

The background is a solid blue color. On the left side, there is a graphic of a globe showing the Eastern Hemisphere, surrounded by several concentric white circles that create a ripple effect. To the right of the globe, there is a faint, stylized world map composed of a grid of small squares. In the bottom right corner, the letters 'CDIO' are visible in a large, light blue, serif font.

Early Detection & Timely Intervention Taiwan Experience

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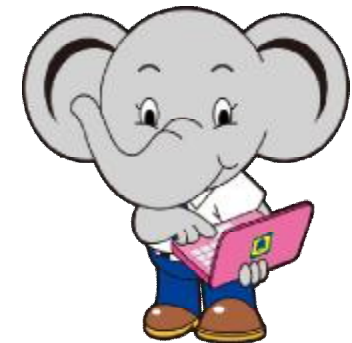
Contents

- § Overview of Information Sharing Mechanism
- § Overview of CDIC's Risk Management Mechanisms
 - Early Detection
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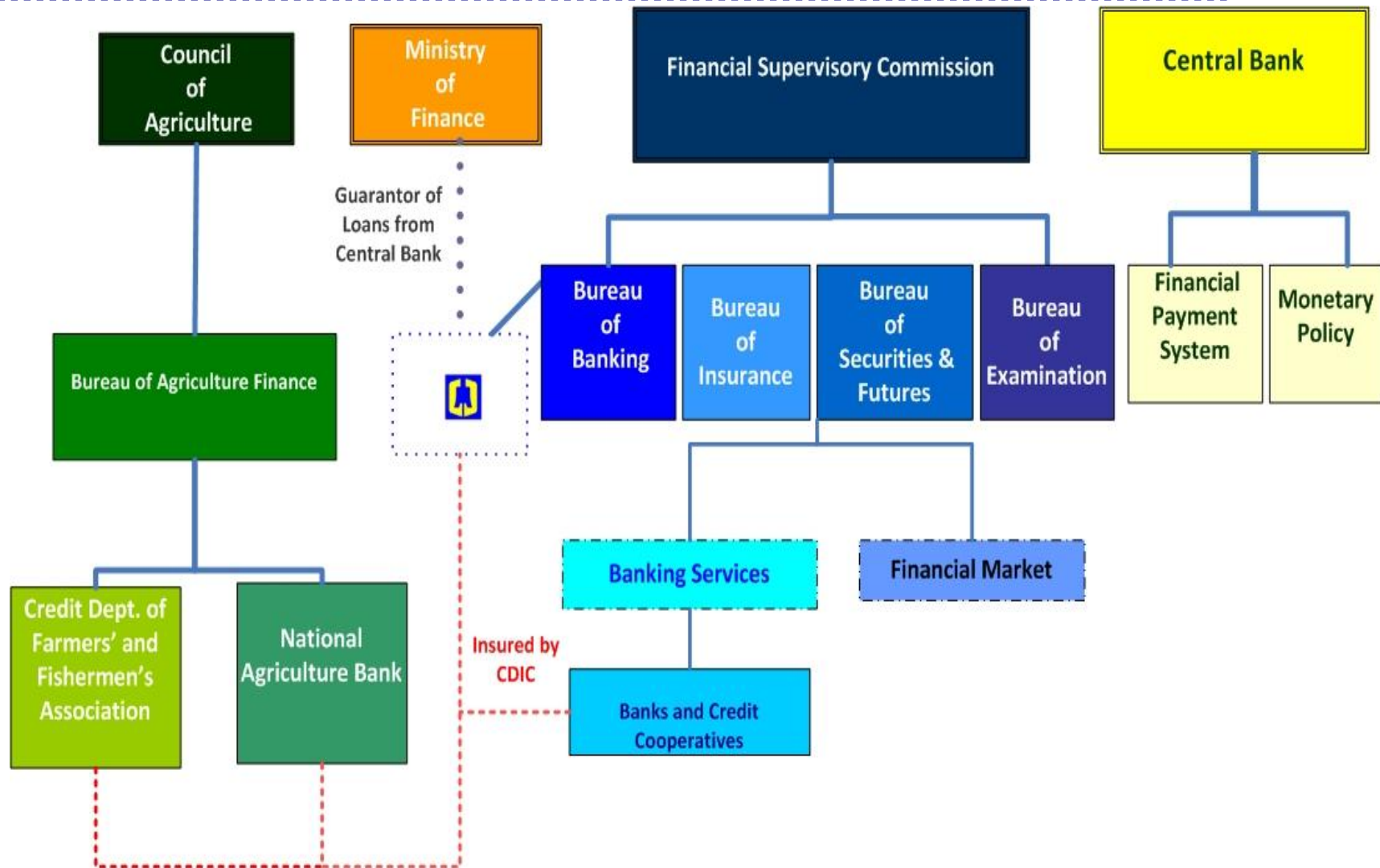


Overview of Information Sharing Mechanism





Financial Safety Net in Taiwan





Financial Safety Net & Its Liaison Team





Information Sharing Legal Basis

§ Financial Supervisory Commission Organization Act § 8

ÿ *Where FSC monitoring, regulatory or examination operations are connected with the operations of the Central Bank or any other government agencies, FSC shall promulgate rules to govern the implementation operations thereof.*

ü *Operational Guideline for Businesses of Financial Supervisory Commission Connecting with the Central Bank or Other Government Agencies*





Information Sharing Legal Basis_(cont.)

§ Deposit Insurance Act § 22

- *In the event where there are needs for CDIC to collect and analyze the financial information or business information relating to FIs for the purpose of insured risk control, the CDIC shall obtain such information through the information sharing mechanism established by the competent authority.*
- *If the above information is insufficient, CDIC may require FIs to submit additional information in an accurate manner.*
- *CDIC shall establish coordination mechanisms with the competent authority, for the purpose of handling business crises of insured institutions or any major event affecting financial order.*

