



The 2005 IADI 4th Annual General Meeting & Conference

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Foreword

The Fourth Annual IADI Conference was hosted by **Central Deposit Insurance Corporation** (CDIC, Taiwan) in a very traditional Chinese palace-style setting—The Grand Hotel—in Taipei, Taiwan, from 27-29 September 2005. Consistent with **IADI's** vision "to share deposit insurance expertise with the world," the Association invited expert practitioners from around the world to make presentations and participate in the conference. The theme of the conference was "*Challenges for Deposit Insurers in Resolving Bank Failures*" and it was chaired by Chin-Tsair Tsay, Chairman of the Board of **Central Deposit Insurance Corporation**; Mr. Tsay was also the Chair of 2005 Conference Task Force and he is the Chairman of the Research and Guidance Committee of **IADI**.

Presentations covered **IADI's** research, recent developments and issues of interest to deposit insurers, which comprise initiatives by financial safety net players to help make banks "Too Good to Fail", developing an effective deposit insurance system, cross-border challenges in handling bank insolvencies, guidance for aiding the resolution of a failed bank, promoting international co-operation, contingency planning for dealing with a failed bank and guidance for promoting effective interrelationships, and the attendees were provided with an update on **IADI's** activities and what to expect in 2006. The audience of 176 was truly international in scope as 50 countries or areas were represented at the conference.

These proceedings were prepared by an international team of writers organized by the International Affairs Division of **Central Deposit Insurance Corporation**. The writers included: Wai Keen Lai, Wai Lin See, Chareen Loh Sing Chiet and Khairuddin HJ. Arshad, **Malaysia Deposit Insurance Corporation**; Sung Han Jie, **Korea Deposit Insurance Corporation**; Frederick S. Carns, Jr., **Federal Deposit Insurance Corporation**; Yvonne Fan and Fiona Yeh, **Central Deposit Insurance Corporation**; Renata Cechova, **Deposit Insurance Fund** (Czech Republic); David K. Walker, **Canada Deposit Insurance Corporation**, and myself. I take responsibility for any errors that emerged in the editing process.

Copies of the PowerPoint presentations and a picture gallery are located on the Internet at: <http://www.iadi.org/>



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Dedication

These proceedings are dedicated to the memory of Hans Jacobson. Hans was the Chairman of the **Swedish Deposit Guarantee Board**, which was one of the founding members of the **International Association of Deposit Insurers**. A very active participant in **IADI** activities, Hans was often called upon to perform many tasks and he accepted them all with great vigour and pleasure. Hans will be greatly missed for his good spirits and humour and by the deposit community around the world for his interest in improving the effectiveness of depositor protection arrangements.

Executive Summary

The conference was opened by the Honourable Frank C. T. Hsieh, Premier of Taiwan. In his remarks, Mr. Hsieh developed two important aspects of the work of financial sector supervision; in particular, the "new development concept" and the "new safety concept". Chin-Tsair Tsay, as the Chair of the 2005 Conference, then welcomed the participants from 50 countries who were to benefit in so many ways from their visit to Taiwan. The Keynote Address was delivered by Jean Pierre Sabourin, Chair of the Executive Council and President of the **International Association of Deposit Insurers**. Having identified the potential vulnerabilities, he presented an "OPTIMAL" approach that has been set out for dealing with bank resolution. He explained that OPTIMAL is the acronym for Objectives, Process, Timing, Intervention, Market Discipline, Assessment and Legislative Framework.

The first session moderated by Shinichi Yoshikuni of the Bank for International Settlements focused on initiatives by financial safety net players to help make banks "too good to fail". George Kaufman introduced four principles of efficient bank insolvency resolution while David Mayes discussed the role of the financial safety net in bank resolution and focused his attention on a feasible solution to tackle cross-border bank insolvencies. Johnson Chen's presentation covered all the salient points concerning the topic and stressed the importance of early intervention, prompt corrective action, quick resolution, and measures to improve effective interrelationships.

The topic of the second session, chaired by Daniel Jánossy, was how to design effective deposit insurance systems. Fred Carns reported on an **IADI** initiative to develop a tool for evaluating the effectiveness of deposit insurance programs which is to be issued in the form of **IADI** guidance during 2006. Features of the Korean and newly established Malaysian systems were introduced by Jungrol Kim and Wai Keen Lai, respectively.

The first afternoon session dealt with cross border challenges in handling bank insolvencies that have been paid more attention to recently. Joseph Pasquariello, Tetsuo Yamashita and Kelly Naphtali all emphasized that legal mechanisms at various levels are required to address these matters, but noted that a worldwide uniform code is extremely ambitious and unlikely. Thus, efforts should be directed

towards in more practical ways perhaps through enhanced principles of international comity.

The other focus of the afternoon was on the **IADI** Guidance for the Resolution of Failed Banks to be issued soon. The presentation was delivered by William Su and he explained that a deposit insurer can employ this guidance as a tool kit for improving bank failure mechanism in general. Mohammed Al-Jafari, as the discussant, brought up his view on the paper and suggested some questions for future research. Do Khac Hai then introduced the experience of Vietnam in handling 33 bank failures during the past several years.

The second day of the Conference began with two concurrent sessions on the topics of "Promoting International Cooperation" and "Contingency Planning for Dealing with a Failed Bank". In the first session, Allan Popoff and Gulen Atay Newton both addressed home and host country issues related to international cooperation. Mr. Popoff commented on the role of the EBRD in assisting target countries in preparing for the challenges of cross-border supervision, while Ms. Newton pointed out that the first step in harmonizing banking and insolvency regulation is to develop a regional financial framework. Mario Alberto Beauregard Alvarez focused on the roles, mandates and limits of deposit insurers in the financial safety net and said that international cooperation could help them to meet their foremost interest - minimization of costs. Peter Sinclair presented some features of the optimum deposit insurance based on his study.

The second session addressed the need for contingency planning to deal with a bank failure and it took the form of an interactive presentation delivered by Jean Pierre Sabourin, David Walker, Michael Mackey and John Raymond LaBrosse. The importance of contingency planning and all major areas of deposit insurance was addressed by the panel. Examples from **Canada Deposit Insurance Corporation** were drawn to illustrate how related concepts can work, and an industry supplier perspective from a **Deloitte & Touche LLP** representative was also added.

Ricardo Tan turned the conference's attention to the work on Guidance for Promoting Effective Interrelationships soon to be issued by **IADI**. In this regard, Winston Car delivered a sound presentation based on the guidance paper that was prepared by a group that he chaired. Mutsuo Hatano and Roumyana Markova illustrated the topic by referring to some interesting Japanese and Bulgarian cases. Louis Chen cited the examples of cooperation schemes in Korea, Japan and Taiwan, and

proposed that **IADI** continue to develop guidance or best practices and he encouraged the Association to hold frequent discussions and forums to assist members to better deal with bank failures.

IADI's Secretary General updated the conference participants the Association's recent and planned activities and then Neusa Fatima Siliprandi of the **Fundo Garantidor de Créditos** invited everyone to next year's conference in Rio de Janeiro. After that the CDIC (Taiwan) team was invited and thanked by Jean Pierre Sabourin for their outstanding effort in the organization of the Conference and for their gracious hospitality. The conference came to a close under the beautiful melody of a famous Chinese song "Story of the Little Town".

Welcome Dinner on 27 September 2005

*Remarks by **Dr. Chuan Lin, Minister of Finance, Taiwan***

Chuan Lin extended a most heartfelt welcome to all the guests from around the world by saying “Whan-ying! Whan-ying!” (“Welcome” in Chinese literally). He then congratulated the staff of **Central Deposit Insurance Corporation** on the occasion of their 20th Anniversary and wished them continued success.

Dr. Lin expressed his proud and honoured feeling to see so many “movers and shakers” in the field of deposit insurance and financial sector supervision, as well as officials from international organizations and industry specialists from around the globe in such an important gathering. He also thanked them for their support, cooperation and information sharing that has taken place over the past two decades to the **CDIC**, so the staff and management could learn so much from the valuable experiences from other countries and from that it has grown vigorously to become a much stronger institution.

In closing, Dr. Lin wished for a great start to the conference and success of the **IADI** Annual General Meeting. He then encouraged all participants to step beyond the line of conventional conferencing, and to freely and boldly share their expertise and frank opinions. All these efforts will culminate, he said, in a new road map for the related industries and even their countries.

28 September 2005

Opening Session

*John Raymond LaBrosse, Secretary General, **International Association of Deposit Insurers***

John Raymond LaBrosse called the conference to order and said that it was an honour to welcome the participants to the 4th Annual Conference of the **International Association of Deposit Insurers (IADI)** on such a beautiful island and in an outstanding setting. Mr. LaBrosse, on behalf of **IADI**, said that we all appreciated the hard work and dedication of the individuals of the host organization, **Central Deposit Insurance Corporation**. To give the participants a better understanding about this country, he also introduced Taiwan by drawing from a recent article from the New York publication *Business Week* entitled “Why Taiwan Matters”. Taiwan matters he underscored

for many reasons but also because it is the number one provider in several areas of the high-tech industry.

