

Taiwan's Exit Strategies on Removal of Blanket Guarantee

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International Association
of Deposit Insurers



**SUMMIT CONFERENCE ON STRENGTHENING
DEPOSIT INSURANCE SYSTEMS IN CRISIS
AND POST-CRISIS SITUATION**
and
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Outline

§ Implementation of temporary blanket guarantee

§ Ongoing risk monitoring in preparation for transition

§ Transition measures

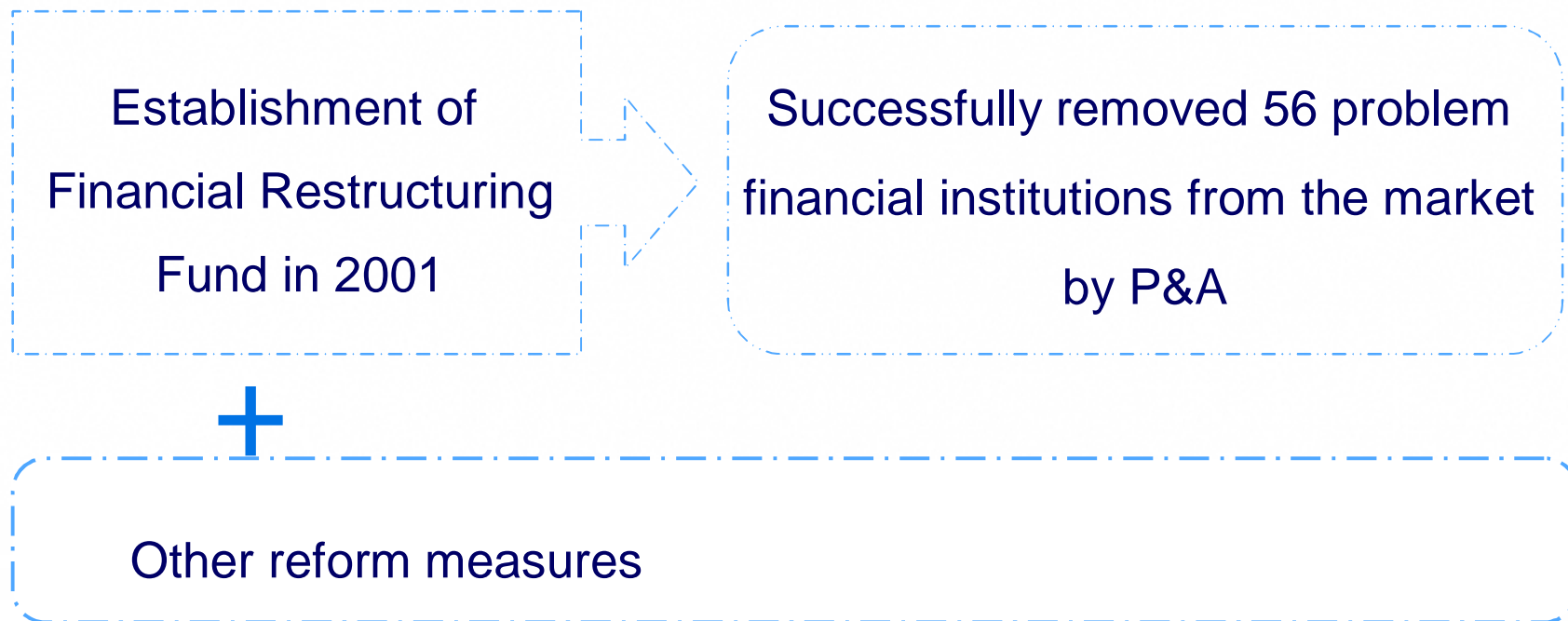
§ Conclusions





Implementation of Temporary Blanket Guarantee (I)

§Taiwan financial market stable before crisis





Implementation of Temporary Blanket Guarantee (II)

§ Temporary blanket guarantee adopted to maintain public confidence (Oct. 2008 – Dec. 2010)

Due to instability in international financial markets
& over reporting by the local media



Lack of depositor confidence



Flight to quality + Liquidity pressure



Temporary blanket guarantee



Implementation of Temporary Blanket Guarantee (III)

§ Implementation results

- Liquidity pressure relieved
- Huge outflow of deposits from private banks decreased
- Inter-bank call-loan market returned to normal





Ongoing Risk Monitoring in Preparation for Transition





Ongoing Risk Monitoring in Preparation for Transition (I)

§Risk management mechanisms

- Financial Early-warning System
- Real-time Internet Transmission System
- Account Officer System



Ongoing Risk Monitoring in Preparation for Transition (II)

§ Risk management measures

- Special off-site audits
- Insured institution requested to provide related financial reports

If the situation gets worse, CDIC dispatches personnel to attend important meetings

If the bank's adjusted BIS ratio < 8%

Chairman required to CDIC's office

Recapitalization or merger

If not

Warning notice of terminating DI contract



Ongoing Risk Monitoring in Preparation for Transition (III)

§ Risk management measures

To avoid the unusual
movement of deposits
after the transition



CDIC regularly monitors and
requests those banks highly
depending on large deposits
to lower the percentage
of large deposits



