

# Bank Resolution Taiwan Experience

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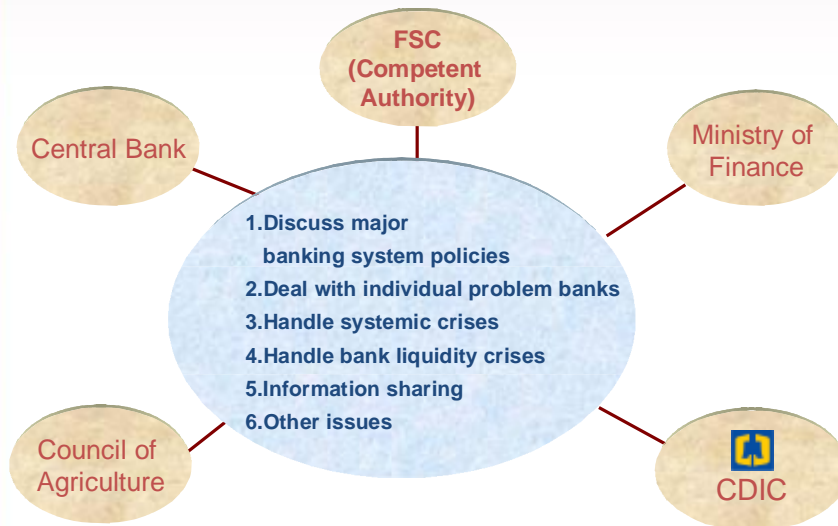


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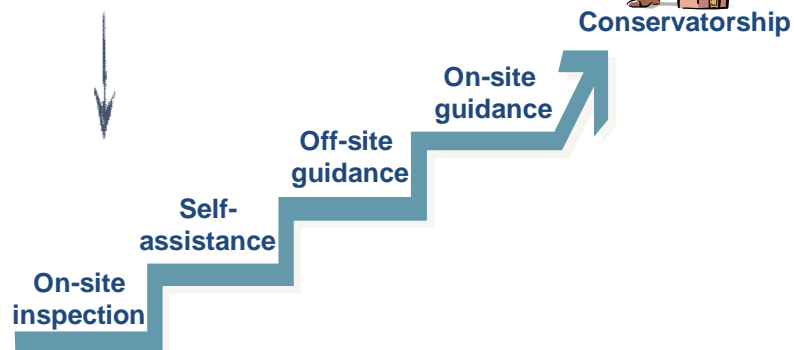
# Financial Safety Net & Its Liaison System



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# Risk Management & Early Intervention



