

Lessons from International Experience with Asset Management Companies

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to 2nd NPL Forum,
Beijing China
November 1, 2001

Introduction

- AMCs have become an increasingly important tool in resolving banking crises
- But AMCs are just one part of broader strategy to address banking crises
- Five countries in Asia (including China) have established AMCs in the past 3-4 years
- Lessons can be drawn from past experience with AMCs to apply to China

AMCs

| Asia | Year Established | Year Retired |
|------------------|-------------------------|---------------------|
| China | 1999 | ... |
| Indonesia | 1998 | ... |
| Korea | 1997 | ... |
| Malaysia | 1998 | ... |
| Philippines | 1987 | ... |
| Thailand - FRA | 1997 | ... |
| - TAMC | 2001 | ... |
| Elsewhere | | |
| Finland | 1993 | ... |
| Ghana | 1990 | 1997 |
| Mexico | 1995 | ... |
| Spain | 1980 | ... |
| Sweden | 1992 | 1997 |
| USA | 1989 | 1995 |

Objectives of AMCs

Objectives have varied across countries--

- Rapid disposal of assets e.g., US RTC and Philippine Privatization Trust.
- Bank and corporate restructuring, e.g., Asia

Broader objectives include:

- Restoring confidence in the banking system
- Recovery of credit growth

Assessing AMC Performance

For 7 AMCs set up prior to the Asia crisis, Klingebiel (2000) used two criteria:

- Did the “rapid-asset disposal” AMCs dispose of most of their assets within 5 years?
- Did the “restructuring” AMCs dispose of $\frac{1}{2}$ of their assets within 5 years?

Assessment

- Only 2 of 4 rapid disposal vehicles were successful: Spain and US (RTC recovered 87cents in the dollar)
- The 2 others, in Mexico and the Philippines, made slow progress in disposing assets.
- Of 3 restructuring vehicles, only Sweden disposed of more than $\frac{1}{2}$ its assets in 5 years.

Factors behind Successful AMCs

- Easily sellable assets, e.g, in Sweden where 80 percent were in real estate
- Political independence, with few “politically motivated assets” such as state-owned enterprises
- Well funded

Characteristics of AMCs

| | Real Estate (% of assets transferred) | Politically motivated assets | Independent | Well Funded | Achieved Its Objectives |
|-------------|---|------------------------------------|-------------|--------------------------------|----------------------------|
| Finland | 34 | No | Yes | Yes | Unclear |
| Ghana | negligible | Yes | No | No | No |
| Mexico | not available | Yes | No | No | No |
| Philippines | negligible | Yes | No | No | No |
| Spain | 8 | No | Yes | Yes | Yes |
| Sweden | 80 | No | Yes | Yes | Yes |
| USA | 49 | No | Yes | Yes, after initial problems | Yes |

Source: Klingebiel (2000)

Factors behind Successful AMCs (Continued)

