

Resolution Experience CDIC Perspective

David Sun
Chairman
Central Deposit Insurance Corporation (CDIC)
July 4, 2014



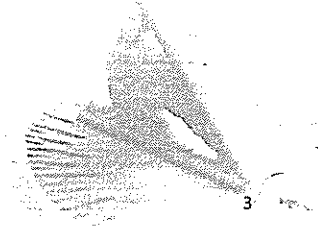
Contents



- I. Overview of Taiwan's bank resolution mechanism under Financial Restructuring Fund
- II. Resolution process - conservatorship and P&A
- III. Future perspectives & lessons learned

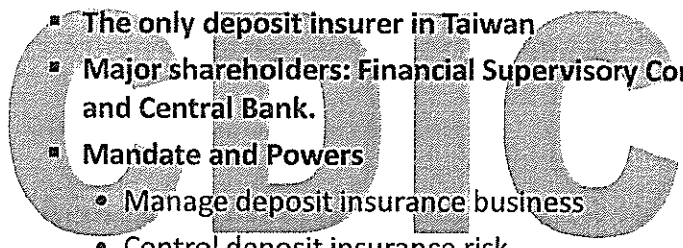


I. Overview of Taiwan's Bank Resolution Mechanism under Financial Restructuring Fund

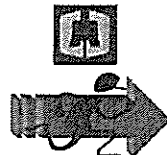


Introduction of CDIC

- Establishment in 1985 → 29 years
- The only deposit insurer in Taiwan
- Major shareholders: Financial Supervisory Commission (FSC) and Central Bank.
- Mandate and Powers
 - Manage deposit insurance business
 - Control deposit insurance risk
 - Deal with problem insured financial institutions

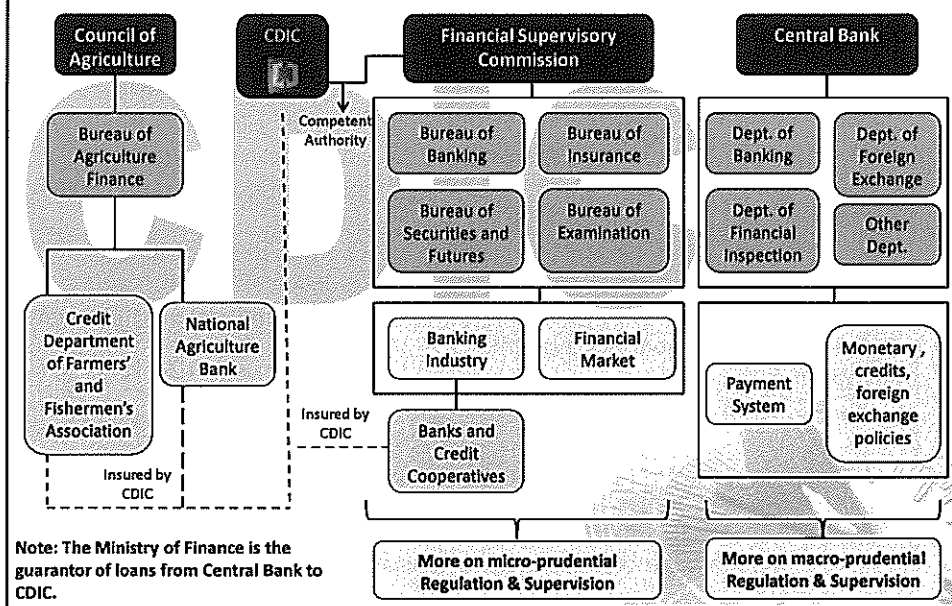


Pay Box



Risk Minimizer

Financial Safety Net in Taiwan



Bank Resolution History



- **Before deposit insurance system in place (~ 1985)**
 - Policy/administrative guidance by the government
 - Government-owned bank as the 1st choice of the acquirer
- **In the period of voluntary DIS (1985~1999)**
 - Non-member institutions of CDIC: Assumed through government guidance; acquirers assumed the loss
 - Member institutions of CDIC: Handled according to the *Deposit Insurance Act*; no failure cases during this period
- **In the period after compulsory DIS (1999~2001)**
 - CDIC resolved problem insured institutions by P&A transactions after 1999
 - No market mechanism before 2001
- **Financial Restructuring Fund (2001~2005)**

Establishment of Financial Restructuring Fund (FRF)

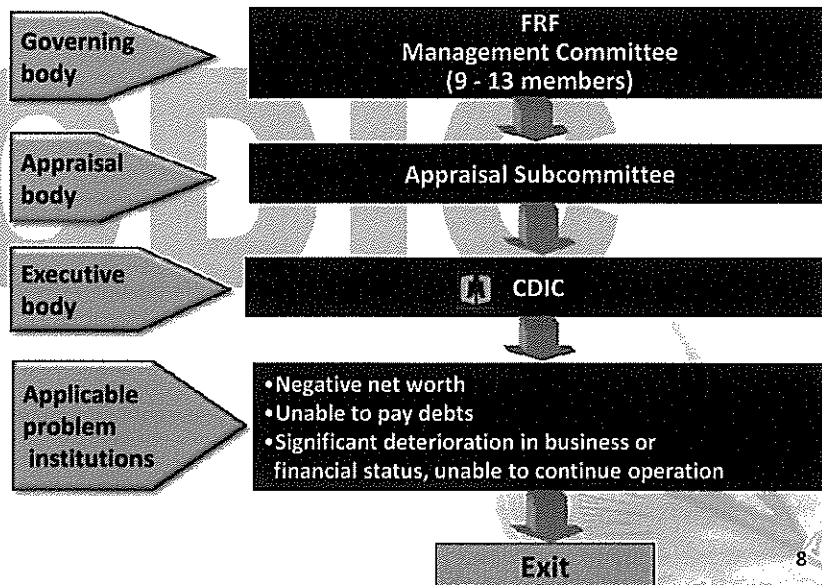


Macro factors	Non-macro factors
<ul style="list-style-type: none"> • Real estate market mired in recession after the burst of economic bubbles in late 1990's • Situations exacerbated by 1997 Asian financial crisis • The shock of big earthquake in Sept. 21, 1999 further impacted real estate market • Bad loans continued soaring, but no NPLs secondary market until 2001 • Rampant rumors of domestic systemic financial risk 	<ul style="list-style-type: none"> • Unqualified member FIs in voluntary DIS became a member in compulsory DIS and continued deteriorating in business • No PCA mechanism for problem FIs to exit from market until net worth turned negative

July 2001

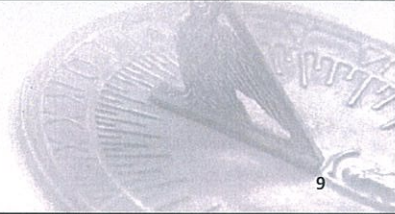
Government appropriated US\$ 8.3 billion to provide blanket guarantee for bank resolution

Management Structure of FRF

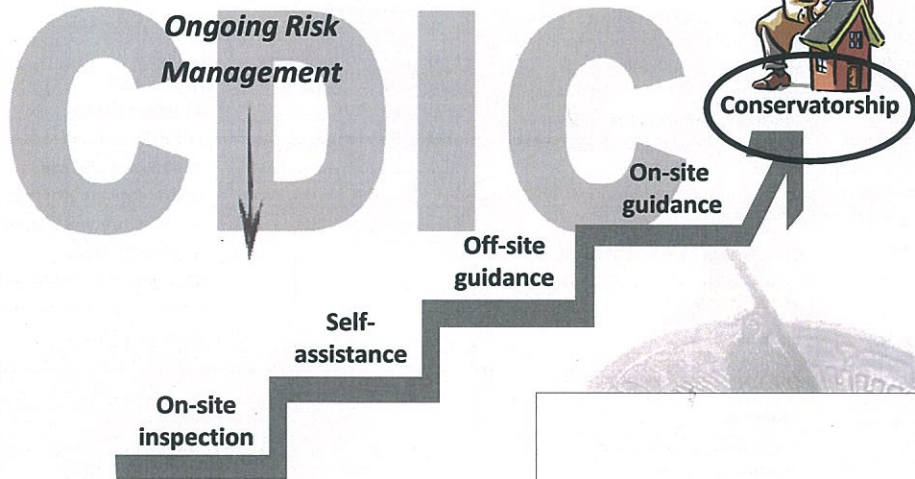


CDIC

II. Resolution Mechanism under FRF - Conservatorship and P&As



First Step of Bank Resolution - Conservatorship



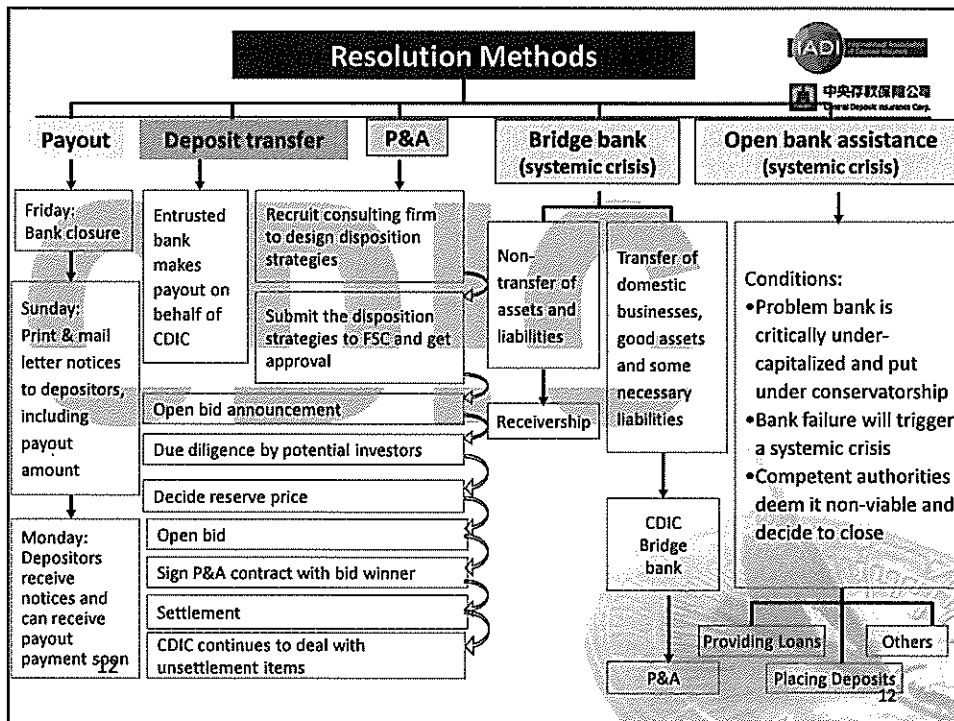
First Step of Bank Resolution - Conservatorship (cont'd)



Banking Act: PCA Mechanism

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

If unable to pay liabilities and could
harm depositors' interests, or has
losses exceeding 1/3 of capital and
cannot make improvement within
the stipulated timeframe,
the bank should be taken over



P&A - Types of P&A



Year	Banks	Credit cooperatives	Credit departments of farmers' & fishermen's associations	Methods
2001		7	29	Whole bank P&A
2002		1	7	Whole bank P&A
2004	1	1		Whole bank P&A and Partial P&A
2005	1		1	Whole bank P&A and Partial P&A
2007	3		1	Whole bank P&A and Partial P&A
2008	3			Partial P&A and P&A with put back option
2010	1			Partial P&A
Subtotal	9	9	38	
Total		56		

13

P&A - Outsourcing



- **Methods of resolution**

- ✓ CDIC as the conservator

- **Outsourcing resources**

- ✓ Consulting firm: Design disposition strategies and manage open bid process
- ✓ Accounting firms: Assess assets and liabilities
- ✓ Appraiser: Appraise specific real estates
- ✓ Lawyers: Pursuit of civil and criminal actions against responsible parties and employees of problem insured institutions

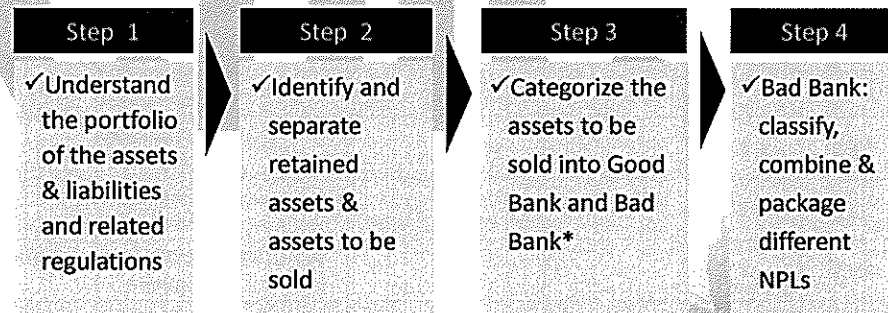
- **Sell the target insured institutions through open bids or negotiations**

14

P&A - Designing Transactions



Objective: To maximize the successful rates of open bids through well-designed disposition strategies of the assets, liabilities and operations



* "Good Bank" includes assets and liabilities, excluding NPLs and retained items.

