



# **Role of Deposit Insurance in Bank Resolution**

**- International Guidance & Taiwan Experience**

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***"History does not repeat itself,  
but it does rhyme."***

~ Mark Twain



# Outline

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- I. Lessons learned
- II. Key areas of convergence
- III. International guidance on bank resolution
- IV. Taiwan experience
- V. Conclusion



## **Lessons Learned:**

**Why do we need deposit insurance?**



# Why do we need deposit insurance?

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- **Lessons from the past**

- Explicit deposit insurance as a means to protect small depositors and maintain public confidence

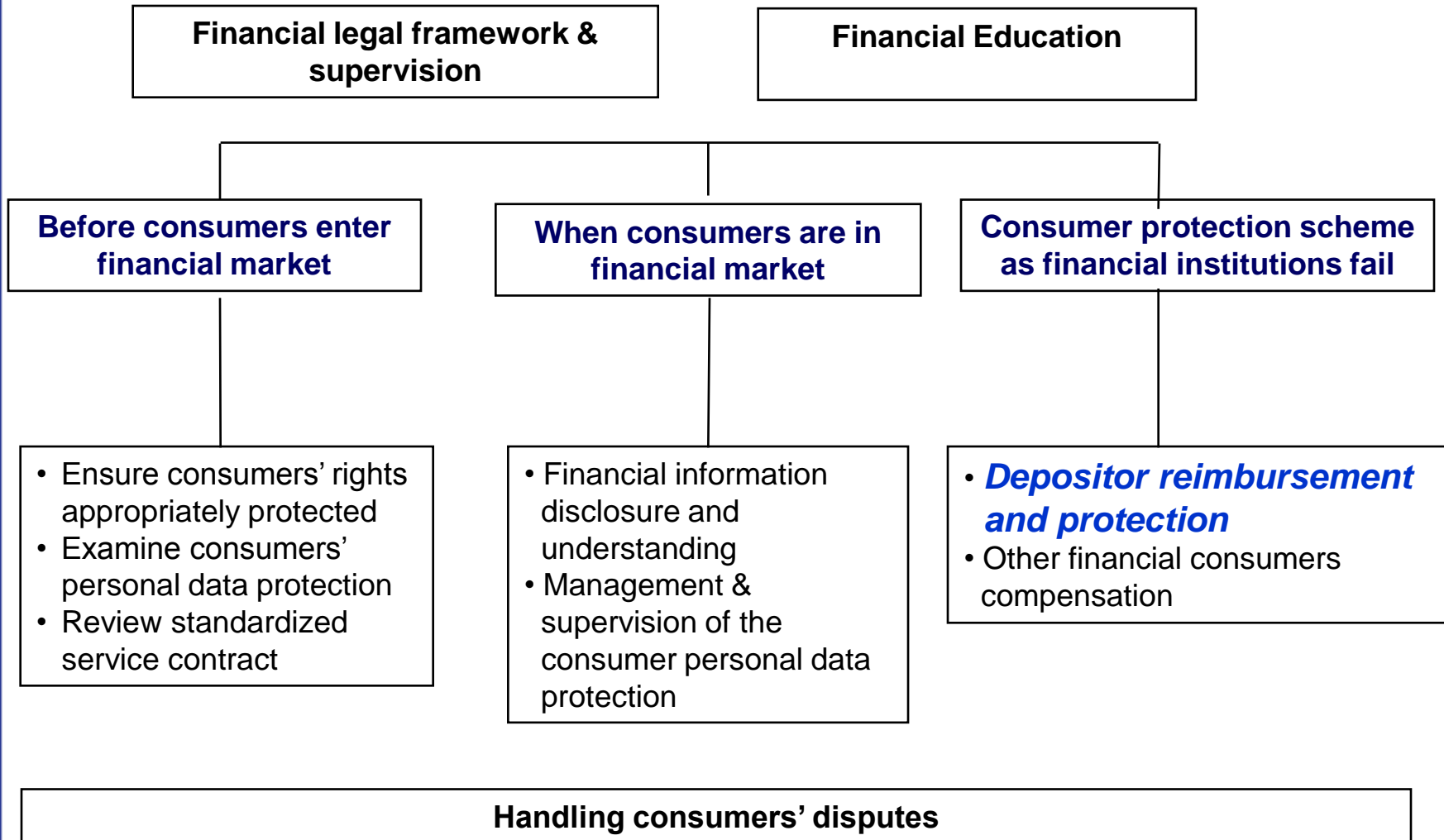
***56 DIs before 1995 v.s. 111 DIs in March 2011***

- **Lessons from the present**

- Needs for better financial consumer protection
- Needs for speed & more available tools for orderly resolution
- Needs for more effective & coordinated deposit insurance systems



# Financial Consumer Protection





# Key Areas of Convergence



# Convergence in DIS - Resolution

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- **Mandate and Powers: broader mandates**
  - From “paybox” to risk minimizer (including risk management and failure resolution)
  - *About 2/3 have mandate more than a “paybox”*
- **Reimbursing Depositors**
  - A quick payout: e.g. EU DI Directive
  - Impact factors: quality and security of bank deposit records, deposit insurers’ access to data, systems and capability of the deposit insurers and legal/accounting regimes.
- **Failure Resolution Options**
  - *Over 70% DIS have more than one resolution tools/options*
  - Over 50% have authority to conduct purchase and assumption transactions





