



**Taiwan Insurance Guaranty Fund**

**THE FINANCIAL REGULATORY & SUPERVISION AND EXIT SYSTEM FOR FAILURE FINANCIAL INSTITUTE IN TAIWAN**

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TIGF 財團法人保險安定基金  
Taiwan Insurance Guaranty Fund

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**Agenda**

1. The Financial Regulatory System
2. The Exit System for Failure Financial Institute
3. The Discussion for the Integration of Deposit Insurance system
4. The case of Kuo-Hua Life Insurance



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**1. The Financial Regulatory System**



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**The Financial Regulatory System**

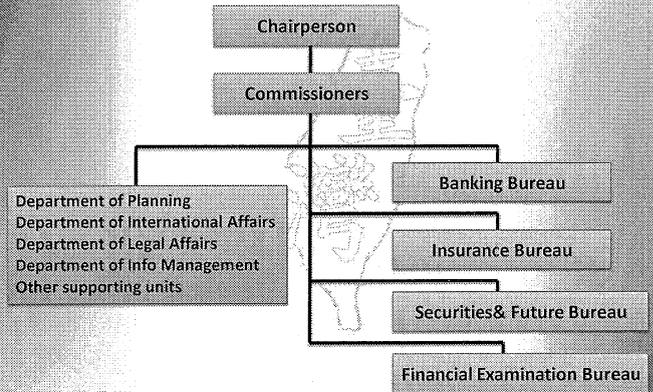
- The Multiple Supervisory System Pre-2004: 3 different departments in the MOF of Taiwan perform the regulatory function:
  1. Bureau of Monetary Affairs: Banking
  2. Department of Insurance: Insurance
  3. The Securities and Futures Commission: Securities and Futures
- The on-site examination for Banks: conducted by 3 different authorities: the Central Bank, the MOF, and the CDIC (Central Deposit Insurance Corporation).
- Single industry or different industries?
  - Inconsistent with the world trend and the market development after the enactment of Financial Holding Act in 2001, which allowed the cross-selling of different financial products and services in one legal entity.

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## The Financial Regulatory System

- The Single Vertically-Integrated Supervision System in 2004 July
- "Organic Act Establishing the Financial Supervisory Commission, Executive Yuan" was passed and promulgated on July 23, 2003.
- The Financial Supervision Commission (FSC) was established on July 1, 2004
  1. Function of FSC:
  2. Position of FSC:
  3. Authority and Quasi-Judicial Power of FSC:
  4. Operation & Organization of FSC:

## Organizational Structure of FSC



## 2. The Exit System for Failure Financial Institute

### Part I: Banking Sector

### Part II: Insurance Industry

## The Exit System for Failure Financial Institute

- The CDIC was established in Sep, 1985

Voluntary join	Compulsory	Application & Approval
Sep. 1985	Jan. 1999	Jan. 2007
Single Rate	Differential Rate	

- Current rate System:

Below the maximum ceiling is differential rate.

1. Banks: 0.05%, 0.06%, 0.08%, 0.011%, 0.015%
2. Cooperatives: 0.04%, 0.05%, 0.07%, 0.010%, 0.014%
3. Farmers and Fishers Associations: 0.02%, 0.03%, 0.04%, 0.05%, 0.06%

Over the maximum ceiling is single rate.

1. Banks and Cooperatives: 0.005%
2. Farmers and Fishers Associations: 0.0025%

## The Exit System for Failure Financial Institute

### The Resolution Trust Corporation

- The RTC (the Resolution Trust Corporation) is a "FUND" established in 9<sup>th</sup> July, 2001.
- The money came from the " Financial Industries Special Reserve" which were "tax" from financial industries.
- MOF (FSC) is the administrator for the Fund, and CDIC was the executive body.
- The Administrative Commission: 9~13 commissioners were the decision making authority.

## The Exit System for Failure Financial Institute

### The First Wave for failure Banks:

- One month after the Fund was established, in 10<sup>th</sup> August, 2001, the MOF sent 240 persons to take conservation of 36 local financial institutes in the banking sector, in the same day. (small size of cooperatives, farmers & fishers associations)
- 10 state-owned banks were ordered to merge the 36 failure institutes.
- The Over-Banking Period: At that time, there were about 500 different financial institutes and over 5667 branches.

