

CDIC



Past Lessons & Future Challenges

**- The Financial Safety-Net
Must Always be Ready**

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February 18, 2016



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Preface

Greed is not Good

- General Douglas MacArthur said *“Old soldiers never die. They just fade away.”*
- In the past financial crises since the 1930’s, bankers never die; they just lose interest.
- Politicians never die; they just launch another financial reform.
- Deposit insurers never die too; they just get more premium.



What a Mess!



Slower Economic Growth in China

- China's economic slowdown as "New Normal" looming

Unit: %

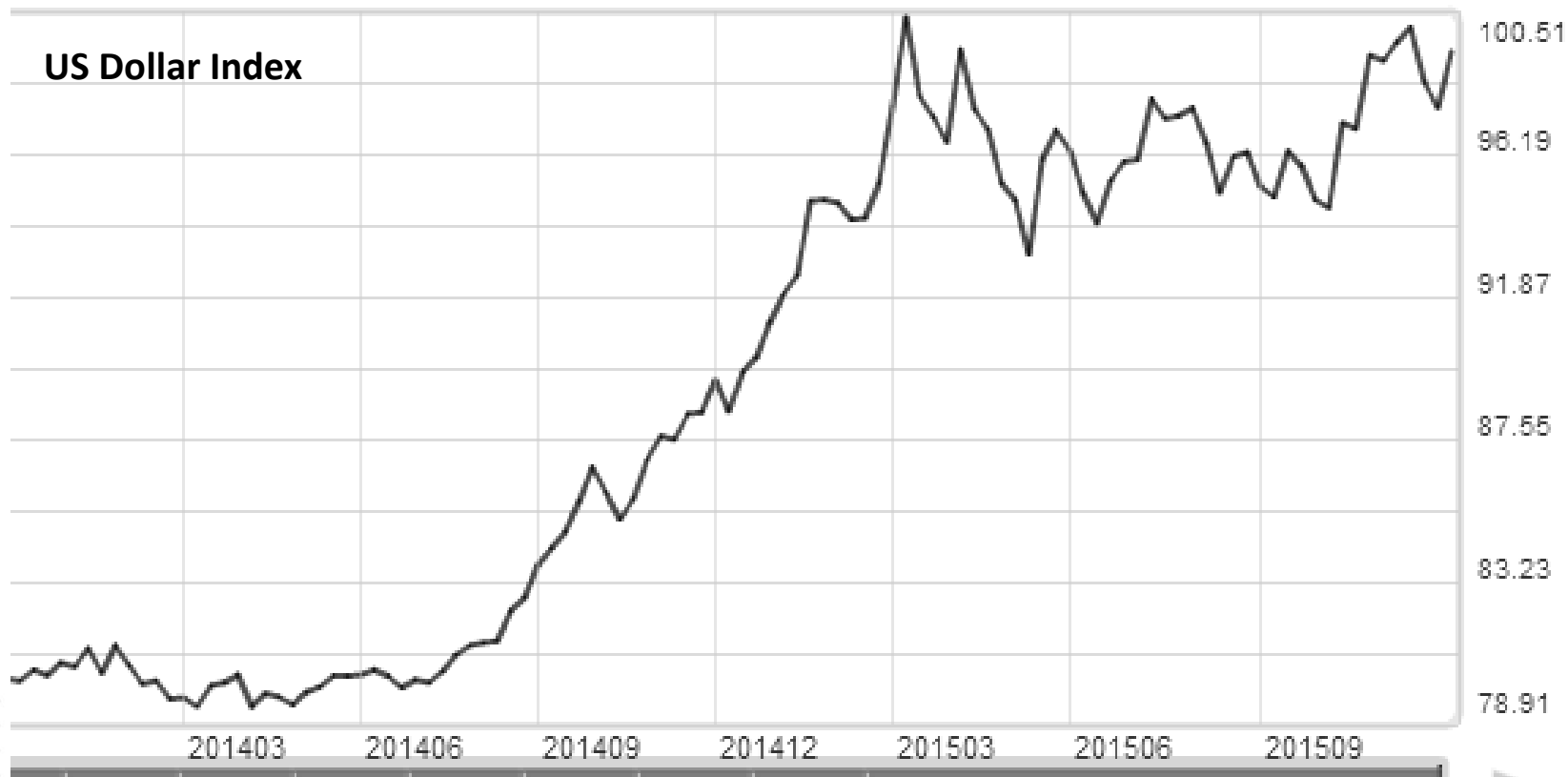
Region/ Jurisdiction	IMF			World Bank		
	2014	2015	2016	2014	2015	2016
Global	2.6	2.4 (2.8)	2.9 (3.3)	3.4	3.1 (3.1)	3.4 (3.6)
High income	1.7	1.6 (1.9)	2.1 (2.3)	1.8	1.9 (2.0)	2.1 (2.2)
U.S.A.	2.4	2.5 (2.7)	2.7 (2.8)	2.4	2.5 (2.6)	2.6 (2.8)
Euro Areas	0.9	1.5 (1.5)	1.7 (1.8)	0.9	1.5 (1.5)	1.7 (1.6)
Japan	-0.1	0.8 (1.1)	1.3 (1.7)	0.0	0.6 (0.6)	1.0 (1.0)
Developing	4.9	4.3 (4.7)	4.8 (5.4)	4.6	4.0 (4.0)	4.3 (4.5)
China	7.3	6.9 (7.1)	6.7 (7.0)	7.3	6.9 (6.8)	6.3 (6.3)

Source: 1. World Bank, Global Economic Prospects, January 2016.