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Ongoing Risk Monitoring in Preparation for Transition (IV)

- **Coordination with the competent authorities (I)**
 - Reduce moral hazard & assist supervision by charging additional premium
 - ∅ Collect a special premium on inter-bank call loans
 - ∅ Charge punitive premium rates





Ongoing Risk Monitoring in Preparation for Transition (V)

- **Coordination with the competent authorities (II)**
 - Keep track of the progress of improvements in financial conditions and business operations of banks with abnormal operations
 - Ø Request additional reports periodically
 - Ø Notify supervisors immediately if warning signal detected





Transition Measures

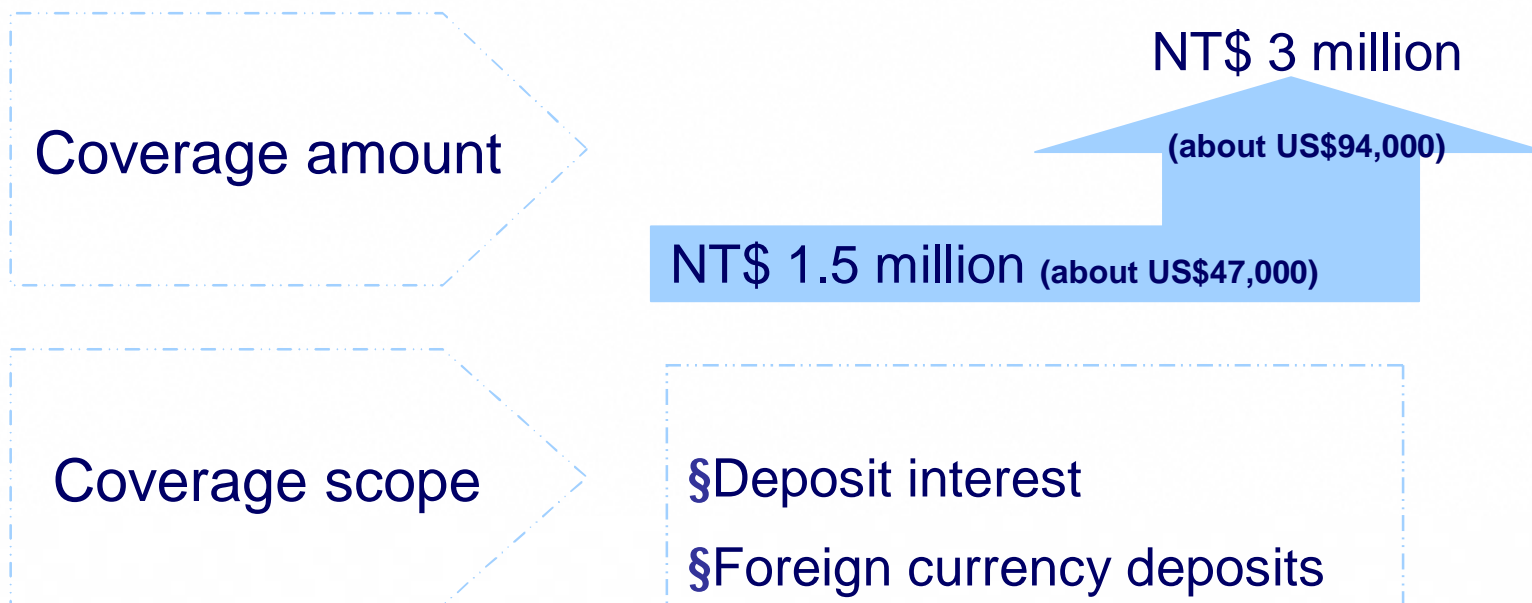




Transition Measures (I)

§Amendment to the Deposit Insurance Act (proposal)

- Increase coverage limit and expanding the scope





Transition Measures (II)

§Amendment to the Deposit Insurance Act (proposal)

- Reinforce risk management
 - Ø Formal authority to evaluate the assets and liabilities of the problem financial institutions
- Strengthen resolution mechanism
 - Ø Authority by law to enter a failing bank confidentially and prepare for resolution before bank closure
- Specify the scope of coverage and defined procedures of systemic risk





Transition Measures (III)

§ Extensive promotional campaign

- Different media channels
- Publish transition related articles in CDIC's quarterly journals
- Host seminars for the general public and the insured institutions





Transition Measures (IV)

§ Improvement of deposit insurance fund status

- Collect bank business tax revenue to inject the Fund from 2011
- Raise the premium rates starting next year

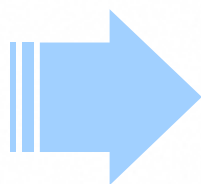




Transition Measures (V)

§ Close coordination with other financial safety net participants

Draft
transition
plan



- Return to the limited coverage as schedule (January 1, 2011)
- Adopt fast approach with expansion of coverage limit and scope



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Conclusions

- § **Implementation of blanket guarantee is necessary for maintaining the financial stability**
- § **During the blanket guarantee, strengthening financial supervision, risk management and implementation of PCA can be treated as a preparation for a smooth transition**
- § **Financial safety net participants should work together to make the transition plans as early as possible**





Thank you !

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