Mr. LaBrosse then introduced the Honourable **Premier of Taiwan** and asked him to present the opening remarks.

Opening Remarks

Frank C. T. Hsieh, Premier of Taiwan

Frank C. T. Hsieh expressed his gratefulness and honour for being invited to take part in the conference and deliver the opening remarks. He began with the focus of two aspects of the work of financial sector supervision; namely, the “new development concept” and the “new safety concept.” The “new development concept” lays emphasis on the development and cultivation of financial expertise and knowledge, through which economic development is enhanced, while the “new safety concept” focuses primarily on the financial system safety net. It is not only necessary for a country, he said, through cooperation and mutual help to pay attention to their own financial safety, but there should also be an effort to strengthen regional cooperation and regional integration, in order to prevent the triggering of a chain reaction among other financial institutions, thereby paving the way for a safer and more stable financial environment.

Premier Hsieh then stated that from the time of **IADI**’s establishment to the present time, through international cooperation, common guidelines for deposit insurance have been proposed and formulated, and these have enhanced the effectiveness of deposit insurance systems. At the same time, exchanges of experiences and the sharing of information among deposit insurance organizations in so many countries have increased, thus fulfilling the expectation that **IADI** would assist in promoting global financial stability. He personally believes that this is without a doubt the best way of describing this “new development concept” and “new safety concept.”

The Premier then turned to the implementation of the two stages of financial reform in Taiwan. The first stage, he noted, began in 2002 with its emphasis on “abolishing what is harmful”. The significant achievements included handling problem financial institutions, improving the quality of bank assets, combating financial crime, unifying financial Supervision, and achieving the “2-5-8” financial reform objective. This, he said, meant reducing, within a period of 2 years, the past-due loans ratio of domestic banks to less than 5

percent, and maintaining the banks' capital adequacy ratio at 8 percent or more.

In line with Taiwan's industrial development, in 2004, the government continued to promote the second stage of Taiwan's financial reforms, by "promoting what is beneficial" being the primary emphasis. The major policy directions included positioning the financial services industry as a strategic industry, promoting Taiwan as a "regional financial services center" and speeding up mergers among financial institutions. In this regard it is expected that there will be three financial institutions each with a market share of over 10% in the near future, 12 publicly-held banks will merge to become six banks, the number of financial holding companies will be halved to seven, and, to encourage foreign capital operations, one financial institution will obtain a stock market listing overseas.

Welcome Remarks

Chin-Tsair Tsay, Chair of the 2005 IADI Conference

Chin-Tsair Tsay said that it was a great honour to have all participants gathered in Taipei for **IADI's** big event and he expressed a most sincere welcome. He felt that it was especially meaningful for his organization to host this conference on the occasion of **CDIC's** 20th Anniversary. He then formally announced that the theme of the conference was "Challenges for Deposit Insurers in Resolving Bank Failures," and noted that leading international scholars, experts and practitioners around the world were invited to share their experiences and insights on deposit insurance and issues related to the financial safety net players.

Mr. Tsay stated that the year 2005 is the Year of the Rooster in Chinese folklore, which symbolizes good fortune and wealth, and he wished all the conference participants the very best in terms of luck and prosperity for the years to come.

He then invited JP Sabourin, Chair of the Executive Council and President of **IADI**, to deliver the keynote address.

Keynote Address

Jean Pierre Sabourin, Chair of the Executive Council and President, International Association of Deposit Insurers

Jean Pierre Sabourin thanked Chin-Tsair Tsay and expressed his delight to be in Taipei to share his thoughts and experiences on deposit insurance. He then confirmed that after his retirement from **Canada Deposit Insurance Corporation**, he has wholeheartedly accepted to continue to be involved in deposit insurance as the first Chief Executive Officer of the newly established **Malaysia Deposit Insurance Corporation (MDIC)**. He remarked that this assignment, which is to lead an infant institution that aims to fast track its development to be on par with other established deposit insurers, would be challenging and most satisfying to him.

In line with the conference theme of "*Challenges for Deposit Insurers in Resolving Bank Failures*", Mr. Sabourin highlighted key findings from the study conducted by the **IADI** Subcommittee on Resolution of Bank Failures to identify potential sources of vulnerability and lay out an optimal approach to bank resolution. First, consolidation and conglomeration of bank assets is an emerging global trend, cutting across developed and emerging economies. Second, financial systems remain vulnerable to economic stress and banking structural weaknesses within the financial systems. Third, bank resolution costs are significant. Globally, bank resolution costs as a percentage of one year's GDP for a country range between 0.002 per cent and 35.8 per cent, with an average of 5.5 per cent.

Having identified the potential vulnerabilities, Mr. Sabourin presented an OPTIMAL approach that has been set out for dealing with bank resolution. He explained that OPTIMAL is the acronym for Objectives, Process, Timing, Intervention, Market Discipline, Assessment and Legislative Framework.

First, Mr. Sabourin emphasised that the Objectives of a resolution must be clearly spelt out and agreed to by all parties involved in maintaining financial safety before a problem occurs. This is important to ensure that there are no existing gaps with regard to how a deposit insurer is expected to meet its objectives. He cited the example of the **MDIC** which has adopted a least-cost approach. In this respect, **MDIC** was given an appropriate large range of resolution powers to carry out early intervention and will only act to minimise losses to the system once the supervisor makes a formal determination of non-viability. Mr Sabourin

also stated the importance for public policymakers to consider who should bear the loss of bank failure.

Second, a sound robust process is important for effective resolution of troubled banks. In this regard, Mr. Sabourin explained that deposit insurers should have in place appropriate policies, standard operational procedures, contingency plans and outsourcing arrangements for specialised resources although a resolution may not be imminent. Timing of a resolution is also important as a bank failure could lead to a crisis in public confidence affecting the entire banking system despite the availability of deposit insurance protection. In the light of the above, Mr. Sabourin reminded everyone that deposit insurers should undertake scenario planning and understand their capabilities and limitations in dealing with bank failures.

The next factor within the OPTIMAL approach is Intervention. A sound policy should include early intervention powers with a clear mandate for the supervisor and for the deposit insurer, a clear transparent guide to intervention and the power to close a troubled bank while its capital is still positive should be available by way of a non-viability determination.

Market discipline is another crucial element within the OPTIMAL approach given its important role in minimising cost of bank resolutions. Transparent and timely information flow on the health of banks enhances market discipline which balances the moral hazard of deposit insurance and provides an early warning system. Mr. Sabourin also emphasised that deposit insurers should ensure that all resolution mechanisms include a transparent and objective set of criteria that would encourage a large pool of potential market buyers for the failed bank's assets.

Another important factor, he underscored, is Assessment which is an on-going review and adjustment process of all the elements that are encapsulated within the OPTIMAL approach. Deposit insurers and other safety net players should conduct environmental scans and audits on a regular basis and prior to undertaking bank resolutions in the areas of legislative framework, economic environment, political environment, social environment and resource environment. Deposit insurers should also undertake stress testing, scenario testing and contingency planning to raise their level of preparedness.

Last, but not least, Mr. Sabourin underscored that the long-term success of a bank resolution process depends on having a fair, objective, transparent and reliable Legislative framework. In this regard,

the legislative framework should support transparent forms of bank ownership, judicial and alternative dispute resolution mechanisms, accurate and credible registration of titles and property rights, and established procedures and institutions for a timely and efficient conversion of collateral into cash.

In closing, Mr. Sabourin noted that an optimum solution to bank resolutions is not always possible as there would always be hidden social and political implications. The degree of economic development, readiness of the deposit insurer and country-specific circumstances has a strong bearing on the choice and efficiency of resolution options. In this regard, Mr. Sabourin proposed that the OPTIMAL approach be used as a practical guide for evaluating the environment and the tools that may be available to the deposit insurer. He concluded by expressing his hope that **IADI** Members will find the OPTIMAL approach a practical guide for application.

Session I: Initiatives by Financial Safety Net Players to Help Make Banks "Too Good to Fail"

Moderator: *Shinichi Yoshikuni, Senior Advisor, Monetary and Economic Department, Bank for International Settlements*

Presentation I: Using Efficient Bank Insolvency Resolution to Solve the Deposit Insurance Problem

George Kaufman, Professor, University of Loyola, Chicago

Professor Kaufman examined the high costs of bank insolvencies and the need to establish a strategy to minimize such costs. Political will and an effective legal framework, he argued, are keys to such strategy-building.

After defining the costs of bank insolvency to be misallocation of resources, contagion (systemic risk) and transfer costs, Professor Kaufman then went on to propose the "Four Principles of Efficient Bank Insolvency Resolution." The first was efficient bank insolvency resolution as a means for minimizing credit and liquidity losses and to do so, he emphasized the need for prompt legal closure, estimation of credit losses, reopening of large banks and re-privatization and recapitalization. He again noted that the actual and successful implementation of these principles would depend on political will as well as an appropriate legal structure. The bottom line, he said, is that "If a

country has an appropriate legal structure and regulators with the political will to resolve bank insolvencies efficiently, not only minimize cost but the bank deposit insurance problem decreases in importance -- a beneficial byproduct."

