



中央存款保險公司

Central Deposit Insurance Corporation



***Cooperation Among Safety-Net
Members in Bank Resolution
Practical Considerations***

Johnson C.S. Chen

President, CDIC, Taiwan

June 27, 2007





- ❖ Definition of the financial safety net
- ❖ Introduction to IADI's General Guidance for "Interrelationships"
- ❖ Taiwan's financial safety net mechanism and experiences
- ❖ The outlook for the future





- Definitions based on the world's leading financial organizations

Definition	Deposit Insurance System	Prudential Financial Supervision	Lender of Last Resort	Secure Payment & Settlement System	Exit Policies for Weak FIs
International Organizations					
IADI	V	V	V		
BIS	V	V	V	V	
IMF	V		V		V



- **Financial safety net includes:**

- ✓ Deposit Insurance System
- ✓ Central Bank as the Lender of Last Resort
- ✓ Secure Payment & Settlement System
- ✓ Prudential Financial Supervision
- ✓ Mechanism for Enabling Weak Financial Institutions to Withdraw from the Market





- **Deposit insurance system**
 - ✓ An important part of the financial safety net.
 - ✓ Together with the “Lender of Last Resort” & “Prudent Financial Supervision” makes up the three major pillars of the financial safety net.





- **“Good Fences Make Good Neighbors”**
- **Key points of IADI's General Guidance for “Interrelationships”**
 - ✓ Clearly define duties and responsibilities among safety net players in law.
 - ✓ Properly set up information sharing and coordination mechanisms.
 - ✓ High degree of transparency and agreement as to respective mandates for effective coordination.





- **General Guidance for Interrelationships**
 - ✓ Access to the necessary information at the beginning of the intervention to quickly assess impact on DI fund and to well prepare for the reimbursement.
 - ✓ Set up an explicit statutory mechanism for dealing with systemic crises .