"Bad Bank" consists of NPLs and certain real estate.

15

15

P&A - Strategies



• Strategies of open bids

- ✓ Banks: Auctioning off in separate parts
 - Bad bank: NPLs by several tranches
 - Good bank: Non-NPL assets/liabilities and operations in one tranche (in principle)
- ✓ Community FIs : Whole in one block

16

P&A - Incentives for Good Bank- Branch Licenses

	W Bank	X Bank	Y Investment and Trust Companies	Z Bank
Original Number of Branches	30	31	15	36
Branch relocation without restriction*	15	21	7	18
Branch relocation only within the same city	15	10	8	18
Others	Simplified branches* and the trust unit can be upgraded to full-function branches (*Only offers saving & withdrawing deposits)	Same as W Bank	All branches can be converted to branches of commercial banks and the 5 revoked branches can be reopened	Trust unit, department of international banking, OBU can be converted to branches of commercial banks and relocated without geographic restriction.
*Limitation	Branch relocation with geographic restriction	Same as W Bank	None	No more than 6 branches allowed to be relocated to Taipei metropolitan.

Note: In average, 50% of branch relocation is free from geographic restrictions.

P&A - Incentives



18

18

Bid Strategies for Failed Banks I



Failed Banks	Good Banks	Bad Banks	
Biz Bank	1 Batch	Corporate Accounts	
		Consumer Accounts	
CS Bank	1 Batch	Tranche A	Corporate Accounts
			Consumer Accounts
		Tranche B	Tranche 1
			Tranche 2
Tranche 3			
T Enterprise Bank	1 Batch	Tranche A	
		Tranche B (Credit card & cash card)	
		Tranche C (Credit card & cash card)	

19

Bid Strategies for Failed Banks II



Failed Banks	Good Banks	Bad Banks	Others
CH Bank	1 Batch	Tranche A	-
		Tranche B (Credit Card & cash card)	-
		Tranche C (Credit card & cash card)	
C Trust & investment Corp.	1 Batch	Specific NPLs	To dispose real estate through individual auctions
BW bank	1 Batch	Tranche A	-
		Tranche B (Credit card & cash card)	

20

Bid Strategies for Failed Banks III



Failed Banks	Good Banks	Bad Banks	Other
A Trust & Investment Corp.	Tranche 1	Tranche A	-
	Tranche 2	Tranche B	-
CF Bank	Tranche 1 (Local branch)	Tranche A	To dispose of antiques through individual auctions
	Tranche 2 (Local branch)	Tranche B	
	Tranche 3 (Overseas branch)	Tranche C (Credit card & cash card)	
	Tranche 4 (Credit card business)	Tranche D (Credit card & cash card)	

21

Employees' Rights & Interests



- To give a pension and severance pay to the employees according to the *Labor Standards Law*
- To request the buyer to rehire more than 50% of the employees of the failed financial institution for at least one year
- To convince the buyer to compensate for employees' losses caused by the severance of their working years

22

Key to Facilitate P&A – External Factors



- Overall economic and financial market conditions need to be considered
- Benign economic and financial conditions greatly increase the success rate of P&A transactions

23

23

Key to Facilitate P&A – Internal Factors



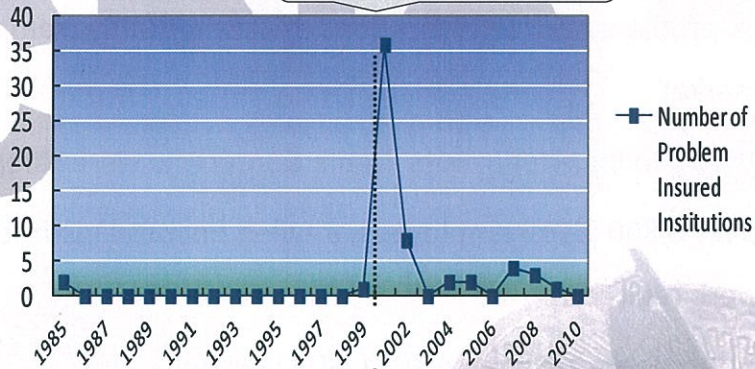
- Well-designed disposition plan
- Reserve price determination in the “Good Bank” and the “Bad Bank” transactions
- Flexibility and adaptability to market needs

24

24

Problem Insured Institutions Resolved by FRF

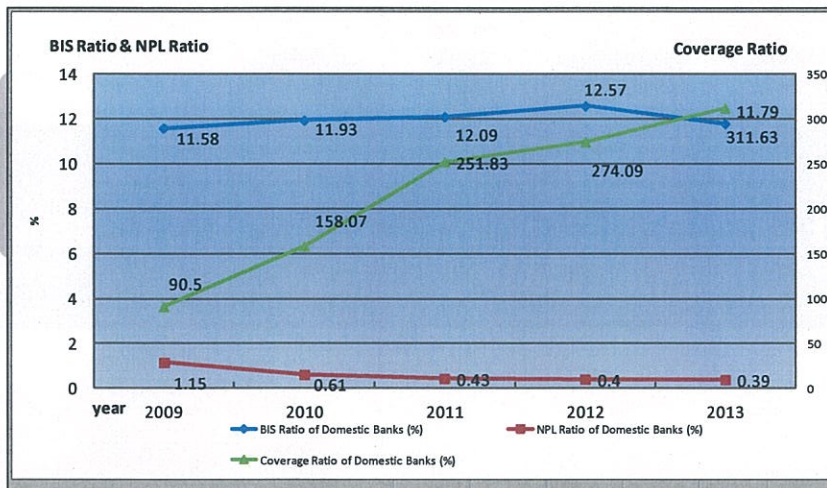
The Financial Restructuring Fund was set up in July 2001



56 Problem Financial Institutions were resolved by CDIC since 2001

Better Banking Conditions

- High BIS%, Low NPL% & High Coverage%



Effectiveness of FRF



- A systemic banking crisis successfully resolved
- 56 problem insured institutions exited smoothly from the market
- Over 5 million depositors' rights & interests were safeguarded
- Over 6,800 (67%) employees of failed financial institution were rehired
- Total resolution cost to 2011 GDP was only 2.1%

27



III. Future Perspectives & Lessons Learned

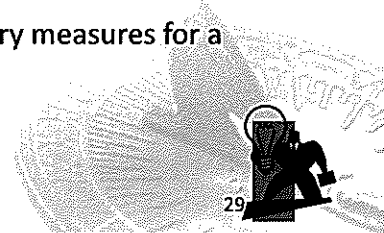
28

Future Perspectives & Lessons Learned



■ Strengthening resolution mechanism for dealing with problem insured financial institutions

- To receive the authority by law to assess the assets and liabilities of a problem insured institution in a confidential manner so as to prepare for resolution before it is closed
- To establish clear regulatory policies on the procedure and criteria to trigger the extraordinary measures for a systemic crisis



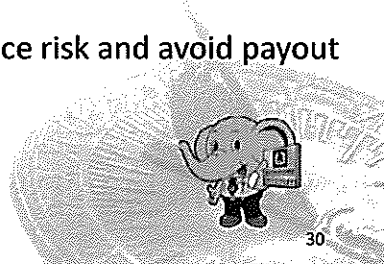
29

Future Perspectives & Lessons Learned



■ Developing better risk management mechanism for DIS

- Off-site monitoring for insured financial institutions' operation conditions
- On-site inspection for data accuracy of call reports
- Cooperation with supervisors to assist insured institution's self-restructuring, control insurance risk and avoid payout loss

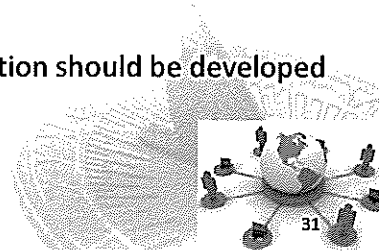


30

Future Perspectives & Lessons Learned



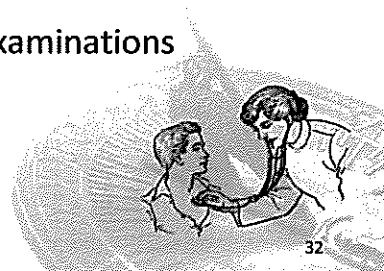
- **Shaping a strong institutional framework for financial system to reduce risk of bank failures or crises**
 - Crises do occur – in Taiwan and Globally
 - Lessons should be learned and reforms should be taken
 - Formal institutional cooperation mechanism in dealing with banking crisis should be in place
 - Effective tool kit for failure resolution should be developed



Future Perspectives & Lessons Learned



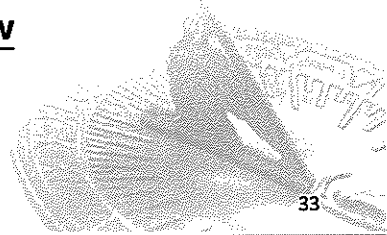
- **Early prevention and enforcement of problem institutions is better than passive payout or resolution**
 - Prompt corrective action mechanism
 - Risk-based or risk-centric examinations



CDIC

Thank You!

cdic@cdic.gov.tw



Designing a Payout IT System : The Experience of CDIC

Central Deposit Insurance Corporation
July 4, 2014

Harrison Hwang
Deputy Director
IRR office



Payout Preparation
EDF Inspection and IT System
Payout IT System and Procedure
Future Direction and Conclusion

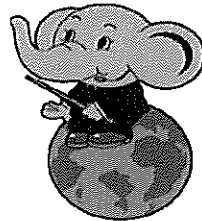
Number of Failed Institutions



Year	Banks	Credit Coop.	Credit depts. of Farmers' & Fishermen's Associations	Methods
1999		1		P&A
2001		7	29	P&A
2002		1	7	P&A
2004	1	1		P&A
2005	1		1	P&A
2007	3		1	P&A
2008	3			P&A
2010	1			P&A
Subtotal	9	10	38	
Total	57			

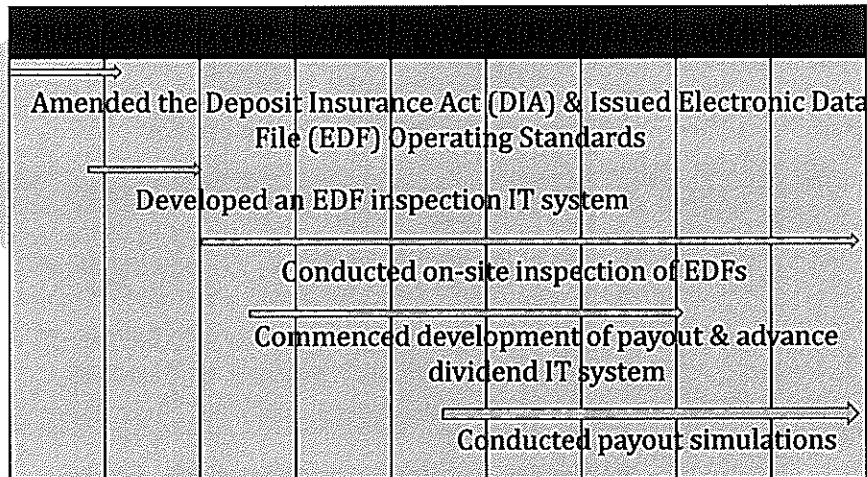
3

Payout Preparation



4

Schedule of Payout Preparation



5

Amendment the Deposit Insurance Act (DIA)

■ EDF requirements

- ✓ Insured institutions shall establish the electronic data files (EDFs) on deposit and other related items according to the file format and content stipulated by CDIC to facilitate CDIC's calculation of the payout amount.
- ✓ CDIC may request the insured institutions to provide the EDFs as needed.

■ EDF verification

- ✓ CDIC may inspect the content of the EDFs of an insured institution to ensure their accuracy.
- ✓ If an insured institution fails to establish or refuses to provide EDFs, CDIC can ask the competent authority to levy a fine.

6

EDF Operating Standards (1)

- Issued operating standards for EDF establishment by insured institutions and required all insured institutions to establish EDFs from April 1, 2008.
 - Time limits for EDF establishment

	Risk-based Premium Rate			
	Grade 1 & 2	Grade 3	Grade 4	Grade 5 or institutions under CDIC's on-site guidance
Time limits	3 years (Apr. 1, 2011)	2 years (Apr. 1, 2010)	1.5 years (Oct. 1, 2009)	9 months (Jan. 1, 2009)

lower ←————→ higher
Risk

7

EDF Operating Standards (2)

- **File structure design principles:**
 - **Minimum data elements needed for reimbursement and advance dividend payment**
 - **Unique standard file format for all insured institutions**
 - **Field Coding— Codes originally established by the relevant authorities, commonly used in the banking sector, or self-defined by the insured institutions**
 - **Clear definition of fields**

8

EDF Categories

- EDF Content: 27 files in 7 categories

i	Customer data	Customer's basic data file
ii	Deposit data	Demand deposit file, time deposit file, checking account file, dormant account file, electronic stored value card file, deposits belonging to accounts payable file
iii	Deposit related data	Joint account list file, controlling account list file, certified & cashier's check list file, pension accounts list file, trust estate account list file
iv	Deposit aggregation data	Deposit aggregation balance file
v	Loan data	Loan data file, overdraft file, time deposits pledged as collateral file, loan guarantors file
vi	Credit card data	Credit card customer data file, credit card data file
vii	Other relevant data	Accounting balance data file, exchange rate file, Seizure of deposit file, deposit/loan interest rate file bill for collection file, bounced check file, non-entry transactions file

9

EDF Establishment Method

- EDF Establishment Method

Insured Institutions should pre-design programs to calculate interest on deposits and loans, count the balance of deposit aggregation, and convert data formats and contents to meet CDIC's requirements.