Presentation II: The Role of the Safety Net in Resolving Large Financial Institutions

*David G. Mayes, Advisor to the Board of the Bank of Finland, and Professor, **South Bank University, London***

David G. Mayes discussed the role of the financial safety net in the resolution of insolvent banks and focused his attention on the feasible solutions to tackle cross-border bank insolvencies.

After stating the obvious difficulty in coordinating a common response among different countries, owing to their varied legal, regulatory and supervisory systems as well as different methods and timing of official intervention, Professor Mayes pointed out that joint action among countries concerned is needed early, preferably before a failure, in order to minimize potential loss.

It would be best if the market solves problems when a bank experiences poor performance. However, market discipline becomes harder to achieve due to differences in disclosure regimes. Therefore, efforts need to be made to instill a collegial/joint approach to supervision under home country leadership or introduce prompt corrective action and allow for early intervention by signing Memorandums of Understanding.

In his concluding remarks, Professor Mayes stated that Basel II ensures supervisory cooperation and it would therefore be a good idea for Central Banks to enter into Memorandums of Understanding.

Presentation III: Strengthening the Financial Safety Net to Assist in Ensuring the Sound Operations of Financial Institutions

*Johnson Chen, President, **Central Deposit Insurance Corporation***

After providing a succinct definition of the elements that comprise the financial safety net, **Johnson Chen** went on to point out that effective risk management, enforcement of prompt corrective action and early intervention are essential for strengthening the role of the financial

safety net. To do so, his presentation came to the following conclusions:

First, "prevention is superior to excessive compensation payments," and, therefore, a mechanism for systematically managing risk should be in place before events take place. Second, the early establishment and thorough enforcement of a prompt corrective mechanism is essential. Third, problem financial institutions must be dealt with quickly and firmly. Fourth, financial reforms should take place in line with the reconstruction of enterprises and a clearly defined mechanism must be established for failed financial institutions or business enterprises. Fifth, an effective financial safety net coordination and cooperation mechanism needs to be established. Finally, an international financial safety net cooperation mechanism needs to be put in place to deal with international financial problems.

Session II: Designing Effective Deposit Insurance Systems

Moderator: *Dániel Jánosy, Managing Director, National Deposit Insurance Fund of Hungary*

Presentation I: Evaluating the Effectiveness of Deposit Insurance Systems

Frederick S. Carns, Deputy Director, Division of Insurance and Research, Federal Deposit Insurance Corporation

Frederick S. Carns provided a progress report on an **IADI** initiative to develop an assessment tool for evaluating the effectiveness of deposit insurance programs. The approach taken was to devise a set of questions covering the full range of responsibilities and functions that may apply to deposit insurance organizations. The questions are intended to reveal whether the features of the system and the institutional infrastructure are consistent with the goals established for that system. Ideally, it should be possible to evaluate any type of deposit insurance program – ranging from strictly pay box operations to full risk minimizers with resolution responsibilities – using an appropriate subset of questions from the comprehensive list.

A draft paper containing the proposed questions was distributed and Mr. Carns encouraged all Members and other interested parties to provide comments as soon as practicable. The intent is to issue the paper in the form of **IADI** guidance during 2006.

Presentation II: Economic Effects of Early Intervention and Resolution

Jungryol Kim, Senior Economist, Korea Deposit Insurance Corporation

Jungryol Kim discussed research findings regarding the cost savings associated with **KDIC's** early intervention and resolution procedures. Using a sample of credit unions, merchant banks and mutual savings banks, Mr. Kim and his co-author, Dong Il Kim compared receivership dividend rates among groups of institutions that were subject to early intervention and resolution procedures and those that were not. The estimated cost savings were substantial: With a total asset value in excess of KRW3,000 billion for all institutions in the sample, the estimated dividend increase as compared to groups not subject to early intervention exceeded KRW970 billion, or a dividend rate exceeding 90 percent for those in the early intervention group compared to a rate of less than 60 percent for those institutions not subject to early intervention and resolution procedures.

Mr. Kim noted that a key feature of the early intervention and resolution procedures is the authority to appoint **KDIC** officers and employees as trustees of the bankruptcy estate. This makes for a speedier and more efficient bankruptcy proceeding, reduces costs, can reduce the moral hazard problem and provides for a more effective deposit insurance system.

Presentation III: Developing an Effective Deposit Insurance System – The Malaysian Perspective

Wai Keen Lai, Deputy Director, Malaysia Deposit Insurance Corporation

Wai Keen Lai began by discussing five important considerations in designing the deposit insurance system for Malaysia: (1) Promoting depositor confidence; (2) Reinforcing and complementing the existing regulatory and supervisory framework; (3) Minimizing regulatory costs; (4) Institutionalizing experience in conducting problem-bank resolutions, and (5) Complying with *Syariah* tenets for Islamic deposits.

She then described the Malaysian deposit insurance mandate and some key design features of the system, including: compulsory membership, termination of membership upon a finding of non-viability, a coverage scheme that reflects an attempt to balance market discipline and

depositor protection, pricing deposit insurance in a manner that maintains adequate funding and path breaking coverage for Islamic deposits as well as fund management following Syariah principles.

Mrs. Lai emphasized that Malaysia made a conscious decision to wait until its financial system restructuring had been completed before implementing the deposit insurance program. This has worked out well, but she cautioned that in this and other respects there is probably no "one size fits all approach." Rather, to the extent that Malaysia's experience has been positive, this likely reflects the fact that there was a conscious effort to tailor the system to fit the unique features of Malaysia's culture, economy, and institutions, or to "cut our coat according to our cloth".

Luncheon Address: Taiwan's Financial Reform in Retrospect

Susan Hsiu-Lien Chang, **Vice-Chairperson of the Financial Supervisory Commission (Taiwan)**

Susan Chang was introduced by John Raymond Labrosse and then she delivered a speech entitled "Taiwan's Financial Reform in Retrospect". She spoke that the Taiwan government has worked hard to actively promote financial reform in recent years, and the fruit and achievements could be witnessed from different financial ratios of the banking industry such as NPL ratio and profitability.

In order to speed up the process of conducting exit mechanism, the Financial Restructuring Fund was built up that provided temporarily blanket guarantee to the depositors. Thus, 48 problem financial institutions had been successfully resolved without influencing financial stability. The next step is to enlarge the scale of operations of the banks in Taiwan via facilitating bank mergers.

Mrs. Chang also announced the goal of developing Taiwan into a "regional financial services center". She thus especially thanked all the participants in the international community for their support.

Session III: Cross-Border Challenges in Handling Bank Insolvencies

Panel: *Joseph Pasquariello, Partner, Goodmans LLP, Toronto*
Tetsuo Yamashita, Director, KPMG FAS Co., Ltd (Japan)
Kelly Naphtali, Associate, Lovells Hong Kong

The panellists all spoke about the cross-border implications of the insolvency of a multinational bank covering the systemic and procedural aspects, the substantive issues that need to be looked at and what could be done to attract foreign investment. The speakers emphasized that legal mechanisms at various levels including national insolvency law, international treaties, private internal law, comity of law and protocols are required to address cross-border matters. Although the current cross-border insolvency regime for multinational banks is still in its infancy, there is limited laws and harmonization between countries and that the regulation generally remains nationally based, multinational bank failures in recent years with a cross-border component have not caused substantial disruption because of voluntary co-operation among the different jurisdictions and recognition of foreign insolvency proceedings.

In conclusion, the speakers noted that a worldwide uniform code to address cross-border bank insolvencies is extremely ambitious and unlikely and that a more practical way to address cross-border challenges in bank insolvencies is through enhanced principles of international comity. Key issues include that of whether the foreign jurisdiction has an appropriate legal and regulatory system in place, and in implementing harmonization mechanisms with other jurisdictions with similar policy goals.

In the **Question and Answer** session two questions were raised. First, Peter Sinclair of the University of Birmingham commented that the presentation covered the role of financial regulators and deposit insurers as funeral director rather than as surgeon. Of greater importance would be a focus on reorganization-type proceedings and the cross-border implications of a bank that may be insolvent but could survive. Mr. Pasquariello explained that the challenges are different but the focus is the same as administrators will play the key role before a bank is placed in the morgue through early intervention measures. Second, Ricardo M. Tan, President and Chief Executive Officer of the **Philippine Deposit Insurance Corporation**, commented that the depositors and creditors of BCCI Hong Kong were kept whole, and asked about the recovery for other countries. Michael Mackay, who was

the liquidator for BCCI, explained that in several countries including France, the depositors were paid in full. In countries where the records were bad, all the assets were pulled together and 75 cents on the dollar had been paid out and by next year, the payout should be about 80 to 85 cents on the dollar.

Session IV: Guidance for Aiding the Resolution of a Failed Bank

Moderator: *David K. Walker, Director, Policy and International, Canada Deposit Insurance Corporation*

David Walker introduced the session by observing that it is well known that deposit insurance systems vary across countries in how they deal with failure resolutions -- some deposit insurers have a direct role in resolutions while others have a more indirect role. However, regardless of their mandates, all deposit insurers have an interest in how failed banks are resolved – particularly with respect to their impact on financial stability, the protection of depositors and the costs of providing deposit insurance.

