1-1-1900

KDIC What We Do: Resolution of Financial Institutions

Korea Deposit Insurance Corporation (KDIC)

What We Do

01

Financial Assistance

Principles for Financial Assistance

The principles for financial assistance were established in accordance with international standards in reference to the experiences of other countries and through discussions with the IMF. The specific principles are as follows:

Least Cost Principle

Financial institutions that receive public funds are selected according to strict criteria, and the amount of support is decided after a due diligence by private sector experts including accountants, so that insolvent financial institutions can be resolved with minimum costs.

Loss-Sharing Principle

Funds are provided after a capital decrease, change of management and staff down-sizing to make sure that the company's shareholders, management and employees share the losses. Among the employees of the failed financial institution, those who are responsible for the failure are subject to civil and criminal action.

Self-help Effort Principle

Financial assistance is provided on the assumption of rigorous self-help efforts. To make that happen, an MOU on Business Normalization is signed between the KDIC and the public fund-injected financial institution. With regard to financial institutions that have signed MOUs with the KDIC, the KDIC reserves the right to review and assess their management performance and take corrective action.

See ‘Management of MOUs.’

Transparency/Objectivity Principle

Transparency is ensured through the step-by-step application of Prompt Corrective Action (PCA) restrictions according to pre-determined standards, and public funds are provided by restructuring specialists like the KDIC.

Methods of Support

The KDIC supports an insolvent financial institution largely through two methods: deposit payouts and financial assistance.
Where an insolvent financial institution has stopped repaying its deposits, the KDIC reimburses the institution’s depositors.

Otherwise, it provides assistance to a third party who tries to rehabilitate the insolvent (or insolvency-threatened) financial institution by taking it over or merging with the company. There are four methods to provide funds: lending and deposit of funds; purchase of assets and liabilities and takeover of loans;
equity participation; and contribution.

02

Resolution Methods

The KDIC chooses the most appropriate method among the following to resolve a failed financial institution in the least costly manner:

Deposit Payouts

A resolution method that is used when liquidation of the failed financial institution is determined to be the least costly method or when no assuming institution can be found.

Purchase & Assumption (P&A)

A healthy financial institution purchases some or all of the assets and assumes deposit liabilities of a failed financial institution.

Bridge Bank

A temporary financial institution is established and operated by the KDIC on an interim basis to acquire the assets and assume the liabilities of a failed institution until the final resolution is accomplished.

OBA

The KDIC provides financial assistance to a failing insured financial institution through equity participation, contribution or purchase of assets, and acquires its shares in return.

03

Recovery of Injected Funds

For efficient recovery of public funds injected into an insolvent financial institution, the KDIC can appoint one of its staff-members to perform the duties of a conservator or a receiver. Also, the KDIC is allowed to file liability or damage claim suits in subrogation of the insolvent financial institution.

In terms of the recovery of injected public funds, the KDIC utilizes a variety of methods, including but not limited to, sales of non-performing loans (NPLs), sales of equity through privatization and issuance of exchangeable bonds, block share sales, securitization through issuance of asset-backed securities, mergers and acquisition (M&As), etc. Furthermore, the KDIC has the authority to participate in receivership activities such as sales of assets or settlements of claims.

Cheonggyecheon-no 30, Jung-gu, Seoul 04521, Korea
Tel: +82-2-758-1130 Fax : +82-2-758-1120 Email : international@kdic.or.kr