



中央存款保險公司

Central Deposit Insurance Corporation

# Comment on “Receivership and Resolution” & Taiwan Experience

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- **International Association of Deposit Insurers (IADI)** issued **“General Guidance for the Resolution of Bank Failures”** in early 2006.
  - General issues
  - Interrelationships and cross-border issues
  - Statutory powers accorded to the deposit insurers
  - Operational and administrative issues
  - The resolution of failing or failed banks

For more information, please visit: [www.iadi.org](http://www.iadi.org)



# Major Comments on “Receivership and Resolution”





- How to transform and more actively help stabilize financial markets is one of the major challenges for DI in those countries whose financial environment is in the normal stage





- NPLs of problem financial institutions could be disposed via publicly-owned or private AMCs



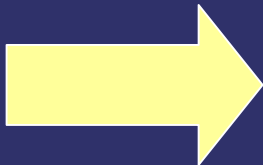


- Timely and effective resolution, appropriate valuation and transparent sales process are important.





- When setting up bridge bank mechanism, particular considerations should be given to the demands and financial environment of each country.



**One size doesn't fit all !**

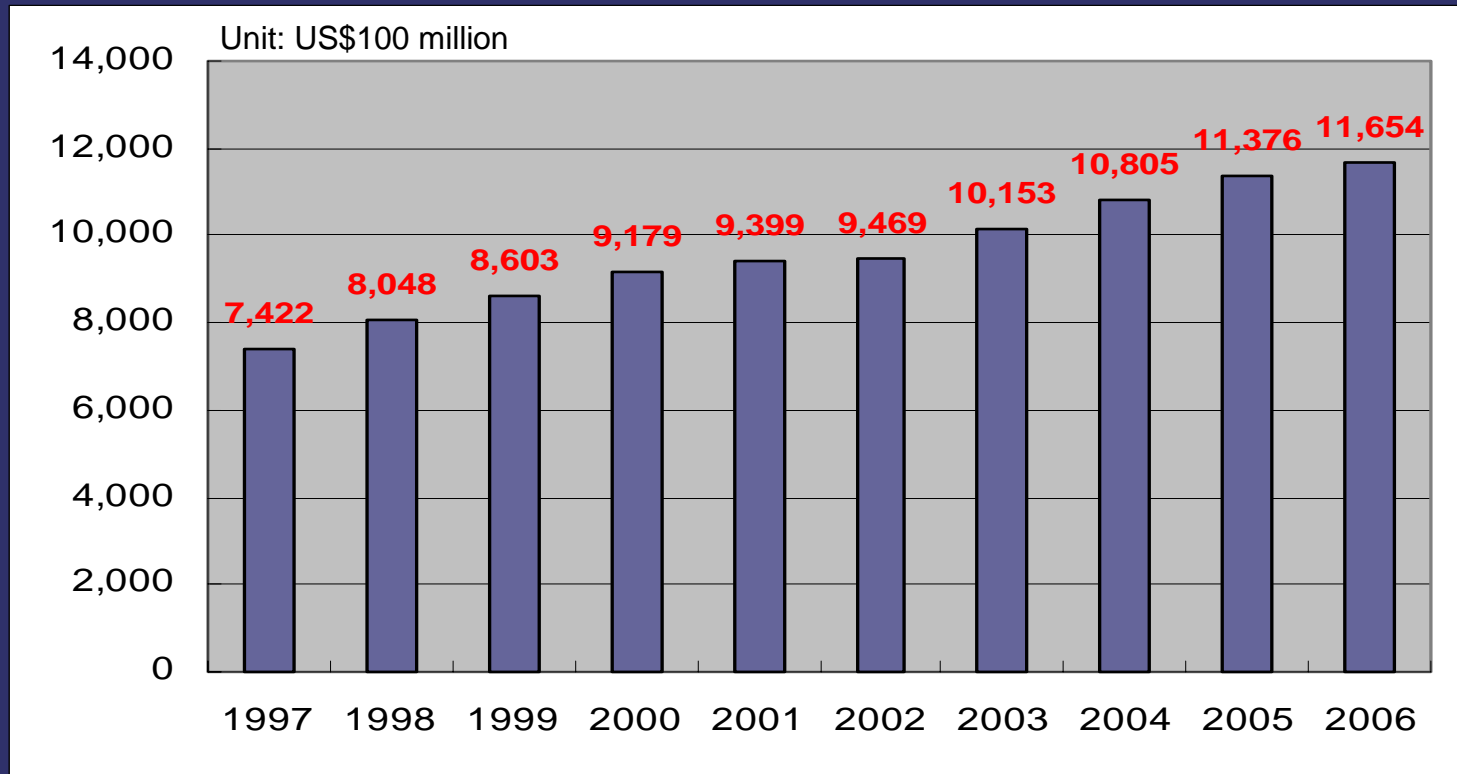


- Current developments in Taiwan's banking sector
- Main amendments to the Deposit Insurance Act
- Card debt problem in Taiwan & Rebar Group scandal
- The focus of the CDIC's work in the future