Presentation: General Guidance for the Resolution of Failed Banks

*William Su, Director of Risk Management Department, **Central Deposit Insurance Corporation** and Projector Coordinator of the **IADI** Sub-committee on Developing Guidance for the Resolution of Bank Failures*

William Su began by explaining that the objective of the paper was to develop general guidance for deposit insurers and other safety net participants interested in establishing or enhancing their mechanisms for the resolution of bank failures. The guidance was prepared by an **IADI** Subcommittee and was designed to take into account different country circumstances, settings and structures. Key sources of information were the responses from a survey questionnaire distributed in 2004, the experiences of Members, Associates, Observers and various countries.

Some of the key areas addressed in the survey included: the incidence and costs of bank failures and systemic crises; the factors responsible for failures; the roles and responsibilities of deposit insurers and other safety net participants in resolutions; the pros and cons of various resolution methods and approaches to asset disposition for failed banks; information sharing and coordination mechanisms; and valuable

insights from the actual experiences of deposit insurers in handling resolutions and asset dispositions.

The deposit insurers who responded to the survey ranged from those which could be classified as primarily pay box types (with a mandate focused on paying out depositors claims when a bank fails) to “risk minimizers” or non-pay box type deposit insurers with wider mandates providing them with the means to better control the risks they face.

The Subcommittee’s research showed that a strong institutional framework reduces the risk of banking failures or crises and helps minimize the costs of failures. Thus, it is recommended that policymakers ensure there is a strong institutional framework in place for the economy and financial system. This should include: sound macroeconomic policies, effective corporate governance, sound banking supervision and regulation (including prompt corrective action), an efficient and effective failure resolution processes and a well developed judicial and criminal investigation system. Furthermore, strengthening the institutional framework for bank supervision is of particular importance for deposit insurers with a limited pay-box mandate.

The guidance also stressed that effective bank failure resolution requires an operationally independent and accountable deposit insurer, with a clear mandate and which is insulated from undue political and industry influence. The powers granted to a deposit insurer should be consistent with its public policy objectives and mandate. In a least cost resolution case this means that the insurer should have the power to decide on the appropriate resolution approach and the ability to undertake preventative measures (inspections) before a bank fails.

With respect to the division of duties and responsibilities among safety net players, the guidance emphasized these should be clearly defined and information sharing and coordination mechanisms put in place for all financial safety net participants. An explicit statutory mechanism should be set up for dealing with a systemic crisis and “Too Big to Fail” issues. And, with the increasing growth in international banking activities there is a need for greater information sharing and coordination between deposit insurers and supervisory authorities dealing with failures across international borders.

The guidance recommended that deposit insurers should have a fund and the insurer should have a target for the fund. The deposit insurer should also have the authority to accept or reject new members, terminate the insurance status of a member bank and coordinate with

the supervisory authority the timing of termination prior to bank closure.

Those working for a deposit insurer and other safety net participants should have appropriate legal protection while discharging their mandates. A deposit insurer should be provided with the power to investigate, and if necessary, litigate against those parties at fault in a bank failure.

On operational and administrative issues, the guidance supported putting in place appropriate policies and standard operational procedures for resolutions. This should include the power to contract outsourcing services where internal resources are insufficient.

In other areas, the guidance recommended that a deposit insurer should have in place an effective public awareness and communication mechanism to enhance the confidence of the public in the deposit insurance system and the failure resolution process.

Mr. Su emphasized that it is important to have in place a rule-based or statutory trigger mechanism for early intervention into the affairs of a troubled bank and determining a problem bank. He added that failure resolution strategies should try to maximize the recovery of the failed bank's assets using a market approach. A top priority for deposit insurers should be to focus on protecting the interests of insured depositors via efficient and effective reimbursement processes.

In closing, Mr. Su said that in terms of applying this guidance, it should be remembered that a deposit insurer can apply the guidance to its public policy objectives, mandates and the major responsibilities in resolution. And, a deposit insurer can employ this guidance as a tool kit for improving bank failure resolution mechanism in general.

Discussant I: *Mohammed Al-Jafari, Managing Director, Deposit Insurance Corporation of Jordan*

Mohammed Al-Jafari began by congratulating Mr. Su, his team and the **IADI** Subcommittee for their excellent work in developing the guidance. Before making specific comments on the paper, he stated that deposit insurance is not only about insuring deposits; it is also about improving market mechanism while protecting the financial system and the overall economy. Thus, while deposit insurers need to protect small depositors by reimbursing them promptly and effectively

in case of bank failure, they need also to resolve efficiently the failing or failed banks.

Dr. Al-Jafari commented that the paper on General Guidance for the Resolution of Bank Failures provides deposit insurers with a useful "Tool Kit" for improving bank failures resolution mechanism. In his view the paper's guidance will improve the design of deposit insurance systems in terms of public policy objectives and mandates; it highlights the importance of the alignment and the balance between deposit insurers responsibilities and powers; and the guidance provided will help reduce the risk of banking crises.

The major characteristics of the guidance he admired were its comprehensiveness and that the guidance could be adapted to fit with many different forms of deposit insurance systems and it could take into account different schemes, organizational set-ups, legal structures, and it is sensitive to the economic and political circumstances in different countries.

Of particular note, Dr. Al-Jafari highlighted the prerequisites for the efficient implementation of the Guidance. First, there must be considerable balance between financial stability and general confidence issues on one hand and moral hazard and market discipline problems on the other. Second, there needs to be a strong institutional framework in place characterized by a supportive legal framework and sound corporate governance. Deposit insurers must have independence but at the same time recognize the need for information sharing and coordination. And, there needs to be a clear formal division of duties and responsibilities among safety net participants.

Nevertheless, there were many limitations faced by policymakers for the efficient implementation of this Guidance. This included: limited choices for resolution of failed banks; restricted authority to conduct off-site and on-site examinations; inadequate deposit insurance funds - particularly for the newly established systems; the absence of statutory mechanism, or clearly defined roles, for the deposit insurer for dealing with a systemic crisis; and limited powers for the prosecution of directors, officers and auditors of the failed bank.

Dr. Al-Jafari addressed some critical considerations going forward. He was concerned about whether such terms as a "banking systemic crisis" and "Too Big to Fail" can be adequately defined and if so, would not a statutory definition impose rigidity on authorities in dealing with systemic threats that are not caught in the statutory definition?

Another consideration was that the implementation of the Guidance needs political willingness in concerned countries, and the deposit insurer might need to resort to lobbying and use what leverage it might have to push for statutory changes.

Dr. Al-Jafari closed by suggesting some questions for future researchers such as why less than 50 per cent of the countries surveyed had a rule-based statutory approach for early intervention? Why did only 38 per cent of countries surveyed have the statutory authority to conduct on sight appraisal in connection with resolution opinion before bank closure? Why was there such variation in the reimbursement periods for insurers? And, why did only 37 per cent have access to deposit records at the time of bank closure?

Discussant II: Experience of Deposit Insurance Vietnam in Dealing with Bank Failures

Do Khac Hai, Chairman of the Board of Directors, Deposit Insurance of Vietnam (DIV)

Do Khac Hai started his presentation by saying that before the introduction of the **DIV** in July 2000, there were a number of failed institutions which were accepting deposits and under special control by the government. In this context, the State Bank of Vietnam proposed to the Government the establishment of a deposit insurance institution in order to create one more channel for examining operations of credit institutions and dealing with financial institution bankruptcies.

Therefore, on the 9 November 1999, the Prime Minister issued Decision No.218/1999/QĐ-TTg which officially established the **DIV**. The main functions of the DIV are to: (i) protect the right and legitimate interest of depositors; (ii) contribute to maintain the stability of insured institutions and (iii) ensure the safe and sound development of the banking sector. During its first five years of operation the **DIV** built an effective operational structure composed of 500 persons, a head office and six regional branches.

The **DIV** has made insurance payment (up to the coverage limit) to nearly 3000 depositors at 33 insured PCFs involving VND 17 billion. This has worked to reduce the risk of contagion in the system, maintained stability and keep the banking sector under control. All payments have been funded by the industry so no public funds have been used in these resolutions. In order to deal in a timely fashion with insolvent institutions, the **DIV** instituted a policy of effective early

closure of troubled institutions and made this policy fully transparent to the banking industry.

In the process of developing the deposit insurance system in Vietnam some very important lessons were learned. These included the lesson that there must be a good legal environment underpinning deposit insurance and good internal governance and controls of the insurer. It was also learned that the public needs to be well informed about the terms and conditions of coverage so there is no confusion. Despite the presence of good supervision, credit institutions can still fail and therefore the insurer needs to have in place the capability to conduct prompt and accurate reimbursements of insured depositors. And, there needs to be good coordination between all the various safety net authorities such as the State Bank of Vietnam (SBV), **DIV** and local authorities.