# **International Guidance on Bank Resolution**

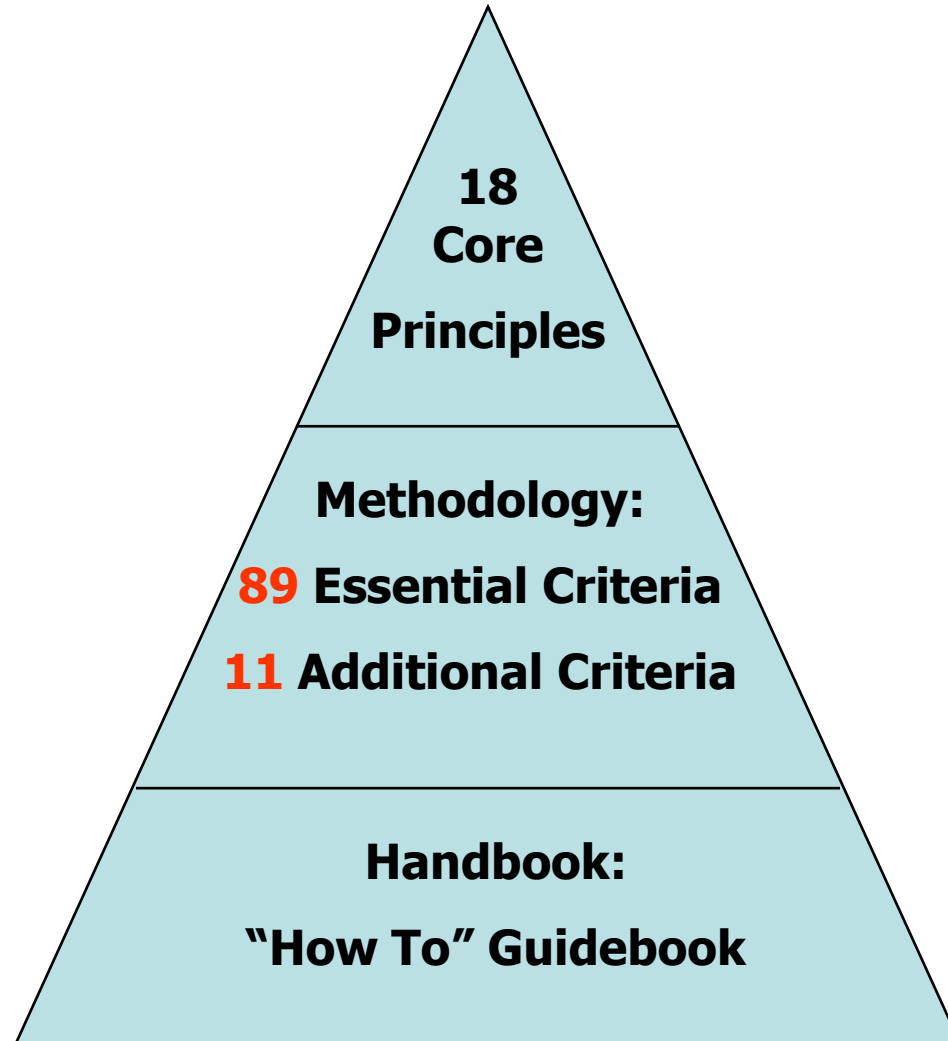


# Core Principles for Effective Deposit Insurance Systems

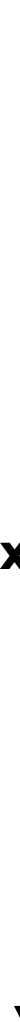
**General**



**Specific**



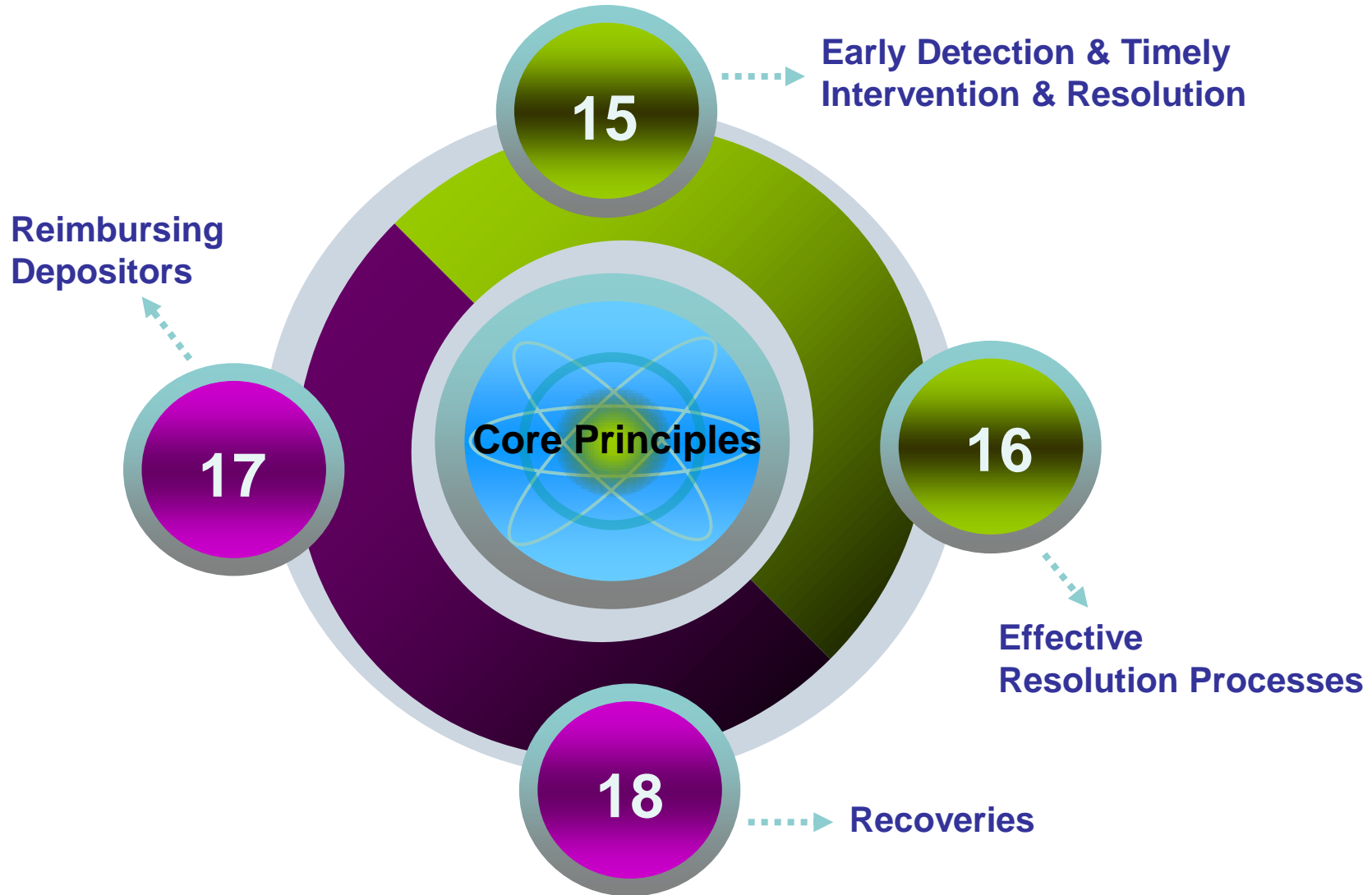
**Flexibility**





# Major Related Phases of Bank Resolution

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# Core Principle 15 & 16



