



中央存款保險公司
Central Deposit Insurance Corporation

Cooperation among Financial Safety Net in Resolution of Bank failures

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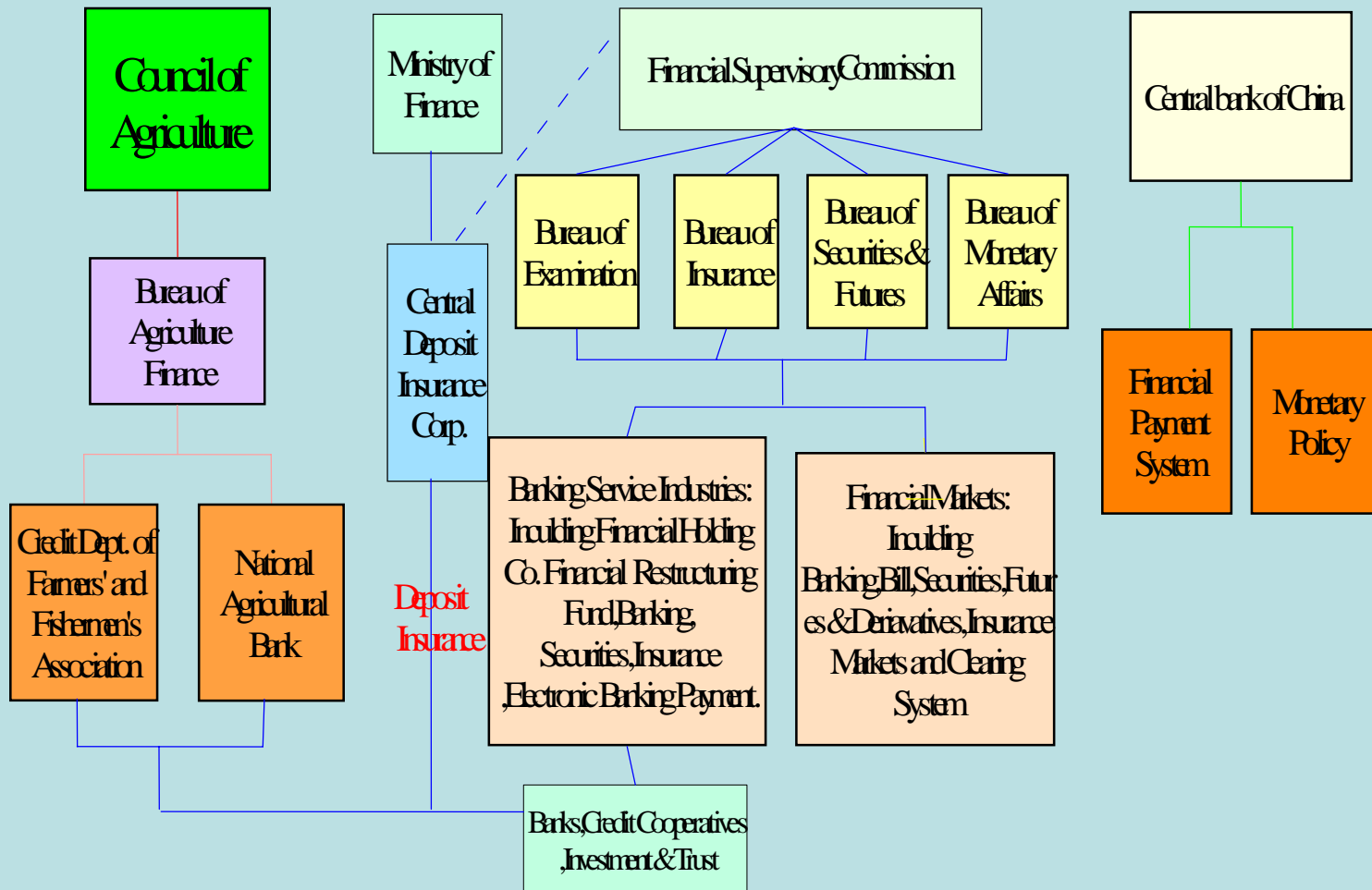
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Financial Safety Net in Taiwan