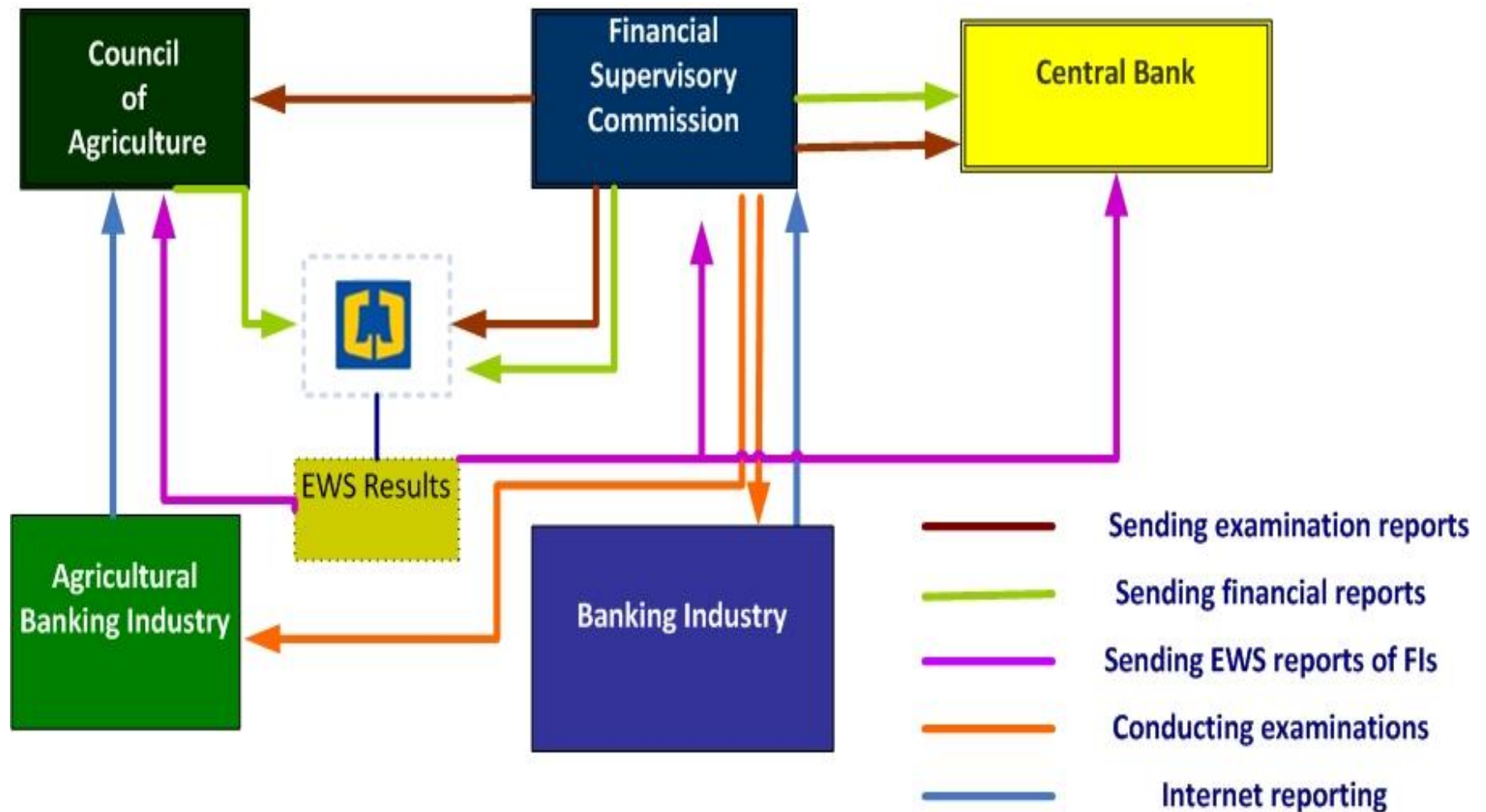


Single-Window Reporting System

- § Legal arrangements are needed among financial safety net players (*FSC Organization Act § 8*)
- § Defining accountabilities & responsibilities among financial safety net players
- § Allocating cost & human resources
- § Standardizing data format, information exchange platform, data collecting and reporting system to share information
- § Establishing a cross-agency team to review the system periodically

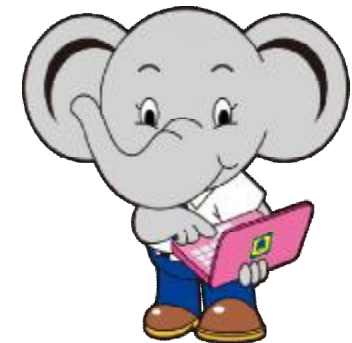


Single-Window Reporting System (cont.)





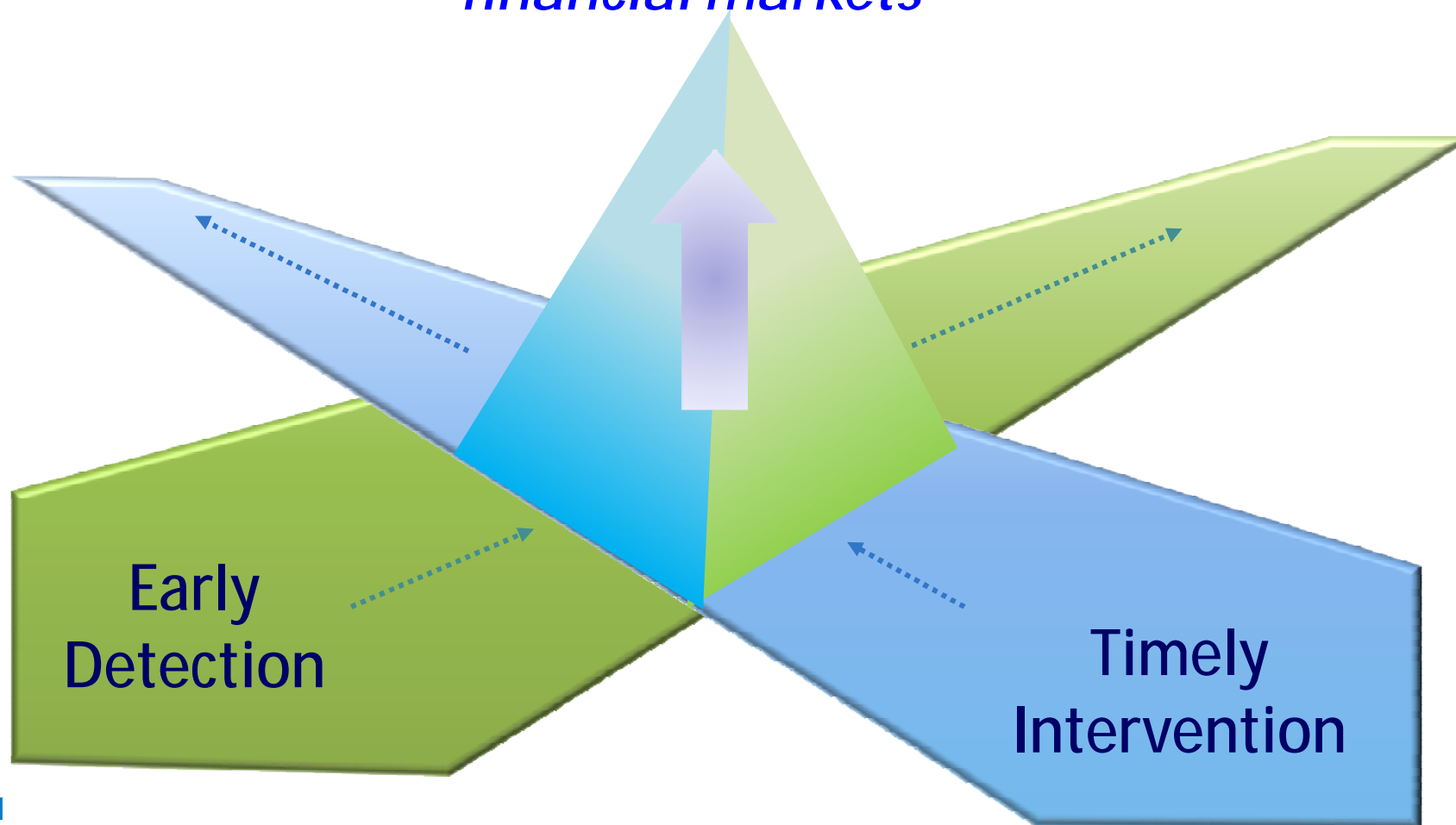
Overview of CDIC's Risk Management Mechanisms