## CP15: Early Detection & Timely Intervention & Resolution

DI is part of early  
detection, intervention &  
resolution framework

Clearly defined trigger  
mechanism

Acted by FSN member  
with operational  
independence & power

## CP16: Effective Resolution Processes

Facilitate DI's ability to  
meet its obligation

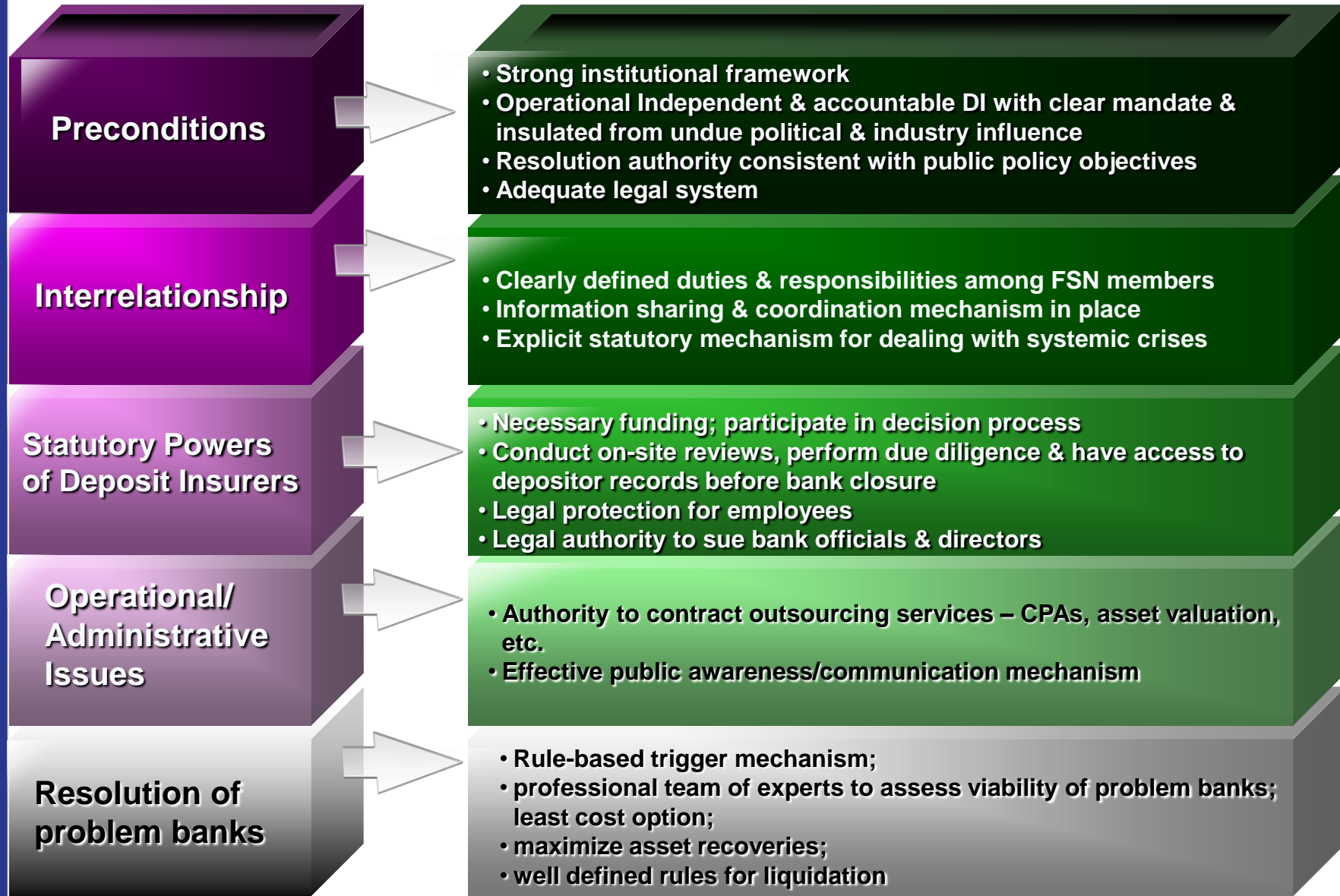
Minimize resolution cost  
& market disruption