In summary, the **DIV** has successfully accomplished its three main objectives provided to it by the Government.

29 September 2005

Session V: Concurrent Sessions

Session V (a): Promoting International Cooperation

Moderator: *George Hanc, Consultant, Banking Research and Consulting (U.S.A.)*

Presentation I : Challenges in International Co-operation in Financial Sector Regulation

Allan Popoff, Portfolio Manager and Senior Banker, European Bank for Reconstruction and Development, London.

Allan Popoff began his presentation with the short overview of **EBRD** activities. He highlighted three main areas, where the international co-operation in their countries of operation would be desirable: first, in financial sector regulation; second, in providing financial safety net; and third, in strengthening market discipline. He stressed that today's ad hoc exchange of information, or bilateral agreements, between home and host supervisor are not enough to deal with possible crises of multinational financial conglomerates. The home-host problem of Basel II is visible in different incentives and obligations of home and host supervisors. Moreover, there can be asymmetric risk transmission

between home and host country, but the most difficult area will be the responsibility for winding down an insolvent institution.

Mr. Popoff added that international co-operation between home and host supervisors as well as deposit insurers would help to strengthen market discipline. The role of **EBRD** can be to assist both banks and supervisors with preparing for the challenges of cross border supervision, as well as improving deposit insurance schemes and establishing ones.

Presentation II: International Cooperation

Mario Alberto Beauregard Alvarez, Executive Secretary, Instituto para la Proteccion al Ahorro Bancario (Mexico)

Mario Alberto Beauregard Alvarez emphasized as the Deposit Insurance Systems are relatively new institutions, whose roles and mandates are still accommodating themselves in the financial safety nets. Therefore, the exchange of knowledge, experience and expertise is especially important to help them to understand the challenges and limits they face. Whatever the mandate of Deposit Insurance System is, the common denominator of all is to promote financial stability. He noted that whilst in the area of practitioners' information exchange, guidelines development, training programs and technology transfer much work has already been done, but there is still great room for improvement. He stressed that in today's global world the international co-operation in the areas of information technology, expertise sharing as well as policy making could help deposit insurers to meet their foremost interest beyond financial stability, i.e. minimization of costs.

Presentation III: Optimum Deposit Insurance

Peter Sinclair, Professor, University of Birmingham (UK)

Peter Sinclair debated the extent and level of coverage of deposits and further issues such as the use of coinsurance or deductibles. He raised a question where the *ex-ante* Deposit Insurance System should allocate its reserves as the banking crisis is usually interconnected with exchange rate crisis.

Professor Sinclair then elaborated on the use of ceiling and the coverage of different types of deposits. He suggested that demand deposits should receive automatic cover, possibly two times annual GDP per head, as they represent the greatest threat of withdrawals in

panics. Whereas term and notice deposits could receive optional cover as their owners are more sophisticated than that of demand deposits. Furthermore, he mentioned the use of “*de minimis*”, a deductible of perhaps 1 or 2 percent of annual GDP per head, as a way to curtail administrative expenses of reimbursement of small size deposits.

Presentation IV: Promoting International Cooperation in Resolving Bank Failures

Gulen Atay Newton, Principal Counsel, Asian Development Bank

Gulen Atay Newton underlined that bank insolvency is an issue of public concern as a bank’s failure can produce more negative consequences than that of a non-financial enterprise. The loss of public confidence may trigger a systemic crisis that endangers the health not only of a national financial system, but the international as well. She stressed that the need for international cooperation in resolving bank failures is even more urgent today, when cross-border banking is part of everyday life. Even as markets have grown international, bank regulations as well as insolvency regulation are nevertheless still nationally based. In recent years, a number of international and regional organizations and groups have worked on issues relating to bank insolvency. She added that, in 2002, the Global Bank Insolvency Initiative was formed. The Initiative is in the process of identifying the appropriate legal, institutional and regulatory framework for addressing bank insolvency and building an international consensus to accept the framework.

Ms. Newton pointed out that the initial steps in harmonizing banking and insolvency regulation would be to develop a regional financial framework. Mechanisms for crisis prevention would include regional information sharing, policy dialogue, consultation, surveillance and monitoring. In the face of a systemic crisis in the banking sector, a crisis-affected economy’s return to sustainable growth could be hastened by regional fiscal resource mobilization. She mentioned a number of such initiatives that are underway in the Asia region.

Session V (b): Contingency Planning for Dealing with a Failed Bank

Moderator: *Jean Pierre Sabourin, Chair of the Executive Council, International Association of Deposit Insurers, and Chief Executive Officer, Malaysia Deposit Insurance Corporation*

Panel: *David Walker, Director, Policy and International, Canada Deposit Insurance Corporation*
Michael W. Mackey, Reorganization Services Group, Deloitte Financial Advisory Services LLP
John Raymond LaBrosse, Secretary General, IADI

The session took the form of an interactive presentation from all of the members of the panel. **Jean Pierre Sabourin** began by introducing the topic of contingency planning, why it is so important and explaining that it was a process which involves identifying and assessing the significant risks an organization faces. This is done, he said, by assessing the systems, policies and practices that exist to mitigate those risks, and assessing residual risk to ensure that it is at an acceptable level. Without appropriate planning, an organization cannot ascertain if it is prepared, and indeed capable of dealing with the risks inherent in its mandate. An organization must understand the risks it faces and how it can manage and mitigate those risks to an acceptable level. That is why it is important to start from the beginning--understanding the legislative mandate, the powers, and the roles and responsibilities under which a deposit insurer is established.

David Walker illustrated how these concepts can work by drawing on examples from the **Canada Deposit Insurance Corporation** and how contingency planning was closely integrated with an Enterprise Risk Management process. A number of areas were reviewed including: mandate, powers, interrelationships and legislative framework; a look at **CDIC's** resources and capabilities – both internally and externally – including the critical role played by funding for deposit insurance.

Attention then turned to mandates and the range of mandates that exist around the world of deposit insurance. **John Raymond LaBrosse** did this by illustrating the differences from so-called “pay box” deposit insurers to those with broader mandates that include full risk minimization. The differences were quite evident in terms of powers, interaction with the life cycle of an institution, effectiveness and interrelationship issues. Unlike what is found often in the literature, deposit insurers' mandates are not the same all around the world and, as such, care needs to be taken in assessing the ability of an individual organization to carry out its role.

The focus of the session then shifted to scenario planning and specifically a look at those factors, which could lead to a failure, and

the planning that is needed as to how to deal with failures. Examples from **CDIC** were used by Mr. Sabourin and Mr. Walker to illustrate the steps needed to resolve a failure and special considerations for liquidations and payouts were presented (including an example of an actual payout simulation).

Mr. LaBrosse focused on **CDIC**'s role in the prudential regulatory system in Canada and the need for close co-ordination of all safety net players. This, he said, has led to the development of an early warning and intervention framework which guides the actions of the key players. He then explained the special significance of communications in contingency planning and identified key issues that need to be worked on by deposit insurers.

Access to financial and the availability of human resources are often keys to the success of resolving a bank failure. Mr. Sabourin illustrated the extent of the financial resources available to **CDIC** which include a significant amount of cash on hand, access to \$6 billion that can be drawn from the private markets or the government and the ability to undertake some innovative transactions such as providing for guarantees. Success in these areas has resulted in a significant reduction in costs – “thinking out of the box” reduced losses from 52 cents on the dollar to 17 cents and the savings to the financial system were in the order of \$5 billion.

Mr. Walker described **CDIC** as a “virtual organization” noting that the number of professionals potentially available to the Corporation can rise very quickly above the core staff of 80 people. In running a virtual organization it is essential to establish relationships and agreements with external suppliers. This was very characteristic of the way that **CDIC** approached previous failures. He added that information technology has become a mission critical resource and that **CDIC** has invested heavily in developing independent IT resources such as risk assessment, evaluation and payout systems.

Michael W. Mackey from **Deloitte & Touche LLP** then entered the discussion focusing on contingency planning from an “industry supplier” perspective. He said that dealing with a significant banking failure means developing both the strategy and logistics that are necessary to deal with each stakeholder group, potentially ranging from the most senior politicians to hundreds of thousands borrowers and depositors.

Mr. Mackey then presented an idealized sequence for undertaking the liquidation of a significant bank – ranging from possession, realization, reporting through to administration and distribution. In a series of slides he then went through each one of the elements in considerable detail.

At that point, David Walker described the scenario planning that went into dealing with a failure from the experience at **Canada Deposit Insurance Corporation**. He described four key areas for planning which was supplemented by Michael Mackey's comments as to how Enterprise Risk Management techniques could be deployed in making sure that the deposit insurer is well prepared to deal with a failure. In so doing, Mr. Mackey laid out a conceptual decision making tree for contingency planning.

At the heart of contingency planning is the ability to test how one responds to failures and adverse events. Different simulations have different objectives and the time differential between the last failure and a current one can be problematic as skills need to be kept sharp. David walker presented an example that was conducted at **CDIC** through the use of a software payout tool called "Roadmap". Mr. LaBrosse added that coordinated communications plans and activities are the essential elements in the event of a large failure and then he went through the various critical elements. David Walker went into considerable detail on payout planning – an essential characteristic of any deposit insurer organization no matter what its mandate.