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Financial Safety Net Liaison System



FSN Liaison System in Taiwan



- **Characteristics:** regulated by statute
- **Statute:** the organization law of Financial Supervisory Commission
- **Chair of the Committee:** Chairperson of FSC
- **Frequency of meeting :** Once a month
- **Member:** Deputy Chairperson of FSC
Deputy Governor of CBC
Chairman of CDIC
Director of BOAF

Cooperation of FSN in Failed Bank Resolution



❑ In Normal Time

- Information sharing: FSC, CDIC, CBC
- Early intervention: FSC, CDIC

❑ Individual Bank Failure

- FSC: 1. appoint CDIC as a conservator
2. administrative cooperation with CDIC on resolutions
- CDIC: failed bank resolution
- CBC : liquidity support to CDIC

Cooperation of FSN in Failed Bank Resolution



❑ Systemic Banking Crisis

- FSC : cooperation with CBC, CDIC to adopt special measures
- CDIC : 1.blanket guarantee deposit insurance
2.exempt from least cost resolution method
- CBC: liquidity support to CDIC
- MOF: act as a guarantor to CDIC's borrowing

Abstracts of IADI's Research on Failed Bank Resolution (2004)

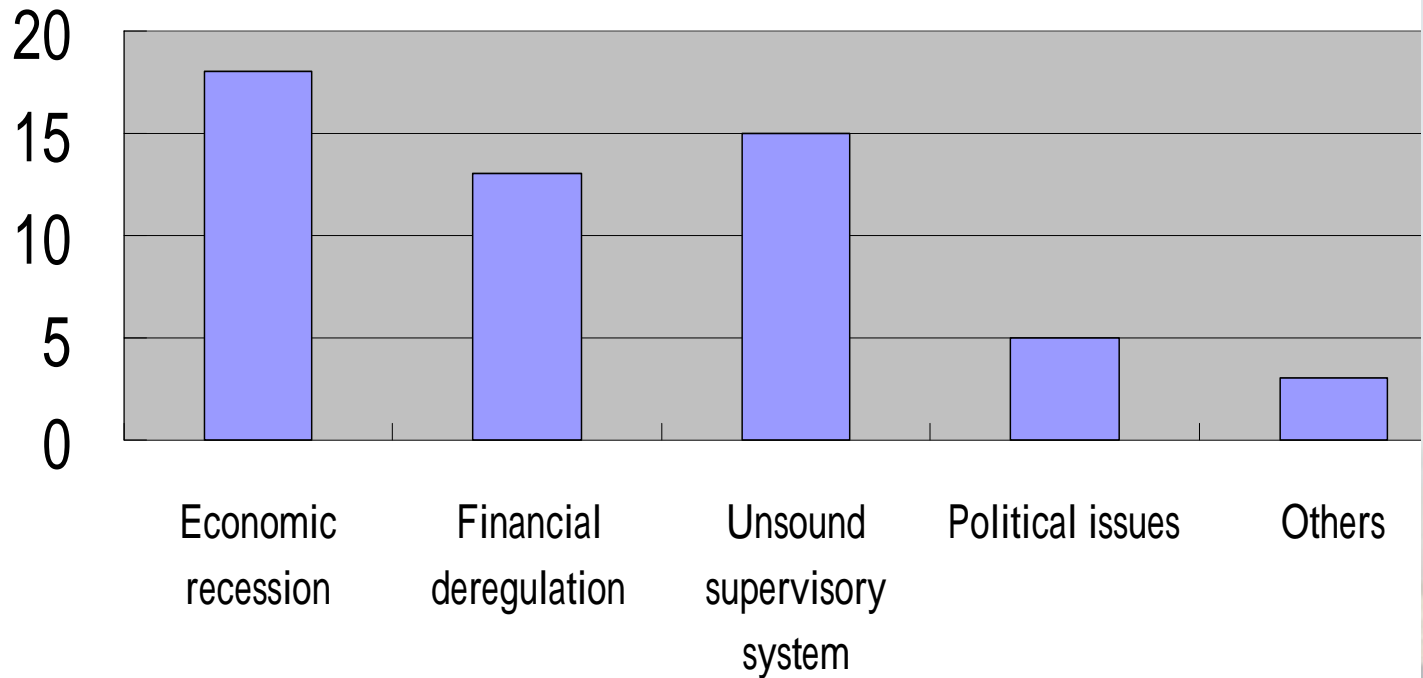


- **Net resolution cost**
 - From US\$709 thousand to US\$162 billion.
 - Average US\$20 billion.
- **Resolution cost as a percentage of one year's GDP**
 - From 0.002% to 35.8%.
 - Average 5.5%.

Abstracts of IADI's Research on Failed Bank Resolution (2004)



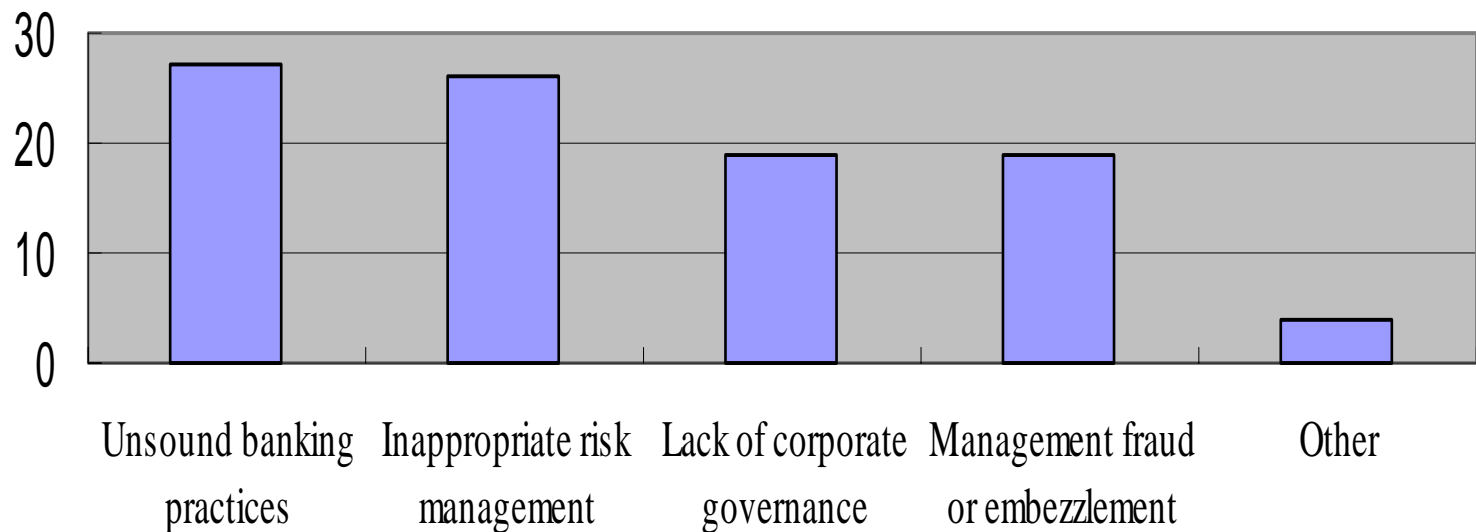
Figure1 : Macro factors causing a banking crisis or individual bank failure



Abstracts of IADI's Research on Failed Bank Resolution (2004)