Maximize asset recoveries

Reinforce discipline  
through legal actions



# IADI Guidance on Bank Resolution





# Resolution Options

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## DI's resolution tools:

- *One (27%), Two (24%), Three or more (49%)*

1. Reimbursement (Paybox) – 82%
2. Purchase and Assumption (P&A) – 55%
3. Bridge Bank – 26%
4. Open Bank Assistance – 35%

*... most appropriate option depends on a jurisdiction's legal framework (e.g., insolvency laws) and DI's mandate and authorities.*



# Taiwan Experience

**CDIC's early intervention & resolution mechanism**



# CDIC Profile

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- ✓ **Established in Sep. 1985**
- ✓ **Government agency: under**
- ✓ **Competent authority: Financial Supervisory Commission**
- ✓ **Mandate**

- **Handle deposit insurance issues**
- **Control insured risks**
- **Deal with problem financial institutions**
- **Special inspection**

**Pay Box**

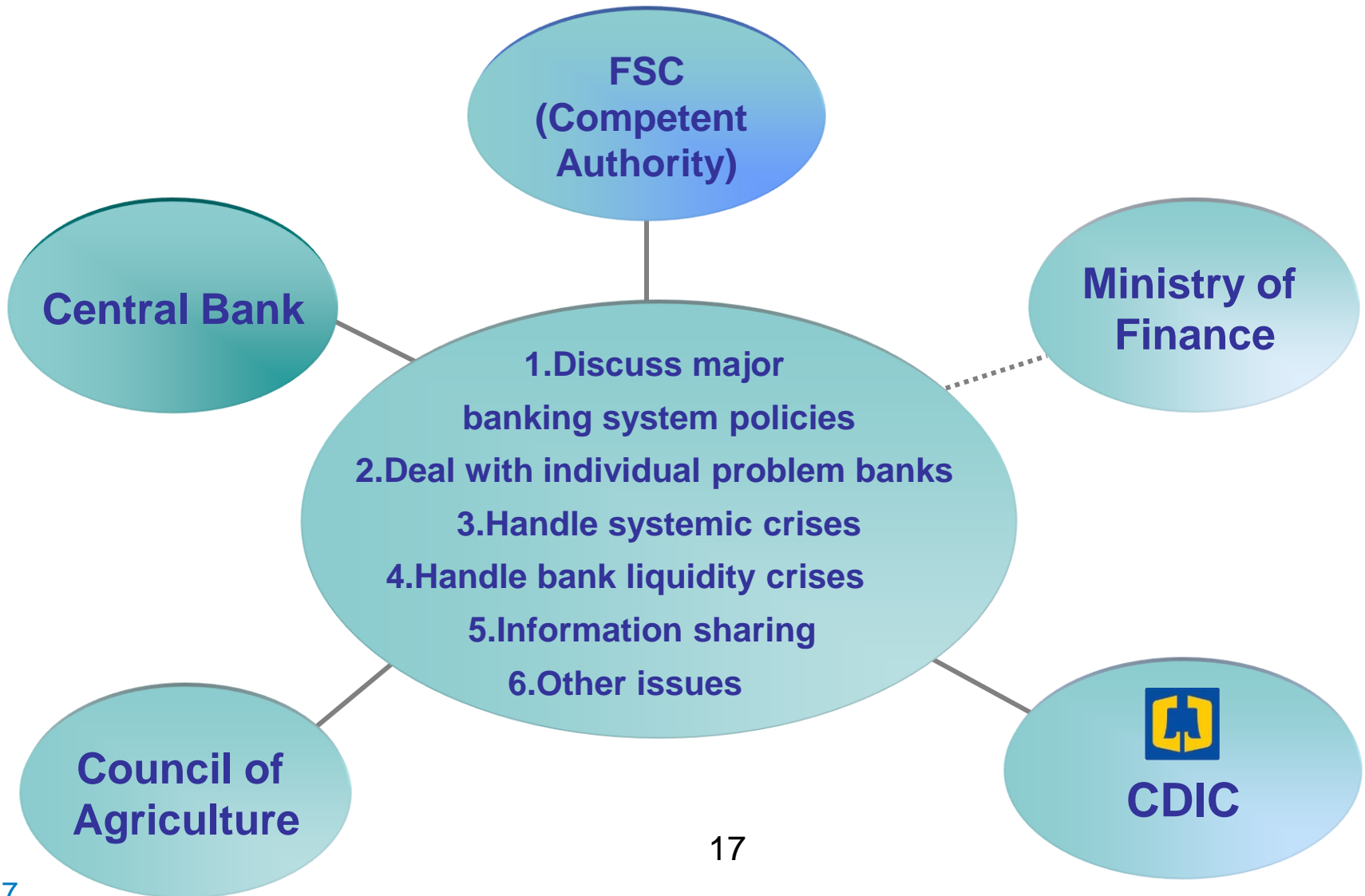


**Risk Minimizer**





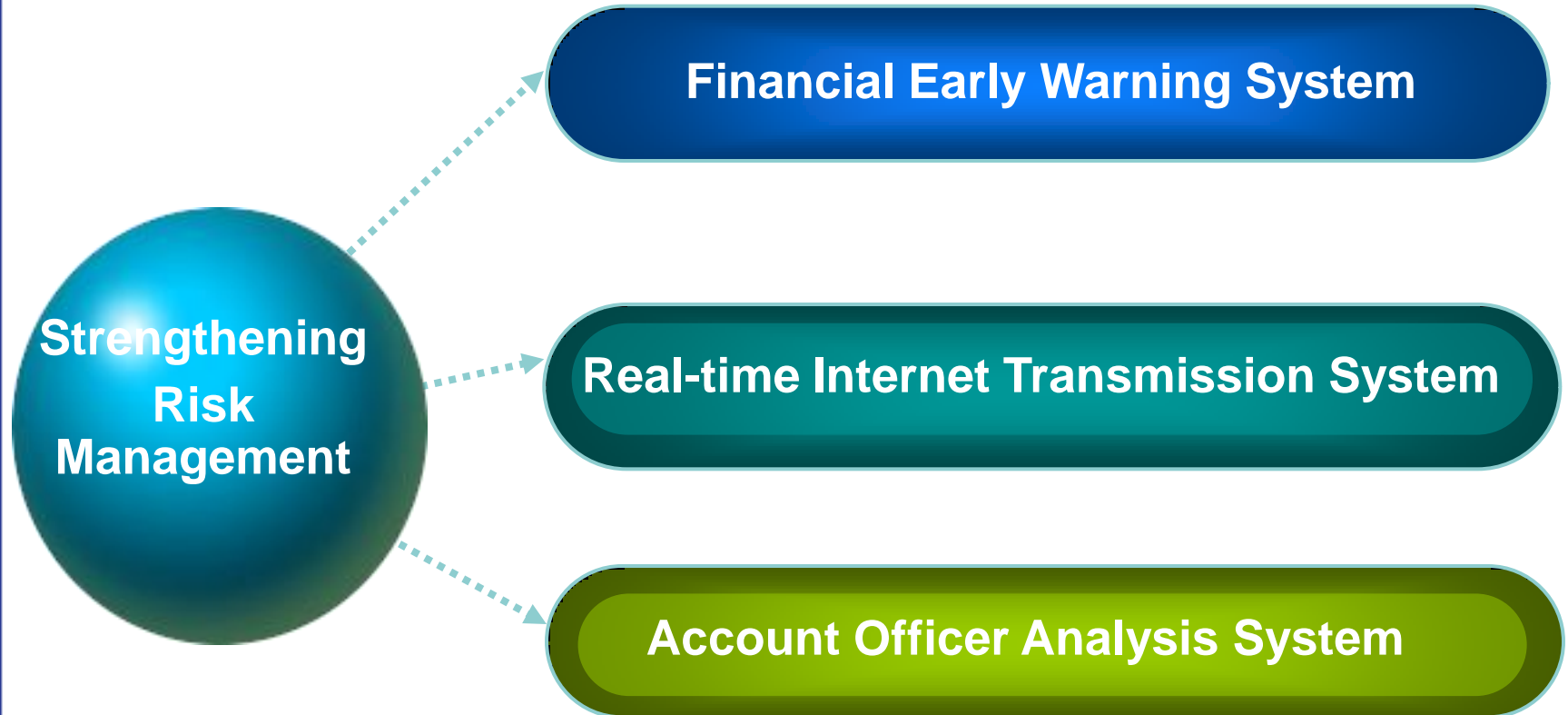
# Financial Safety Net & Its Liaison System





# Risk Management Mechanisms

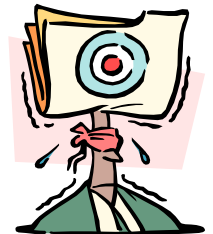
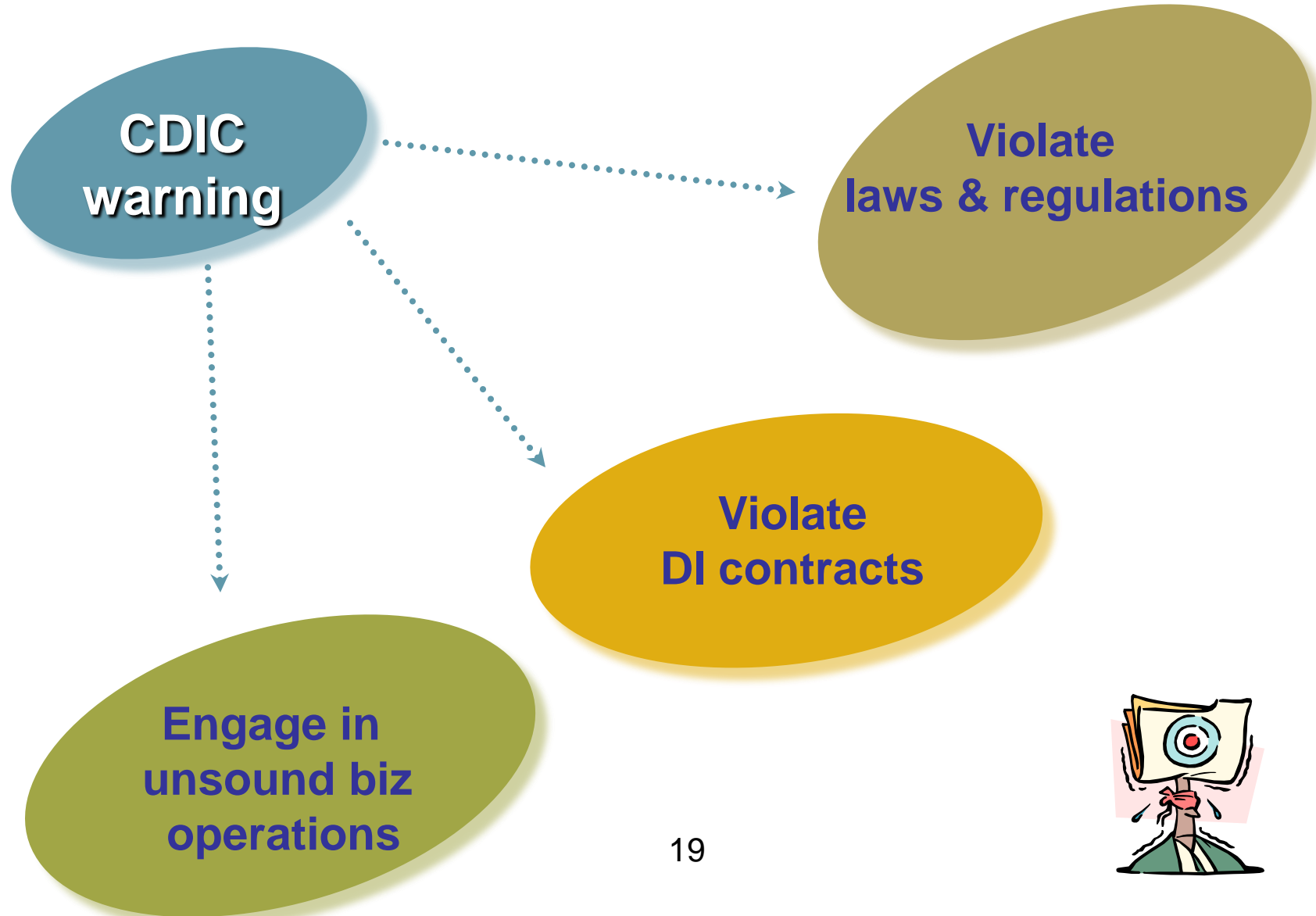
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**\* Warning of Deposit Insurance Contract Termination**