Some of the key lessons learned by **CDIC** for contingency planning included recognizing that while each problem is unique there is no substitute for advance preparation. This should start by knowing your mandate, powers and legislative framework and what you as a deposit insurer can and cannot do. The importance of establishing information sharing and coordination mechanisms between all safety-net partners in the "good times" and the importance of building relationships with the media well in advance of when it may be needed. Resources play a critical role and therefore need to be lined up and pre-qualified (e.g. funding, IT, legal and personnel) before failures occur. In the absence of failures, scenario planning and simulation can be extremely useful tools to test ones skills and resources. Finally, it is important to be aware of emerging issues and how they may affect future failures.

In closing, Mr. Sabourin reiterated that we should all know our mandates; set up teams and do contingency planning before problems occur; and include the private sector in contingency planning as their perspectives and resources are valuable. Deposit insurers should be looking for models of efficiency and practices from other deposit insurers as well. Insurers should build in good incentive systems and establish a clear communication process with others in the safety net. And, while contingency planning requires resources, the cost of making mistakes in a failure usually far outweigh the cost of doing effective contingency planning.

The presentation ended with a review of some new areas in contingency planning such as business continuity planning.

Session VI: Guidance for Promoting Effective Interrelationships

Moderator: *Ricardo Tan, President and CEO, Philippine Deposit Insurance Corporation*

Presentation: General Guidance to Promote Effective Interrelationships among Financial Safety Net Participants

Winston Carr, President and Chief Executive Officer, Jamaica Deposit Insurance Corporation

Winston Carr began his presentation by the background information in developing the guidance for promoting effective interrelationships. He proceeds with the components of financial safety nets i.e. regulators, lender of last resort, deposit insurance, resolution mechanism for distress banks and Ministry of Finance. It is acknowledged that most deposit insurers do not have the examination power and thus some areas require further improvement.

There is a need to have close coordination between safety net participants to avoid conflicting mandates. This can be achieved with clear division of powers and responsibilities through legal agreements, representation on Board of Directors, MOUs and designated committee. Close coordination facilitates information sharing between them. Information needs vary according to deposit insurer mandate and this information would only be useful if it is timely, accurate and relevant. Thus confidentiality of information needs to be respected.

Mr. Carr concluded his presentation by reiterating the importance of effective interrelationship among the safety net participants and the guidance would assist members in developing their own effective interrelationship.

Discussant I: Interrelationships Among Safety Net Participants: Japan's Case

Mutsuo Hatano, Deputy Governor, Deposit Insurance Corporation of Japan

Mutsuo Hatano began his comments by thanking the moderator and speaker. He then went on to present the Japan's experience according to the framework presented by Mr. Carr.

He mentioned that in applying the framework, Ministry of Finance and Financial Services Agency fall into the category of Regulation and Supervision, and Bank of Japan assumes the role of lender of last resort while **DICJ** is the provider of deposit insurance. He briefly touched the history of **DICJ**, its mandate, legislation and governance structure.

Mr. Hatano then addressed the governance structure in Japan. The supervisory authorities are the Ministry of Finance and the FSA which may issue orders, request report submission or conduct inspections for **DICJ**. Important issues of **DICJ** are decided by the Policy Board, comprising five Executive Officers of **DICJ** and eight outside members of which one of them is Chairman of Bankers Association. The Board's decision need to be approved by the Ministry of Finance and the FSA.

Mr. Hatano concluded with the information sharing where close and sincere relation is maintained even though under the law, **DICJ** may have access to the necessary information in line with its mandate when necessary.

Discussant II: Challenges for Deposit Insurers in Resolving Bank Failures

Louis Chen, Professor, Department of Financial-Economic Law, National Taipei University

Louis Chen started his comments with the members of financial safety nets that include lender of last resort, supervisory authority and deposit insurer. He mentioned that each country adopts its own model of

cooperation scheme among safety net members on the banking supervision. He cited example of the cooperation scheme implemented in Japan, Korea and Taiwan.

In Taiwan, possible problems among supervisors for “problem bank” management are unclear mandate and power among agencies, delay or no prompt corrective action to manage bank’s failure, inspection or communication programs not well enforced and cross border financial issues.

In conclusion, he proposed that **IADI** and other international organizations develop guidance or best practices, hold frequent discussions and forums to assist members to better deal with bank failures.

Discussant III: Interrelationships Among Safety Net Participants: Bulgaria’s Case

Roumyana Markova, Chief Expert, Bulgarian Deposit Insurance Fund

Roumyana Markova began with the participants of safety net in Bulgaria that comprise Bulgaria National Bank (BNB), Banking Supervision Department of BNB and **Bulgaria Deposit Insurance Fund**. Each has clear mandates and responsibilities provided under the laws, namely Law on Bank Deposit Guaranty (LBDG) and Law on Bank Bankruptcy (LBB).

Under LBDG, BNB provides the necessary information to **BDIF** and BSB, upon request of **BDIF**, conducts examination concerning deposits. Under LBB, **BDIF** drafts regulations for its implementation and these had to be approved by BNB.

She concluded with relationship with Association of Commercial Banks where Letter of Cooperation was signed to facilitate periodic discussions and exchange of information between them.

During the **Question and Answer** session, a representative from Trinidad shared his experience where the mandate of a safety net participant does not allow information sharing and as such Memorandum of Understanding could not be implemented. He also informed that deposit insurer requires timely information and information from the central bank may not be able to provide such

information. Mr. Carr responded that the high level management of SNP needs to understand the importance of information sharing.

A representative from Romania also shared his experience where there exists strong relationship between deposit insurer and central bank. This relationship may turn into subordination and as such, it requires clearly defined roles and responsibilities. He proposed that this should be discussed in the next conference.

Closing Session

Update on IADI Activities

The Secretary General provided an update on the activities of the International Association of Deposit Insurers. Before he addressed the accomplishments of the past year, **Mr. LaBrosse** provided a profile on the organizations involved with the **International Association of Deposit Insurers**. He welcomed each of the new Members – **The Deposit Guarantee Fund in the Banking System (Romania)**, **Bank Al-Maghrib (the Central Bank of Morocco)**; **Bank Deposit Security Fund (Sudan)**; **Instit National de Garantie des Depots (Lebanon)**; **Deposit Insurance and Credit Guarantee Corporation** (wholly owned subsidiary of the Reserve Bank of India); **Hong Kong Deposit Protection Board**; **Malaysia Deposit Insurance Corporation** and he noted that **Bank of Thailand** and **Bangladesh Bank** had joined as Associates and **KPMG Impaired Loan Advisory Services** had recently joined as an Observer.

Mr. LaBrosse then turned to some of the significant accomplishments of the Association over the past year. He noted that activity amongst the Regional Committees was particularly brisk with conferences, seminars and workshops being held in Acapulco, Almaty and Cartagena and more can be expected in 2005/06. The Standing Committees were also very active in preparing guidance to assist policymakers in the design of deposit insurance systems based on country experience, general guidance in the development of differential premium systems, a catalogue on training courses for deposit insurers, and member and committee profiles that have been published in the monthly **IADI Newsletter**.

Mr. LaBrosse noted that **IADI** has been invited to submit papers from the Fourth Annual Conference to the *Journal on Banking Regulation* as there are preparations underway for a special issue on deposit insurance.

Neusa Fatima Siliprandi was then invited to make a presentation including a DVD on Rio de Janeiro, Brazil, the next venue of the 2006 **IADI** Annual Conference. On behalf of the **Fundo Garantidor de Créditos**, Ms. Siliprandi invited all deposit insurers and other participants to Brazil to attend the conference and enjoy the beauty that the city has to offer.

Chin-Tsair Tsay was called upon to bring the conference to a close. He again thanked everyone for their participation that made this conference fruitful, informative and successful. Before Mr. Tsay returned to his seat, Jean Pierre Sabourin and John Raymond LaBrosse jointly asked him to stay and the **CDIC** team including Johnson Chen, Yvonne Fan and Fionna Yeh were also invited. Jean Pierre Sabourin thanked the staff of the **Central Deposit Insurance Corporation** for their great organization and hospitality. The conference came to a close under the beautiful melody of a famous Chinese song "Story of the Little Town" by Teresa Teng.

Farewell Dinner on September 29

Remarks by *Dr. Sheng-Cheng Hu, Chairperson, Council for the Economic Planning and Development, Executive Yuan (Taiwan)*

Sheng-Cheng Hu felt great honoured to be invited to the farewell banquet and, on behalf of Vice Premier Dr. Wu Rong-I, he sincerely welcomed all guests from overseas. Dr. Hu gave high credit to **CDIC**'s key role in Taiwan's recent financial reform. Taiwan began financial liberalization in 1990 which, however, led to over-banking problem. Also suffered afterwards by a series of bubble bursts and natural disasters, Taiwan's economy has weakened gradually. He pointed out that the government started the first financial reform in 2002, trying to clean up the non-performing loan and to improve the quality of bank assets. **CDIC** played a critical role in the withdrawal of problem banks while providing blanket guarantee to depositors. The blanket guarantee was suspended this July and now the deposit insurance has returned to limited guarantee.