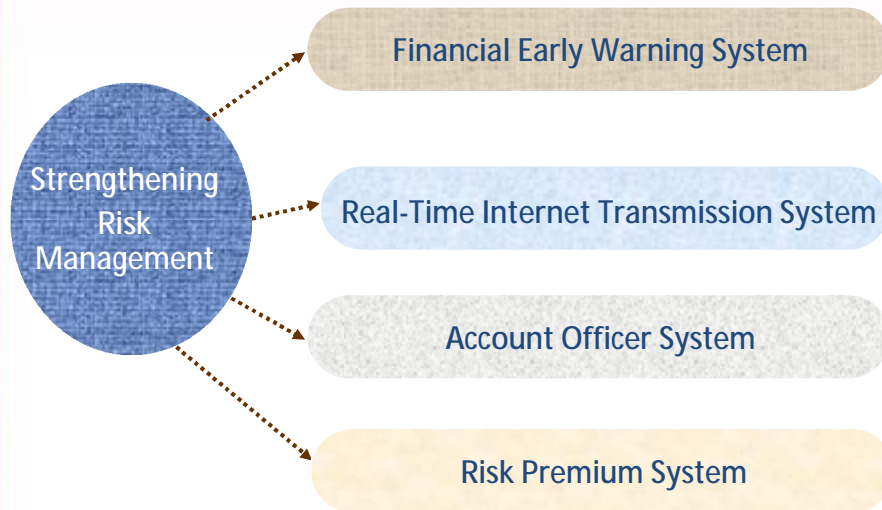
## Entry of DIS – Mandatory Application

§ **Mandatory application, but subject to CDIC's on-site inspection and review**

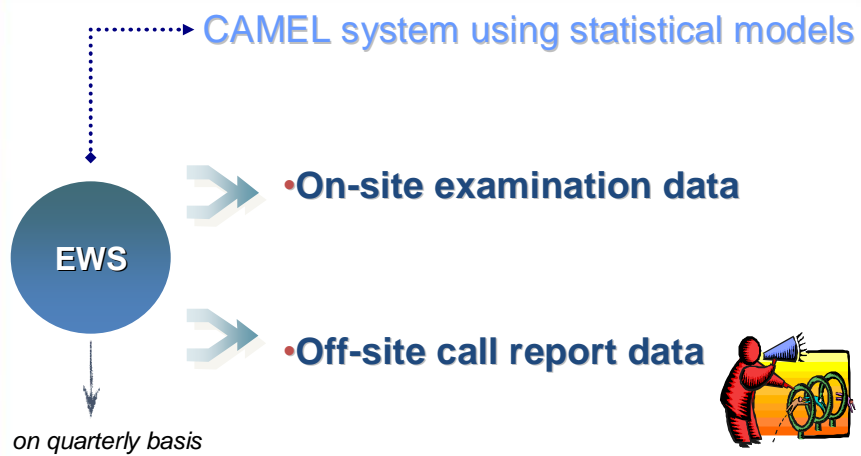
- If the applying financial institution doesn't conform to the Membership Approval Standard, the CDIC will urge it to make improvements within certain timeframe.



## Ongoing Risk Management



## Financial Early-warning System (EWS)

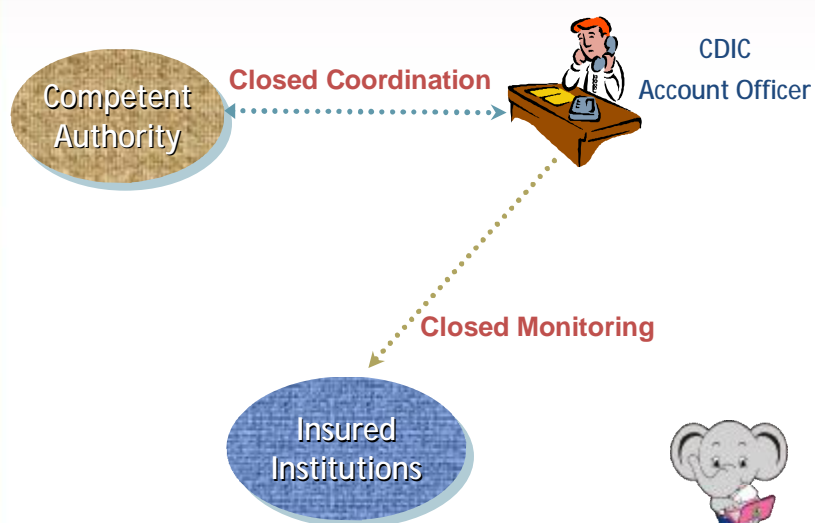


## Real-time Internet Transmission System

- § Financial institutions transmit major financial data to the CDIC on a daily basis.
- § CDIC can promptly dictate abnormalities and respond to warning signals.



## Account Officer System



## 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.



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## Special Inspection and Investigation

