Lessons from 2008 Financial Crisis for Bank Resolution – Malaysian Experience

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Agenda

(1) Impact of 2008 Financial Crisis

(2) Malaysia’s pre-emptive measure

(3) Important resolution related developments and actions

(4) Q & A session
1. Impact of 2008 Financial Crisis
Impact of 2008 Global Financial Crisis on Malaysia

- Effect of global crisis felt in the following manner:
  - Market sell down/repatriation of foreign funds resulted in significant capital outflow
  - Slowdown in selected export oriented industries (e.g. manufacturing, mining)

![External Weakness Led To Broad-based Domestic Weakness in the Economy by the First Quarter of 2009](chart.png)

Source: Department of Statistics, Malaysia
Impact of 2008 Global Financial Crisis on Malaysia

Collapse in World Trade Led to Sharp Contractions in Malaysia's Gross Exports and Manufacturing Production

Export-oriented Manufacturing Sector was the Worst Affected

Source: Haver Analytics, Department of Statistics, Malaysia

Source: Department of Statistics, Malaysia
Impact of 2008 Global Financial Crisis on Malaysia

- Banking system remained sound
  - Strong prudential regulation and supervision, effective legal system, sound accounting and disclosure regimes
  - Financial institutions are well capitalised and had limited exposure to sub-prime mortgages
  - Economic conditions fundamentally sound

Source: Bank Negara Annual Report 2009
Impact of 2008 Global Financial Crisis on Malaysia

Core capital ratios, risk weighted capital ratios and NPL ratios for Financial Institutions in Malaysia from 2008 to 2009 remained stable.

Source: Bank Negara Statistical Bulletin, MDIC
2. Malaysia’s pre-emptive measure

• Pre-emptive and precautionary measure to prevent:
  ➢ Contagion stemming from cross border capital flows
  ➢ Possibility of deposit insurance arbitrage
  ➢ Likelihood of competitive distortions amongst banks across various countries

• Co-ordinated approach with Singapore
The GDG as pre-emptive measure to enhance public confidence

- GDG administered by MDIC
- PIDM continued to cover up to RM60,000 per depositor. Government provided coverage in excess of RM60,000.
- Coverage extended to non-member financial institutions
  - 39 member institutions
  - 15 investments banks, 5 deposit-taking development financial institutions and 3 international Islamic banks
Stabilisation Insurance Provision as mechanism to implement the GDG

- Amendments to the MDIC Act in 2010 to incorporate Stabilisation Insurance provisions
  - Subject to an order by the Minister of Finance upon consultation with MDIC and Central Bank
  - Protection on some or all deposits
  - Protection may be increased to a greater amount
  - Coverage extended to non-member financial institutions
Smooth exit of GDG via enhanced consumer protection package

• Enhanced Consumer Protection Package announced early in May 2010 by the Prime Minister. New MDIC Act 2011 to:
  ➢ Increase deposit insurance limit from RM60,000 to RM250,000
  ➢ Scope of coverage expanded to protect foreign currency deposits
  ➢ Protection extended to owners of takaful certificates and insurance policyholders
  ➢ Introduction of new Provision of Information on Deposit Insurance Regulations 2011
3. Important resolution related developments and actions
Extension of Central Bank’s resolution powers beyond regulatees

New Central Bank Act enacted in Nov 2009 with powers to resolve financial institutions promptly as follows:

- Established Financial Stability Executive Committee to deal with financial institutions not under its purview
- Power to enter into arrangements with other central banks to provide liquidity assistance to subsidiaries or branches outside Malaysia of any financial institution established in Malaysia
Extension of MDIC’s resolution powers

Wider powers for MDIC to provide stabilisation insurance and to resolve troubled financial institutions promptly

- Authority to increase deposit insurance beyond approved limits
- Authority to designate non-member financial institutions as members institutions
- Authority to incorporate and implement a Bridge Institution (BI) as a resolution tool and authority to transfer certain assets and liabilities of troubled financial institution to BI
Authority to deal with Qualified Financial Agreements (QFAs):

- Power to temporary suspend termination rights of QFAs
- Power to transfer QFAs to Qualified Third Parties
- Power to terminate QFAs if counterparty chooses not to do so

Development of record keeping requirements for QFAs

- MDIC is currently working with the Central Bank to develop record keeping requirements to facilitate determination of dealing with QFAs
Focus on MDIC’s intervention and resolution readiness

IFR action plan focus of resolution readiness:

- Embarked on Project Eveready in 2008:
  - Develop comprehensive set of 14 policies and procedures document on mechanism and resolution approaches
  - Conducted corporate wide training and simulation exercises on resolution of trouble institutions

- Embarked on Payout Project to develop an integrated and robust means of reimbursing depositors in the event of a payout

- Develop intervention and resolution related policies: Early Intervention Trigger, Non-Viability Criteria, Authority Matrix
Key Lessons from the 2008 Global Financial Crisis

• **Actions need to be holistic to address concerns**
  - Strong collaboration between safety net players
  - Co-ordination between regional jurisdictions
  - Powers to implement blanket deposit coverage
  - Public perception must be managed when determining exit strategies for blanket guarantees

• **Implementation must be prompt**
  - Importance of safety net players to co-ordinate efforts

• **Continuous review of powers, policies and procedures**
  - Powers, policies and procedures must be reviewed regularly to ensure its relevance and robustness to deal with crisis
Thank You