- Promotion of EDF Establishment

CDIC held several seminars inform insured institutions and Financial Information Sharing Centers(FISC) about the content and importance of EDF establishment.

- All insured institutions have completed the required EDF establishment and can provide the files when CDIC requires.

10

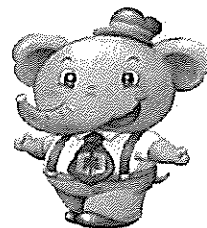
Insured Institution IT Systems



Types of Insured Institutions	No.	I.	II.
Domestic banks	39	39	
Local branches of foreign banks	29	29	
Postal savings system	1	1	
Credit cooperatives	24	12	12
Credit depts. of farmers' associations	277	5	272
Credit depts. of fishermen's associations	25	0	25
Total	395	86	309

11

EDF Inspection and IT System



12

EDF Inspection



- **On-site EDF inspection conducted from 2009**
 - **Regular inspections:**
 - ✓ Insured institutions with higher risks are inspected first. If necessary, CDIC may conduct a follow-up inspection of an institution that has completed revisions in areas of deficiency.
 - **Special inspections:**
 - ✓ For insured institutions that face possible closure down: CDIC inspects the accuracy of the content of e-data files and prepares for payout.

13

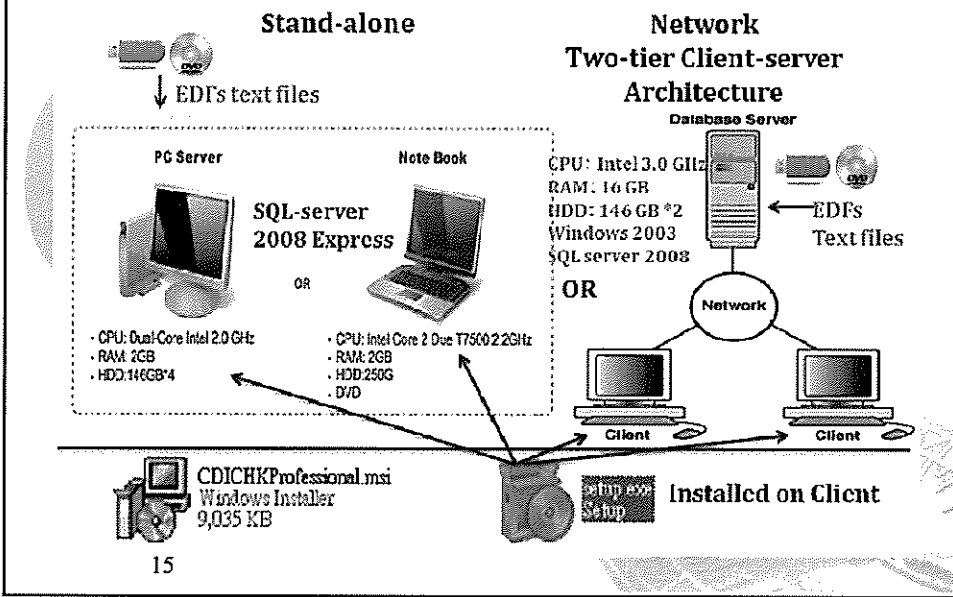
EDF Inspection IT System



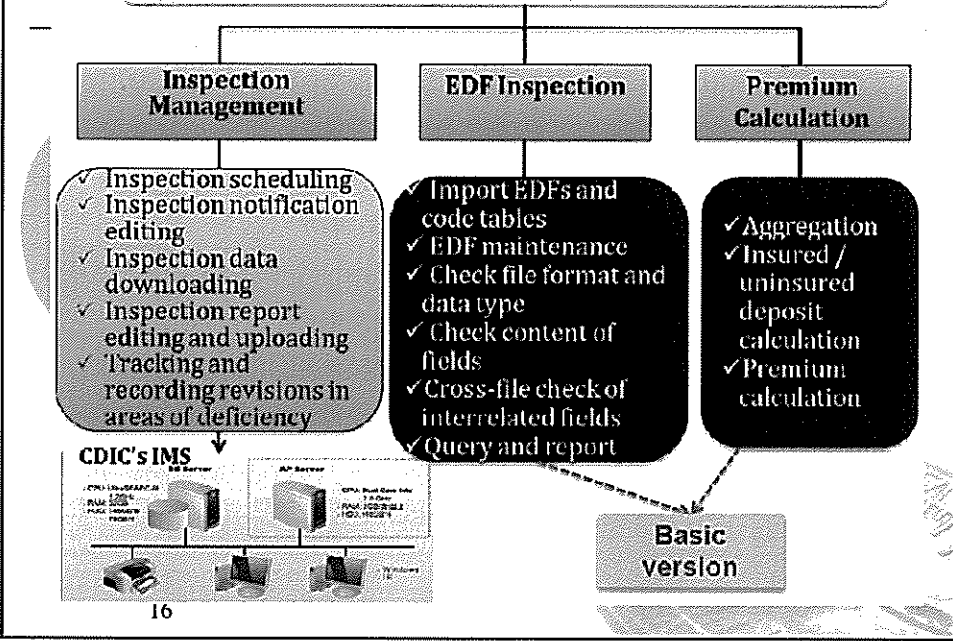
- CDIC developed the “EDF Inspection IT System” to assist with inspections.
- Two versions of the EDF Inspection IT System:
 - Full version
CDIC on-site inspection of insured institutions’ EDFs
 - Basic version
Insured institutions self-check their EDFs
- Inform the insured institutions to prepare data files based on designated standard dates (before the on-site inspection).

14

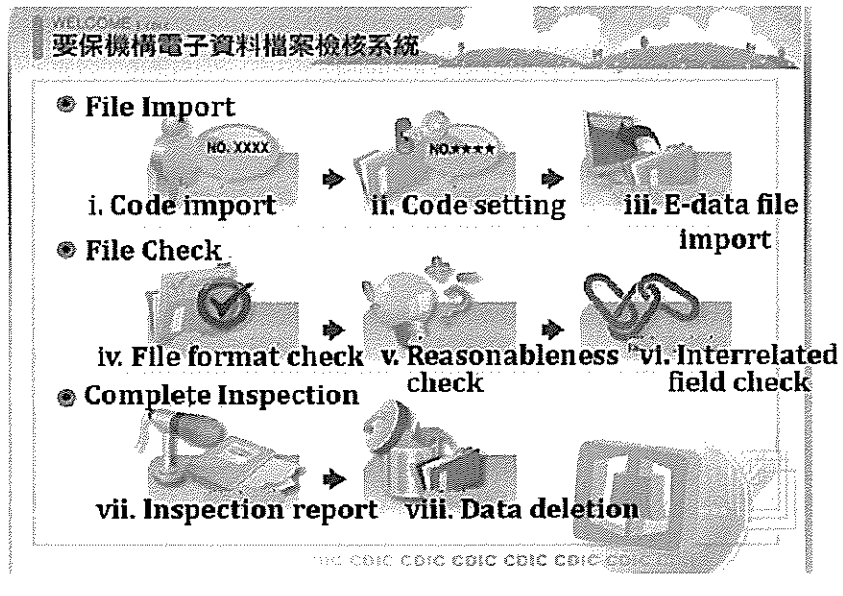
EDF Inspection IT System Architecture



EDF Inspection System Software Structure



EDF Inspection Module



Insured Institution Self-check

- Insured institutions were requested to self-check their EDFs with the basic version of the EDF Inspection IT System in 2011.
- All insured institutions have been inspected at least once by the end of 2013. This year we have begun the second round of inspections.

No. of Depositors & Deposit Accounts of Insured Institutions

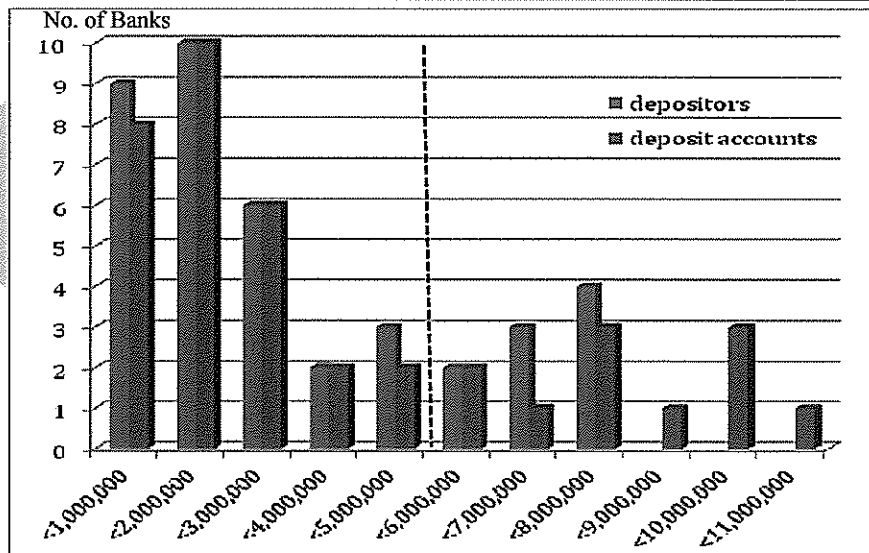


As at Jan. 2014

Types of insured institutions	No. of depositors max	No. of Deposit accounts max
Postal savings system (Chunghwa Post Co., Ltd.)	22,000,000	30,000,000
Domestic banks	8,000,000	11,000,000
Local branches of foreign banks	9,000	10,000
Credit cooperatives	280,000	330,000
Credit depts. of farmers' associations	220,000	250,000
Credit depts. of fishermen's associations	50,000	60,000

19

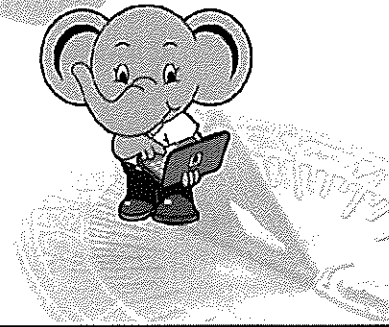
39 Domestic Banks



20

CDIC

Payout IT System and Procedure



Insured Institutions under Payout (1)

□ Make payout

When an insured institutions is closed by the competent authority, and CDIC is unable to consult with other insured institutions or financial holding companies to acquire or assume it, CDIC shall make payout to depositors promptly.

□ Advance payment of dividend

CDIC may make advance payment against claims filed by the depositors beyond the maximum insurance coverage and by non-deposit creditors to meet the liquidity needs of the creditors of the closed institution.

Insured Institutions under Payout (2)



□ Methods of payout and advance dividend

1. Direct cash payout by CDIC:

Payout by cash, remittance, check or other payment methods

2. Payout by other financial institutions under authorization by CDIC

CDIC authorizes another insured institution to handle payout to the depositors of the closed insured institution through the opening of deposit accounts with amounts equal to the payout amount.

□ Goal: Fri-Mon rapid payout rule

23

Payout & Advance Dividend IT System



□ Timeline for development of the Payout & Advance Dividend IT System (PADS)

- 1st Stage (by the end of 2011)

✓ Simple payout without netting and on-line processing for all payout locations .

- 2nd Stage (by the end of 2013)

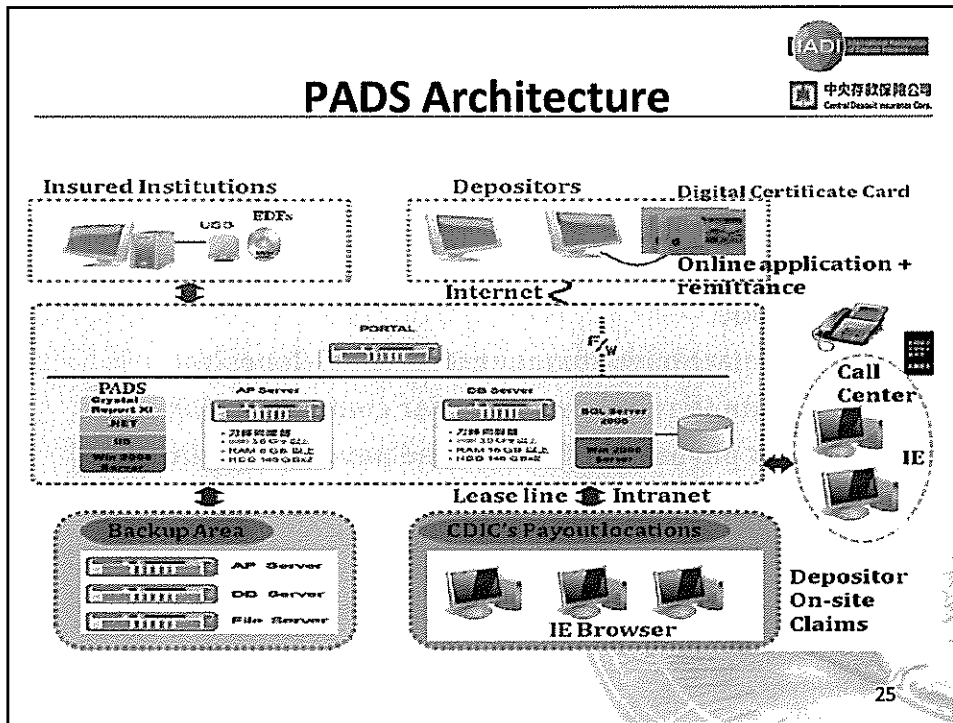
✓ Whole system has been designed and deployed in CDIC's intranet for overall test.