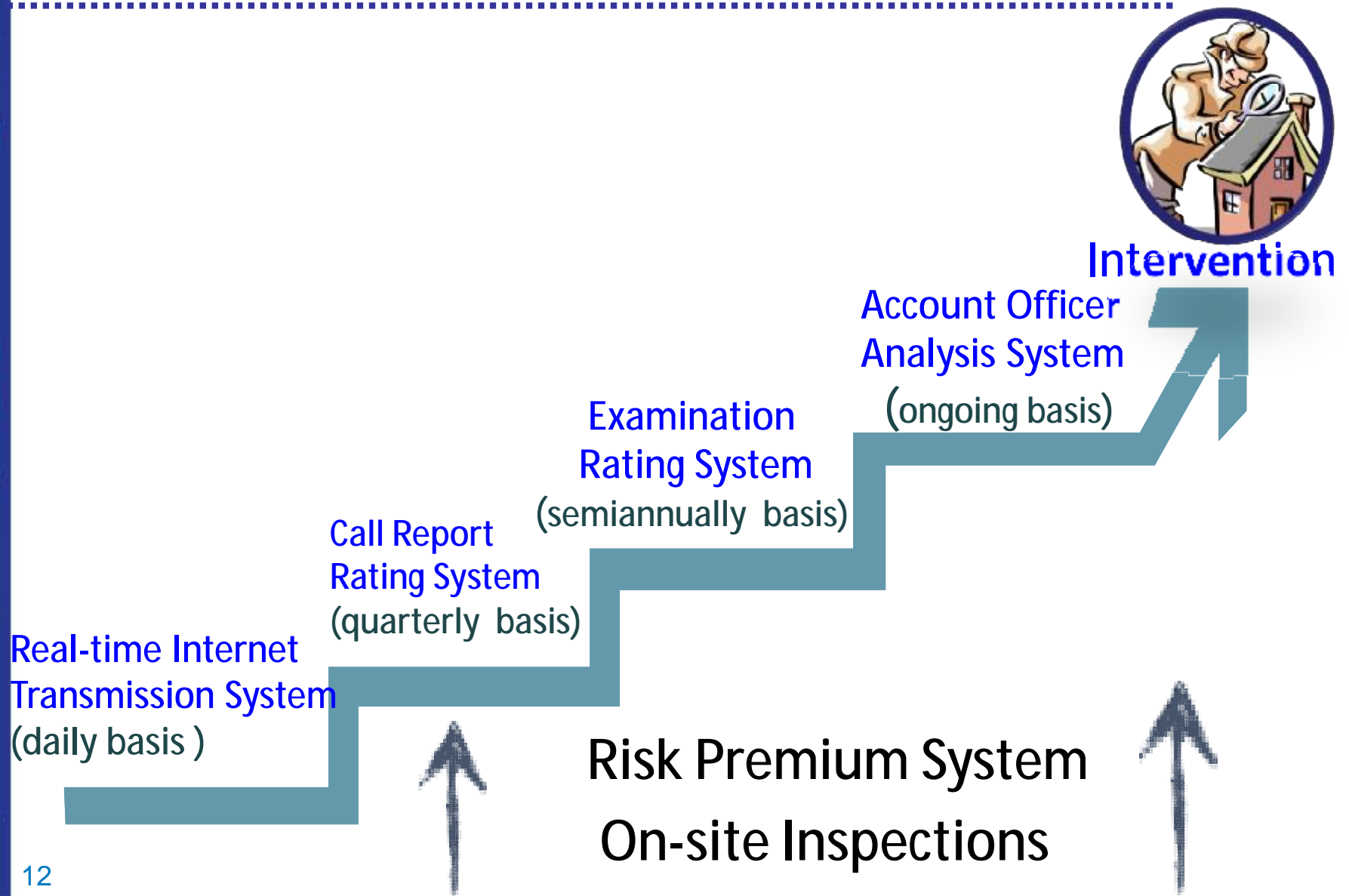
Two Pillars of Risk Management

*Supporting a sound and stronger
financial markets*





Early Detection





Financial Early-warning System (EWS)

§ Objectives

- Detecting risk signs in the early stage
- Determining priority, scope and frequency of examinations
- Assigning composite scores for a differential premium system
- Used as an effective risk-minimizing tool



Framework of EWS





Real-time Internet Transmission System

- § Financial institutions transmit major financial information to CDIC on a daily basis
- § CDIC can promptly discover and respond to warning signals