2. IMF, World Economic Outlook, January 2016.

High Forex Volatility

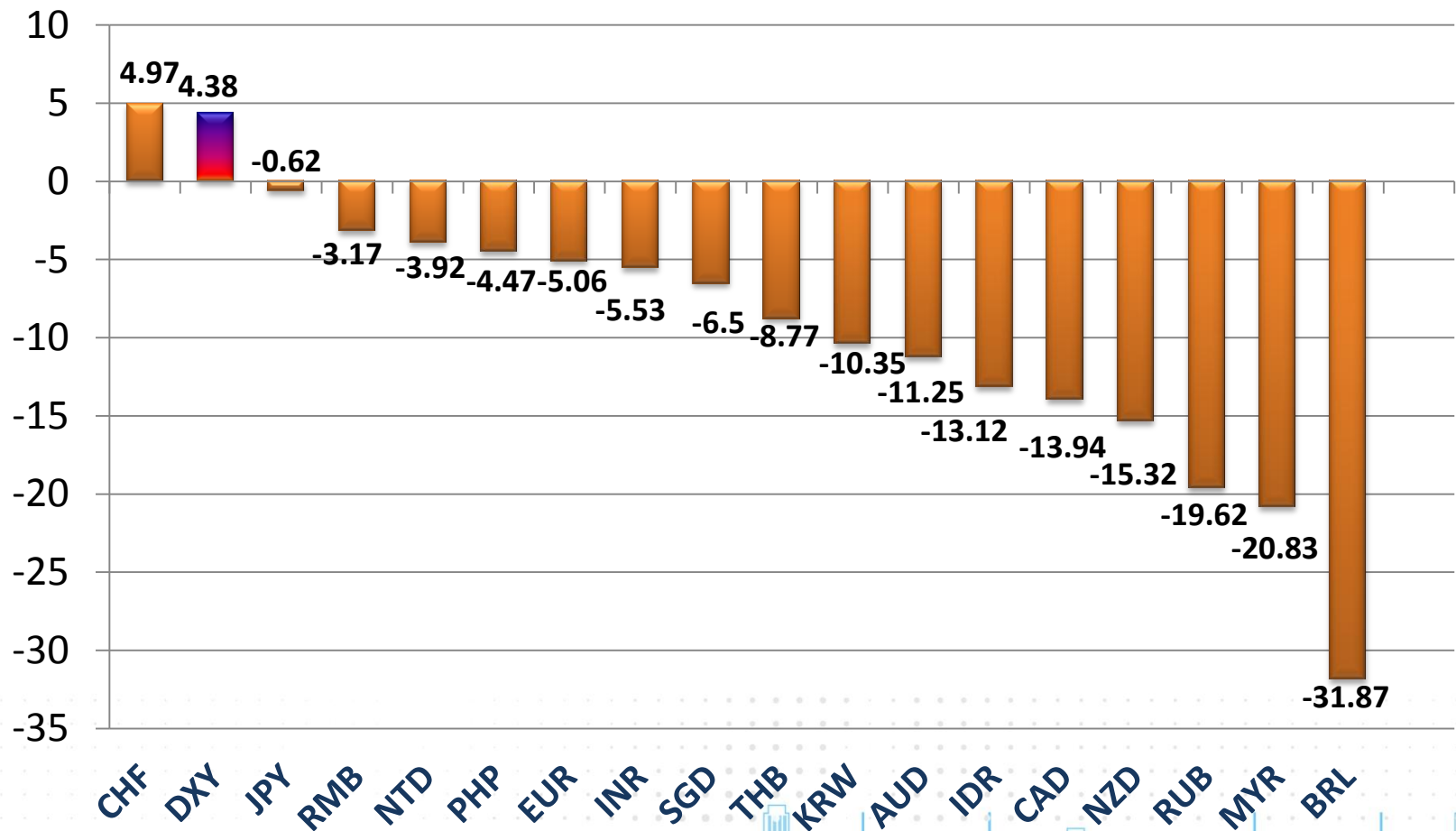
- Strong US Dollar since the beginning 2015



Note: US Dollar Index is a weighted geometric mean of the dollar's value relative to six select currencies: Euro (EUR), 57.6% weight; Japanese yen (JPY) 13.6% weight; Pound sterling (GBP), 11.9% weight; Canadian dollar (CAD), 9.1% weight; Swedish krona (SEK), 4.2% weight; and Swiss franc (CHF) 3.6% weight.

