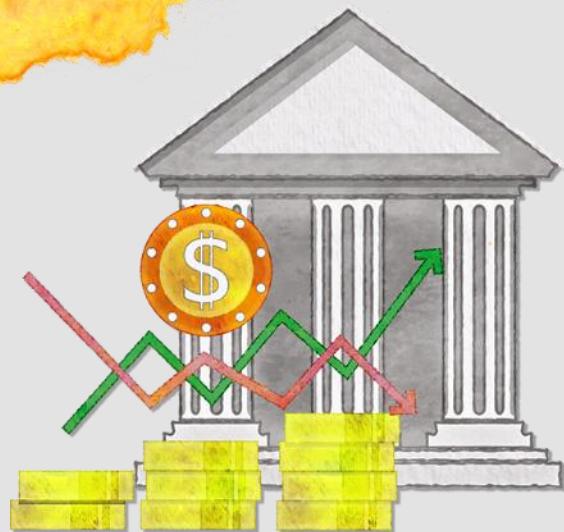
**Things turn to be the opposite when they come to the extreme.
Therefore, after a storm comes a calm.**

Challenging Financial Topics: Global Level

Global Challenges



- **Time to say goodbye to goldilocks economy**
 - **Growing interest rate & inflation**
 - **Volatile economic growth**



- **Extreme uncertainty of the whole world**
 - **Increasing budget & trade deficits**

- **Extreme uncertainty of the whole world**
 - **Risks of global trade wars**
 - **Retaliation among regions/countries; changing global supply chains & higher cost of raw materials and living**
 - **E.g. In 1930, US increased tariff radically resulting in GDP negative growth for four consecutive years:**
1930~1933: - 9.6%, - 7.7%, - 13.8%, - 2.2%



Global Challenges



- **Extreme uncertainty of the whole world**
 - **Global debt problems are rising**
 - **Global debt to global GDP 225% (2018) vs 213% (2009)**