## Total Assets of All FIs

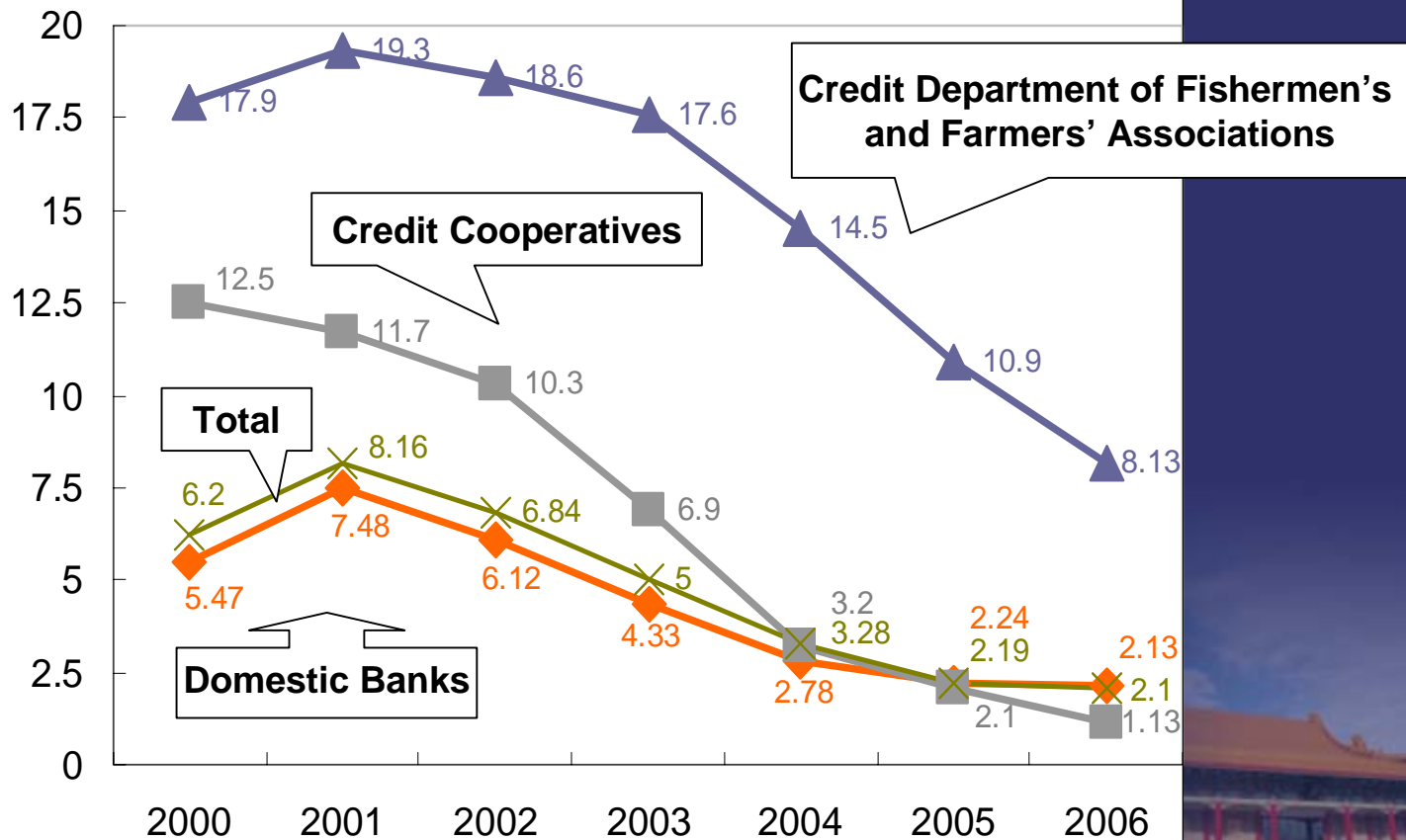
- Total assets have gradually increased



Source of data: Financial Supervisory Commission website: <http://www.fscey.gov.tw/>