# Warning of DI Contract Termination



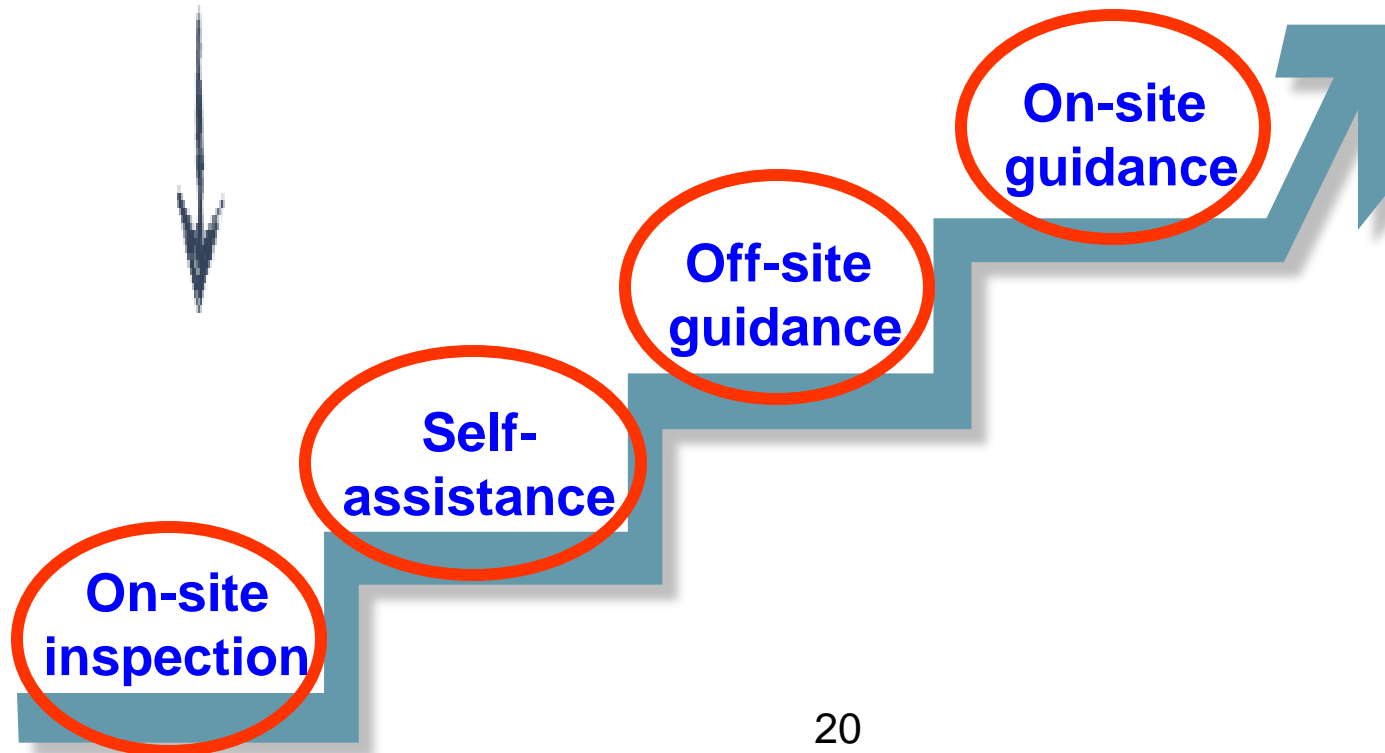


# Steps of Early Intervention

*Ongoing Risk Management*



**Conservatorship**





# Early Banking Resolution

*Ongoing Risk Management*