High Forex Volatility (cont'd)

- Games on currency depreciation cause financial instability



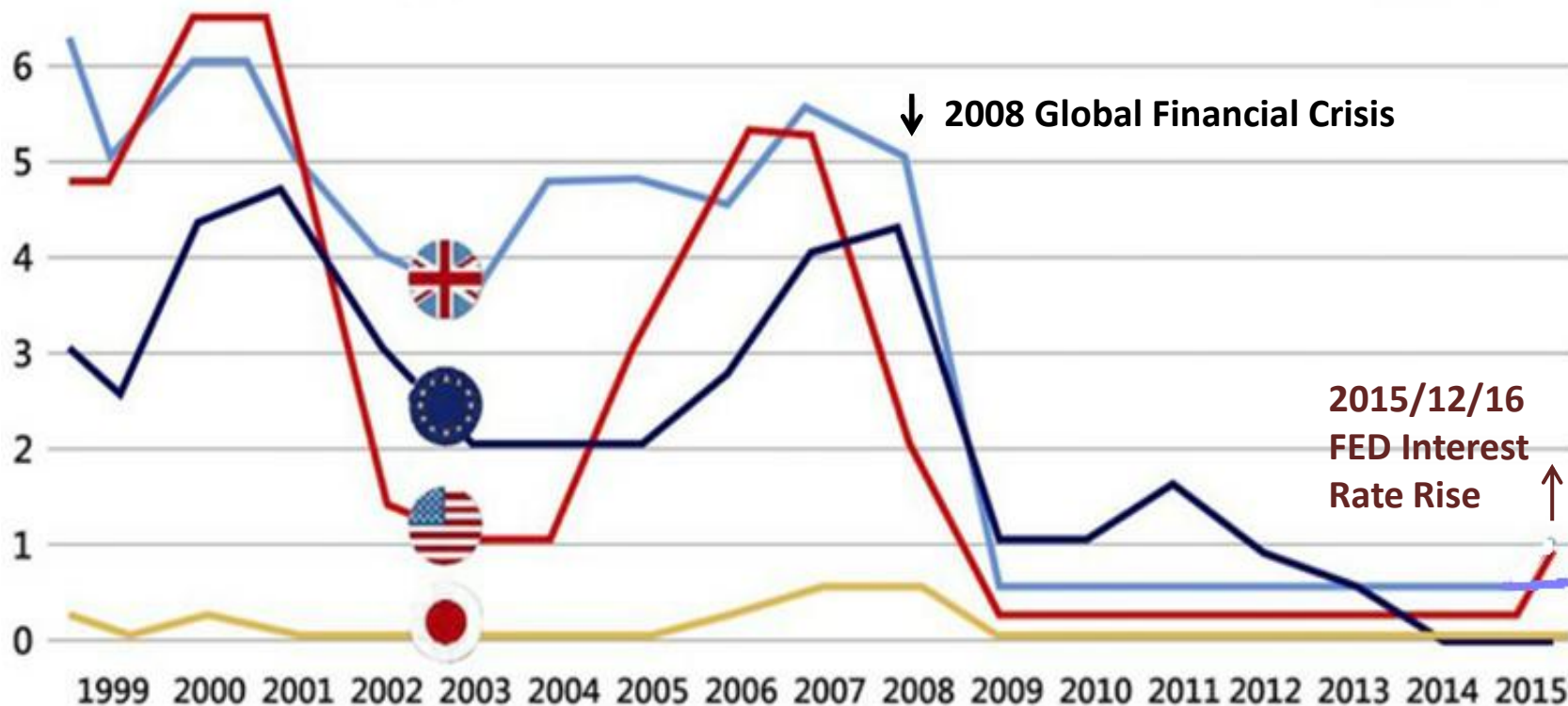
Note: % of appreciation (+) and depreciation (-) of each currency type in relation to USD, between 1/1/2015 to 8/24/2015.

Source: <http://www.cnyes.com/>

Unconformity of Interest Rate Policies

- US increased interest rate for 25 b.p. in Dec. 2015, first rise since December 2008

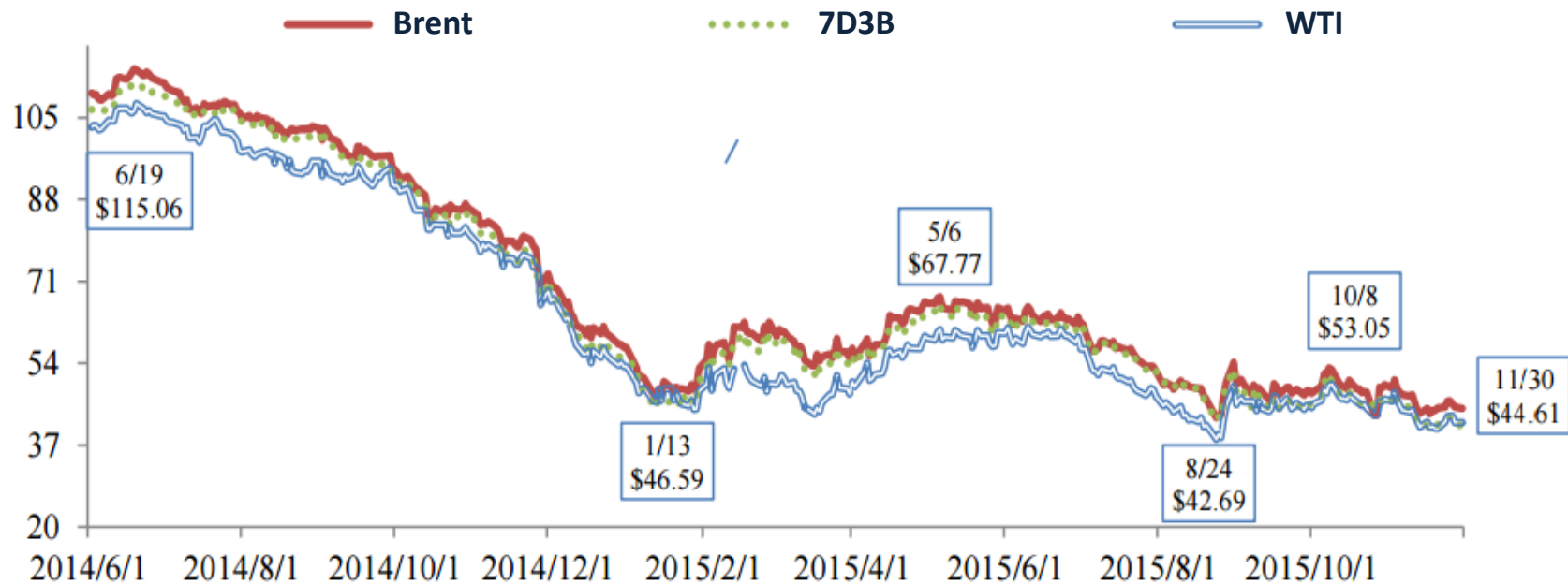
Central Bank Interest Rate in Industrial Countries