Possible Impacts



Shaking international financial stability



Black Swan and Grey Rhino events to the financial markets



Plunging consumer confidence



Approaching jurisdictional / regional / global financial crisis



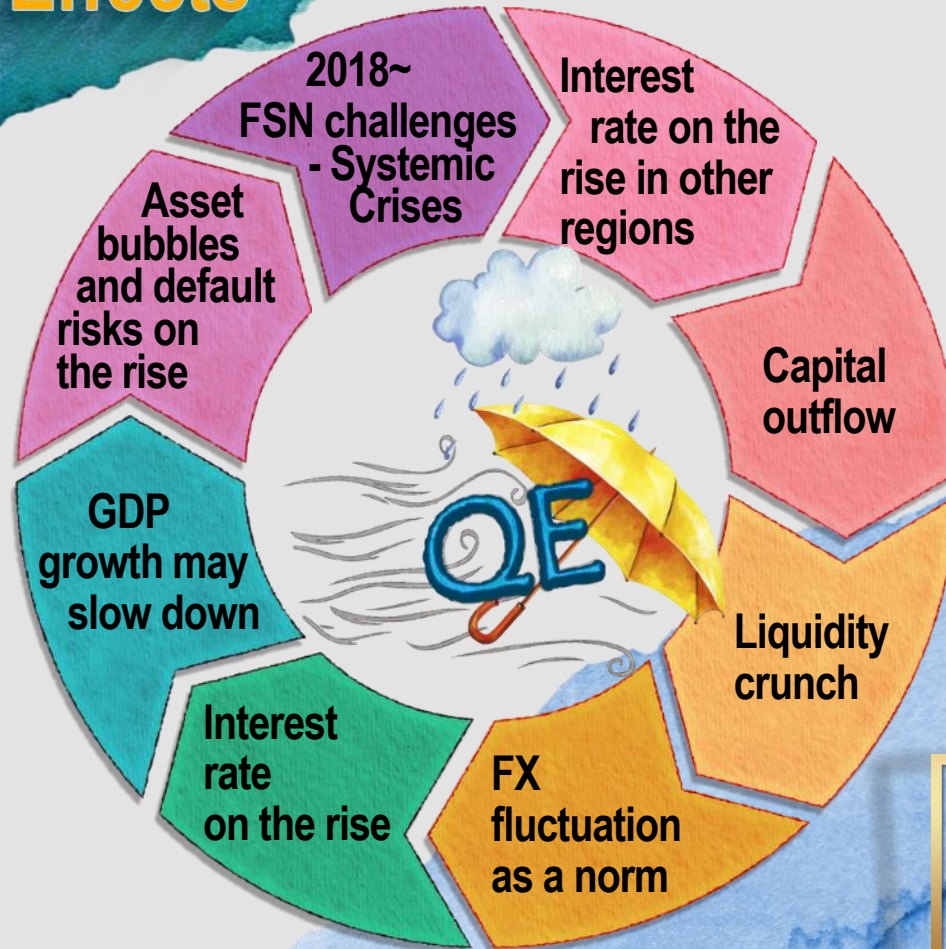
Mounting risks of bank failures

Challenging Financial Topics: Asia Pacific Level

Regional Challenges

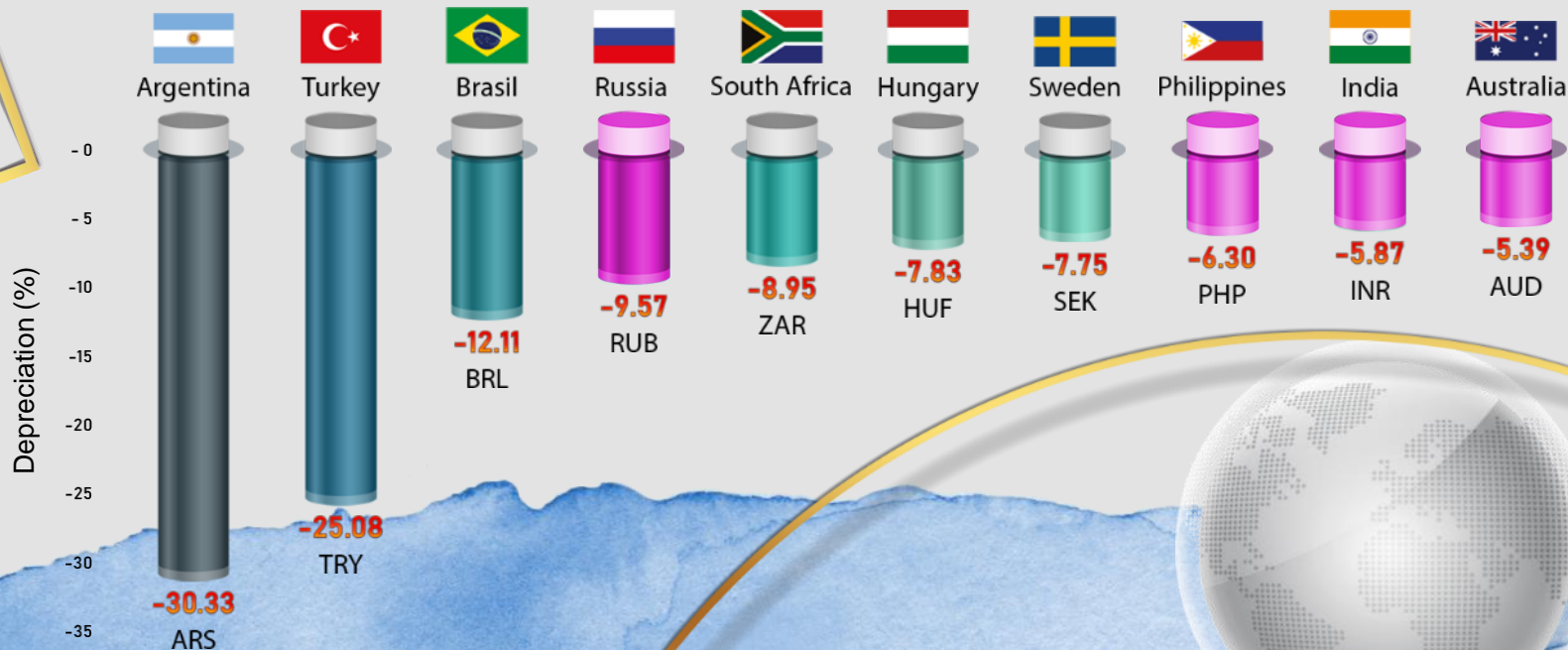
- **May be worse than global ones**
 - **Emerging markets inherent vulnerability (high dependence on foreign debts and foreign investment)**
 - **Easily hit by black swan or grey rhino events**

