

**The Asian Financial Crisis Revisited: Challenges over the Next Decade**  
**“Trends in Asian Financial Sectors”**

**20 June 2007, San Francisco, US (15:45 – 17:15)**

Remarks by: Susan Chang, Vice Chairperson, Taiwan Financial Supervisory  
Commission

**Panel III: Financial Infrastructure**

(Approximately 5-7 minutes)

Distinguished Guests, Ladies and Gentlemen:

It is a great pleasure to be one of the panelists at this session. I am delighted to share with you about the reform of financial infrastructure since the Asian financial crisis.

Time passes very quickly. It has been 10 years since the crisis broke out in 1997. Although some Asian countries were seriously affected by the crisis, the tremendous pain also prompted those countries to make decisive reforms to reshape their banking industries. Their efforts have significantly improved the health of the international banking industry as a whole.

As you may know, Taiwan was relatively unscathed during the crisis. However, from 1998 to 2000, rising NPL ratios and an over-banking issue increasingly became our major concern. In response to this situation, our government made a lot of efforts to prevent systemic crisis and enhance the competitiveness of our banking industry. I would like to brief you on some of them.

**I. Measures to improve financial strength in the banking sector:**

First of all, we adopted effective measures to improve the financial strength of our banking sector. In addition to requiring banks to recapitalize, we cut the business tax rate of financial institutions and introduced private asset

management companies to expedite the disposal of NPLs. In addition, in order to enhance market discipline and transparency, we required banking institutions to disclose more financial information, including NPL and BIS ratios. As a result, the overall NPL ratio of banking institutions has fallen significantly, from a peak of 11.8% in April 2002 to 2.3% in April 2007. Simultaneously, the coverage ratio has risen from 14% to 58% and the average BIS ratio has remained above 10%. During the process, the government never used public funds to purchase NPLs from the banking sector or to recapitalize any weak banks.

## **II. Market-exit mechanism:**

Secondly, we established a Financial Restructuring Fund (FRF) in 2001 to deal with failing banking institutions. This measure was taken to provide a blanket guarantee of deposits and maintain public confidence in our banking system during a very critical period. The FRF has dealt with 53 failed banking institutions. In addition, we also amended our Deposit Insurance Act in January 2007 to facilitate a return from the blanket guarantee to our original limited coverage scheme.

## **III. Banking consolidation:**

Thirdly, to enhance the competitiveness of our banking industry, which has been characterized as too fragmented, too homogenous, and overly competitive, our government adopted measures to encourage M&A activities, including enactment of “The Financial Institutions Merger Act” and “The Financial Holding Company Act” in 2000 and 2001 respectively. As a result, 14 financial holding companies have been established. And in the past three years, 22 banking mergers have been completed. As to foreign participation, 10 foreign strategic investors have acquired or invested in Taiwanese banks. At the end of 2006, 25% of the market capitalization of listed banks and financial holding companies was owned by foreign investors.

## **IV. Consolidated financial supervision:**

Lastly, in response to increasing cross-sector financial activities, Taiwan’s Financial Supervisory Commission was set up on July 1, 2004 to consolidate supervision on financial markets as well as banking, securities, and insurance

institutions. As Taiwan's single regulator, we are now able to reduce regulatory arbitrage thanks to harmonization of laws and regulations. The efficiency and effectiveness of financial supervision have been significantly improved.

## **V. Conclusion:**

Any crisis is a powerful catalyst for financial reform. I firmly believe that there is no shortcut to financial reform. It is a never-ending process. Looking forward, globalization, technological innovation, the ageing of society, and the increasing influence of private equity funds are among a number of factors that may affect financial development. We will need more wisdom and cross-border cooperation to deal with these challenges. I look forward to learning from everyone here today and wish the conference a great success. Thank you very much.