## The Exit System for Failure Financial Institute

### The continuing waves:

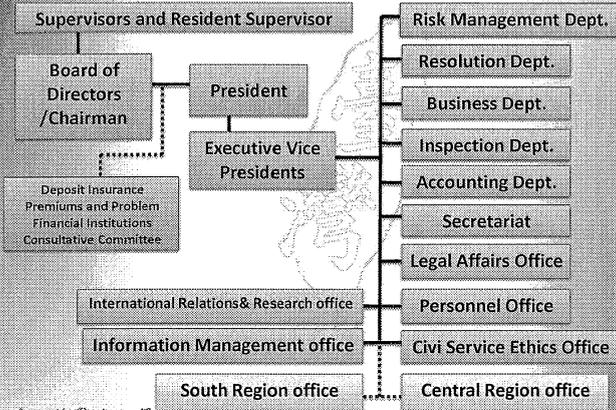
- Until the RTC transferred its function and authority to CDIC in 2011, the total number of 56 banking institutes were took conservation and exit the market. (9 cooperatives, 38 F&F Associations, 2 trusts companies, and 7 banks were put into conservation and exit the market).
- The total amount for the 56 institutes were NT 289,100,000,000, equal to 9.64Billion USD. (among which NT 81,400,000,000, little less than 30% contributed from CDIC premiums)

## The Exit System for Failure Financial Institute

### Functions of CDIC (among others)

1. Premiums collections
2. Early warning
3. Examination
4. Compensation
5. Conservator and receiver

## Organization Chart of CDIC



## The Exit of the Failing Insurers under the Current Legal System(1)

### Article 149 Subsection 4 of the Insurance Act states:

- If the business or financial conditions of an insurance enterprise deteriorate so significantly that the insurance enterprise is unable to pay its debts or perform contractual obligations, or the rights and interests of insured parties are adversely affected, the competent authority may, depending on the severity of the circumstances, take the following disciplinary actions:
  - 1) Place the enterprise under conservatorship. → **Administrative Supervision**
  - 2) Place the enterprise under receivership. → **Conservation**
  - 3) Order the enterprise to suspend business and undergo rehabilitation. → **Run-off and Liquidation**
  - 4) Order dissolution of the insurance enterprise. → **The same as above**

## The Exit of the Failing Insurers under the Current Legal System(2)

### Administrative Supervision → §149 subsection 9

1. The Board of directors of the Insurer remains and operates the Insurer
2. The Administrative Supervisor (could be TIGF or other Association related to Insurance Business) will only perform the advisory and supervisory function → like a delegated regulatory officer in the Insurer and make necessary observations and reports to the Regulatory for following intervention. The Administrative Supervisor cannot intervene the daily operation of the Insurer or remove its managers.

**Note:** Never used until now.

## The Exit of the Failing Insurers under the Current Legal System(3)

### Conservation → §149-1 subsection 1

1. The conservator (could be TIGF or other Association related to Insurance business) will take over the control of the daily operation of the Insurer.
2. The Board of Director of the Insurer and the Shareholders Meeting and its power are temporarily removed.
3. The conservator could suggest to put the failing insurer into run-off/liquidation and the TIGF will responsible for the 墊付 according to the applicable laws (it is highly similar to the US NAIC regulations)

**Note:** Kuo-Hua Life Insurance Company is the first one (and the only one until now) under conservation.

## The Exit of the Failing Insurers under the Current Legal System(4)

### Run-off / Liquidation:

1. The license of the insurer will be revoked and stop to underwrite any new policies since the date of the liquidation order issued by the Regulatory.
2. TIGF or other Association related to Insurance business could be the liquidator.
3. long-tail policies and its assets could be sold to other insurers through auction process. Short term policies could be run-off by the liquidator.

**Note:** No life Insurance company has been liquidated.

Two P/L Insurance companies were put into liquidation.