QE Exit Side Effects



FX Devaluation Surged

Foreign exchange market

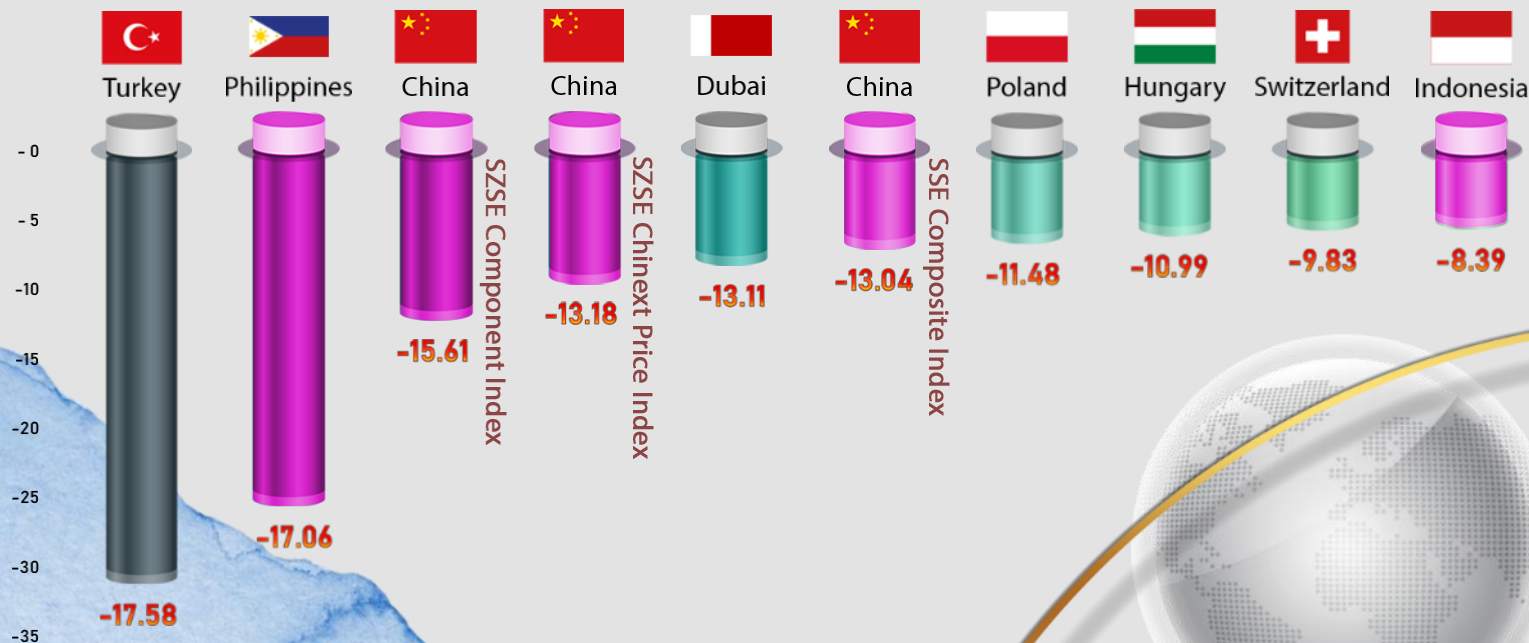


Data as of 21 June 2018
Source : www.macromicro.me

Emerging Market

Stock Market Plummeted

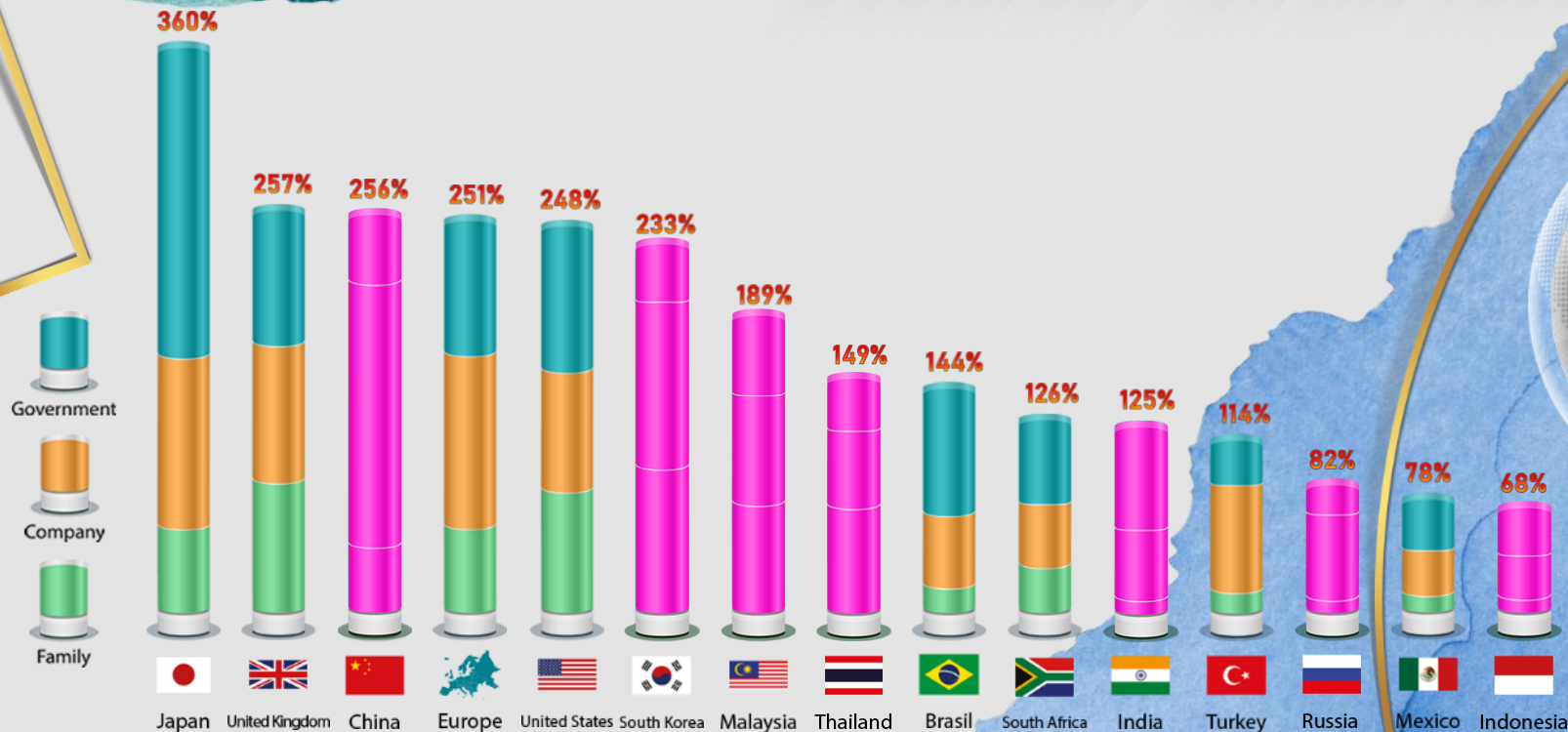