Continuous Fall of Oil Prices

- Oil Prices stay low and keep falling, caused by oversupply, strong US dollar and comprehensive agreement on Iranian nuclear program

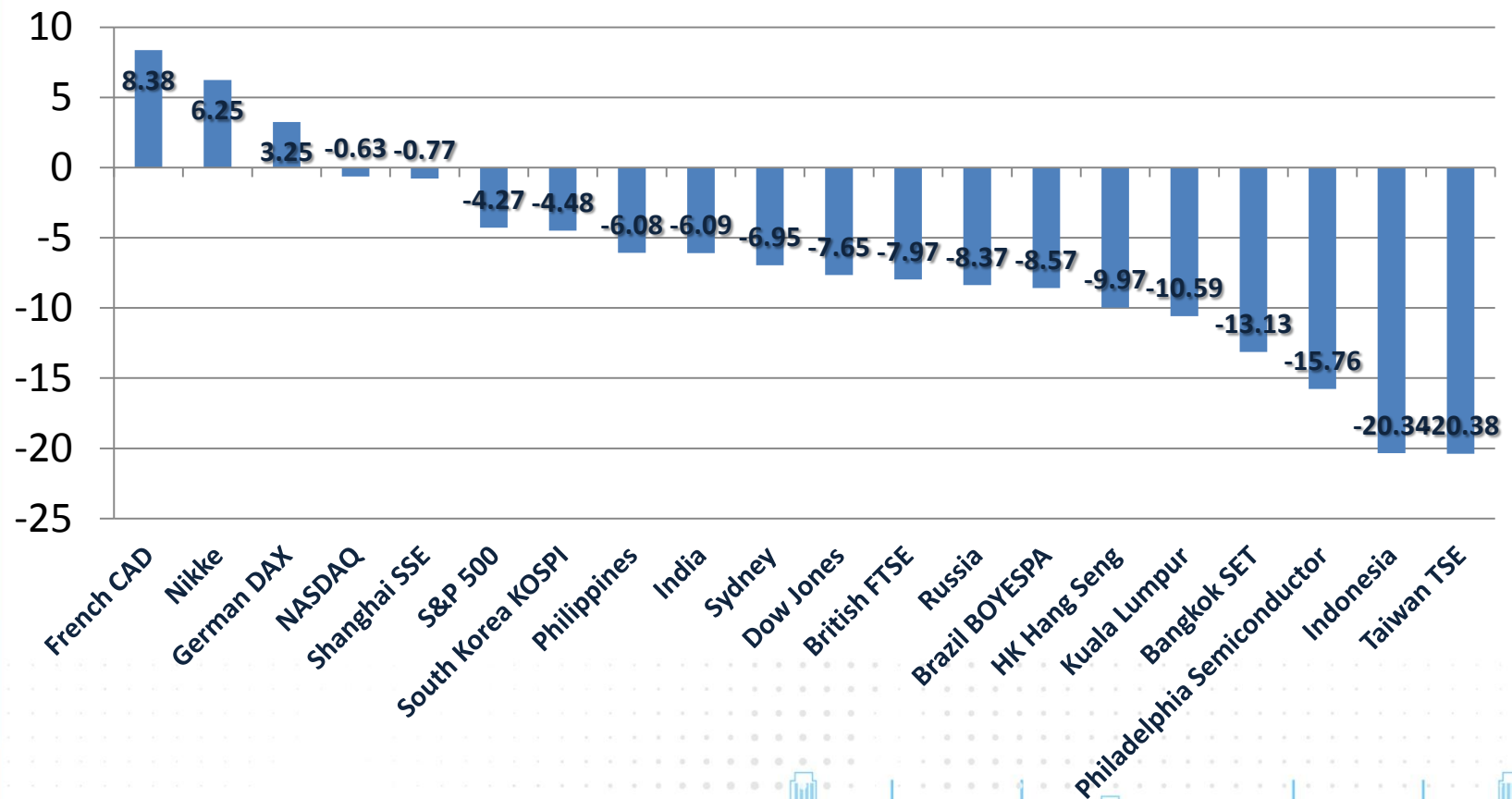
Unit: USD/Barrel



Source: Commodity Information Portal ([http:// www.info-cip.com/](http://www.info-cip.com/))

High Connectedness & Volatility of Stock Markets

- Worldwide Stock Market Corrections - capital movements bring negative impact on financial environments



Note: % of change of stock exchange index , between 1/1/2015 to 8/24/2015.