## Liquidation of Two P/L Insurers

### 1. Kuo Hua P/L Insurance Company

- Liquidation Date: 18 Nov 2005
- Asset: €22.4Million, Liability: €100.6Million, Equity: €-78.2Million
- No of policies: around 1,030,000
- The company is sold with a subsidy of €28Million
- Benefits paid by Guaranty Fund from 17 Jan 2009 to 30 Apr 2012: €17.9Million

### 2. Hua Shan P/L Insurance Company

- Liquidation Date: 17 Jan 2009
- Asset: €71.3Million, Liability: €94.2Million, Equity: €-22.8Million
- No of policies: around 620,000
- Benefits paid by Guaranty Fund from 17 Jan 2009 to 30 Apr 2012: € 17.9Million

## When the Regulatory may order for Administrative Supervision or Other Intervention Action?

### The Insurance RBC Regulation (Issued in 2001/12) authorizes:

1. **RBC < 200%** → The Insurer cannot buy back its shares and cannot distribute its annual profits to shareholders.
2. **150% < RBC < 200%** → order to increase its capital, financial improvement plan, restriction on its business and investment.
3. **RBC < 150%** → removal of the directors, officers, order to dispose assets, and **Administrative Supervision** etc.
4. When **RBC < 150%** and the Regulatory considered it is necessary, it can order for Conservation, Run-off/ Liquidation.

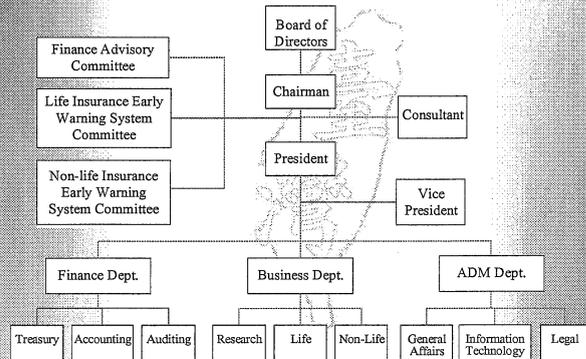
## Background Information of TIGF

- **Name :**  
Taiwan Insurance Guaranty Fund (TIGF)
- **Principal Legislation :**  
Taiwan Insurance Act
- **Establishment :**  
TIGF was established on July 3, 2009, operated like a corporation format.
- **Supervisory Authority :**  
Financial Supervisory Commission (FSC), Executive Yuan, R.O.C
- **Mission**
  1. Insurance Guaranty Scheme
  2. Insurance Early Warning System

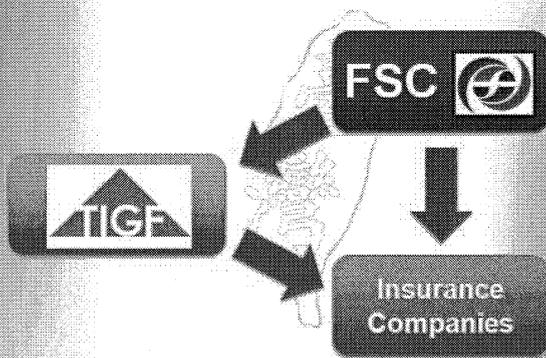
## The Pre-TIGF Period

- Before 2009, the establishment of TIGF, there were insurance guaranty scheme.
- The Life Insurance Guaranty Fund was established in 1974, contributions were stopped in 1981.
- The Fund were dissolved in 2000 and the funds returned to the insurance companies.
- In 1993, the Life Insurance Guaranty Fund and P/L Insurance Guaranty Fund were established again and put under the administration of the Life Insurance Association and P/L Insurance Association.
- In 2009, the Funds donated all of its funds and established TIGF for a separate account system for Life and P/L insurance Guaranty system.

## Organization Structure



## Structure of Governance



## Funding

- **Ex ante (pre-assessment)**
- **Different Pools and accounts of Funds by Type of Business :**  
Separate funds for Life and P/L insurance
- **Calculation of Contribution :**  
Contributions as a proportion of premiums, set at 0.1% of life premiums, and 0.2% of nonlife premiums.
- **Others :**  
No risk weighting, annual limit on contributions and state funding.