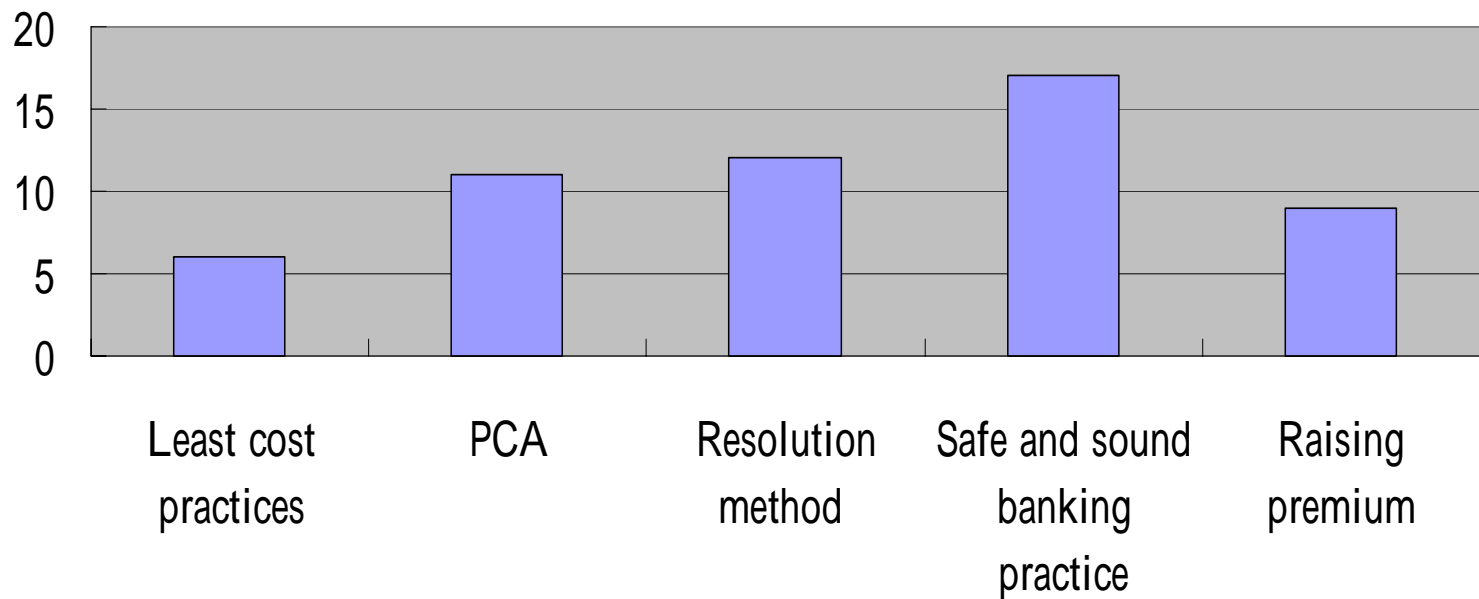
Figure 2: Non-macro factors causing the banking crisis or individual bank failure



Abstracts of IADI's Research on Failed Bank Resolution (2004)



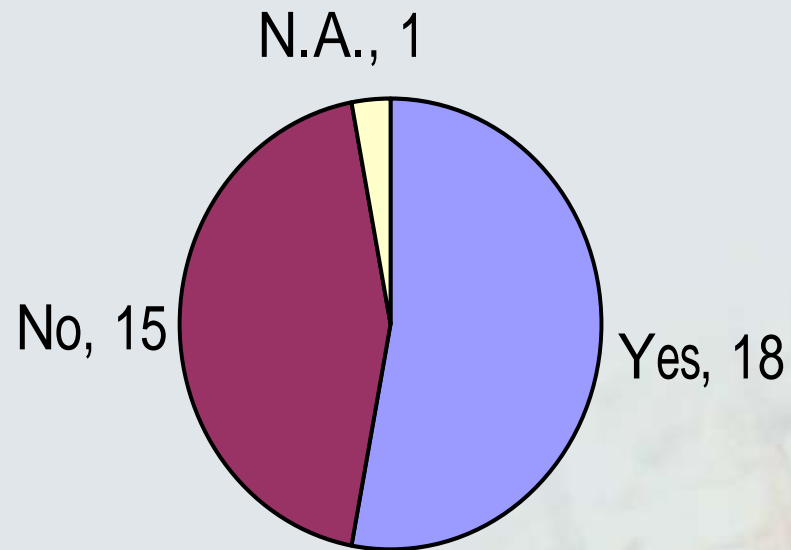
Figure 3: Improvements made by government after banking crisis or failure



Abstracts of IADI's Research on Failed Bank Resolution (2004)



Figure 4: Having formal coordination mechanism among financial safety net in dealing with bank failure



Abstracts of IADI's Research on Failed Bank Resolution (2004)



- **Systemic banking crisis**
 - Having statutory mechanism: only 7 countries.
 - Definition
 - Large national or regional market share (e.g. 8%~10%)
 - Having a major influence on the economy, financial system.