□ Simulations in step with system development

- 2010-2013: Seven payout simulations

- Scheduled simulation: June 2014

24



PADS Functions & Payout Procedure (1)

1. Final business day (Friday):

- Ask the closed institution to prepare the EDFs and other relevant information.
- Import the EDFs to the EDF inspection system to verify the accuracy and completeness, then bulk copy the clean data from the EDFs inspection system to the PADS database.

PADS Functions & Payout Procedure (2)

2. Processing insured funds with PADS (Sat - Sun)

- **Aggregation**
- **Offset claims against liabilities before making payout**
- **Calculate payout amounts for each depositor**
- **Withhold reimbursement for contingent claims**
- **Print payout notification and payment application forms**

27

PADS Functions & Payout Procedure (3)



3. Payout and advance dividend stage: (Monday-)

- **Depositors can apply for payment online through the Payout and Advance Dividend Claim Website (PCS).**
- **Depositors can contact the Call Center Service for information.**
- **Payouts, advance dividend payments, correction of controversial data, and recalculation of payout amounts are processed online.**
- ✓ **Payout locations are set up at branches of the closed institution with PADS access through the branch's leased line.**

28

PADS Functions & Payout Procedure (4)



4. Arranging payout by other insured institutions:

- **Importing and exporting payout and advance payment data and transactions for and from the entrusted insured institutions.**
- **Maintaining and re-verifying payout amount with payout transactions data.**
- **Printing the payout and advance dividend management reports.**

29

PADS Functions & Payout Procedure (5)



5. Coordination with receiver:

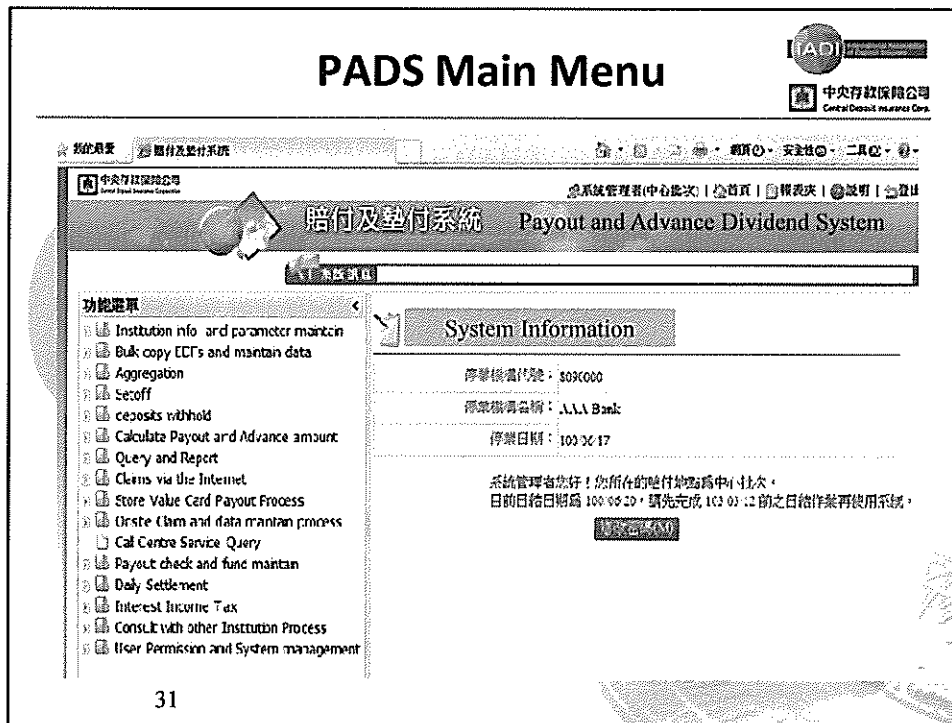
(CDIC is a legal receiver)

- **Managing resolution claims and maintaining debt data.**
- **Calculating pro rata resolution amounts.**
- **Printing resolution dividend notifications.**

6. Payout and completion of resolution:

- **Printing and exporting unapplied payout and unclaimed dividend data for lodgment.**

30



31

Depositor Claim Filing

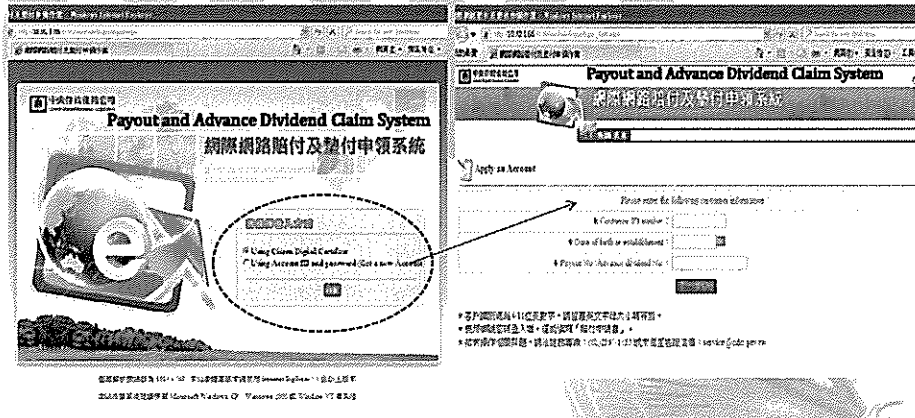
- **Online: Application via website + remittance**
Depositors log-in to CDIC's PCS website to query personal information and enter numbers of deposit accounts at other banks, then CDIC will remit the claimed amount to the account designated by the depositor.
- **By Mail: Application by mail + remittance: No need to append the original deposit certificate**
- **On-site: Apply at the counter + remittance or check:**
Depositors objecting to payout amount or who have matters that require counter handling can apply in person for payout at CDIC payout locations with certifications of ID, eligibility and original documentation of the related certificate of rights.

32

PCS Webpage (1)



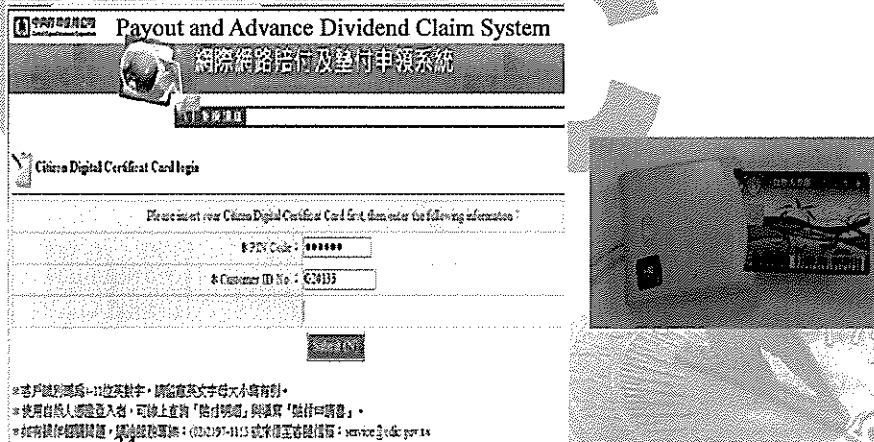
- Two way to log-in :
 - CDIC-edited depositor payout number
 - Depositor's Digital Certificate



PCS Webpage (2)



- Login with Digital Certificate
 - User inserts a Digital Certificate card into a card reader, then enters the PIN Code and Customer ID No.



Future Direction (2)



- **Strengthening mechanisms for resolution of failing financial institutions**
 - ✓ Receiving legal authority to enter a failing bank confidentially to prepare for bank resolution before closure.
 - ✓ Using the existing payment and settlement system of closed institutions for cash payout.

37

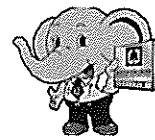
Conclusion

- Legally require insured institutions to establish e-data files in advance
- Establish an IT system to assist with handling e-data inspections and management
 - Conduct inspections and pay attention to the revision of deficiencies by institutions
 - Design an efficient IT system for payout
 - Regularly conduct payout simulation exercises

38

Thank You!

cdic@cdic.gov.tw





***Overview of Agricultural
Financial System in Taiwan***

David Sun Chairman
Central Deposit Insurance Corporation (CDIC)
July 7, 2014

1



1. Supervision and the Status of Agricultural Financial System
2. CDIC's Risk Management of Agricultural Finance
3. Resolution Mechanism of Agricultural Finance
4. Conclusions

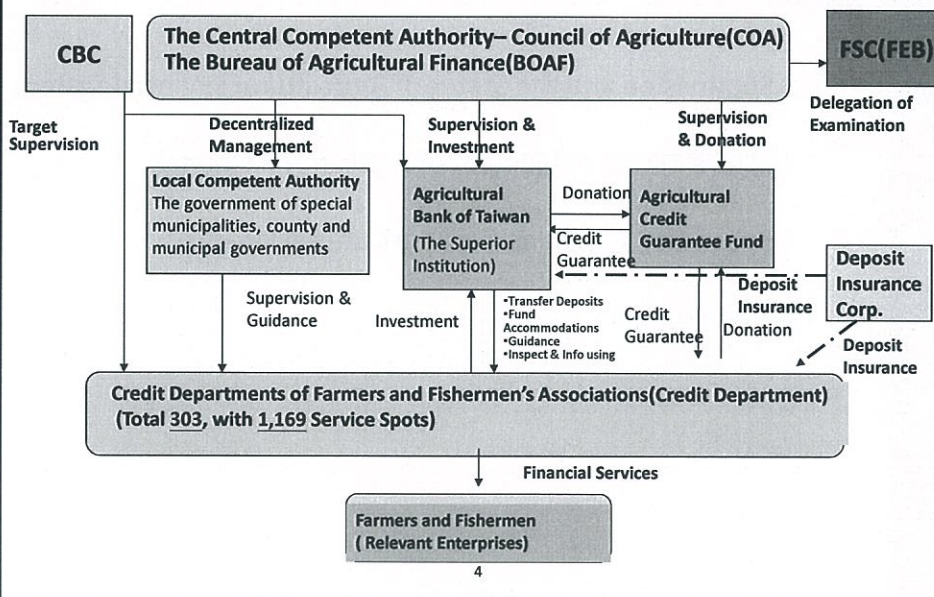
2



1. Supervision and the Status of Agricultural Financial System



Structure of the Agricultural Financial System





Authority's Supervision Mechanism

Unified Management

- Originally, Credit Departments were supervised by the Ministry of Finance. For the purpose of unified management, the authority of the Credit Departments was changed to the Council of Agriculture in coordination with the implementation of the Agricultural Finance Act on January 30th, 2004
- The Bureau of Agricultural Finance takes responsibility for the supervision of agricultural financial institutions, facilitating the policy-oriented agricultural loans, constructing an integrated as well as safe and sound agricultural financial system

5



Authority's Supervision Mechanism(con't)

Main Supervisory Measures

- Delegates FSC to implement on-site examination of the Credit Departments according to the Article 7 of Agricultural Finance Law
- Together with local competent authority and the Agricultural Bank of Taiwan , inspecting the Credit Departments to realize their operation condition and the problems which they are facing
- Applying off-site monitoring and Call-report Mechanism to find out the potential risk and rectify related risk
- Issuing guidance to request the Credit Departments to take corrective actions

6



Authority's Supervision Mechanism(con't)

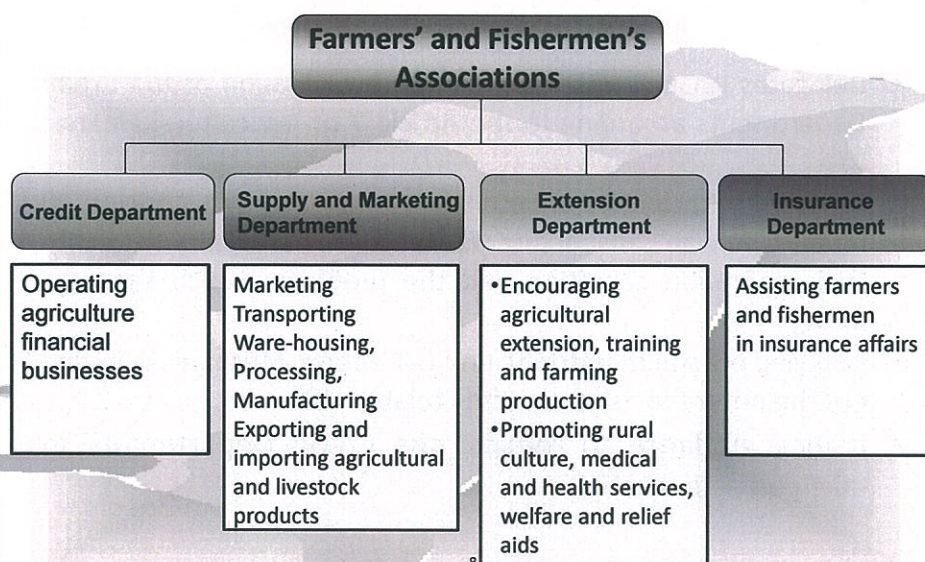
While the Credit Departments violate laws, regulations, or engage in unsound business operations, the Supervisory Authority may adopt measures as follow: :

- To order the Credit Departments to get improvement within a specific period of time
- To issue corrective actions
- To impose fine
- To restrict some businesses of the Credit Departments
- To remove the responsible person from his/her position
- To discharge directors and supervisors or suspend them from performance of their duties for a specified period of time

7



Role of Farmers' and Fishermen's Associations





Performance Statistics of Credit

Departments of Farmers' and Fishermen's Associations in Taiwan

Characteristics of Agricultural Finance:

- Easily influenced by season changes
- Small scale of assets and equity, limited business scope and region
- Lower competitive strength, higher risk, and higher Non-Performing Loans rate, compared with the other financial institutions in Taiwan financial system.