Dr. Hu noted that even Taiwanese financial sector has improved its health; but, its banks are still not competitive enough. That's why Taiwan has the second financial reform currently which encourages banks' merger and acquisition. He indicated that competitive banking environment can support the prosperity of Taiwan's economy. Taiwan has successfully transformed from traditional manufacturing into hi-

tech oriented economy due to the vitality of private sector and abundant manpower.

After briefly introducing stages of the financial reforms in Taiwan, Dr. Hu suggested that the guests also discover different aspects of Taiwan and enjoy the variety of cultural events. He thanked everyone for attending the Conference and wished all good health and wonderful time in Taiwan.

List of Participants

First Name	Institution	Country
Chin-Tsair Tsay	Central Deposit Insurance Corporation	Taiwan
Johnson C.S. Chen	Central Deposit Insurance Corporation	Taiwan
Howard N.H. Wang	Central Deposit Insurance Corporation	Taiwan
Lung-Cheng Pan	Central Deposit Insurance Corporation	Taiwan
Wen-Hsian Lai	Central Deposit Insurance Corporation	Taiwan
William Su	Central Deposit Insurance Corporation	Taiwan
Yvonne Y.T. Fan	Central Deposit Insurance Corporation	Taiwan
Artan Boraj	Albanian Deposits Insurance Agency	Albania
Silvana Sejko	Albanian Deposit Insurance Agency	Albania
Laura Maria P. Alcantara Monteiro	National Bank Of Angola	Angola
Maria Heiena D.F. Cardoso	National Bank Of Angola	Angola
Irene L. Ulnik	Seguro de Depositos Sociedad Anonima	Argentina
Andrew Lee	KPMG	Australia
Branislava Lisica	Deposit Insurance Agency of Bosnia and Herzegovina	Bosnia and Herzegovina
Sanja Stankovic	Deposit Insurance Agency of Bosnia and Herzegovina	Bosnia and Herzegovina
Sead Manov	Deposit insurance Agency of Bosnia and Herzegovina	Bosnia and Herzegovina
Simeun Vilendecic	Deposit Insurance Agency of Bosnia and Herzegovina	Bosnia and Herzegovina
Neusa Fatima Siliprandi	Fundo Garantidor de Créditos	Brazil
Bisser Manolov	Bulgarian Deposit Insurance Fund	Bulgaria
Roumyana Markova	Bulgarian Deposit Insurance Fund	Bulgaria

First Name	Institution	Country
David Walker	Canada Deposit Insurance Corporation	Canada
Mary S.Y. Hum		Canada
John Raymond LaBrosse	IADI	Canada
Gail Labrosse		Canada
Joseph Pasquariello	Goodmans LLP	Canada
Gianna Pasquariello		Canada
Normand Côté	Autorité des marchés financiers	Canada
Edgard Eduardo Pinto Hernandez	Fondo de Garantias de Instituciones Financieras	Colombia
Josef Tauber	Deposit Insurance Fund	Czech Republic
Renata Cechova	Deposit Insurance Fund	Czech Republic
David Mayes	Bank of Finland	Finland
Janet Mayes		Finland
Charles Cornut	Fonds de Garantie des Dépôts	France
Gregory Zimnicki	Hong Kong Deposit Protection Board	Hong Kong
Kelly Naphtali	Lovells	Hong Kong
Andras Dr. Fekete-Gyor	National Deposit Insurance Fund of Hungary	Hungary
Dániel Jánossy	National Deposit Insurance Fund of Hungary	Hungary
Jánossyné Dr. Nagy Zsófia		Hungary
Swarup Santi Gangopadhyay	Deposit Insurance and Credit Guarantee Corporation	India
Firdaus Djaelani	Ministry Of Finance Of RI	Indonesia
Imansyah	Bank Indonesia	Indonesia
James Hambric	BearingPoint	Indonesia
Kusumastuti Soepardjo	USAID	Indonesia
Poltak Adolf A Tobing	Ministry Of Finance Of RI	Indonesia
Salusra Satria	Ministry Of Finance Of RI	Indonesia
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Hugette Jackson	Jamaica Deposit Insurance Corporation	Jamaica
Winston Carr	Jamaica Deposit Insurance Corporation	Jamaica

First Name	Institution	Country
Akira Konishi	Deposit Insurance Corporation of Japan	Japan
Mutsuo Hatano	Deposit Insurance Corporation of Japan	Japan
Shinichi Sakai	Deposit Insurance Corporation of Japan	Japan
Shunichi Nagata	Deposit insurance Corporation of Japan	Japan
Takahiro Hosojima	Deposit Insurance Corporation of Japan	Japan
Tetsuo Yamashita	KPMG FAS Co. Ltd.	Japan
Mohammed Al-Jafari	Deposit Insurance Corporation	Jordan
Othman Al-Jafari		Jordan
Nimer Basbous	Deposit Insurance Corporation	Jordan
Bakhyt Mazhenova	Kazakhstan Deposit Insurance Fund	Kazakhstan
Peter Kakai Cheloti	Deposit Protection Fund Board	Kenya
Dong -Il Kim	Korea Deposit Insurance Corporation	Korea
Eddy Cho	Korea Asset Management Corporation	Korea
Sung Han Jie	Korea Deposit Insurance Corporation	Korea
In-Woo Lee	NACF, Korea & Food and Fertilizer Technology Center for the Asian and Pacific region	Korea
Jae-Bok Kim	National Agricultural Cooperative Federation	Korea
Chun-Sung Lee		Korea
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Jin Man Kim	Korea Asset Management Corporation	Korea
Jungryol Kim	Korea Deposit Insurance Corporation	Korea
Jung-Soo Kim	Korea Asset Management Corporation	Korea

First Name	Institution	Country
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Jean Pierre Sabourin	Malaysia Deposit Insurance Corporation	Malaysia
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Md Khairuddin Hj Arshad	Malaysia Deposit Insurance Corporation	Malaysia
Wai Keen Lai	Malaysia Deposit Insurance corporation	Malaysia
Chong Wah Ng		Malaysia
Wai Lin See	Malaysia Deposit Insurance Corporation	Malaysia
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Alicia Freyssinier		Mexico
Felipe Alamilla Ramos	Instituto para la Protección al Ahorro Bancario	Mexico
Hector Reynaldo Tinoco	Instituto para la Protección al Ahorro Bancario	Mexico
Adriana Martinez		Mexico
Mario Beauregard	Instituto para la Protección al Ahorro Bancario	Mexico
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Gani Ogunleye	Nigeria Deposit Insurance Corporation	Nigeria
Tola Ogunleye		Nigeria
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Carlos Carrion	Fondo de Seguro de Depositos	Peru

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Cristina Orbeta	Philippine Deposit Insurance Corp.	Philippines
Meynaroo Orbeta		Philippines
Gulen Atay Newton	Asian Development Bank	Philippines
Ma. Corazon Guerrero	Bangko Sentral ng Pilipinas	Philippines
Maria Leonida Felix	Philippine Deposit Insurance Corp.	Philippines
Kathleen Marie Felix		Philippines
Ricardo M. Tan	Philippine Deposit Insurance Corp.	Philippines
Aana Maria Bella B. Tan		Philippines
Alexandru Matei	Deposit Guarantee Fund In The Banking System	Romania
Radu Gratian Ghetea	Deposit Guarantee Fund In The Banking System	Romania
Andrey Melnikov	State Corporation Deposit Insurance Agency	Russian Federation
Oksana Melnikova		Russian Federation
Georgy Agaptsev	State Corporation Deposit Insurance Agency	Russian Federation
Loo Siew Yee	Monetary Authority of Singapore	Singapore
Jonathan Dixon	National Treasury	South Africa
Neren Rau	South African Reserve Bank	South Africa
Raadhika Sookoo	National Treasury	South Africa
Izzeldin Yassin	Bank Deposit Security Fund	Sudan
Carin Bauer	Swedish Deposit Guarantee Board	Sweden
Per Swahn	Swedish Deposit Guarantee Board	Sweden
Kim White	IADI	Switzerland
Shinichi Yoshikuni	Bank for International Settlements	Switzerland
Alex Wang	Central Trust of China	Taiwan
Bin Chow	Bank of Taiwan	Taiwan
Chen Yeh-Ning	National Taiwan University	Taiwan