• Accuracy of deposit assessment base and content of electronic data files

• Any event causing the termination of DI contract

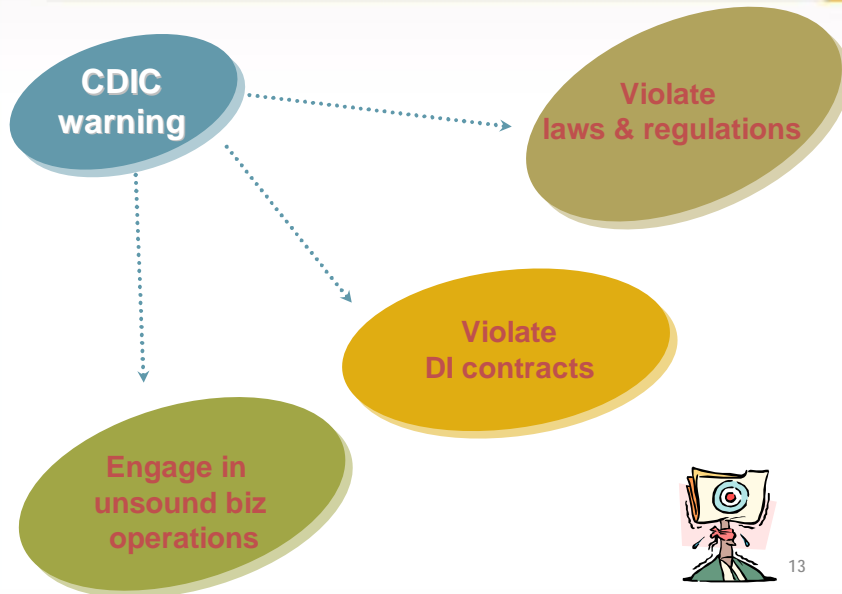
• Assets and liabilities of insured institutions prior to the fulfillment of insurance responsibilities

• Property information and information needed to pursue civil liabilities for illegal acts or omissions by employees of failed insured institutions

• Set up the E-Data Files Verification IT System to assist verifying data accuracy in inspections

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## Exit of DIS – Warning & Termination



## Steps of Early Intervention

**Ongoing Risk Management**

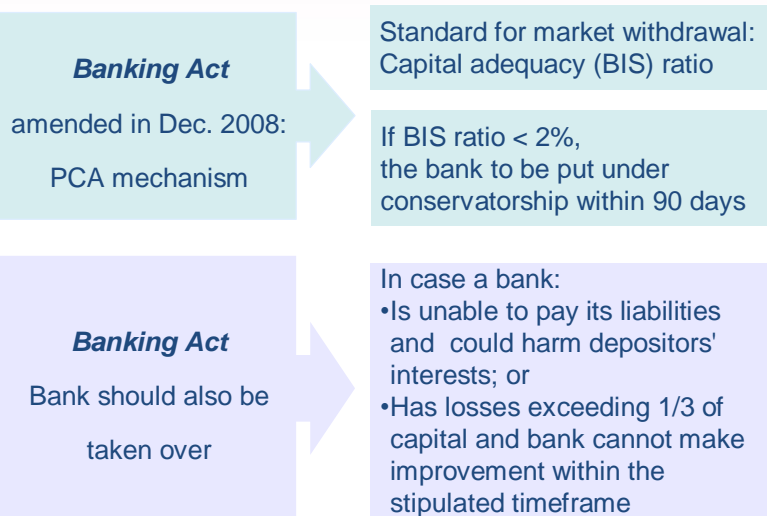


## Bank Resolution Mechanism

- § Resolved 57 problem institutions by Purchase and Assumption (P&A) method since CDIC's establishment in 1985.
- § First step for early banking resolution: Conservatorship.