## NPL Ratio of All FIs

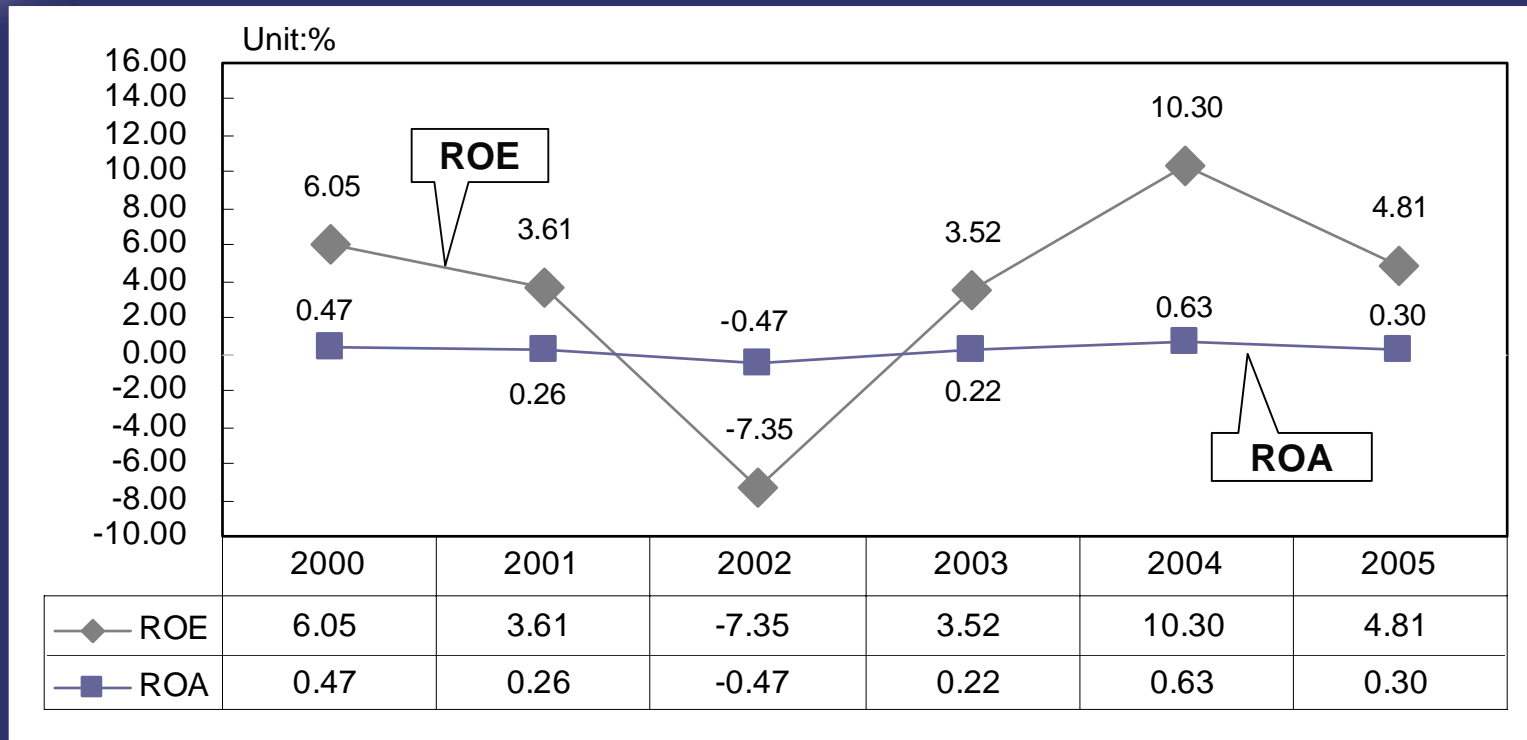
- Asset quality has improved significantly



Source of data: Banking Bureau, Financial Supervisory Commission- <http://www.banking.gov>