## Accumulated Guaranty Fund

Accumulated Guaranty Fund			
Year	Non-Life fund USD MN	Life fund USD MN	Total USD MN
2006	51	380	431
2007	59	431	491
2008	67	489	556
2009	53	349	402
2010	54	421	475
2011	65	484	549
Jun 2012	55	417	472

Contribution to Guaranty Fund			
Year	Non-Life fund USD MN	Life fund USD MN	Total USD MN
2010	7.1	68.1	75.1
2011	7.5	63.3	70.9
Jun 2012	3.2	30.6	33.7

## Scope of Coverage

- **General Participation Requirement :**  
All life insurers and non-life insurers
- **Number of Participants (2012) :**  
Life insurance 30 No-life insurance 19
- **Protected Policies :**  
The scheme covers all classes of life and non-life insurance contracts underwrote by the Insurers which was licensed to carry business in Taiwan.
- **Eligible Claimants :**  
All policy holders. The maximum amount and level of coverage depend on different policies.

### 3. The Discussion for the Integration of Deposit Insurance System

### The Comparison of CDIC & TIGF

1. The legal functions
2. The authority
3. The organization and structure
4. The sources
5. The current cooperation

## The Pros and Cons if the Integration Happens

### Pros



1. Experienced manpower
2. A more effective information exchange for different sectors of financial industries
3. Reducing cost
4. Early warning for system collapse or failure
5. Inter-Institutes Cooperation become Intra-department cooperation & Others

### Cons



1. Naturally different among the industries
2. Potential business conflicts among the industries
3. Which one should be saved first?
4. Confidential information among the integrated entity?
5. If the Intra-department cooperation do not happen, we lost the Inter-Institute Competition & Others

## 4. The case of Kuo-Hua Life Insurance



## The story of Kuo Hua Life Insurance

### Insurance Failures Handled :

When established in 2009, TIGF was required by FSC to conserve Kuo Hua Life Insurance with almost negative \$2 billion in owner's equity. \$0.2 billion was injected to this insolvent life insurance company for continuing its operation.