Abstracts of IADI's Research on Failed Bank Resolution (2004)

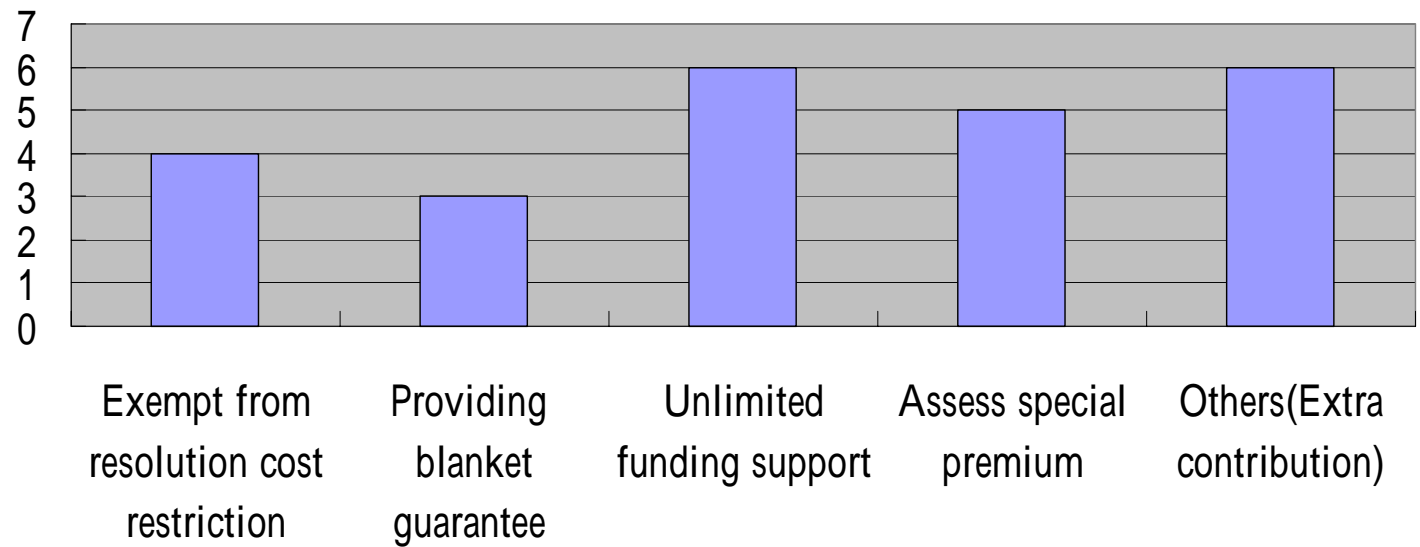
- **Systemic banking crisis (Continued)**
 - Authority to decide :
 - Central bank in 8 countries.
 - Banking supervisory in 8 countries.
 - DI in 2 countries.

 - Method to resolve
 - Bridge bank
 - P&A
 - Financial assistance
 - Set up a fund
 - The adoption of special legislation

Abstracts of IADI's Research on Failed Bank Resolution (2004)