## ROE and ROA of All FIs

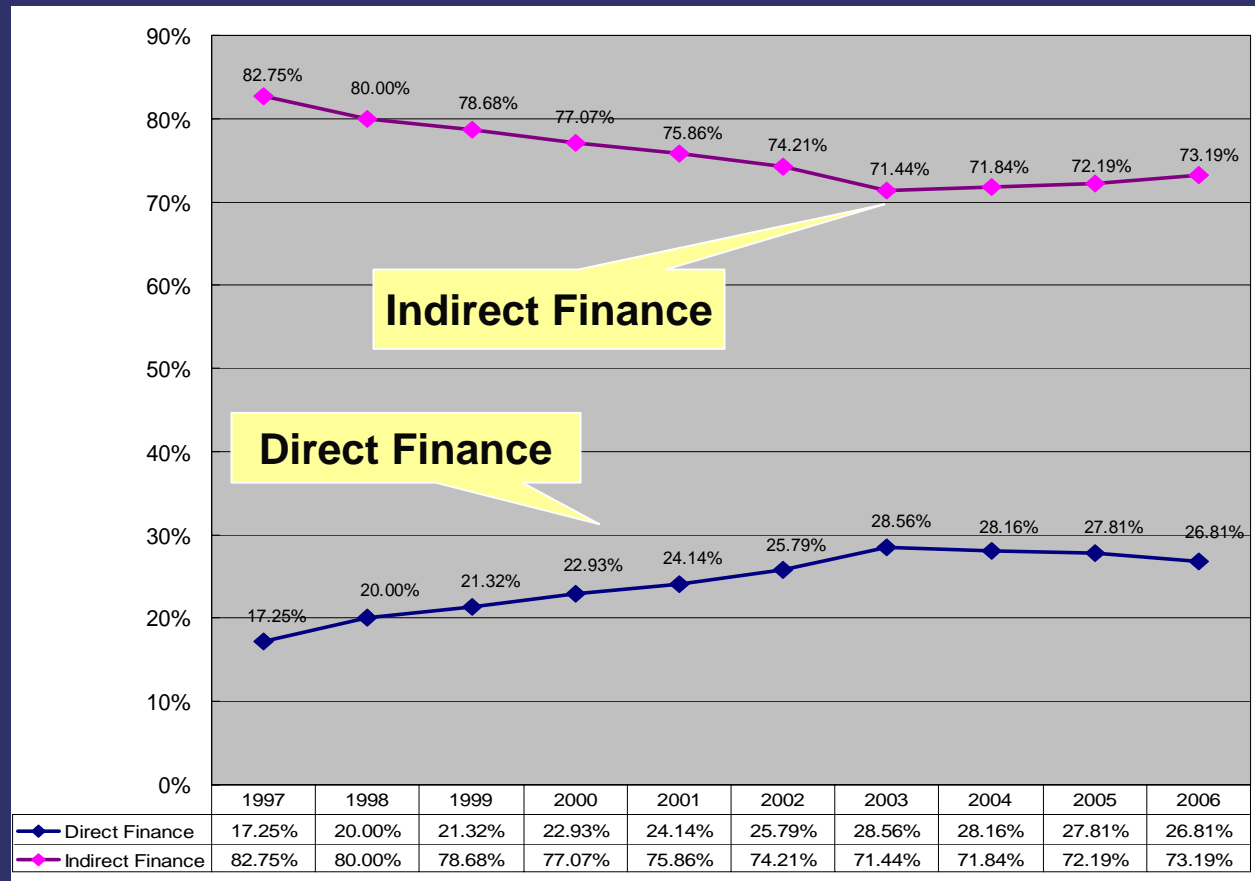
- Profitability has gradually increased



Source of Data: Banking Bureau, Financial Supervisory Commission, website: <http://www.banking.gov.tw>

