

PECC Financial Institutions Development
Tentative Findings From Survey Results
on Bank Ownership And Risk
Management

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Actual Financial Institution and Regulatory Practice

- Bank Ownership Practice
 - Comparison of legal and political reality on actual bank ownership transfer
 - Barriers and problems in transferring bank ownership to private and/or foreign investors as perceived by actual and potential buyers

Actual Financial Institution and Regulatory Practice

- Actual progress made in transferring state ownership to domestic and foreign investors
- Rights and enforceability of owner (Majority and Minority Owners' Rights)

Actual Financial Institution and Regulatory Practice

■ **Bank Risk Management Practice**

- Regulatory and accounting requirement for risk exposure reporting (i.e. FX, Maturity, Credit, Operation, etc.)
- Required and actual risk assessment process by bank management (Committee Structure, Authority of Committees)
- System used to prepare risk exposure report (i.e. Manual or Computer Based)
- Use various types of risk assessment models (Maturity Gap, Value-at-risk (VAR) or consultants in risk assessment)
- Importance of Capital Requirement on Risk Management Practices

Tentative Findings For Banks From Different Economies

- Bank Ownership
 - Laws and regulations for domestic and foreign banks in all four economies:
 - Korea - Same
 - Indonesia – Different
 - Thailand – Same
 - Chinese Taipei - Same
 - Different bank ownership structure in different economies
 - For examples,
 - Indonesia set a maximum foreign equity participation in their bank ownership
 - Thailand does not have family-owned nor conglomerate bank
 - Korea requires banks' ½ above or at least 3 votes from the external board of directors

Tentative Findings For Bank From Different Economies

■ Bank Ownership

- Board and shareholder structure are required for all banks
 - State-owned bank:
 - Mostly appointed
 - Foreign / Private owned banks:
 - Vote
- Most Asian banks have unclear role division and lack of leadership hinder the overall performance of the chairman and board
- Regulators cannot force to change an internal organizational structure of a bank, unless it is an insolvent financial institutions

■ Privatization

- Korea – allows domestic banks to transfer bank ownership to foreigners
- Chinese Taipei and Thailand – allows 25% maximum ownership for a single entity for both domestic and foreign owners
- Indonesia – No progress made for state-owned banks, only private

Tentative Findings For Banks From Different Economies

- Risk Management
 - Foreign Vs. Domestic
 - have more risk management tools used
 - All banks compliance with Basel II
 - Capacity building for bankers are needed
 - Risk Management Techniques
 - Learning stage
 - Domestic banks need to learn from foreign banks
 - Most domestic banks in all four economies are more experienced with “Market Risk.”
 - Credit Risk and Operational Risk are still mostly under developed
 - All banks are highly monitor by the regulator
 - Transparency
 - Corporate governance to ensure proper bank ownership structure that enforced on risk management

Lesson To Be Learn From Different Economies - Current Reform After 1997 Crisis

- Korea
 - Fully banking industry liberalization
 - Allow banks to claim bankruptcy
 - Openness to foreign ownership in domestic banks
 - High NPL in 1997
 - Efficiently lower its NPL from two digits to single digit
- Indonesia
 - Focus on bank ownership restructure
 - Moral Hazard
 - Risk Management
 - Monitor by “On-site Supervisory Presence” (OSP)
 - A system that allows supervisors to have direct access of information on the daily activities and exposures of the target bank
- Thailand
 - Government Liberalization on the Banking Industry
 - On-site and off-site examination on individual banks
- Chinese Taipei
 - Reduce number of banks through establishing bank holding companies
 - Survival fittest
 - CDIC and Ministry of Finance took over and strictly monitor all unhealthy financial institutions
 - Deposit Insurance System
 - Early Warning System
 - Examination Data Rating System

Outputs For Year 2002

Publication and outreach program of recommendations and survey results

- Cross-economy comparison of 21 PECC economies on Bank Ownership and Risk Management
 - Legal Environment
 - Regulation
 - Actual Practices
 - Are there solution for high NPL ratios in specific economies?
 - How does this relate to implementation of best practices?
 - What are the problems bankers have encountered?
 - A Need For Capacity Building?

Tentative Recommendation

- Institute a more accountable regulatory framework and transparency of information
- Continuation on privatizing the state-owned institutions
- Capacity building is required for risk management training
- Develop regional and international economic cooperation