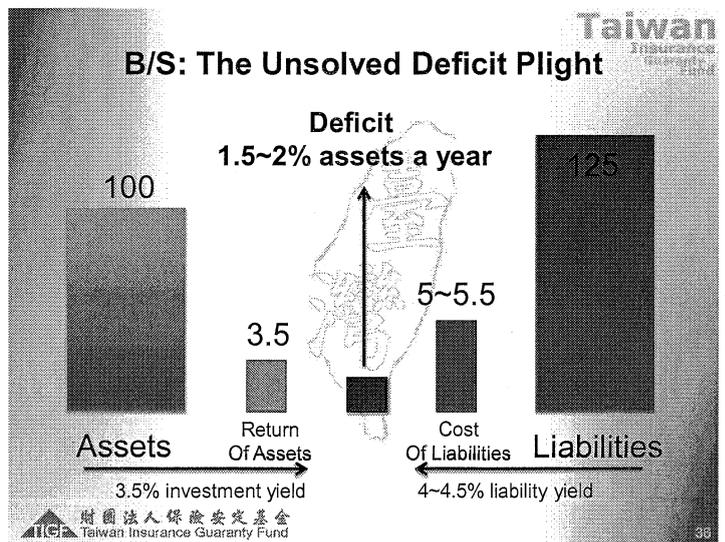
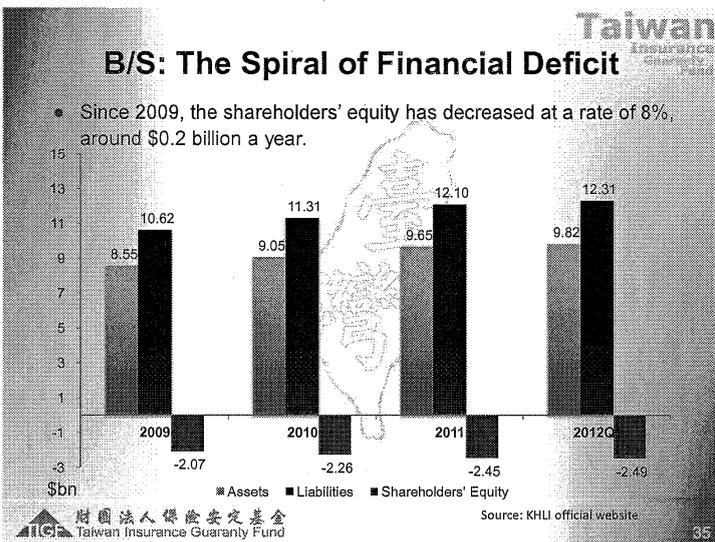
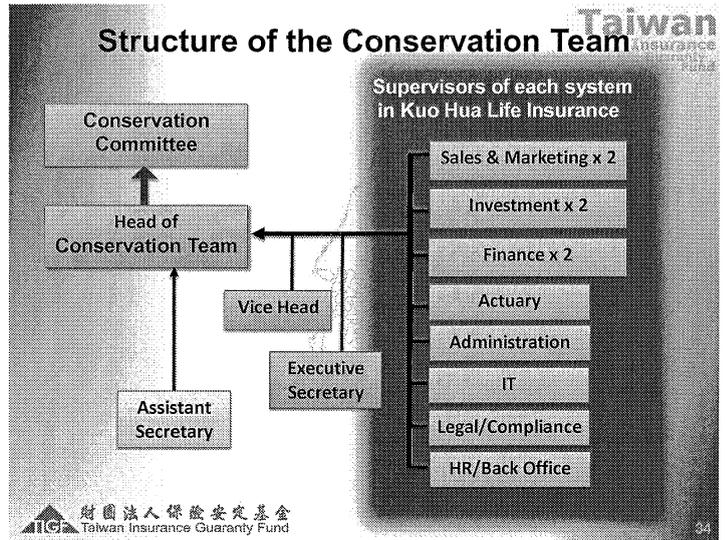
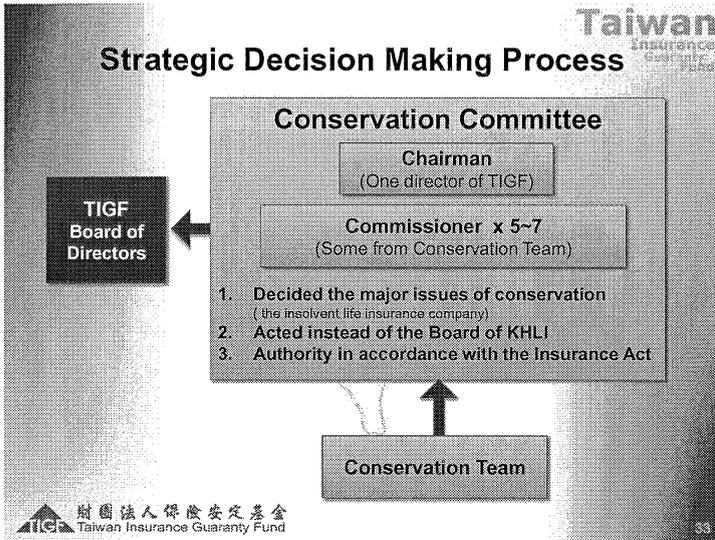
### The Size of the Insolvent Insurance Company<sup>(2009)</sup> :

Assets = \$ 9 billion  
 Staffs = 3,082 (full time positions)  
 Policyholders = 1.2 million (around 5.2% of Taiwan population)  
 Policy contracts = 2 million  
 Ranking = 9<sup>th</sup> in Taiwan life insurance industry  
 (in term of assets)

## The Mission of Conservation

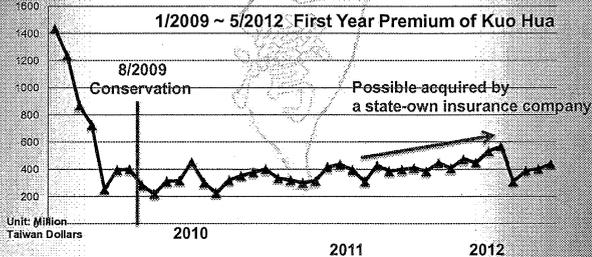
### Our mission :

- Safeguard the interests of policyholders.
- Stabilize the balance sheet, and financial deficit.
- Find a suitable buyer to acquire KHLI and transfer the ownership smoothly to the buyer.