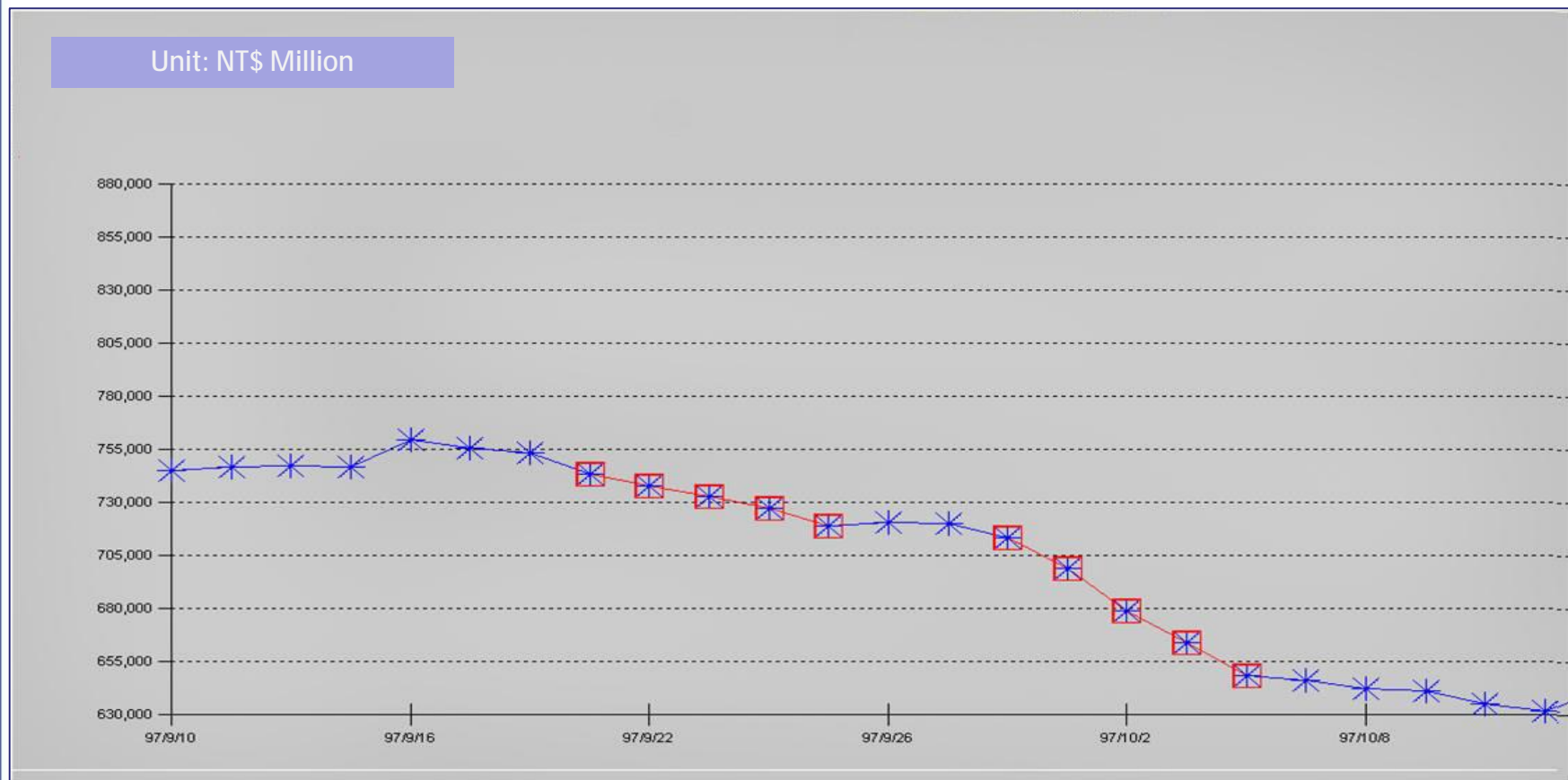




Real-time Internet Transmission System (cont.)

Case: 1

§ Detection of operational abnormalities in deposits at the financial institutions





Real-time Internet Transmission System (cont.)

Case: 2

§ Detection of abnormal changes in the amount of deposits and loans of a credit department of farmers' associations

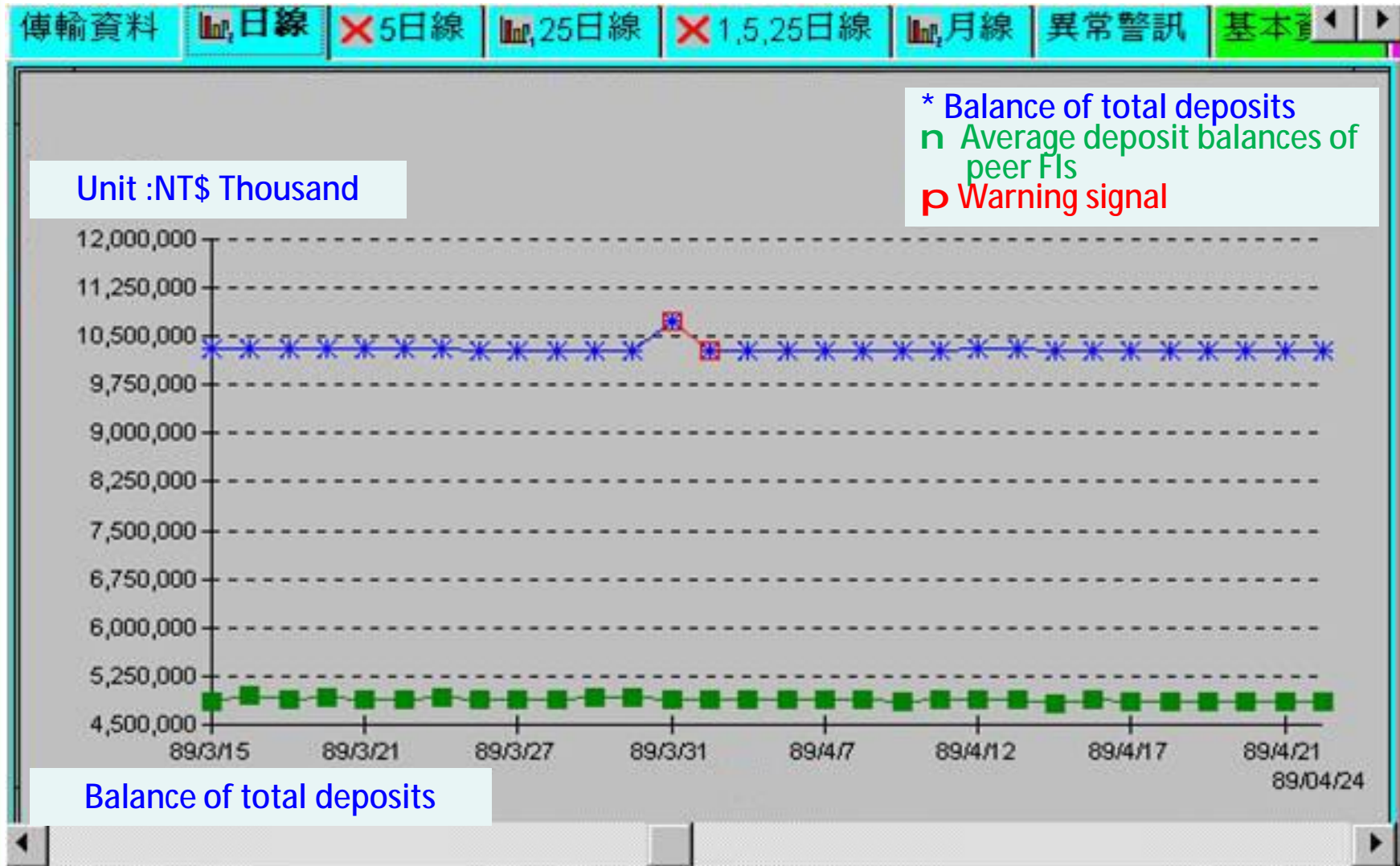
Unit :NT\$ Thousand

Item Date	Loan		Deposit	
	Amount	Movement	Amount	Movement
March 30	6,623,045	—	10,281,919	—
March 31	7,084,482	461,437	10,743,977	462,058
April 1	6,615,247	-469,235	10,286,530	-457,447



Real-time Internet Transmission System (cont.)