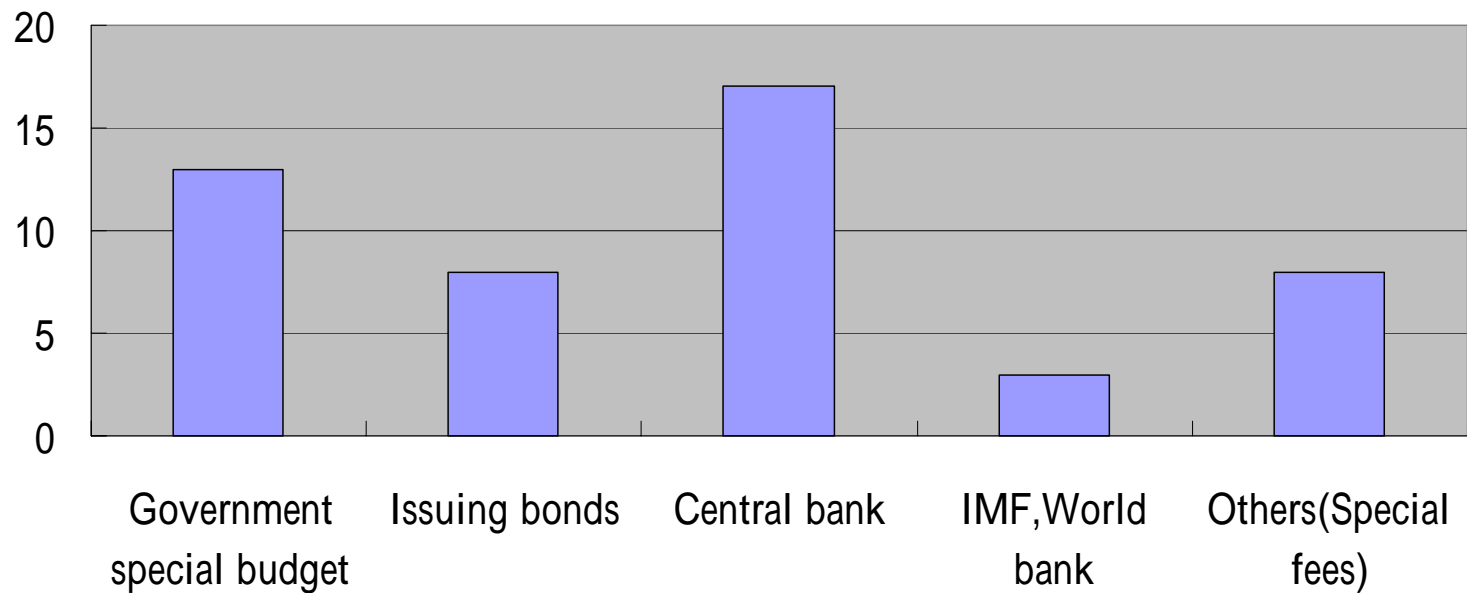
Figure 5: Special regulation for deposit insurer in handling systemic banking crisis



Abstracts of IADI's Research on Failed Bank Resolution (2004)



Figure 6: Funding sources for handling systemic bank crisis



Cooperation Issues



- The division of duties and responsibilities among safety net players in a failing/failed bank resolution should be clearly defined.
 - Purpose: To effectively handle failing/failed banks among safety net.
 - Clear defined by legal arrangement, contracts or administrative regulation:
 - To declare whether a bank has failed.
 - To determine the bank resolution method.



Cooperation Issues

- Information sharing and coordination mechanisms must be in place for all financial safety net participants.
 - Formal mechanisms need to be in place.
 - Especially in cases involving a systemic crisis.
 - In PCA process, DI should be given access to assess the impact of DI fund.



Cooperation Issues

- An explicit statutory mechanism should be set up for dealing with a systemic crisis.
 - An explicit statutory mechanism for safety net to work together:
 - A clear division of work and duties.
 - Rules defining what is and is not a systemic crisis.
 - A clear intervention framework for dealing with crisis and resolution.



Cooperation Issues

- Clear statutory mechanisms for dealing with “Too Big To Fail” issues should be established.
 - Purpose: To help determine resolution principles on larger bank failure.
 - A clear definition of TBTF.
 - Provide guidance on the resolution cost implications of various options.
 - The resolution of failed financial holding company should be included.

Lessons Learnt



- A strong institutional framework should be in place for the economy and financial system to reduce the risk of banking failures or crises.
- Sustained efforts in cooperation of failing/failed bank resolution among financial safety net players are needed.

Lessons Learnt



- An effective tool kit for improving bank failure resolution mechanism should be in place as early as possible.
- A sufficient deposit insurance fund or similar resources should be in place to maintain financial stability and public confidence.

Lessons Learnt



- Early prevention and cure of problem bank would be better than passively wait for pay-off or resolution.



CDIC

Thank You



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