Performance Statistics of the Credit

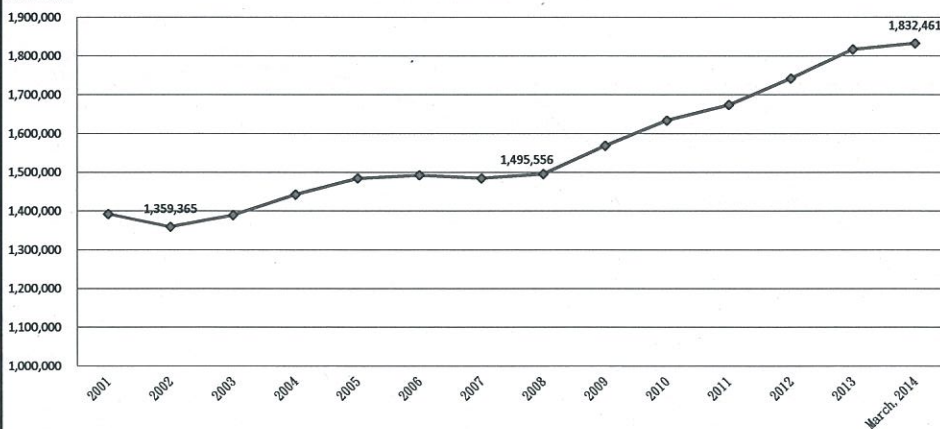
Departments of Farmers' and Fishermen's Associations in Taiwan

1.Assets scale enlarge continuously

Total Assets of Credit Department of Farmers' and Fishermen's Associations

Unit :Millions of NT Dollars

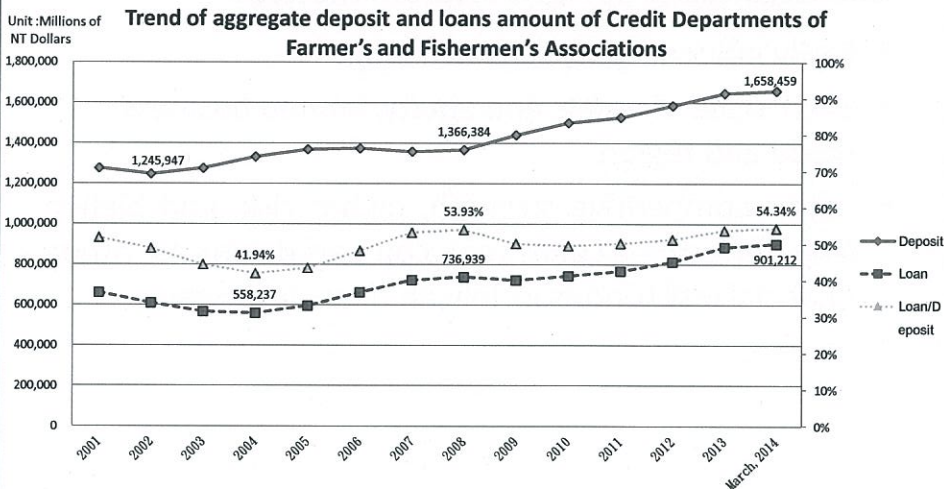
Trend





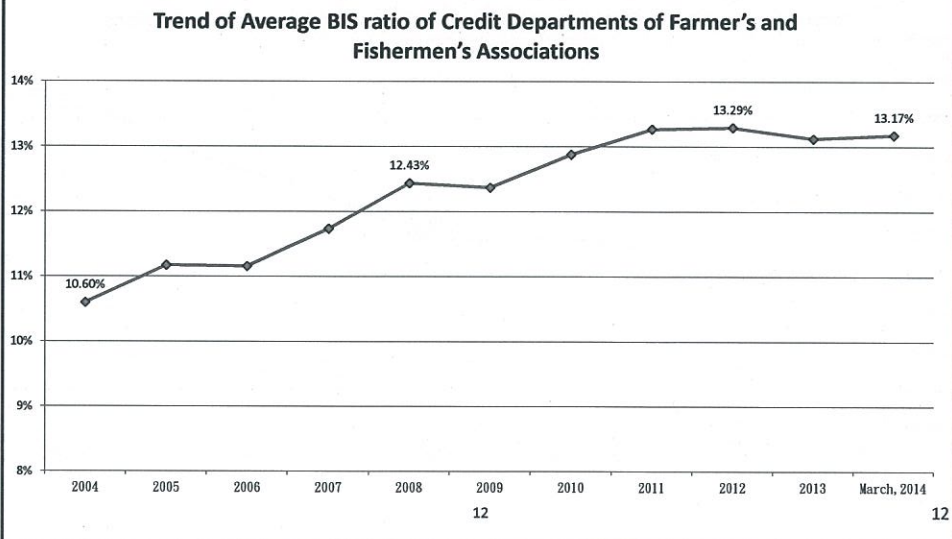
**Performance Statistics of the Credit
Departments of Farmers' and Fishermen's Associations in Taiwan**

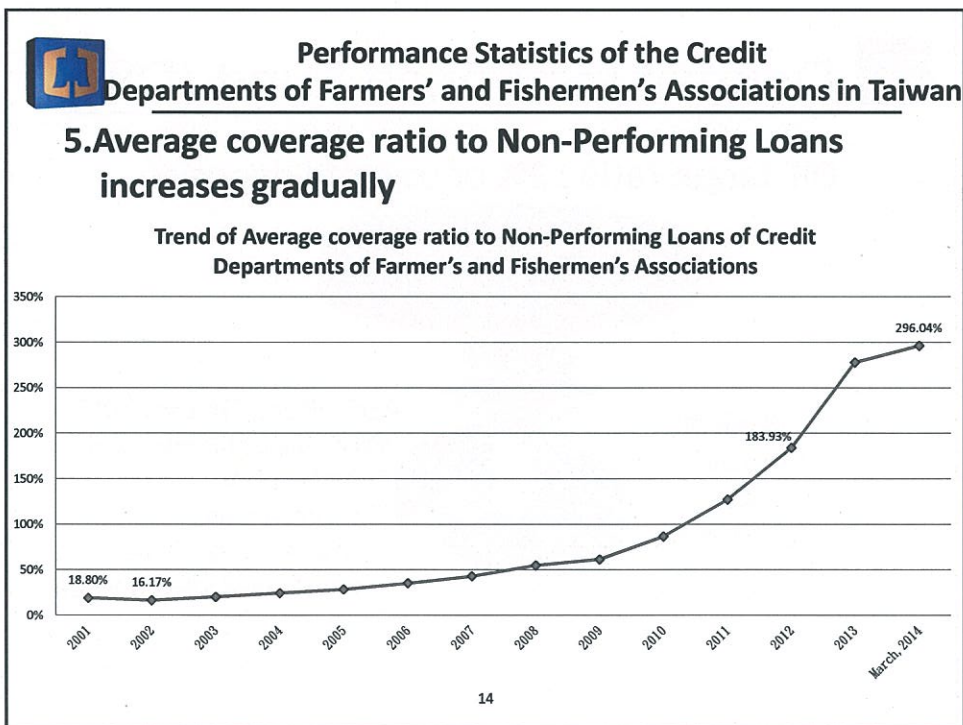
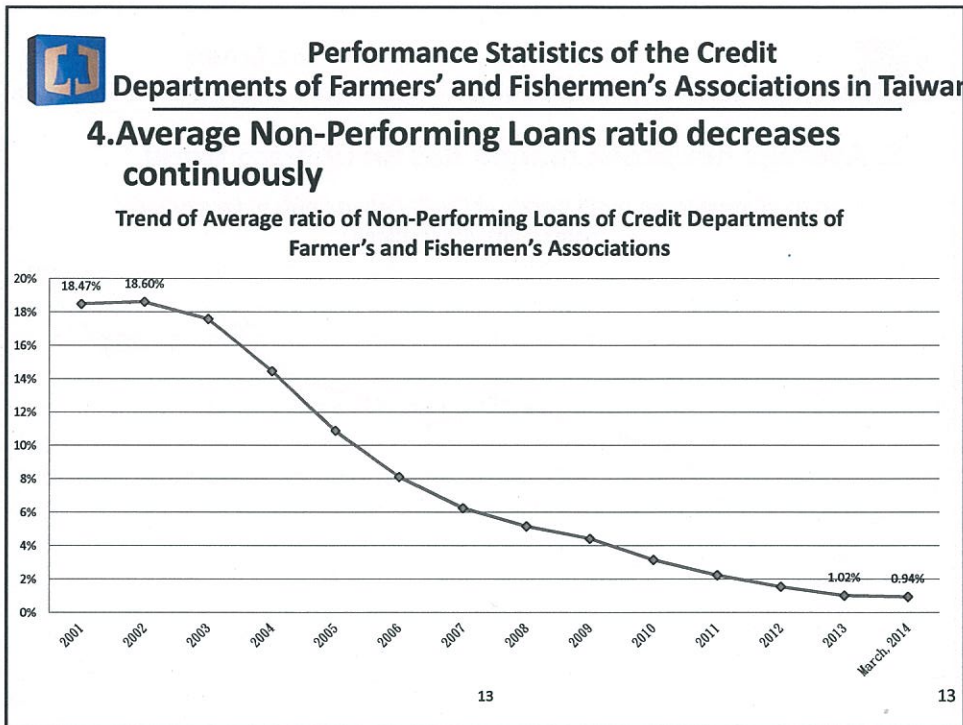
2. The Scale of Deposit and Loan increases continuously