**On-site inspection**

**Self-assistance**

**Off-site guidance**

**On-site guidance**

**Conservatorship**

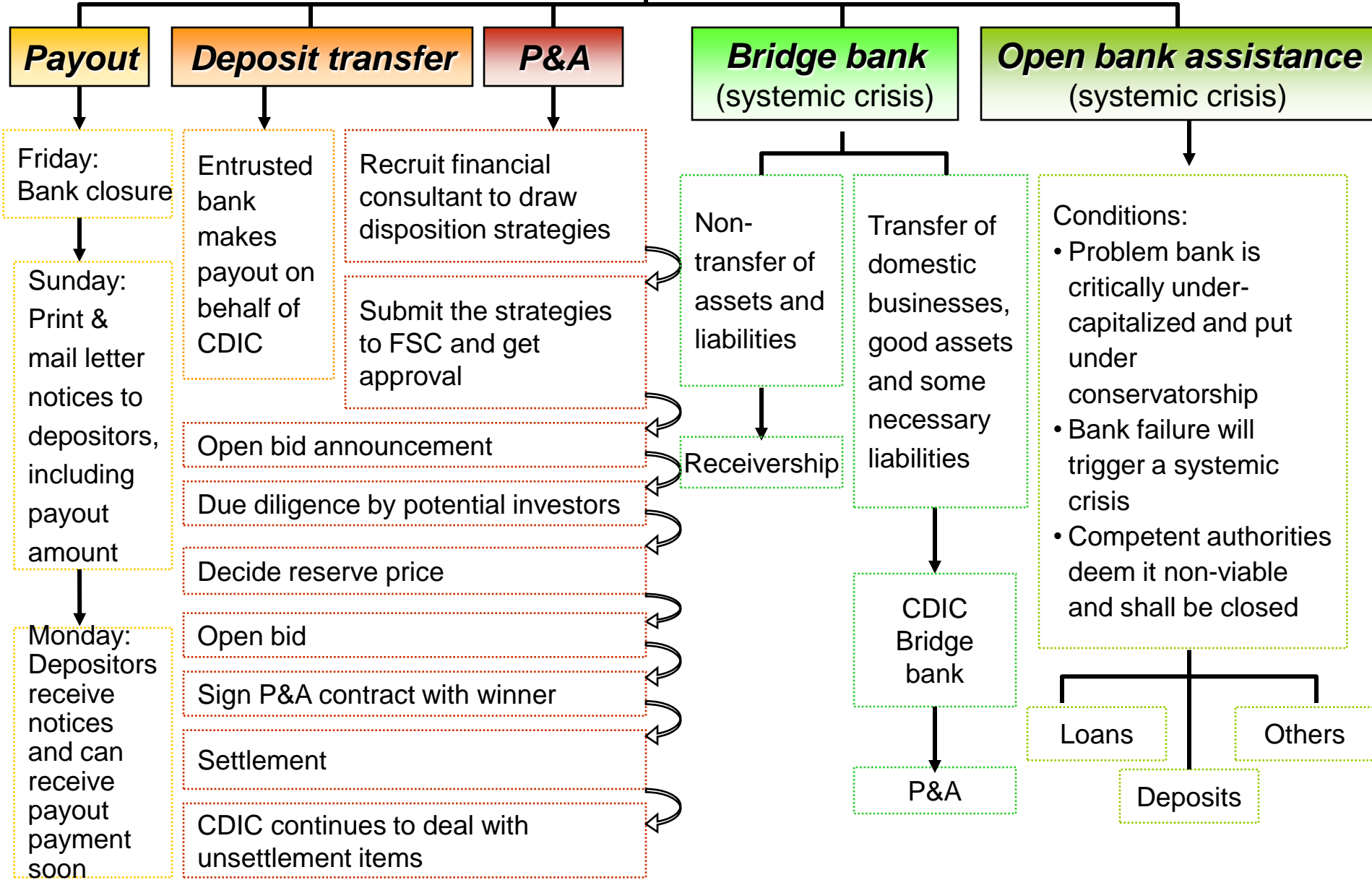


- If BIS% < 2, within 90 days
- Losses exceeding 1/3 of capital & cannot make improvement within the stipulated timeframe