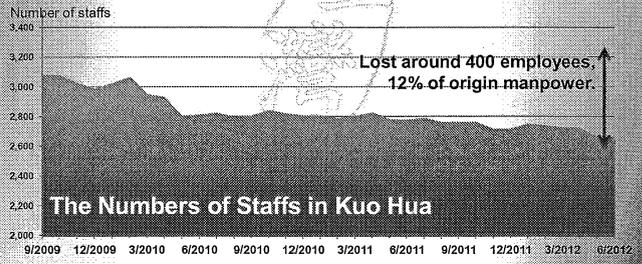
### Sales: Having Struggled to Maintain FYP

- Kuo Hua has 1,625 Sales now.
- FYP hugely dropped in first half of 2009, and never came back to that level.
- The cost of new business is higher than that of the other insurance companies, due to the lower reputation and confidence.
- The good news of M&A with potential buyers would improve the FYP, but a breakup would also drag it down.



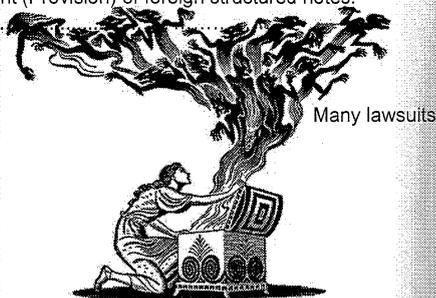
### Headcount: Bad Money Drives Out Good

- The headcount fell from 3,082(8/2009) → 2,666(8/2012), lost around 400staffs.
- Intelligent employees would leave for better opportunities.
- Difficult to hire new staff: low bonuses, dying business and a depressed work environment.



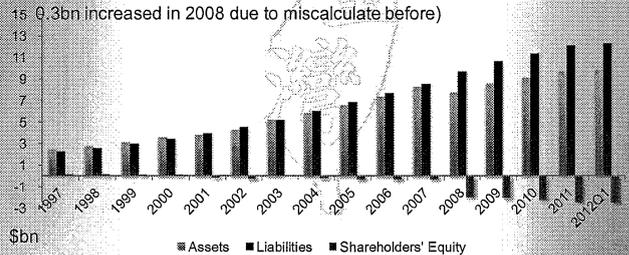
### We Opened the Pandora's Box

- Property illegally occupied by previous shareholder.
- Land pollution lawsuits with originated many years ago.
- Impairment (Provision) of foreign structured notes.



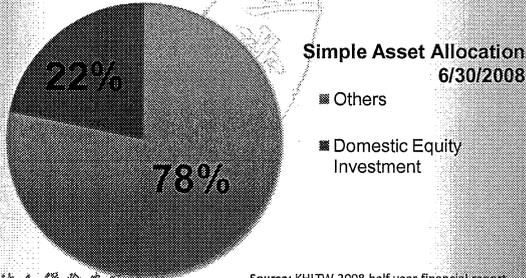
### The Causes of Conservation : Negative Shareholder's Equity since 2001

- Since 2001, the book value has been in the negative area, and dropped hugely after great recession.
- The assets increased from \$3.75bn (2001) to \$9.65bn(2011) → 257%.
- The liability increased from \$3.92bn (2001) to \$12.1bn(2011) → 308% (Around 0.3bn increased in 2008 due to miscalculate before)



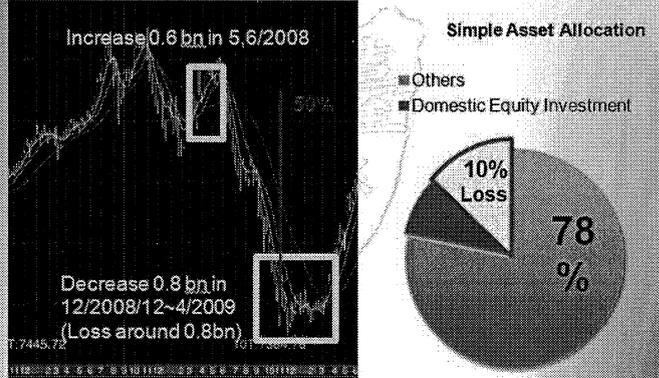
## The Causes of Conservation : Regulation or Restriction?