USD INDEX



Data as of 21 June 2018
Source : www.stockq.org

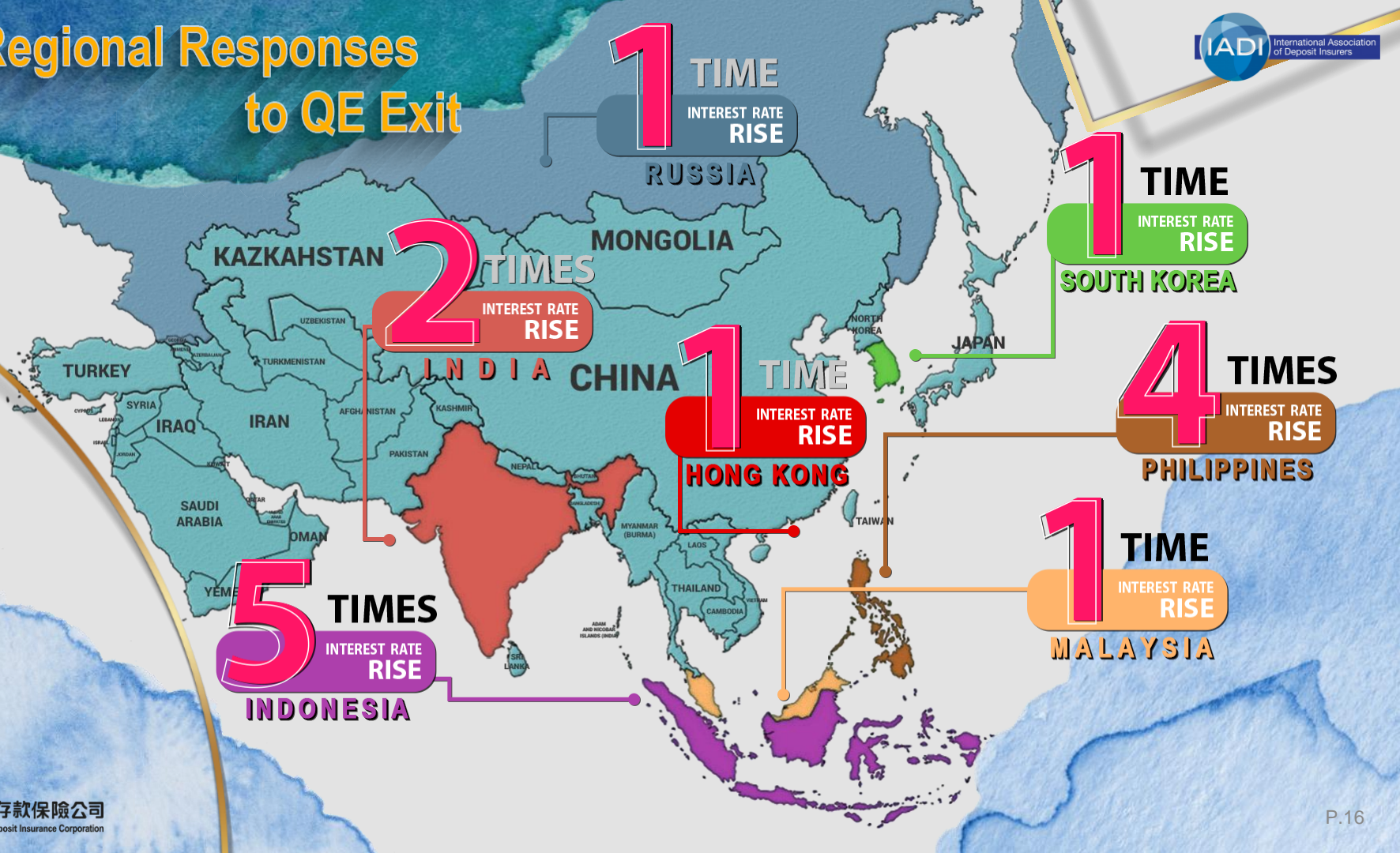
Emerging Market

Debts/GDP on the Rise



Source : JP Morgan Asset Management

Regional Responses to QE Exit



Challenges and Risks facing APRC Members

- **Challenges and Risks in Banking Industry in 2018 and 2019**
 - **Increasing cyber attacks (44%)**
 - **Decreasing economic growth rate (38%)**
 - **Rising in NPL ratio (26%)**