Source: <http://new.xq.com.tw/>

So ... Watch!

Economic expansion cannot continue forever, merely fueled by cheap money and central bank support

Compounded by slower China growth, falling commodity prices, stock market decline and emerging market recession

It might be the case that the financial industry is on the verge of another crisis

Outlines

Past Lessons

- 1997 Asian financial crisis
- 2008 Global financial crisis
- Summary of lessons learned

Future Challenges

- What if post crisis reform measures do not work?
- What if unprecedented events occur?

Conclusion

Past Lessons

- 1997 Asian Financial Crisis

1997 Asian Financial Crisis

Triggered in Thailand

Spread to other Southeast Asian countries

Contagion to Northeast Asian countries

Global financial meltdown

Impact on Taiwan

Taiwan weathered Asian financial crisis

- Why?

- Current account surplus
- High foreign exchange reserves
- Low foreign debt

- However...

Unemployment problems emerged sharply due to deteriorated export of local industries

Measures Adopted in Taiwan

MOF (Financial supervisory authority then)

- An interagency task force established
- Repayment periods of loans extended
- Interest rates of loans reduced
- NPLs categorization requirement relaxed
- Loan loss provisions requirement eased

Central Bank

- Discount rates lowered
- Foreign exchange rates timely adjusted

Enhancement of DIS

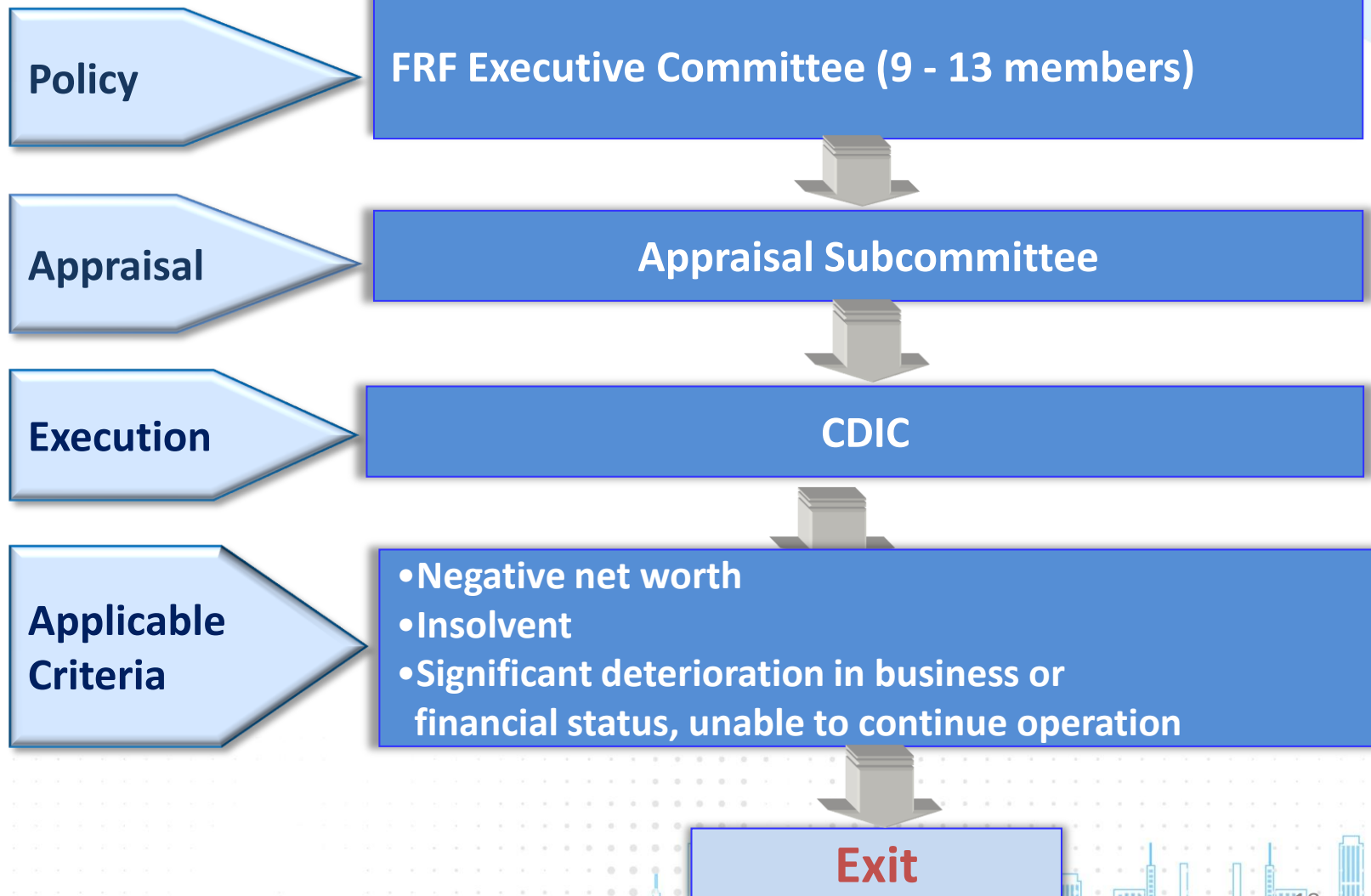
In 1999

- Compulsory membership legally required
- Risk-based premium system formally adopted