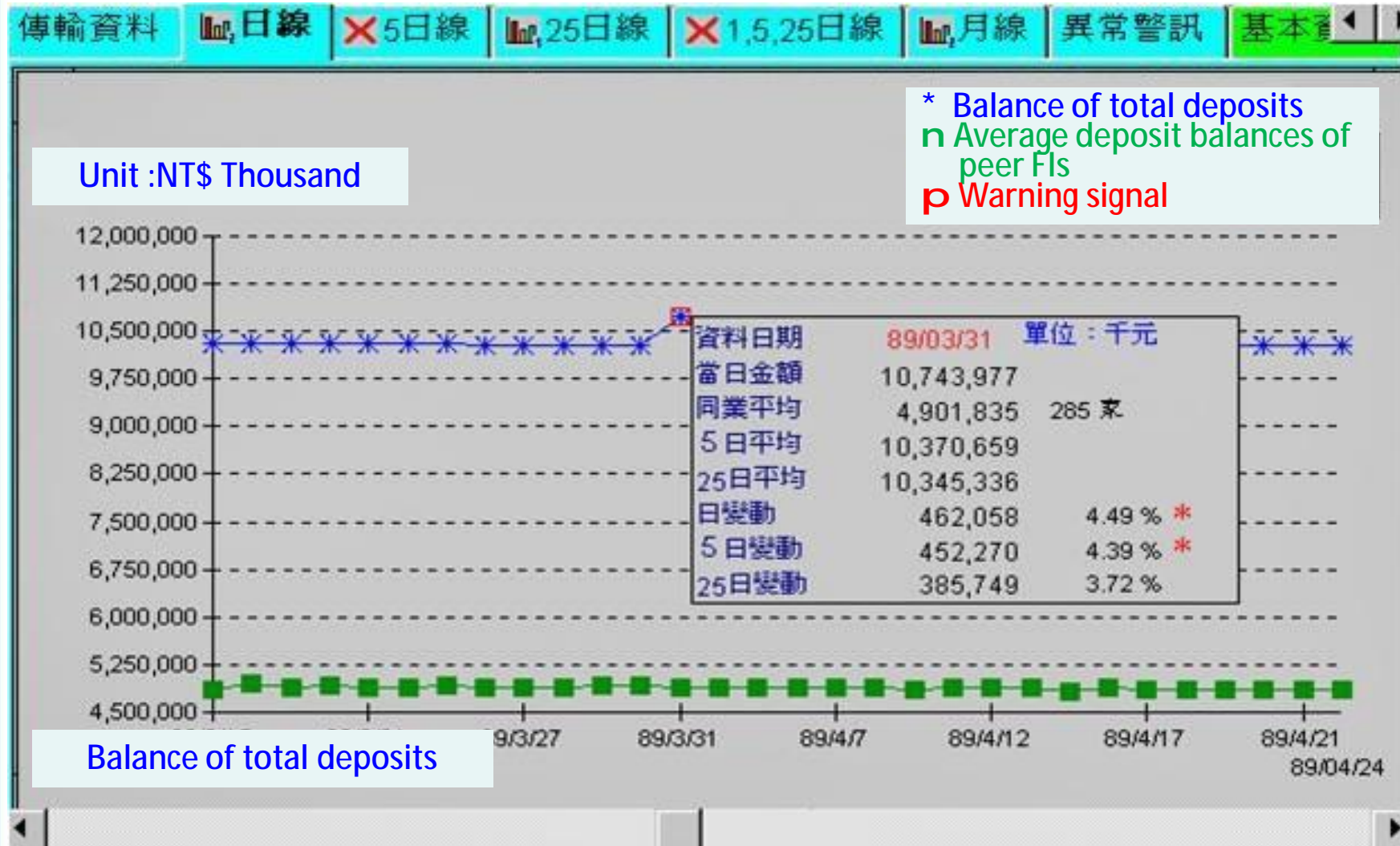
Case: 2





Real-time Internet Transmission System (cont.)