# Resolution methods

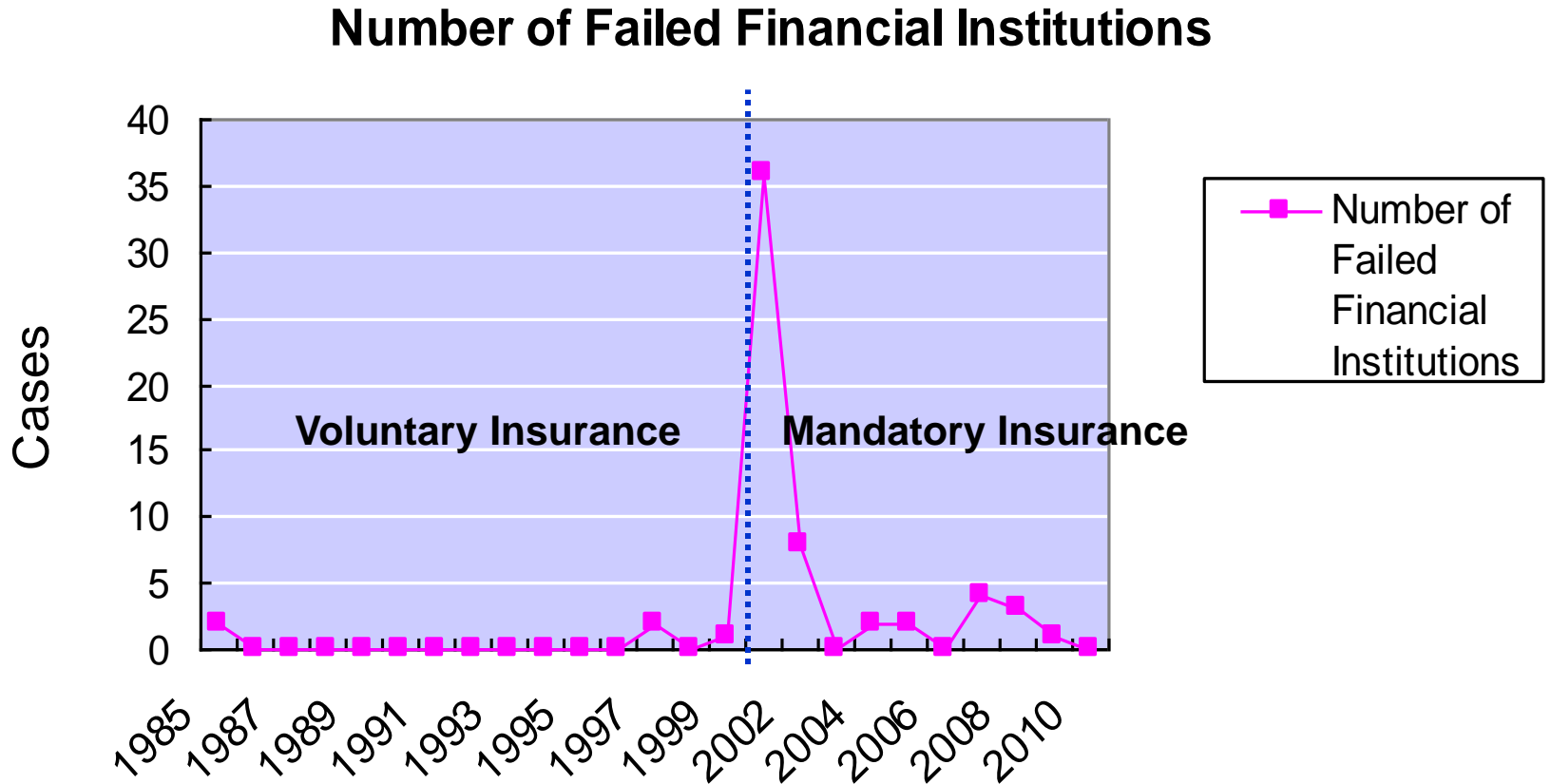
## Funding Sources:

- \* Premiums; Borrowing from government and market.
- \* Collecting special premiums under systemic crisis.





# Number of Failed Financial Institutions



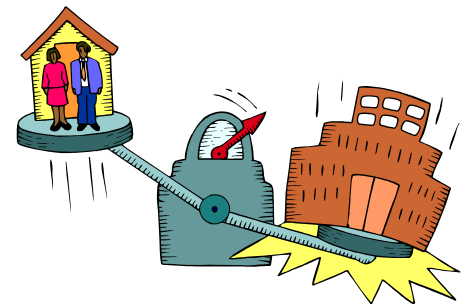
**Total failed banks: 57**



# Purchase and Assumption

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- The only method adopted by CDIC in all the past resolution cases.
- The most cost effective way in protecting depositors and preserving critical banking functions to minimize disruption of markets.







# On-site Inspection

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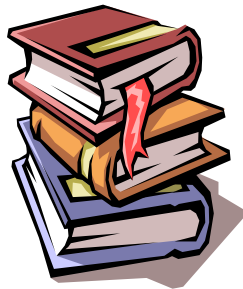
- Any event causing termination of deposit insurance contract
- Assets and liabilities of insured institutions before bank closure
- Properties of employees of failed insured institutions, who violate the laws, to pursue civil liabilities
- Accuracy of deposit assessment base and content of electronic data files





# On-site Inspection of Electronic Data Files

## Legal basis

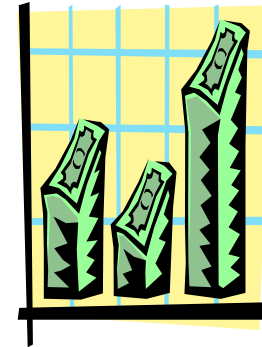


### ▪ ***Deposit Insurance Act***

- FIs are required to set up e-data files based on CDIC's format

Electronic Data Files  
- 7 categories  
with 25  
types  
of data

## Inspection emphasis



- File format
- Data type
- Data content



# Retained Asset Management

- Follow market mechanism, in principle
- Various disposal measures per features of assets
- Careful monitoring and management
- Entrust specialized institutions for auction
  - **Major goal** .....→ **Disposal as soon as possible**

Hillside land



Hotel



Taipei 101



Chinese antiques





# CDIC's Compliance with Core Principles

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**Taiwan's early intervention &  
bank resolution mechanism**



**Core Principles  
for Effective Deposit Insurance Systems**  
**Principle 15 – Early detection & timely intervention & resolution**  
**Principle 16 – Effective resolution processes**



# Conclusion

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- Effective DIS is an important link of financial consumer protection in bank resolution
- Quick and accurate resolution/reimbursement is key to a successful DIS
- Resolution mechanism will be effective when five areas are met: preconditions, interrelationship, aligned mandate & powers, operational readiness and clear legal framework
- DIS should benchmark Core Principles for Effective DIS with appropriate legal framework



***“The Chinese use two brush strokes  
to write the word crisis.  
One brush stroke stands for danger;  
the other for opportunity.  
In a crisis, be aware of the danger,  
but recognize the opportunity.”***

~ John F. Kennedy



Thank You