# Direct and Indirect Finance

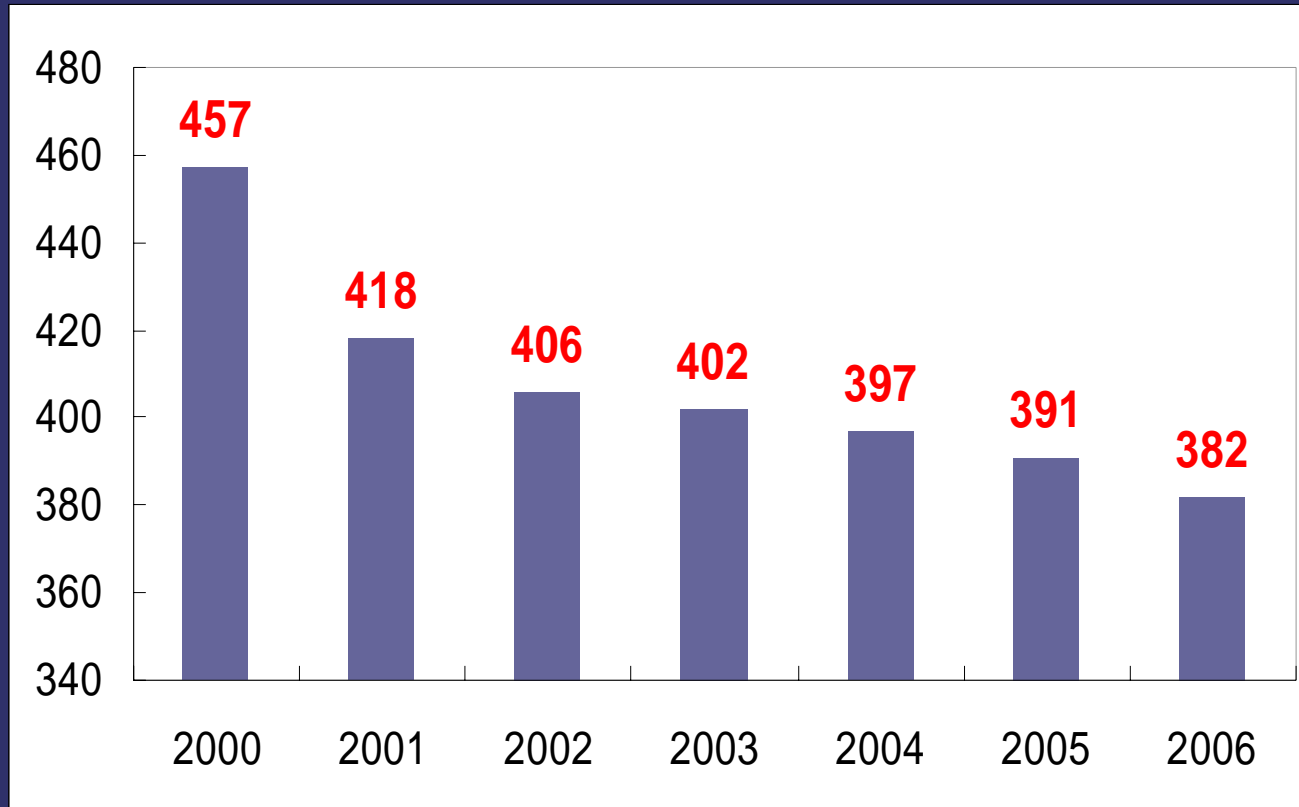
- The proportion of direct finance is gradually increasing



Source of Data: Central Bank of China

## Numbers of Total FIs

- The process of mergers among financial institutions is speeding up



Source of Data: Banking Bureau, Financial Supervisory Commission, website: <http://www.banking.gov.tw>

# Main Amendments to the Deposit Insurance Act



- Replenishing and reforming the deposit insurance fund
- Strengthening risk control
- Strengthening the mechanism for handling problem financial institutions and systemic crisis





- ***Separate Deposit Insurance Funds***
  - Regular Banking Sector
  - Agricultural Financial Sector
- ***Set the Target Ratio of the Deposit Insurance Fund : 2% of Insured Deposits***
- ***Assessment Base:***

Insured Deposit



Insurable Deposit



- Way of participation in DIS
  - Mandatory application for newly established financial institutions, but CDIC has the right of approval or disapproval.
- Mechanism for facilitating coordination among financial safety net participants & clear division of responsibilities of each financial safety net player
- Special inspection and investigation powers





- Exempt from the cost restriction
- Special premiums
- Bridge bank





## • *Card Debt Problem in Taiwan*

Severe competition

Banks lacking the ability to design & innovate new products; rapidly expanding their consumer banking business