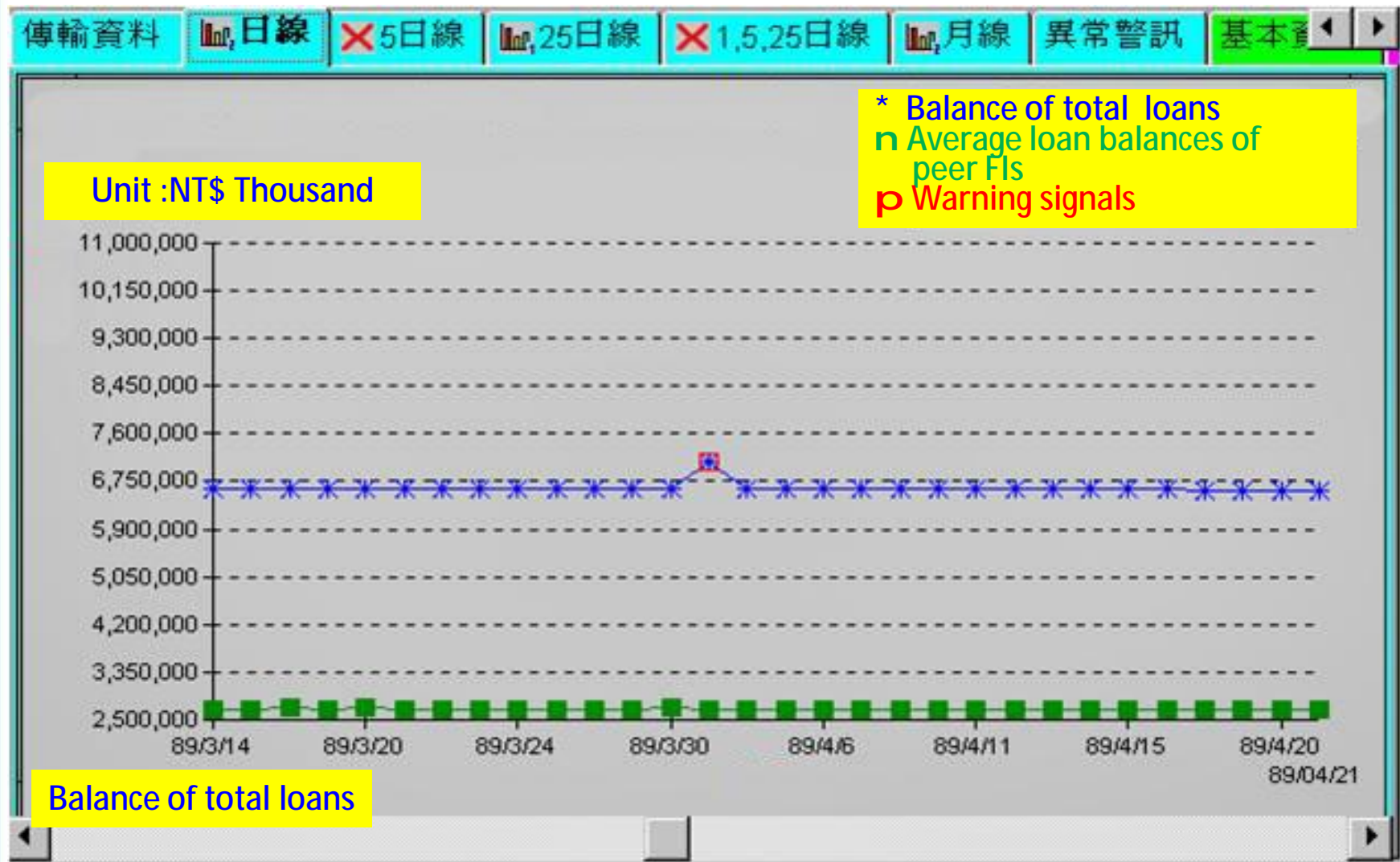
Case: 2





Real-time Internet Transmission System (cont.)

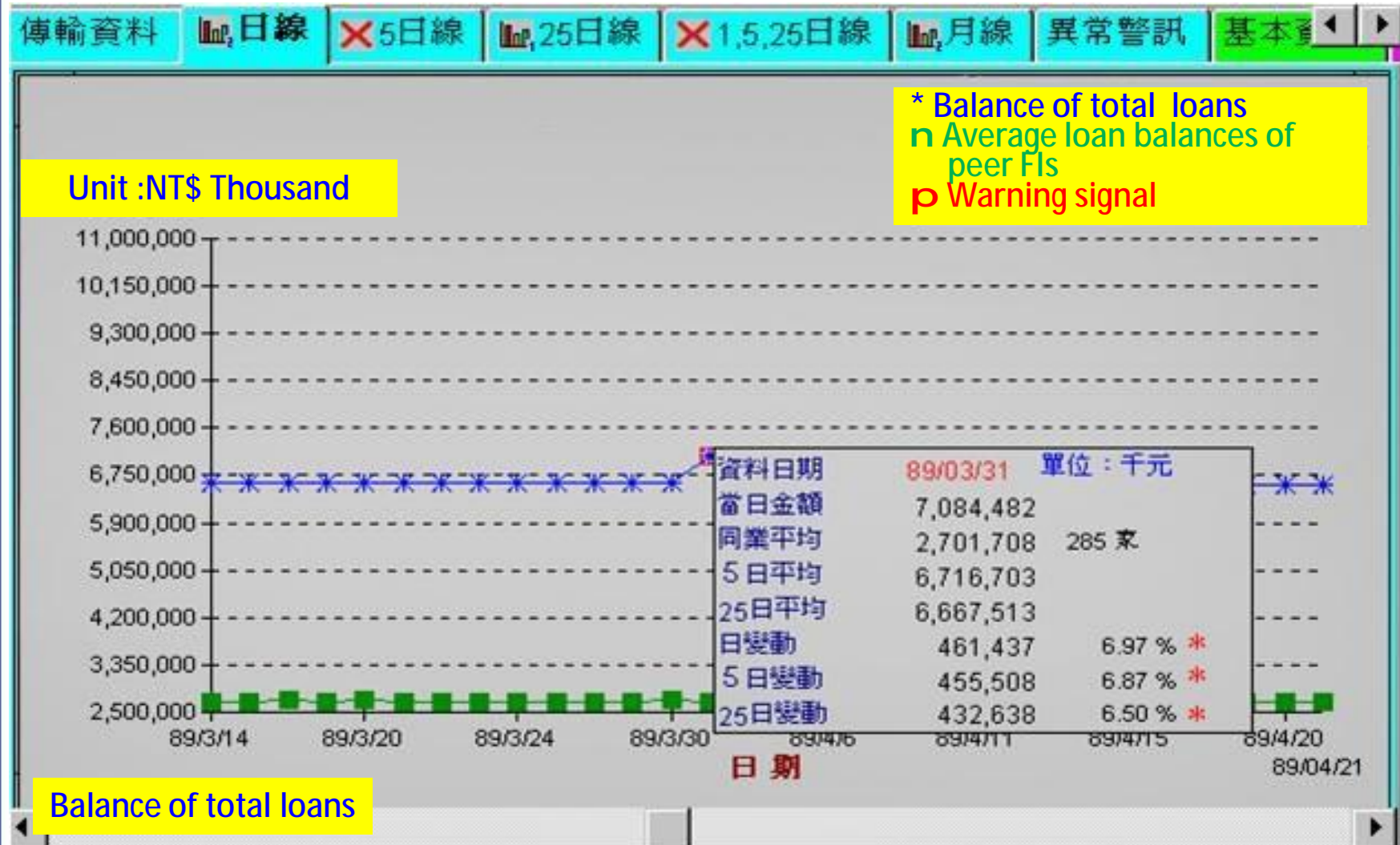
Case: 2





Real-time Internet Transmission System (cont.)

Case: 2





Real-time Internet Transmission System_(cont.)

- § Analyze the reasons for abnormality and confirm the warning signal
 - ÿ Account officers detected that the insured institution increased the loans and deposits at the same time to artificially manipulate the NPL ratio at the end of the quarter



Call Report Rating System

- § Call reports from insured institutions
- § Analyzing CAMELS + other factors
- § Rating results: A,B,C,D,E
- § Off-site data appraisal; Subjective
- § Quarterly
- § Applied in: Differential Premium System

On-site inspection



Examination Rating System

- § Reports of Examination from Banking Examination Agencies
- § Analyzing CAMELS + other factors
- § Rating results: A,B,C,D,E
- § On-site appraisal; Objective
- § Applied in: Examination Frequency

Differential Premium System



Account Officer Analysis System

- § Dispatching personnel to further monitor the operational conditions of financial institutions
- § Coordinating closely with the competent authorities