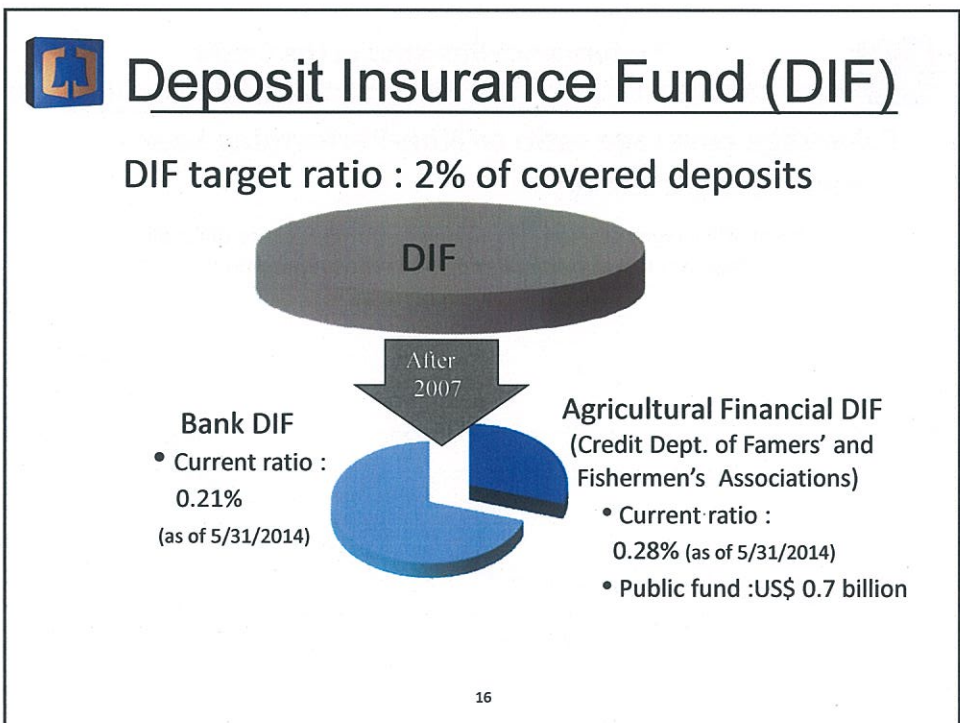
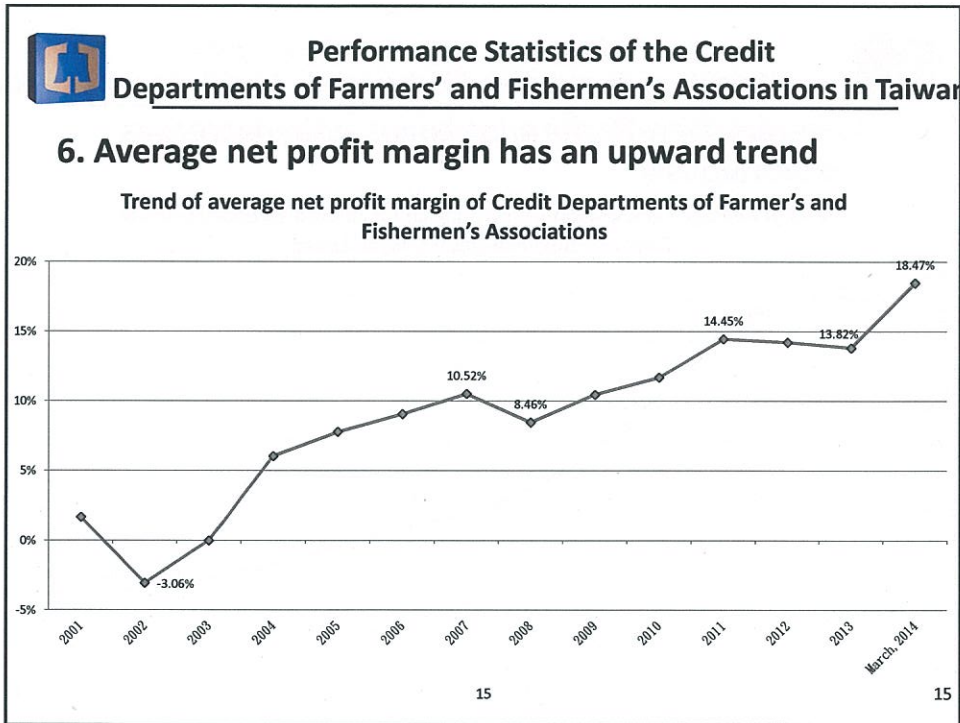


Performance Statistics of the Credit Departments of Farmers' and Fishermen's Associations in Taiwan

3. Average BIS ratio raises continuously







Funding

✓ Ex-ante funding

- Risk-based premium system
- Premium rates approved by the competent authority (FSC)
- Major fund source : regular premium
- Assessment base : eligible deposits
 - * Risk-based rates of covered deposits : 9 groups / 5 premium grades (0.02%,0.03%, 0.04%, 0.05%, 0.06%)
 - * Flat rate of eligible deposits in excess of coverage limit (0.0025%)

17



2.CDIC's Risk Management of Agricultural Finance

18

078



Financial Early-warning System (EWS) of CDIC

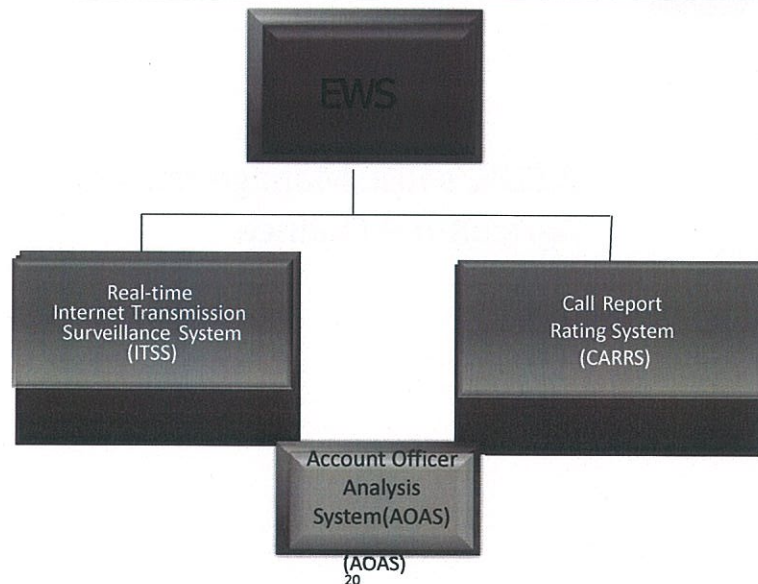
▪ Objectives

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

19



Framework of EWS



079



Real-time Internet Transmission Surveillance System

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

21



Call Report Rating System

- Call reports from insured institutions
- Analyzing CAMELS + other factors
- Rating results: A.B.C.D.E
- Off-site data appraisal
- Quarterly
- Differential Premium
- On-site inspection

22

080



Comparison Profiles on EWS Subsystems

Subsystem Items	Call Report Rating System (CARRS)	Internet Transmission Surveillance System(ITSS)
Data Sources	Call Reports from Insured Institutions	Daily Data from Insured Institutions
Frequency of Reports	Quarterly	Daily, Weekly & Monthly
Rating Results	A.B.C.D.E	Warning Signals

23



Comparison Profiles on EWS Subsystems (cont.)

Subsystem Items	Call Report Rating System (CARRS)	Internet Transmission Surveillance System(ITSS)
Indicators	CAMELSO	Specific Items from Balance Sheets
Outcomes	<ul style="list-style-type: none"> •Exception(Warning) List •Quarterly Report 	Warning List
Main Purposes	<ul style="list-style-type: none"> •Risk Premium •Early Risk Detection •Trend Evaluation 	<ul style="list-style-type: none"> •Monitoring & Intervention •Moral Hazard Prevention

24

0810



3. Resolution mechanism of Agricultural Finance

25



The History (I)- Before 2001

- Impacts From Asia Financial Crisis
 - Not immediately apparent in 1997
 - Large enterprises with poor financial condition being affected in 1998
 - NPL ratio was climbing up from 1998 to 1999
- THE Sep. 21, 1999 Earthquake
 - Financial losses amounted over 14% of GDP of Taiwan in 1999
 - 36 Credit Departments with negative net worth
- DI's Payout Reserve Insufficient

26

1082



The History (II)- Before 2001

Lack of systemic resolution mechanism

- Legal system
- Funding resources
- Human resources
- Strategies
- The operation standard

27



The Transition & Restructuring (I)

- Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund (the Statue)
 - Objectivities
 - The funding resources
 - The criteria of triggering
 - The trustee – CDIC Taiwan
 - Internal organization-Management committee and valuation division
 - Litigant capacity to conduct legal proceedings and claim damages

28



The Transition & Restructuring (II)

- The Amendment of the Deposit insurance Act and the Banking Law
- The Amendment of the Business Tax Law
- The initiative of the Merger of Financial Institutions Law
- The initiative of the Financial Holding Companies Law
- Extending market capacity of Non-Performing Loans

29



The Transition & Restructuring (III)

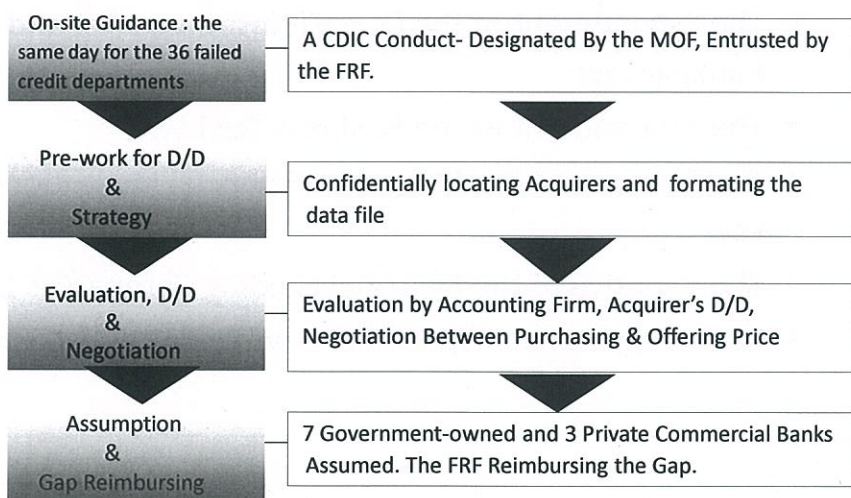
- The major funding resources
 - the business tax collected from the financial institutions covering a 9-year period
 - the ten-year incremental deposit insurance premium
 - income arising from disposal of non-performing loans
- The financing mechanism
 - Borrowing
 - Issuing financial bonds

30



The Transition & Restructuring (IV)

Resolution Procedure for the 36 Failed credit departments



31

Number of Failed Institutions

Year	Banks	Credit Coop.	Credit depts. of Farmers' & Fishermen's Associations	Methods
1999		1		P&A
2001		7	29	P&A
2002		1	7	P&A
2004	1	1		P&A
2005	1		1	P&A
2007	3		1	P&A
2008	3			P&A
2010	1			P&A
Subtotal	9	10	38	
Total			57	

32

085



At Present (I) - After 2011

- The Resolution Authority for Credit Departments
 - The Council of Agriculture, Executive Yuan
 - with its subordinate agency- The Bureau of Agricultural Finance(BOAF)
- The Funding
 - BOAF retained the special resolution fund from the FRF for the resolution of Credit Department in the future.
 - In the amount around 0.7 billion U.S. Dollar

33



At Present (II) - After 2011

- The early intervention phase
 - If the accumulated losses exceed one third (1/3) of its capital, or NPL Ratio is over 15%
 - 3-month on-site guidance
 - After 3 months, the resolution authority would evaluate to step into the next phase or not
 - The measures of evaluation will depend on what it should be improved. Commonly, the financial status and the NPL ratio are both the factors

34



At Present (III) - After 2011

The Disposal Phase

- Trigger – Negative net worth
- Replace the board members, cease the meeting of the representative council
- BOAF order a merger
 - Failed Association merger to the other association who is available with credit department
 - Failed credit department assign all its assets, liabilities and business to the other credit department
 - Failed credit department assign all the assets, liabilities and business to the Agricultural Bank of Taiwan

35

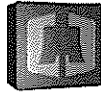


At Present (IV) - After 2011

- Role of CDIC In Credit Department Resolution
 - CDIC might organize a rescued team to calm down the anxiety from the depositors
 - CDIC might be in accordance with the other financial safety net participants to prepare the liquidity
 - CDIC always attends the guidance team
 - CDIC is a member of resolution team--- help to arrange the Due Diligence procedure, review the amount of the financial gap, help to arrange the settlement

36

087

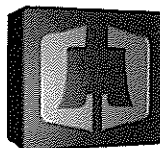


4. Conclusions

37

- Strengthening resolution mechanism for dealing with problem insured financial institutions
- Developing better risk management mechanism for DIS
- Shaping a strong institutional framework for financial system to reduce risk of bank failures or crises
- Early prevention and enforcement of problem institutions is better than passive payout or resolution

38



Thank You !

cdic@cdic.gov.tw



The Differential Premium System in Taiwan

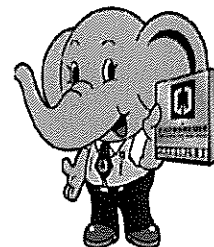
Central Deposit Insurance Corporation
July 7, 2014

Harrison Hwang
Deputy Director
IRR office



Presentation Overview

- ✓ The status of the deposit insurance fund in CDIC
- ✓ CDIC's premium system
 - Past
 - Now
- ✓ Conclusion



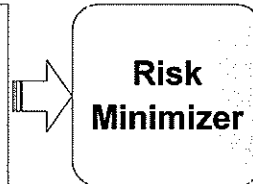
CDIC (Taiwan)

- ✓ Established in Sep. 1985
- ✓ Government agency
- ✓ Competent authority
 - Financial Supervisory Commission (FSC)

29th

✓ Mandate

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



3

3

Membership

- ✓ **Membership**
 - Compulsory application, but subject to CDIC's on-site inspection, review and approval
 - Number of member institutions: 393 (as of 05/31/2014)

Membership types	Competent authority	Types of member institutions	No
General financial institutions	Financial Supervisory Commission	• Domestic banks	39
		• Local branches of foreign banks	27
		• Credit cooperatives	25
Agricultural financial institutions	Council of Agriculture	• Credit dept. of farmers' associations	277
		• Credit dept. of fishermen's associations	25
Total			393