In 2007

- Mandatory membership application required for CDIC approval
- DI fund target ratio legally required at 2% of covered deposits
- CDIC inspection power legally delegated

Financial Restructuring Fund (FRF)



Achievements of FRF

Total resolution cost was relatively low as 1.7% of GDP

56 problem institutions exited smoothly from the market

Over 5 million depositors' rights & interests were protected

Over 67% employees of failed institutions were rehired

A systemic banking crisis was successfully resolved

Past Lessons

- 2008 Global Financial Crisis

2008 Global Financial Crisis

Bankers lost track of financial risks

Regulators tolerated ridiculous behaviors

Macroeconomic backdrop then fostered complacency and risk-taking

Impact on Taiwan

Taiwan successfully weathered the global financial crisis again

- Why?

- Financial market was relatively sound after FRF
- Timely government response to the crisis

Measures adopted in Taiwan

Blanket deposit guarantee mechanism implemented

A special additional premium on interbank call loans charged

Public awareness promotion launched to maintain public confidence

Implementation Results

Liquidity risks dissolved

Huge outflow of deposits from private banks decreased

Inter-bank call-loan market returned to normal

Financial market stabilization reached without public fund injection

DIS Enhancement Measures for Smooth Exit of Blanket Guarantee

Coverage limit doubled to NT\$ 3 million

Risk-based premium rates adjusted two times higher

Scope of coverage expanded

Other Measures for Smooth Exit of Blanket Guarantee

An interagency task force formed

- Enhance banking supervisory activities
- Boost cooperation between different agencies
- Promote public awareness

A liquidity stress test conducted

- Identify emergency liquidity needs among banks
- Improve banks' liquidity management

Cross border cooperation undertaken

- Coordinate the tripartite working group of Hong Kong, Malaysia and Singapore

Summary of Lessons Learned

- Role of deposit insurers was pivotal to maintain depositor confidence in the financial system
- Ensure depositor confidence before making policy decisions
- Deposit insurers should have the responsibility to give early warning
- A special fund may be prepared by the government and entrust the deposit insurer to timely deal with current problem banks in a limited transition period

Summary of Lessons Learned (con't)

- Blanket deposit guarantee may be a temporary alternative but must be very delicate to design transition steps returning to limited coverage DIS
- Normal deposit insurance system must be back in place once the transition period ends
- Mandates and powers of a deposit insurer must be clearly specified in legislation before encountering any financial crisis
- International cooperation and enhancement of the deposit insurance systems are effective ways in international crisis management



Future Challenges

Future Challenges



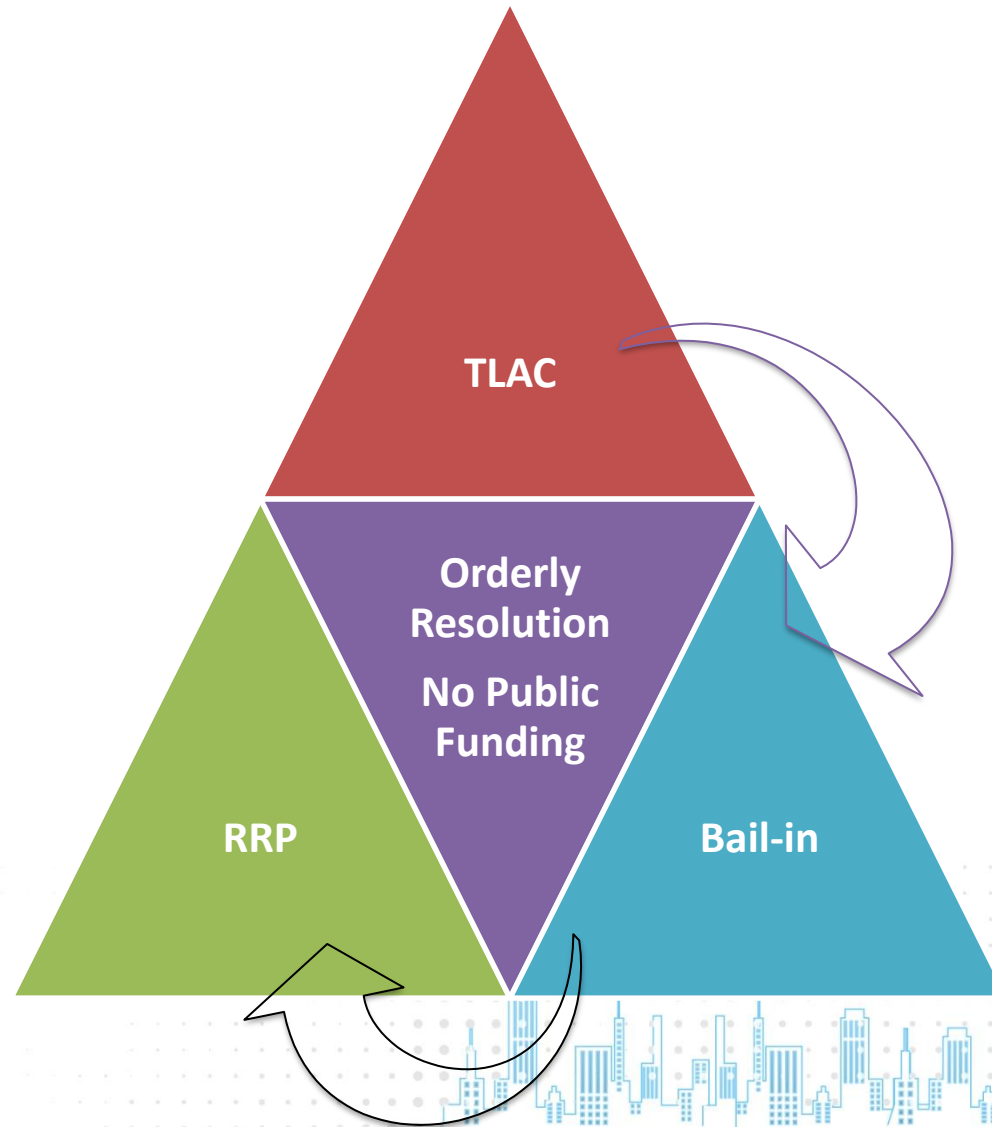
What if post-crisis reform measures do not work?