- Kuo Hua largely increased equity position on May, June 2008, but sold half of its positions in the end of 2008.
- When Kuo Hua could only invest maximum 25% of foreign assets, the only way to turn around the situation is – gamble on domestic equity. Average of equity investment in life insurance industry is less than 6% on that time.



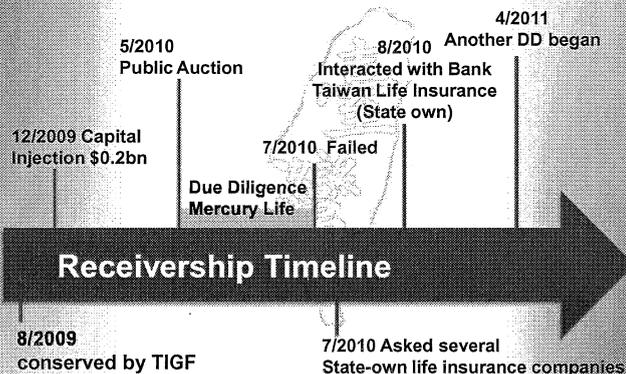
Source: KHLTW 2008 half year financial report

## The Last Straw Broke the Camel's Back 2008 Great Recession



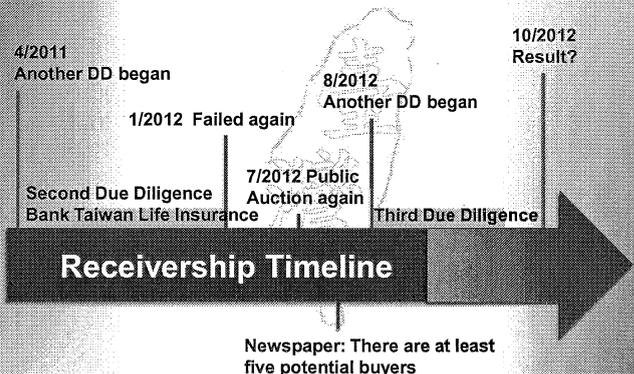
Source: Taiwan equity index and The estimated ratio of loss in assets

## Auction: The Previous Failures



Source: Public Information

## Auction: The Ongoing Case We Still Have Hope!!

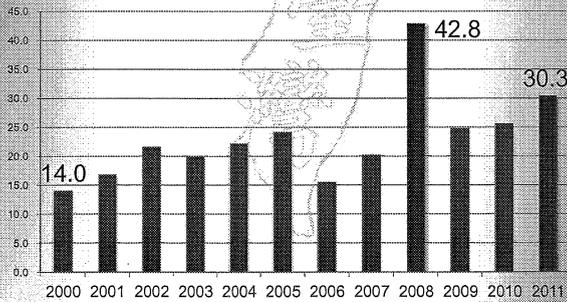


Source: Public Information

## The Challenges Ahead: Life insurers Total Leverage >30

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Insurance  
Guaranty  
Fund

- The leverage (assets/shareholder's equity) is 30.3 in the end of 2011, the second highest in history. Excluding Kuo Kua Life Insurance, there are three other insolvent insurance companies.



## Informal Invitation for the 3<sup>rd</sup> Meeting in 2013

Taiwan  
Insurance  
Guaranty  
Fund

### The 3<sup>rd</sup> International Insurance Guaranty Scheme

Proposal Time	Early August, 2013
Venue	Taipei
Theme & Sub-topics	Will be finalized soon
Speakers	Will be Invited early next year
Guests	All the friends participated in the Toronto Meeting, Berlin Meeting and Langkawi Meeting are invited and welcomed Others friends will be invited later

SEE YOU THEN!  
SEE YOU THEN!

Thank you



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