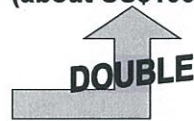
4



Coverage & Premium

✓ Coverage

- Blanket guarantee from Oct. 2008 – Dec. 2010
- After Jan. 2011, **NT\$ 3 million**
(about US\$100,000)



Coverage limit NT\$ 1.5 million before crisis

✓ Ex-ante funding

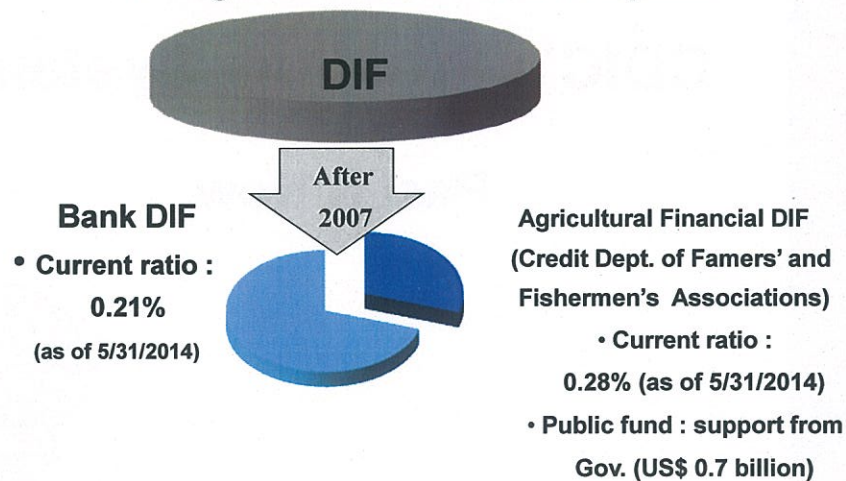
- Risk-based differential premium system
- Assessment base : eligible deposits
- Premium rates approved by competent authority

5



Deposit Insurance Fund (DIF)

DIF target ratio : 2% of covered deposits



6



Sources of Deposit Insurance Fund

Normal time

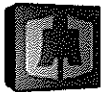
Regular premium

Systemic crisis

- **Bank business tax revenue**
- **Special premium**

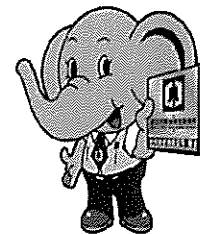
7

7



CDIC's Premium System

Past & Now

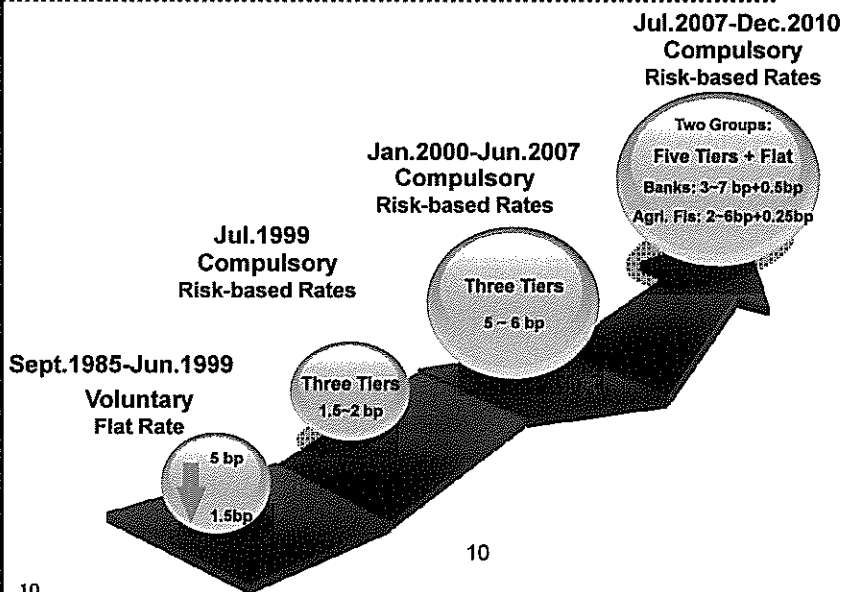




DPS past



Past: Development of Premium System



Development of Premium System Sep.1985~June 1999

- ✓ Adoption of flat premium rate at the beginning of CDIC's establishment in 1985

Time	Membership	Rate System	Premium Rate
09/1985	Voluntary	Flat rate	0.05% of covered deposits
07/1987			0.04% of covered deposits
01/1988 ~ 06/1999			0.015% of covered deposits

11

Development of Premium System July 1999~June 2007

- ✓ Adoption of risk premium rates from July 1999
 - Membership was changed to compulsory in Jan. 1999
 - Complement measures of the compulsory system

Time	Membership	Rate System	Premium Rate
07/1999	Compulsory	Risk-based (9 groups/ 3 levels)	0.015%, 0.0175%, and 0.02% of covered deposits
01/2000 ~ 06/2007			0.05%, 0.055%, and 0.06% of covered deposits

12

Development of Premium Rate July 2007~Dec. 2010

- ✓ Assessment base was shifted from covered deposits to eligible deposits
- ✓ Risk rates for covered deposits & a flat rate for eligible deposits in excess of the coverage limit
- ✓ Increase of premium levels and spreads

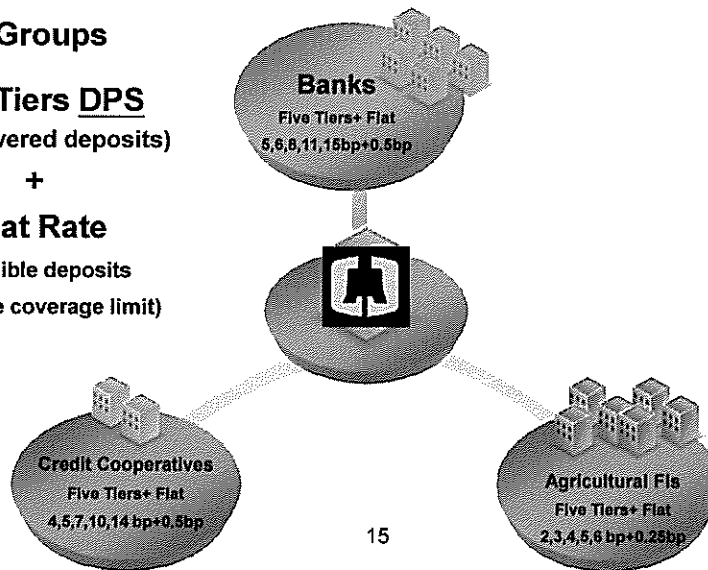
Time	Membership	Rate System	Premium Rate		
			Type of financial institutions	Risk-based rate	Flat rate
07/2007 ~ 12/2010	Compulsory application but subject to CDIC's review	Risk-based rates of covered deposits (9 groups/ 5 levels)	Banks, Credit Cooperatives	0.03%, 0.04% 0.05%, 0.06% 0.07%	0.0026% (0.008% after Jan. 2010)
		Flat rate of eligible deposits in excess of coverage limit	Credit Dept. of Farmers' and Fishermen's Associations	0.02%, 0.03% 0.04%, 0.05% 0.06%	0.0025%

DPS Now



Now: Current Premium System (since 2011)

- 3 Groups
- 5 Tiers DPS (covered deposits)
- + Flat Rate (eligible deposits above coverage limit)



15

4. Risk Premium System

- Adoption of risk premium system since 1999
- The new modified system has been implemented from Jan. 2011
Increase premium rates and spreads

Premium Rate		
Type of financial institutions	Risk-based Rate*	Flat rate**
Banks	0.05%, 0.06% 0.08%, 0.11% 0.15%	0.005%
Credit Cooperatives	0.04%, 0.05% 0.07%, 0.10% 0.14%	
Credit Dept. of Farmers' and Fishermen's Associations	0.02%, 0.03% 0.04%, 0.05% 0.06%	0.0025%

* Risk-based rates of covered deposits: 9 groups / 5 levels

** Flat rate of eligible deposits in excess of coverage limit

16

16



Adjusting Premium Rates in 2011

✓ Background

- To accelerate the process of making up for deficiencies in the bank deposit insurance fund
- To achieve 2% target ratio by request of the Parliament
- To provide better incentives for member institutions to enhance their operations

▪ Key features of adjustment

- Increase the premium rates and expand the spreads for banks and credit cooperatives
- Charge different rates for different member categories
- Double premium income¹⁸

Planning Process (2010)

- ✓ Drafted proposal to raise premium rates in consideration of member's financial burden
- ✓ Consulted with the Bankers Association and related competent authorities regarding CDIC's proposal
- ✓ Sent trial balloons through media to know public opinions
- ✓ Held public seminars to fully communicate with all member institutions



19

19

Keys to Success

- ✓ Support from related competent authorities & the Parliament
 - ✓ Active communication with member institutions and Bankers Association
 - ✓ Emphasis on the user pay principle
 - ✓ Better domestic economic and financial conditions
- *A good timing for raising the premium rates*

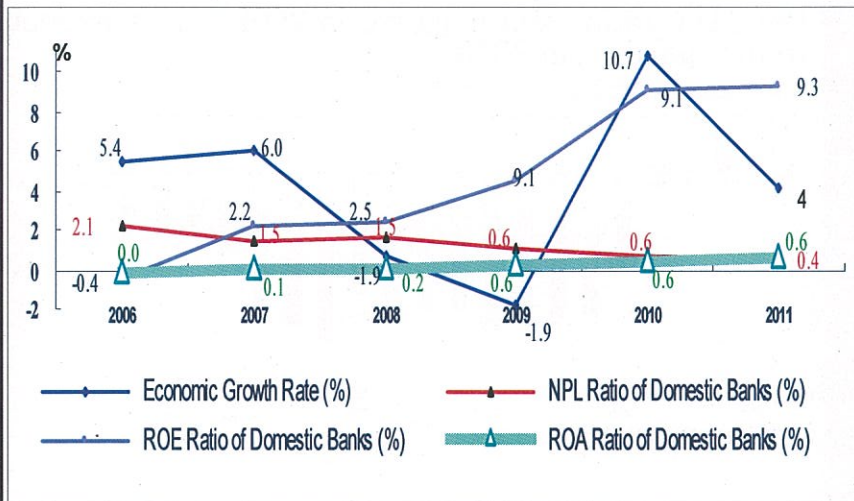


20

20



Economic & Financial Condition (2006~2011)



Note : Economic Growth Rate (2012 forecast) : 3.85%

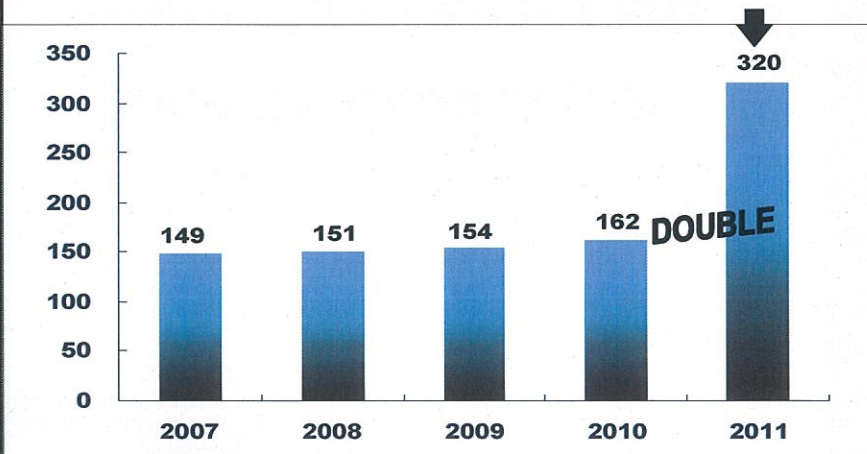
21



Premium Income (2007~2011)

Unit:US\$ Million

The biggest premium rise since 1985

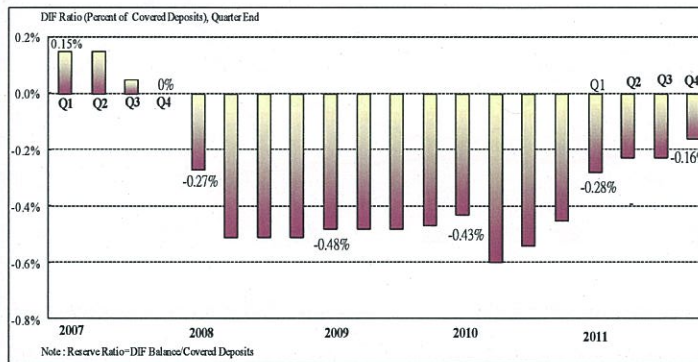


22



Bank DIF Ratio (2007~2011)

Bank DIF ratio went negative in 2008, but is expected to turn positive in 2013.



Risk-Based Premium Scheme in Taiwan



How was it Implemented?