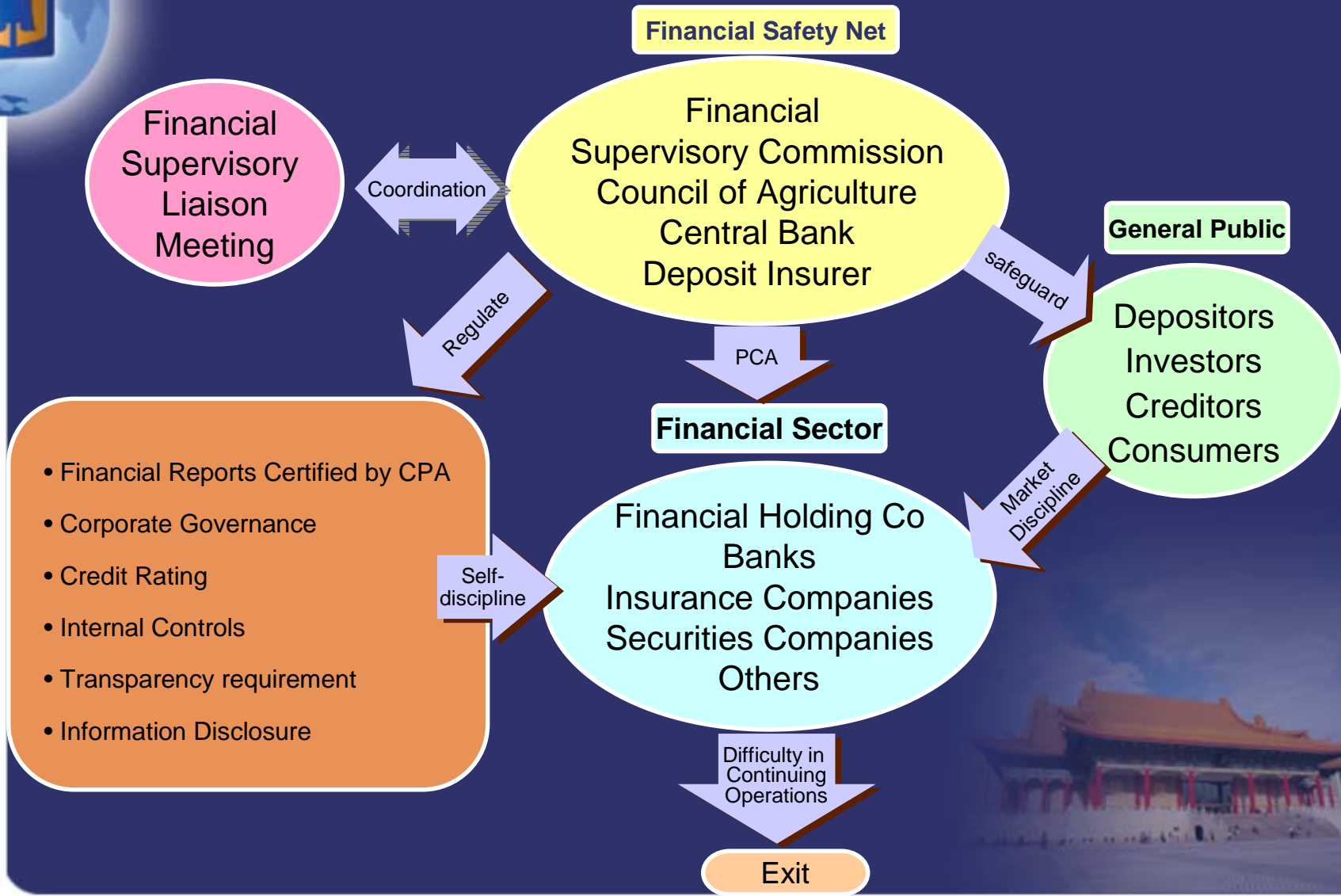
For more details

Refer to IADI Website:

www.iadi.org



CDIC Taiwan's Financial Safety Net





Ministry of Finance

Central Bank

Capital

Capital



Established in
Sep. 1985

CDIC Taiwan
Government Institution





- **For information sharing and coordination mechanism, CDIC had set up:**
 - ✓ The National Financial Early-Warning System
 - ✓ Internet-based on line transmission operating system
- ➔ To generate reports and signal abnormalities for the reference of financial safety net players.





- **For special issues**
 - ✓ Convene meetings of financial supervisory coordination task forces.
 - ✓ Chaired by Chairperson of FSC
 - ✓ Members:
 - A. Deputy governor from the Central Bank
 - B. Deputy Chairperson of FSC
 - C. Chairman of CDIC Taiwan
 - D. Chairperson of the Bureau of Agricultural Finance of the Council of Agriculture





- Taiwan has experienced the largest bank run recently- The Chinese Bank.
- Accelerate the passage of the amendments to the *Deposit Insurance Act*.





- **Strengthening controls over insured risk**
 - ✓ CDIC Taiwan plays a role as a risk manager
 - ✓ Authorized CDIC Taiwan the power of special investigation





- **Strengthening the mechanism for handling problem financial institutions**
 - ✓ Will implement rule-based prompt corrective actions in the next amendments to the *Banking Act*.
 - ✓ Early involvement in bank resolution.





- **Establishing a systemic crisis handling mechanism**
 - ✓ CDIC Taiwan should collaborate with other relative competent authorities to handle such crises.
 - ✓ CDIC Taiwan has already formulated the relevant points, a common window, ways to convene the meetings and etc.





Outlook for the Future





- **Strengthening the “Mechanism of Checks and Balances”**
 - ✓ Objectives: Maintaining financial stability
 - ✓ Balance the financial decisions by Premier of the Cabinet
 - ✓ Clearly stipulate mandates of DI in law to effectively avoid of:
 - ◆ Unnecessary functional overlap with other financial safety players
 - ◆ Black boxes and personal judgment



- **Promoting CDIC's operational independence and autonomy**
 - ✓ Avoid political interference.
 - ✓ Make decisions in accordance with professional judgment and market conditions.
 - ✓ Take directly the responsibility to the Premier of the Cabinet and the Parliament.





- **Upgrading the levels of decision-making, and strengthening the structure of the board of directors**
 - ✓ Clearly stipulate the responsibilities and powers of the board of directors and the CEO by law.
 - ✓ Seek the best interests of CDIC.





- **Early involvement in bank resolution and reducing supervisory forbearance**
 - ✓ Clearly legislate criteria for failed financial institutions to withdraw from the market.
 - ✓ Evaluate a systemic effect of closing the problem bank on the overall financial system.





- **Early involvement in bank resolution and reducing supervisory forbearance (Cont'd)**
- ✓ Vest deposit insurers with sufficient powers to deal with problem financial institutions, including:
 - Tools to manage insured risk
 - Early involvement in the resolution process





- **Key elements for DIA to successfully handle a problem bank**
 - ✓ Operational independent
 - ✓ Necessary powers of risk management
 - ✓ Early involvement in the resolution process
 - ✓ Access to deposit information





THANK YOU !

CDIC



中央存款保險公司

Central Deposit Insurance Corporation

www.cdic.gov.tw