Comparison Profiles on EWS Subsystems

Subsystem Items	Examination Rating System (ERS)	Call Report Rating System (CARRS)	Internet Transmission Surveillance System (ITSS)	Account Officer Analysis System (AOAS)
Main Purposes	<ul style="list-style-type: none"> • Differential Premium • Early Interventions • Examination Reference • Supervisory Admin. 	<ul style="list-style-type: none"> • Differential Premium • Early Risk Detection • Trend Evaluation 	<ul style="list-style-type: none"> • Monitoring & Intervention • Moral Hazard Prevention 	<ul style="list-style-type: none"> • Insurance Risk Assessment • Risk Concentration & Exposure Analysis
Data Sources	Examination Reports from Banking Examination Agencies	Call Reports from Members	Daily Data from Members	Examination Reports and Up-to-Date Data
Frequency of Reports	Semiannually	Quarterly	Daily, Weekly & Monthly	Monthly, Quarterly or Annually Depending on Cases
Rating Results	A,B,C,D,E	A,B,C,D,E	Warning Signals	Insurance Risk Assessment
Models	CAMEL Model	CAMEL Model	Linear Moving Average	Insurance Risk Estimate
Indicators	CAMELSO	CAMELSO	Specific Items from Balance Sheets	Adversely Classified Assets
Information Sharing	FSC, CBC, COA and local governments	FSC, CBC, COA and local governments	1.FIs 2.Related supervisors	



Comparison Profiles on EWS Subsystems (cont.)

Subsystem Items	Examination Rating System (ERS)	Call Report Rating System (CARRS)	Internet Transmission System(ITS)	Account Officer Analysis System (AOAS)
Outcomes	<ul style="list-style-type: none"> • Exception List • Semi-Annually Report 	<ul style="list-style-type: none"> • Exception(Warning) List • Quarterly Report 	<ul style="list-style-type: none"> • Warning List 	<ul style="list-style-type: none"> • Analysis Report
Strength of System	<ul style="list-style-type: none"> • On Site Appraisal • Objective 	<ul style="list-style-type: none"> • Regularly Monitoring 	<ul style="list-style-type: none"> • Early detection 	<ul style="list-style-type: none"> • Risk Oriented
Weakness of System	<ul style="list-style-type: none"> • Low Examination Frequency 	<ul style="list-style-type: none"> • Appraisal of Asset quality depending on FIs • Off Site Data 	<ul style="list-style-type: none"> • Time Consuming • Heavy Workload 	<ul style="list-style-type: none"> • Subjective • Off Site Analysis
Future Development	Based on the economic cycles to revise the System regularly	Based on the economic cycles to revise the System regularly	Revised regularly	Revised regularly
Differential Premium System Indicators	Composite Score	Composite Score	—	—



Differential Premium System

- § The first Asian country to adopt differential premium system in 1999
- § The new modified system has been implemented from Jan. 2011
- § It's part of CDIC's risk management mechanisms
- § Reflecting the operational risk and financial status of FIs in their risk-based premiums
- § Providing incentives for FIs to improve their premium grading



Differential Premiums Grading for FIs

Premium rate for domestic banks and local branches of foreign banks

CAR \ CSRPRS	CSRPRS		
	65.0 and over	50.0 to under 65.0	Less than 50.0
$\geq 12.0\%$ or $\geq 1.5 \times$ the minimum CAR	Grade 1 0.05%	Grade 2 0.06%	Grade 3 0.08%
$\geq 8\%$ but $< 12\%$ or \geq the minimum CAR but $< 1.5 \times$ the minimum CAR	Grade 2 0.06%	Grade 3 0.08%	Grade 4 0.11%
$< 8\%$ or $<$ the minimum CAR	Grade 3 0.08%	Grade 4 0.11%	Grade 5 0.15%

Note:

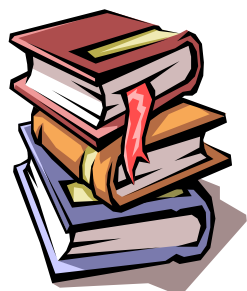
- CSRPRS: Composite Score of the Risk-based Premium Rating System

29 • CAR: Capital Adequacy Ratio



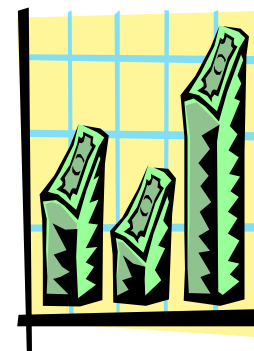
On-site Inspection of Call Report Data

Legal Basis



- **Deposit Insurance Act**
- **Revised Implementation Scheme for the Deposit Insurance Premium System**

Inspection Emphasis



- **File format**
- **Data type**
- **Data content**

Call Report Data



Occasions of Conducting On-site Inspection

- § Significant differences in reporting
- § Call report data differences in examination or CPA reports
- § Member institutions with bad records of reporting inaccurate data
- § The call report rating varied more than 2 grades



Occasions of Conducting On-site Inspection (cont.)

§ If the following significant risk events occurred between the standard dates of call reports and premium calculation:

- Management fraud
- Big losses from investments or loans
- Others

§ Actions after inspection

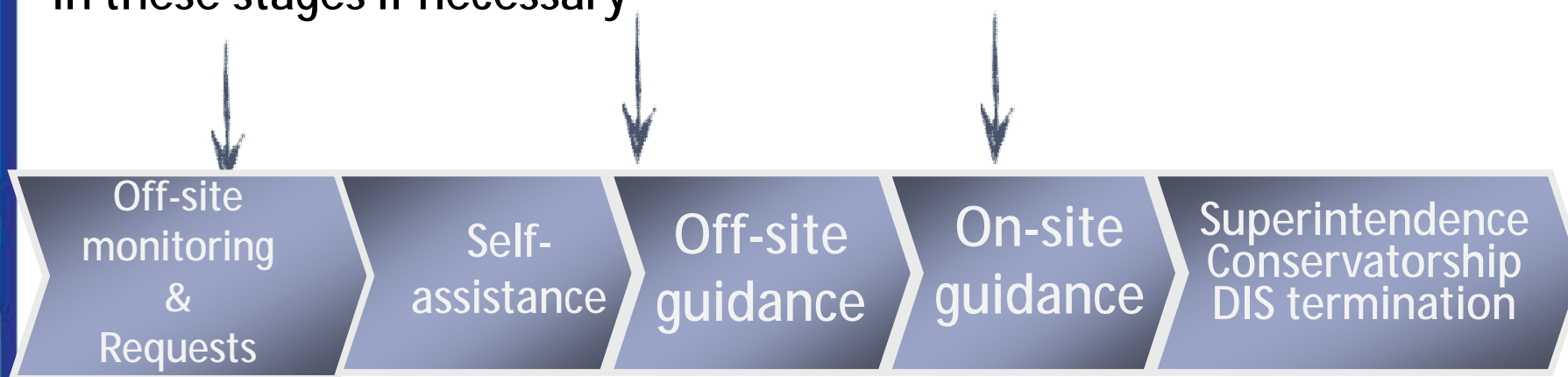
- Recalculate composite score
- Recharge the insurance premium
- Charge punitive premiums
- Notify the supervisory authorities