- e.g. RRP, TLAC, Bail in

What if unprecedented events occur?

- e.g. vital cyber security disruption

IFI's Resolution Measures for SIFIs

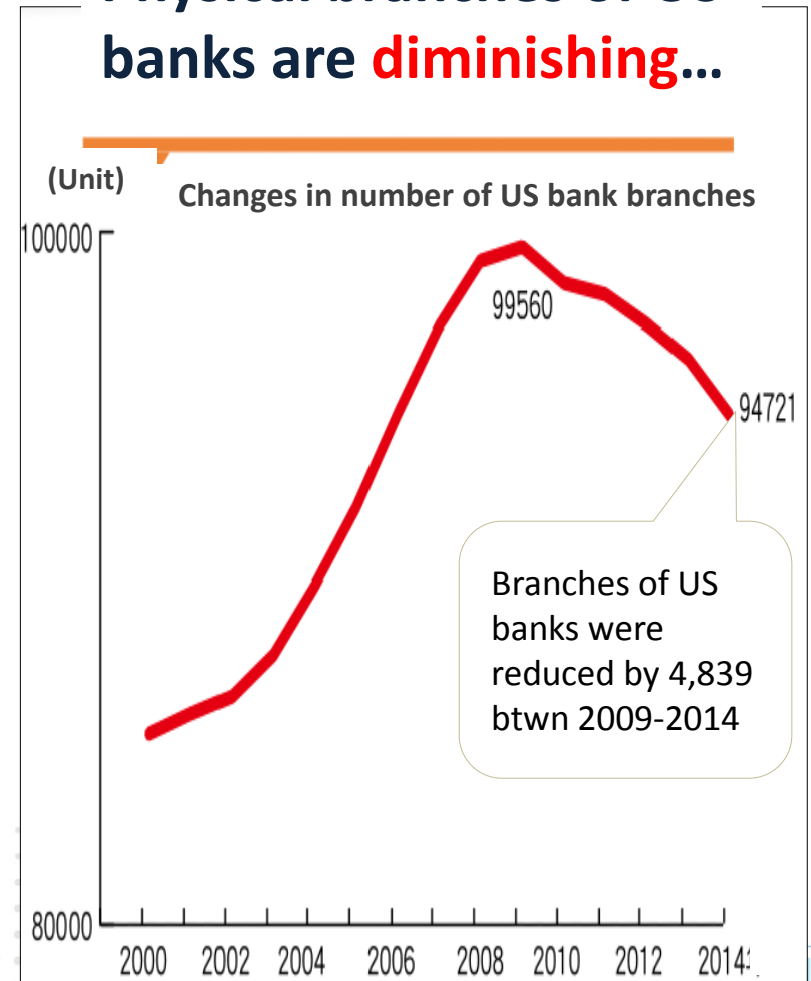


Banks are Changing...

Some Data:

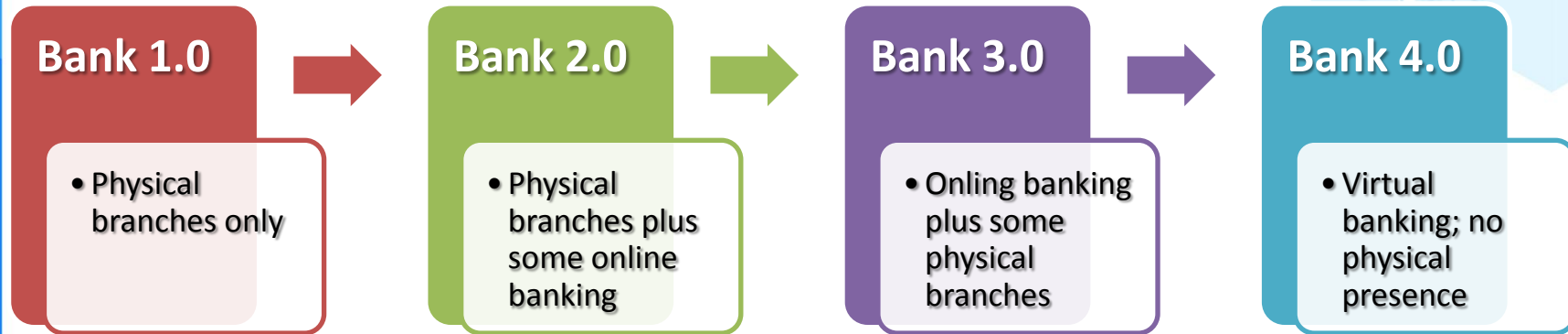
- BOA has cut 10% branches and 16% employees between 2014~2015.
- JP Morgan Chase: Cut 5,000 staff and closed 300 branches by end 2016
- McKinsey: 30% revenue of European banks will be from digital banking
- Taiwanese banks closed 26 branches in 2014, highest in history

Physical branches of US banks are **diminishing**...

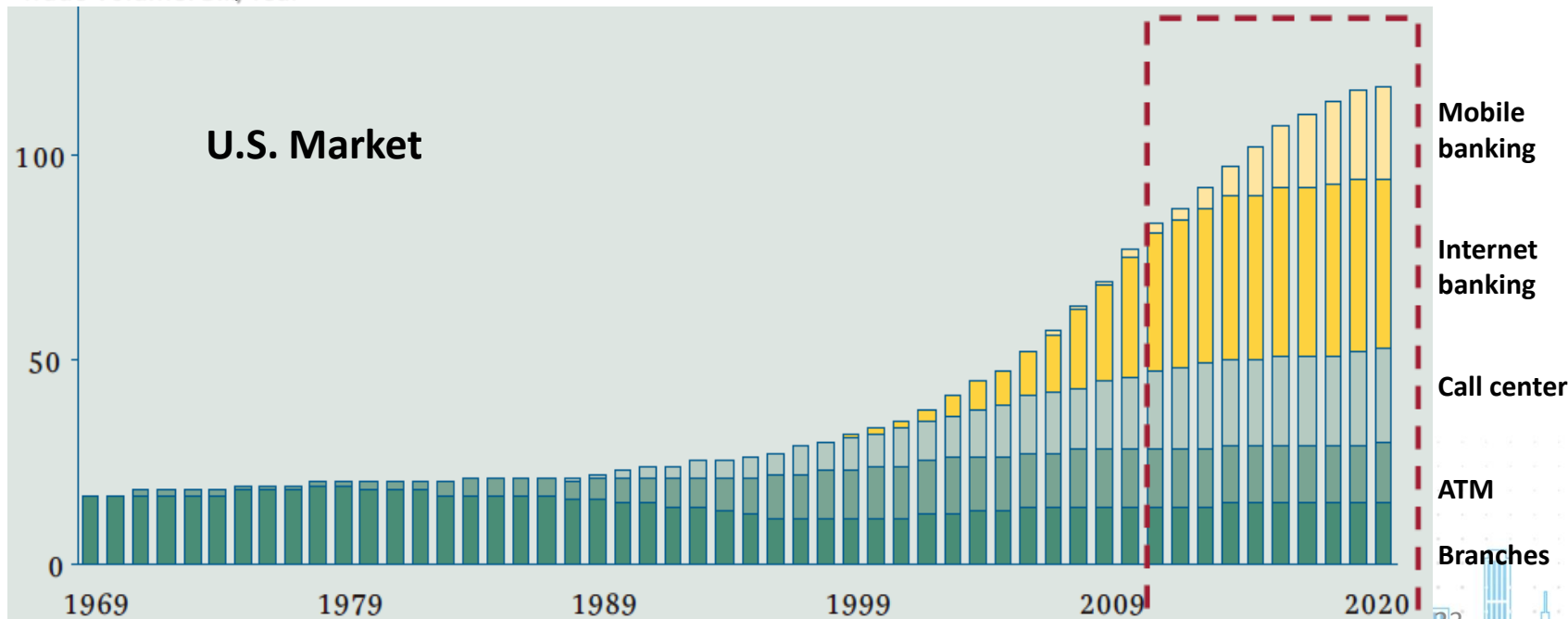


Source: Wealth Magazine, Issue 482, 30 July 2015.

Physical v.s. Online Banking



Trade Volume: Bil./Year



Source: Boston Consulting Group.

Cyber Security

Role of technology in financial service has deepened

Degree of interdependency and interconnectedness in financial markets is growing

Both attackers and their motivations have become more diverse: hacktivists, criminals, terrorists, state-related actors, etc.

What about Future Challenges?

Keep pace with reform measures, ensure DIS readiness and bear following questions in mind

- Do we have sufficient deposit insurance fund?
- Will the contingency plan work?

Detect new risks and keep DIS up-to-date

- Banking business is changing, how about deposit insurance?
- Will the definitions of insured institutions and eligible deposits change?
- Should DPS include new risk indicators, such as cyber security?
- DIS usually covers “domestic” deposits, what if the border line blurred due to internet banking?



Conclusion





**The light at the end of the tunnel is
always on as long as the FSN works!**

Always be ready!



THANK YOU