Sources: 2018 APRC ad hoc survey

Challenges and Risks facing APRC Members

- **Challenges and Issues for DIAs in 2018 and 2019**
 - **Low level of public awareness on deposit insurance systems (50%)**
 - **Limited mandates (38%)**
 - **Inadequate cooperation with other relevant government agencies (31%)**

Sources: 2018 APRC ad hoc survey

Recent Enhancements by APRC Members

- **By Supervisors**
 - **Mechanism for maintaining financial stability** (Singapore, Vietnam)
 - **Recovery and resolution framework**
(Japan on TLAC, Thailand on recovery planning)
 - **Framework for handling stressed assets**
(India)
 - **FinTech and IT risk management**
(Hong Kong, Thailand, Chinese Taipei)
 - **Corporate Governance: Separation
of financial services firms and industrial
enterprises** (Chinese Taipei)



Recent Enhancements by APRC Members

- **By DIAs**
 - **Mechanism for maintaining financial stability or handling systemic banks** (Indonesia, Vietnam, Chinese Taipei)
 - **Strengthening risk management mechanism** (Korea, Russia, Chinese Taipei)
 - **Resolution framework** (Indonesia)
 - **Responses to Fintech/financial innovation** (Russia, Chinese Taipei)



Recent Enhancements by APRC Members

- **By DIAs**
 - **Enhance mandate/independence** (Mongolia)
 - **Higher coverage** (Kazakhstan, Singapore)
 - **Legal protection** (Singapore)
 - **Payout operation and process**
(Mongolia, the Philippines, Singapore, Chinese Taipei, Thailand)



CDIC's Systemic Crisis Prevention Mechanism

- Legal source: *Deposit Insurance Act*
- Key features:
 - Remove payout cost limit
 - Collect special premiums
 - Establish bridge banks
 - Borrow from the Central Bank with government guarantee



Financial Industry Special Reserve (FISR)



- Purpose
 - The last resort for DI Fund and Insurance Stability Fund
- Funding sources
 - Banking, Insurance, Trust Investment, Security, Futures and Pawnshops industries
 - 2% business tax rates
- Targeted fund size in 2024 (start premium levy in 2014)
 - US\$6 billion (US\$0.8 billion/year)

CDIC can apply for the use of FISR if DI Fund is insufficient



Conclusion and Recommendations

Save for the Long and Heavy Rainy Days

For domestic financial safety net members

- **Government : precautionary measures**
 - Accumulate fiscal surplus and reduce fiscal deficit during economic boom
- **Financial Market : preventive supervisory policies**
 - Financial regulatory authorities should take macro-prudential policy measures to contain credit expansion on specific assets including unsecured loans or high-risk assets



Save for the Long and Heavy Rainy Days

For domestic financial safety net members

- **Deposit Insurers : precautionary insured risk measures**
 - **Fast accumulation of sufficient deposit insurance fund and enhancement in risk management tools**




Save for the Long and Heavy Rainy Days

- For global and regional financial safety net members
 - IADI regional committees should set up a cross-border cooperation template
 - Global or regional FSNs should strengthen cross-border cooperation



**In the near future, we may have to open our eyes
when we are sleeping like crocodile does**





STRIVE TO IDENTIFY
EARLIER ON THOSE HAVE
BEEN SWIMMING NAKED
BEFORE THE TIDE GOES OUT

APRC
Thank You