§ Case closed if all records are in order



Timely Intervention

CDIC has authority to issue warning notices to FIs
in these stages if necessary



In accordance with Banking Act



CDIC's authority & special inspection authority



Off-site Monitoring and Requests

- § Assigning account officers to assist unsound FIs to make improvements by following steps
- Heightening control on changes of call-reporting and Internet transmission report on a daily basis
 - Participating in supervision and guidance meetings convened by the competent authorities
 - Informing the competent authorities, sending letters to request FIs whose operating conditions are worse to make adjustments
 - Interview with the head of unsound FIs for discussing ways to make improvements
 - Conducting special reports and regularly monitoring changes



Self-assistance & Off-site Guidance Mechanisms

§ Self-assistance by problem financial institutions

- Recapitalization or self-improvement plan

§ Off-site guidance by CDIC

- Asking FIs to provide related data
- Attending board of director meetings and other important meetings
- Reviewing meeting resolutions and minutes
- Assisting in speedy completion of capital reduction, recapitalization or consolidation plans





On-site Guidance

§ *Banking Act* § 61-1

§ Objective : to facilitate unsound FIs to return normal operations or acquired by other FIs

§ Methods:

- Dispatching officers for on-site guidance
- Attending board meetings
- Sending written guidance letter



Superintendence

- § *Banking Act § 44-2* and related regulations
- § Objectives : to act as superintendent at unsound FIs involved major fraud, bank runs and capital inadequacy
- § Method : On-site superintendence



Early Banking Resolution - Conservatorship

Banking Act
PCA mechanism



Standard for market withdrawal:
Capital adequacy (BIS) ratio

If BIS ratio < 2%,
the bank to be put under
conservatorship within 90 days

Banking Act
Bank should also be
taken over



In case a bank:

- Is unable to pay its liabilities and could harm depositors' interests; or
- Has losses exceeding 1/3 of capital and bank cannot make improvement within the stipulated timeframe

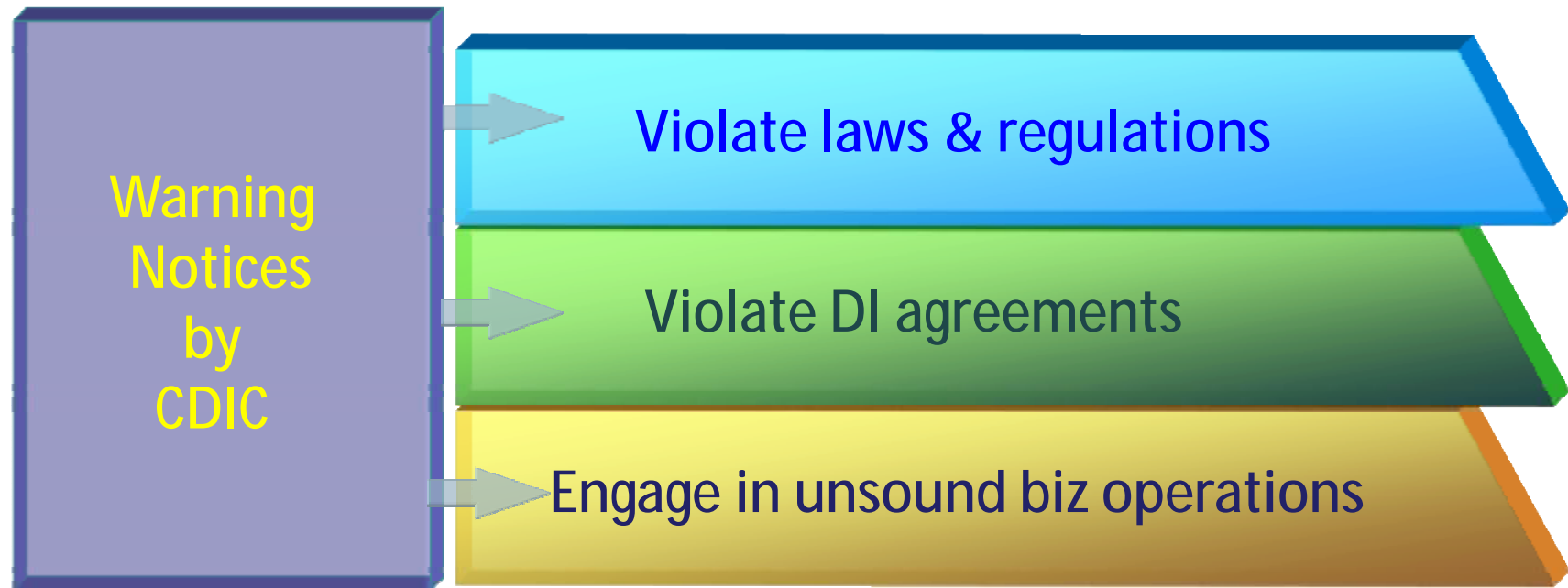


Special Inspection Authority

- § Inspecting conditions of terminating status of unsound FIs
- § Inspecting assets and liabilities of failing FIs
- § Conducting civil liabilities investigations of employees of failed FIs
- § Inspecting the accuracy of the assessment and content of electronic data files required by CDIC



Warning of Terminating Membership



Required unsound FIs to make rectifications within a stipulated timeframe

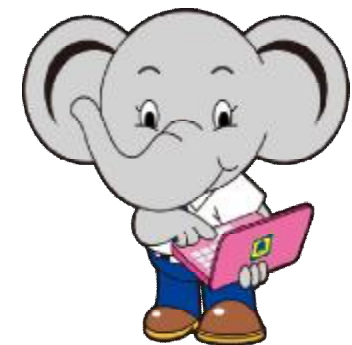


DIS Membership Termination

- § Failure to take corrective actions within stipulated timeframe
- § Failure to make improvements through recapitalization
- § Failure to strengthen financial conditions and business operations with a certain timeframe
- § FIs are defined as unviable to make any improvements prior to the deadline set by the competent authorities or CDIC
- § Occurrence of major fraud or illegal activities with the potential to increase cost of payouts



Conclusion





Conclusion

§ Early prevention is better than cure

- Establishing financial early warning system
- Conducting off-site monitoring
- Conducting on-site inspection





Conclusion (cont.)

- § Providing guidance in advance is better than payout
- Collaborating closely with supervisory agencies
 - Controlling insurance risk by taking timely actions
 - Promoting risk management concepts of FIs and stakeholders





Conclusion (cont.)

- § Keeping the EWS Model updated by including relevant factors to adapt to the changing financial environment as different economic cycles may have major influences on the EWS model
- § The EWS model must be reviewed and revised periodically based on financial supervision needs
- § CDIC's EWS Model is being revised





Thank You !

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