## First Step of Bank Resolution - Conservatorship



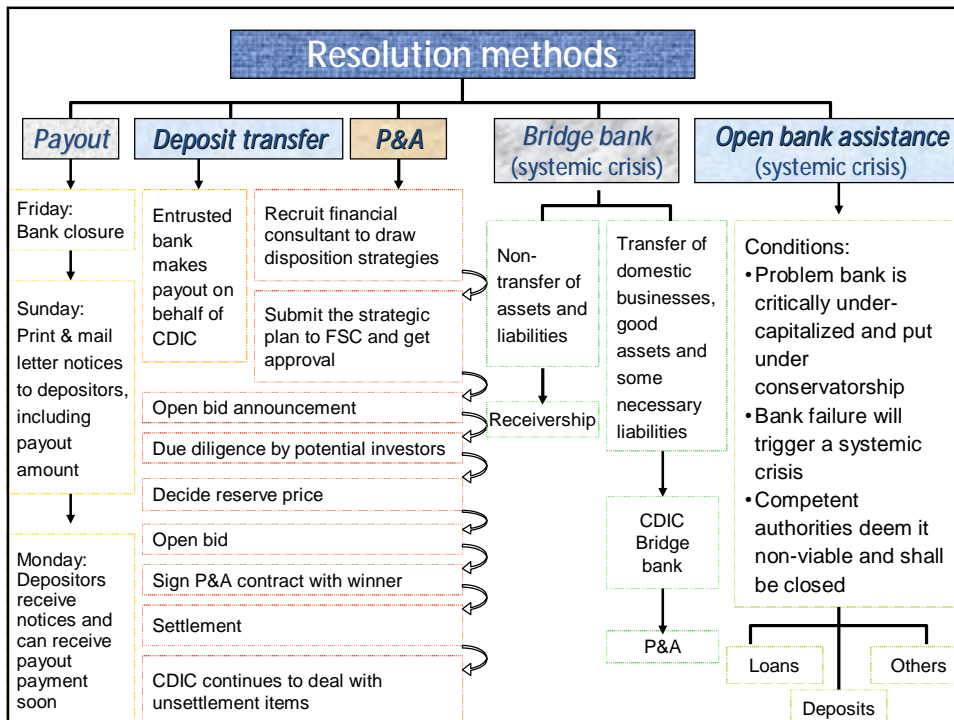


# CDIC's Compliance with Core Principles

Taiwan's early intervention & bank resolution mechanism

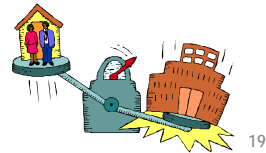
compliant

**Core Principles**  
**for Effective Deposit Insurance Systems**  
**Principle 15 – Early detection and timely intervention & resolution**



## 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

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	

## Procedure of P&A Transactions

Financial consultants appraise the value of the problem banks as reference

CDIC reviews the appraisal provided by financial consultants and then an Appraisal Subcommittee reviews the appraisal

Final price decided by an open bid

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## CDIC's Compliance with Core Principles

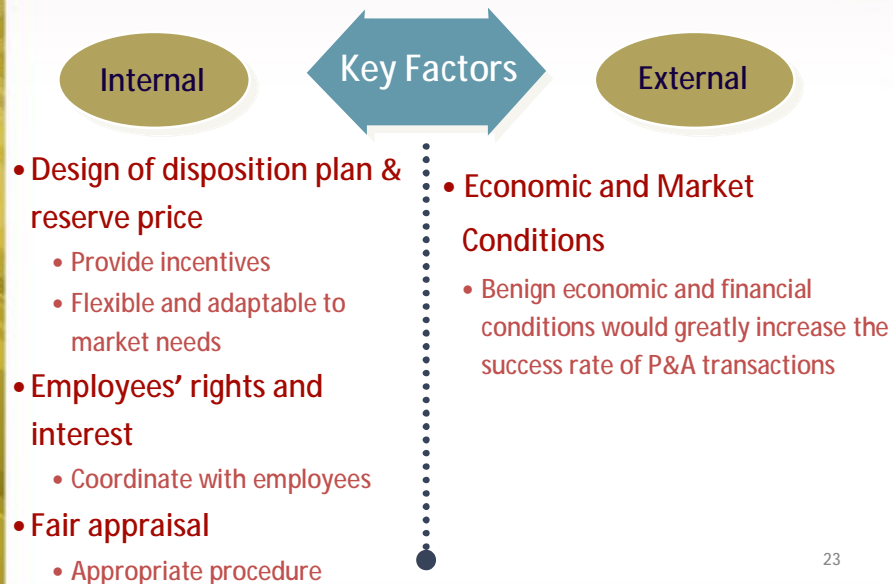
Taiwan's bank resolution process



Core Principles  
for Effective Deposit Insurance Systems  
Principle 16 – Effective resolution processes

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## Key to Facilitate P&A



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## 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 is 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 is insufficient, CDIC may collect special premiums



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# Future Perspectives



# Future Perspectives

- § Reinforcing risk management
  - § Call Report Rating IT system
- § Strengthening resolution mechanism for dealing with failing financial institutions
  - § E-data File Verification IT system
  - § Payout IT system





*Thank You!*

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