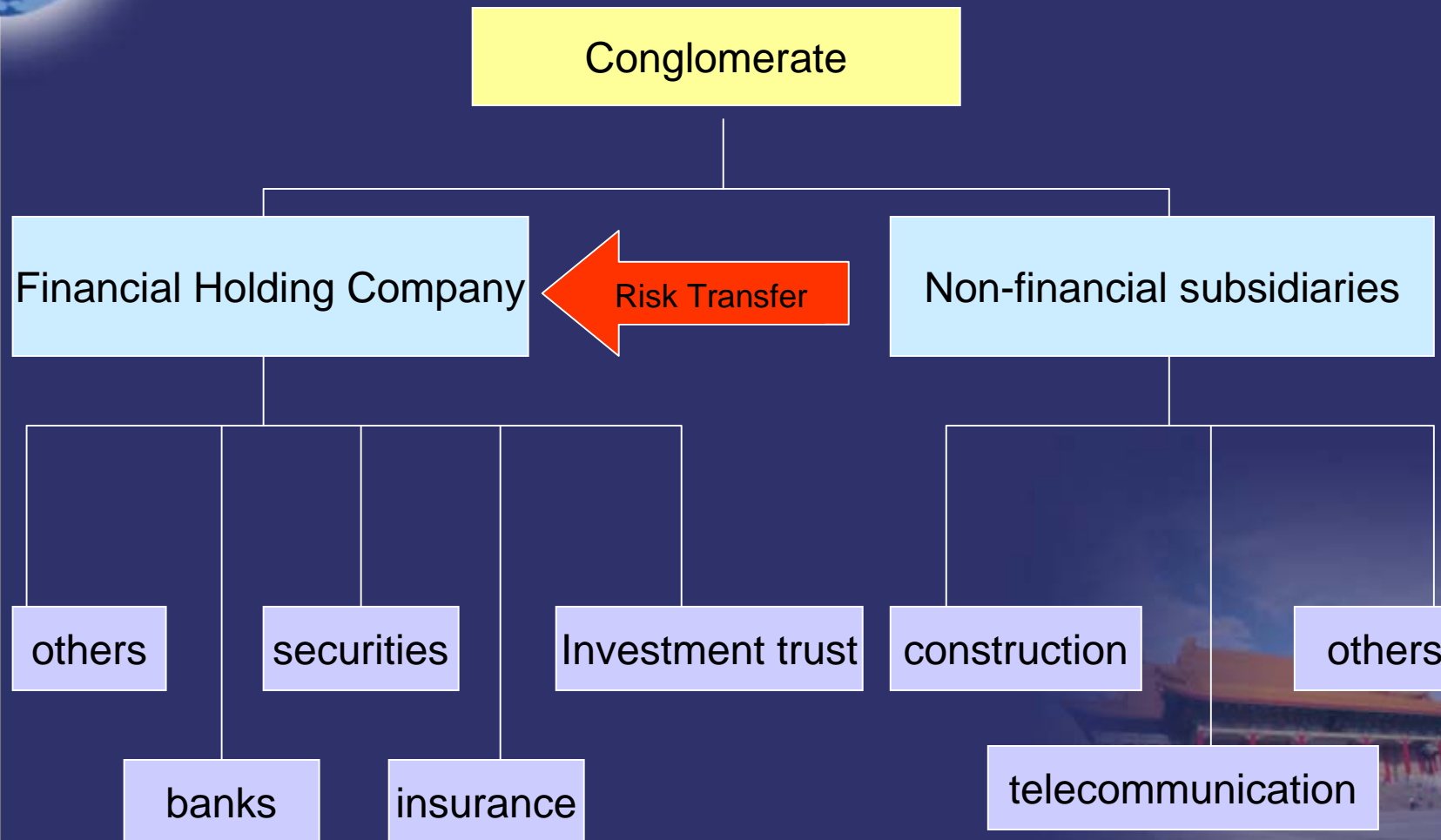
Issuance of huge number of cards w/o appropriate RM & credit analysis



Huge bad debts; seriously affect the economic and social order



- *The Rebar Group Scandal*





- Six reasons why the Rebar Group triggered the unfortunate event involving The Chinese Bank
  - The group falsely established shell companies
  - Funds transferred by false transactions
  - Incorrect financial statements
  - Insider trading
  - Manipulating stock prices
  - Illegal bill discounted, loan fraud, or else loans borrowed from banks based on untrue values attributed to collateral



# The Focus of the CDIC's Work in the Future





- ***Strengthening the risk control function***
  - Immediately measure and detect, and control risk
  - Independent in powers, but not isolated in cooperation
  - Good fences make good neighbors
  - Transparency is the key factor of fraud prevention

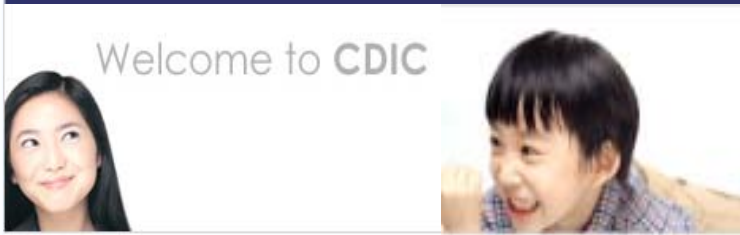


- ***Reducing the cost of dealing with problem financial institutions and enhancing efficiency***

- Time is the key to handling problem financial institutions
- Developing complete complementary measures



Thank You!



<http://www.cdic.gov.tw>