- ✓ **Conducted research papers**
- ✓ **Consulted experiences in advanced countries**
- ✓ **Discussed with professionals , academics and representatives of the banking industry**
- ✓ **Held seminars and communicated with member institutions**

25

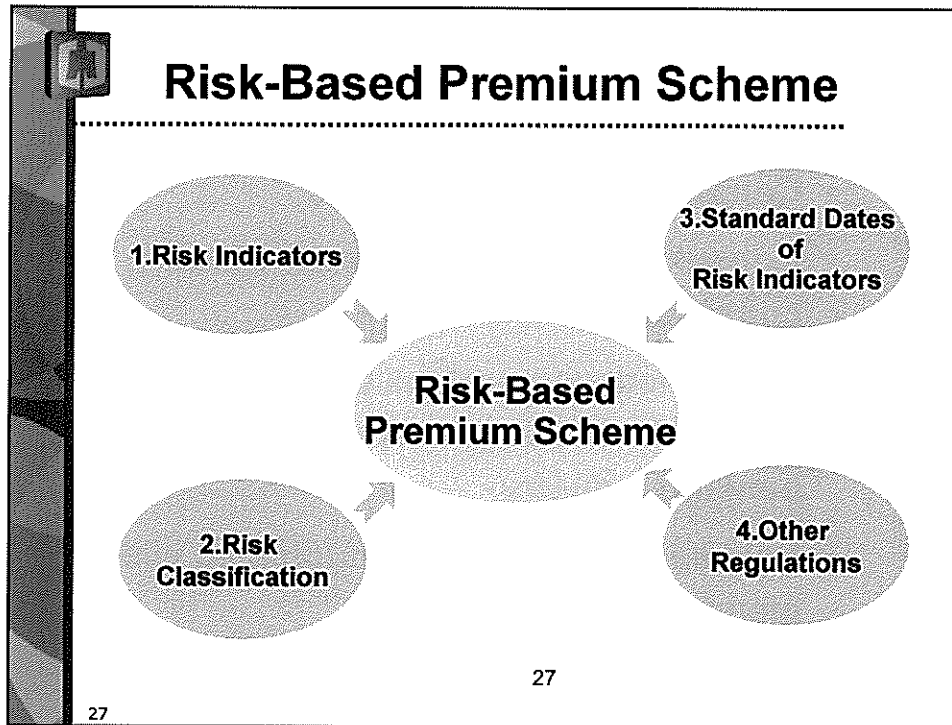
25

How was it Priced?

- ✓ **Determination of risk indicators**
 - **Most accountable & prominent**
 - **Least controversial**
 - **Quantitative**
 - **Objective**
- ✓ **Principle of calculation method**
 - **Easy computation**
 - **Avoid over burdensome for members**

26

26



- ## Risk Indicators
- ### (I)
-
- ✓ **Capital Adequacy Ratio (CAR)**
 - **Affordability of risk**
 - Objective
 - Highly recognized by financial supervisors worldwide
 - Lead member institutions to enhance capital
 - ✓ **Composite score of the Examination Data Rating System (before 2012)**
 - **Based on on-site examination data**
 - Objectivity > Subjectivity
 - Effectively reflect overall operational risks
 - Incorporate CAMELS₂₈ framework
- 28



Risk Indicators (II)

✓ Capital Adequacy Ratio (CAR)

- I. Well capitalized
- II. Adequately capitalized
- III. Undercapitalized

✓ Composite score

I. Subgroup A:

- Examination rating of 1 or 2
- Financially sound institutions with few minor weaknesses

II. Subgroup B:

- Examination rating of 3 or better part of 4
- Institutions with weaknesses which could result in significant insured risks to CDIC

III. Subgroup C:

- Examination rating of worse part of 4 or 5
- Institutions with substantial possibility of loss to CDIC unless effective corrective actions are taken

29



Risk Classification

✓ 9 Risk groups & 5 tier rates

Capital Adequacy	Composite Score		
	A (≥ 65)	B ($<65; \geq 50$)	C (<50)
Well capitalized ($\geq 12\%$)	First tier rate Group 1(5bp)	Second tier rate Group 2(6bp)	Third tier rate Group 3(8bp)
Adequately capitalized ($>12\%; \leq 8\%$)	Second tier rate Group 4(6bp)	Third tier rate Group 5(8bp)	Fourth tier rate Group 6(11bp)
Undercapitalized ($<8\%$)	Third tier rate Group 7(8bp)	Fourth tier rate Group 8(11bp)	Fifth tier rate Group 9(15bp)

30 * Using example of differential premium rates and cut-off points for banks

Cut-off Points of Risk Indicators

✓ Capital Adequacy Ratio (CAR)

- For banks and credit cooperatives, CAR equals the ratio of equity to risk assets

I . Well capitalized :12% and over
II . Adequately capitalized : 8% to 12%
III . Undercapitalized : less than 8%

- For credit departments of farmers' and fishermen's associations, CAR equals the ratio of net worth to risk assets

I . Well capitalized :10% and over
II . Adequately capitalized : 8% to 10%
III . Undercapitalized : less than 8%

✓ Composite score

- For all member institutions

I . A : Composite score of 65 and over
II . B : Composite score of 50 to 65
III . C : Composite score of less than 50



31

Standard Dates of Risk Indicators

✓ Capital Adequacy Ratio (CAR)

- Based on financial information of member's call reports as of March 31 or Sep. 30

✓ Composite score

- Based on the latest examination data as of May 31 or Nov. 30



32

32

Other Regulations (I)

✓ Punitive Regulations

- **Member institutions cannot publicly announce their composite score**
 - If a member institution publicly announces its composite score, CDIC may raise the risk premium rate by 0.01% as a penalty of violation
- **Member institutions have to pay their premium on time**
 - If a member institution does not pay its premium on time, CDIC may raise the risk premium rate by 0.01% as a penalty of violation

33

Other Regulations (II)

✓ Requests of Rate Review

- | | | |
|--|---|--|
| • Term for CDIC to accept request | → | Before premium payment deadline (Jan. 31 & July 31) |
| • Forms of request | → | By written notice only one review per term |
| • Special unit for review | → | Premium Rate Review Committee |

34

34



DPS After 2012



DPS in 2012

✓ Revision of risk indicators

- Revise data source of composite score by adding call report data of member institutions
- Change the name of risk indicator “ Composite score of the Examination Data Rating System” to “ Composite Score of Risk-based Differential Premium Rating System”

Reasons

- ✓ Big time lag between the date of latest examination report and the standard date of premium collection
- ✓ To timely and effectively reflect the different operating risks and financial status of member institutions into CDIC's risk-based premium system
- ✓ FSC's instruction to review the risk indicators

37

37

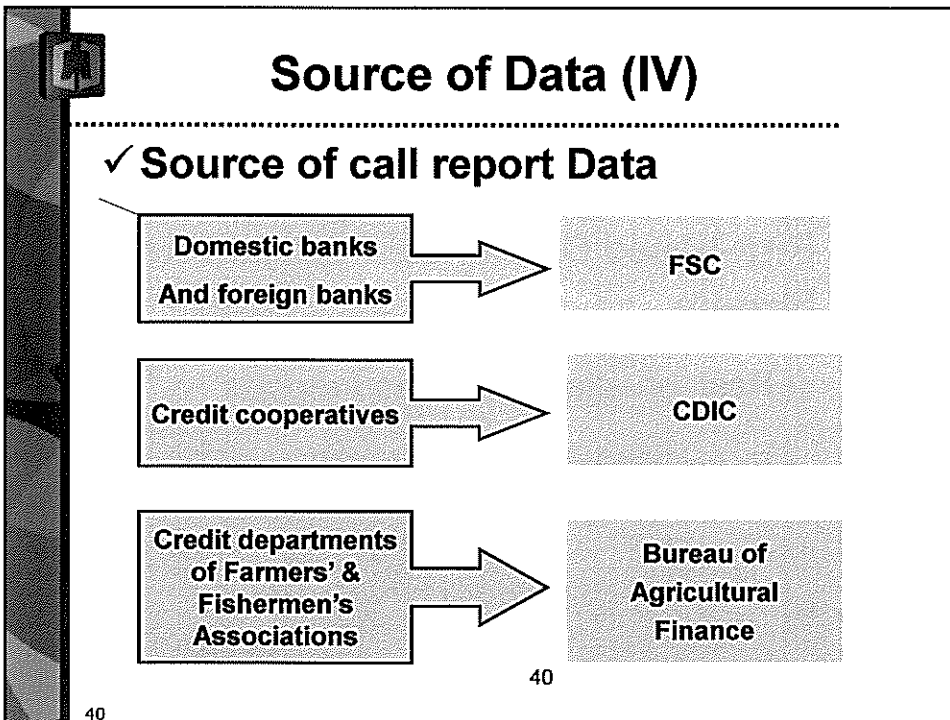
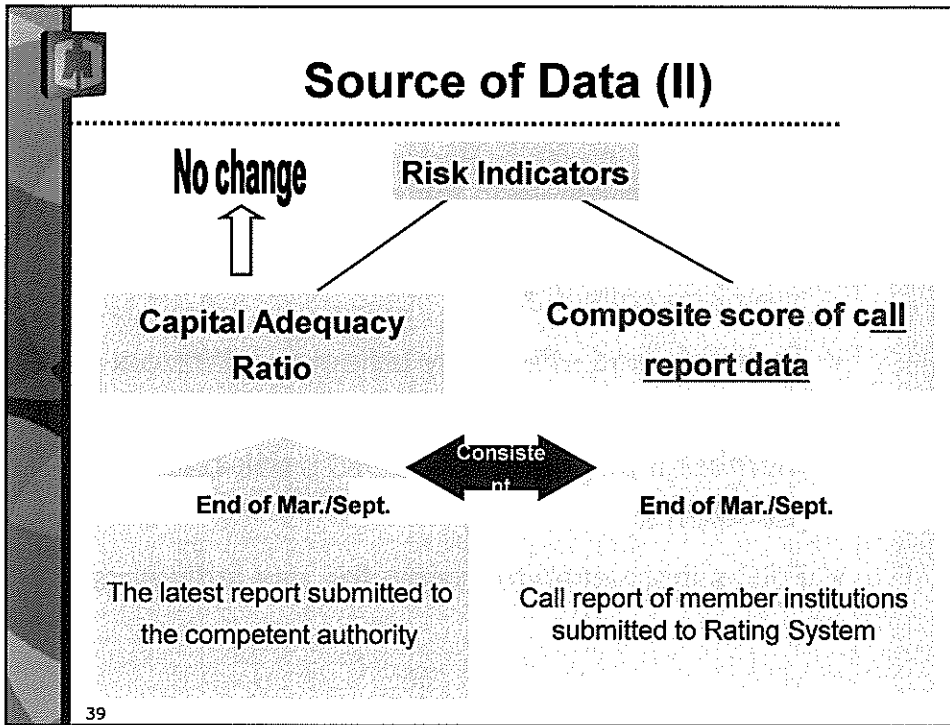
Source of Data (I)

- ✓ Source of Data of Composite Score of Risk-based Differential Premium Rating System
 - Past: on-site examination reports
 - From 2012: Mainly from call reports

38

38







Complementary Measures

✓ If member institutions submit call reports with serious inaccuracies or omissions resulting in CDIC's wrong rating and premium calculation, CDIC may:

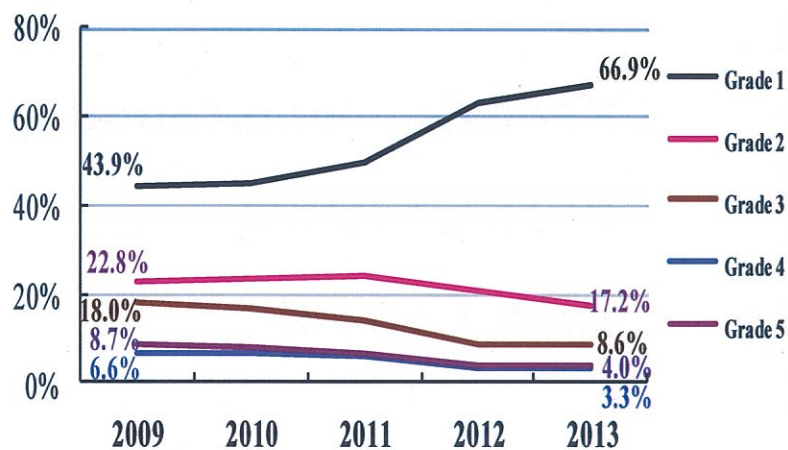
- Conduct on-site inspections
- Charge punitive premium rates
- Submit it to competent authority for handling

41

41



Changes of 5 Grades Distribution during Recent 5 Years



42

42

Lessons Learned

- ✓ Widening tier rates and spreads in phases can reduce resistance from member institutions
- ✓ Enhancing communication and reaching consensus with stakeholders can implement new scheme more smoothly
- ✓ Increasing premium rates during better economic and financial conditions
- ✓ Keep checking to meet changing conditions and effectively reflect operating risks of member institutions

43



43

Conclusions

- ✓ **Keep Communicating**
- ✓ **Keep Checking**
- ✓ **Keep Current**

44



44

Thank You!



c173@cdic.gov.tw