First Name	Institution	Country
Chewn-His Hung	National Audit Office (Ministry of Audit)	Taiwan
Chi Schive	Taiwan Academy of Banking and Finance	Taiwan
Simon Matafu	Deposit Insurance Board	Tanzania
Chia Ching Cheng	Financial Examination Bureau, Financial Supervisory Commission	Taiwan
Chih-Chun Lee	Ministry of Audit	Taiwan
Chih-Chung Fan	Hua Nan Commercial Bank Ltd.	Taiwan
Ching-Hung Cheng	Financial Examination Bureau, Financial Supervisory Commission	Taiwan
Ching-Long Lin	National Audit Office (Ministry of Audit)	Taiwan
Christine Yin	Bank SinoPac	Taiwan
Chun-Chieh Wang	Financial Examination Bureau, Financial Supervisory Commission	Taiwan
Gregovy C.P. Chang	Chinfon Commercial Bank	Taiwan
Hsiad-Lan Tang	Huanan Commercial Bank.	Taiwan
Hsieh Fu Shuang	National Taiwan University	Taiwan
Hsing-Wu Teng	Financial Examination Bureau, Financial Supervisory Commission	Taiwan
Hson Yuan Chuang	Banking Bureau, Financial Supervision Commission	Taiwan
Hwang Dar-Yeh	National Taiwan University	Taiwan
Kuo-Ying Wu	National Audit Office (Ministry of Audit)	Taiwan
Liu Chi Chun	National Taiwan University	Taiwan
Louis Chen	Public Television Service Foundation	Taiwan
Mao-Shyan Liu	Bankers Association Of The Republic Of China	Taiwan
Mark Tang	Taiwan Academy of Banking and Finance	Taiwan
Min-Feng Hsiao	Central Bank of China	Taiwan
Nancy Chu Wei	Financial Examination Bureau, Financial Supervisory Commission	Taiwan

First Name	Institution	Country
Sen-Been Lai	National Audit Office (Ministry of Audit)	Taiwan
Ta-Jung Kuo	National Audit Office (Ministry of Audit)	Taiwan
Tung-Rern Chuang	Financial Examination Bureau, Financial Supervisory Commission	Taiwan
Tzu-Ming Chang	Financial Examination Bureau, Financial Supervisory Commission	Taiwan
Wei Chen Lo	Banking Bureau, Financial Supervision Commission	Taiwan
Wen-Jen Hwang	Financial Examination Bureau, Financial Supervisory Commission	Taiwan
Wilber W.J. Wu	Taiwan Cooperative Bank	Taiwan
Wu Wei Hsiung	National Taiwan University	Taiwan
Yi Mei Chou	Banking Bureau, Financial Supervision Commission	Taiwan
Ying-Hua Yang	The Central Bank of China	Taiwan
Narida Sreshthaputra	Bank of Thailand	Thailand
Ruchukorn Siriyodhin	Bank of Thailand	Thailand
Manakul Taweesakdi	Ministry of Finance	Thailand
Junior Frederick	Deposit Insurance Corporation	Trinidad and Tobago
Noel Nunes	Deposit Insurance Corporation	Trinidad and Tobago
Ahmet Mutlu	Savings Deposit Insurance Fund	Turkey
Ferruh Tunc	Savings Deposit Insurance Fund	Turkey
M. Abdullah Canbek	Savings Deposit Insurance Fund	Turkey
Oleksiy Meleshchuk	The Deposit Guarantee Fund	Ukraine
Sergiy Borsa	The Deposit Guarantee Fund	Ukraine
Valeriy Ogiyenko	The Deposit Guarantee Fund	Ukraine
Peter Sinclair	University of Birmingham	United Kingdom
Allan Popoff	European Bank For Reconstruction & Development	United Kingdom

First Name	Institution	Country
Frederick Carns Jr.	Federal Deposit Insurance Corporation	United States
George Hanc	Banking Research and Consulting	United States
George Kaufman	Loyola University	United States
Michael W. Mackey	Deloitte & Touche LLP	United States
Patricia Mackey		United States
Maria del Rosario Soares Netto	Banco Central del Uruguay	Uruguay
Do Khac Hai	Deposit Insurance of Vietnam	Viet Nam
Nguten Manh Dung	Deposit Insurance of Vietnam	Viet Nam
John Chanetsa Chakanyuka	Deposit Protection Board	Zimbabwe
Mafungei Chikura	Deposit Protection Board	Zimbabwe

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IADI 4th Annual Conference		
“Challenges for Deposit Insurers in Resolving Bank Failures”		
28-29 September 2005		
Chair: Chin-Tsair Tsay Chairman of the Board Central Deposit Insurance Corporation		
Venue: The Grand Ballroom (12F), The Grand Hotel, Taipei		
Tuesday, 27 September 2005		
19:00	Dinner Address	Chuan Lin Minister of Finance (Taiwan)
	Welcome Dinner	
Wednesday, 28 September 2005		
08:30	Opening Session	
	Call to Order	John Raymond LaBrosse Secretary General, IADI
	Keynote Address	Frank C.T. Hsieh Premier of Taiwan
08:45	Welcome Remarks	Chin-Tsair Tsay Chair of the 2005 IADI Conference
	Opening Remarks	Jean Pierre Sabourin Chair of the Executive Council and President, IADI
09:15	Session I: Initiatives by Financial Safety Net Players to Help Make Banks “Too Good to Fail”	
	Moderator:	Shinichi Yoshikuni Senior Advisor, Monetary and Economics Department, Bank for International Settlements
	Presentation 1:	George Kaufman Professor, University of Loyola (USA)
	Presentation 2:	David G. Mayes Advisor to the Board of the Bank of Finland, and Professor, South Bank University, London
	Presentation 3:	Johnson Chen President, Central Deposit Insurance Corporation (Taiwan)
	Discussant:	George Hanc

		Consultant, Banking Research and Consulting, Washington D.C.
10:30	Coffee Break	
11:00	Session II: Developing an Effective Deposit Insurance System	
	Moderator:	Dániel Jánossy Managing Director, National Deposit Insurance Fund of Hungary
	Presentation 1:	Frederick S. Carns, Jr. Deputy Director, Federal Deposit Insurance Corporation
	Presentation 2:	Jungryol Kim Senior Economist, Korea Deposit Insurance Corporation
	Presentation 3:	Wai Keen Lai Deputy Director, Malaysia Deposit Insurance Corporation
12:15	Lunch Address	Susan Chang Administrative Vice Chairperson, Financial Supervisory Commission (Taiwan)
	Lunch	
13:45	Session III: Cross-Border Challenges in Handling Bank Insolvencies	
	Moderator:	Joseph Pasquariello Partner, Goodmans LLP, Toronto
	Presentation 1:	Kelly Naphtali Associate, Lovells Hong Kong
	Presentation 2:	Tetsuo Yamashita Director, KPMG FAS Co., Ltd (Japan)
14:45	Coffee Break	
15:15	Session IV: Guidance for Aiding the Resolution of a Failed Bank	
	Moderator:	Ronald N. Robertson Chairman of the Board, Canada Deposit Insurance Corporation
	Presentation:	William Su Director, Risk Management Department, Central Deposit Insurance Corporation (Taiwan)
	Discussants:	Mohammed Al-Jafari Managing Director, Deposit Insurance Corporation (Jordan)
		Do Khac Hai Chairman, Deposit Insurance of Vietnam

16:30	Session ends		
19:00	Dinner Party		
Thursday, 29 September 2005			
08:30	Session V: Concurrent Sessions		
	Promoting International Co-Operation		
	Moderator:	Chi Schive President, Taiwan Academy of Banking and Finance	
	Presentation 1:	Allan Popoff Portfolio Manager and Senior Banker, European Bank for Reconstruction and Development, London, U.K.	
	Presentation 2:	Mario Alberto Beauregard Álvarez Executive Secretary, Instituto para la Proteccion al Ahorro Bancario (Mexico)	
	Presentation 3:	Peter Sinclair Professor, University of Birmingham (UK)	
	Presentation 4:	Gulen Atay Newton Principal Counsel, Asian Development Bank	
	Contingency Planning for Dealing with a Failed Bank		
	Moderator:	Jean Pierre Sabourin Chair of the Executive Council and President, IADI	
	Presentation 1:	David Walker Director, Policy and International, Canada Deposit Insurance Corporation	
	Presentation 2:	John Raymond LaBrosse Secretary General, IADI	
	Presentation 3:	Michael W. Mackey Partner, Reorganization Services Group, Deloitte & Touche, New York	
	09:45	Coffee Break	
	10:15	Session VI: Guidance for Promoting Effective Interrelationships	
		Moderator:	Ricardo Tan President and CEO, Philippine Deposit Insurance Corporation
Presentation:		Winston Carr President and CEO, Jamaica Deposit Insurance Corporation	
Discussants:		Mutsuo Hatano Deputy Governor, Deposit Insurance Corporation of Japan	
		Louis Chen	

		Professor, Department of Financial-Economic Law, National Taipei University (Taiwan)
		Roumyana Markova
		Chief Expert, Bulgarian Deposit Insurance Fund
11:30	Update on IADI Activities	John Raymond LaBrosse
		Secretary General, IADI
12:00	Closing Remarks	Chin-Tsair Tsay
		Chair of the 2005 IADI Conference
		Jean Pierre Sabourin
		Chair of the Executive Council and President, IADI
12:25	Conference Ends	
12:30	Lunch	
14:00	City Tour	
19:00	Dinner	Rong-i Wu
	Address	Vice Premier of Taiwan
	Farewell Party	