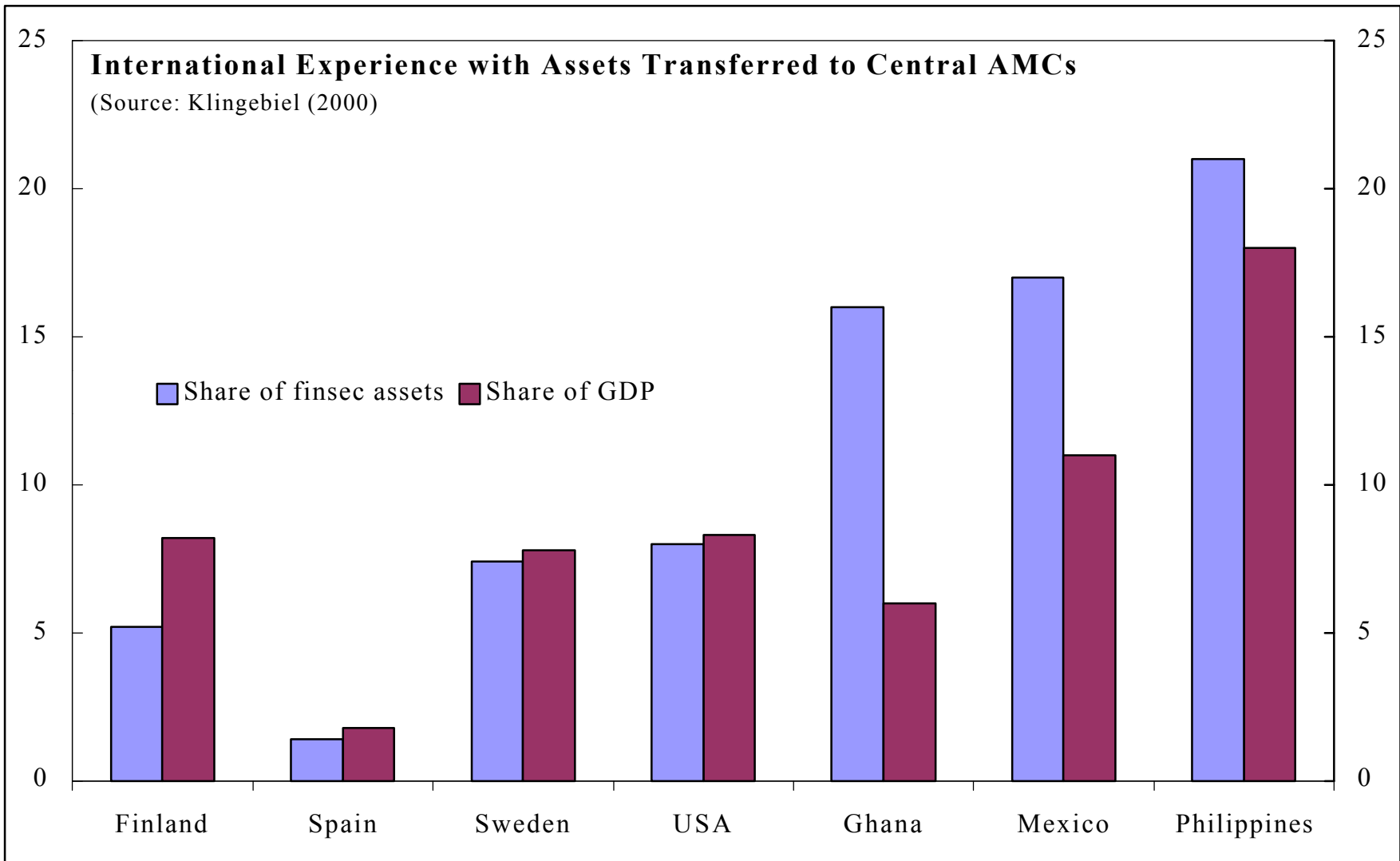
- Strong overall legal framework
- Professionally managed
 - Good information systems
 - Transparency
- Small size relative to banking assets
- Sound macroeconomic policies,
e.g., Sweden

Table: Characteristics of Countries Which Established Central AMCs

| | Enforcement of Creditor Rights 1/ | Bond Market Capitalization (percent of GDP) | Peak Level of NPLs (percent of financial system assets) |
|-------------|--------------------------------------|---|---|
| Finland | 18 | 39.7 | 18.7 |
| Spain | 8 | 43.2 | 5.7 |
| Sweden | 24 | 58.5 | 10.8 |
| USA | 18 | 50.5 | 4.1 |
| Ghana | 1 | n.a. | 60 |
| Mexico | 6 | 1.1 | 18.9 |
| Philippines | 7.7 | 16.6 | 23.1 |

Source: Klingebiel (2000)

1/ Combined index of protection afforded secured creditors by legal framework and overall law and order conditions. Higher value implies better protection/conditions.

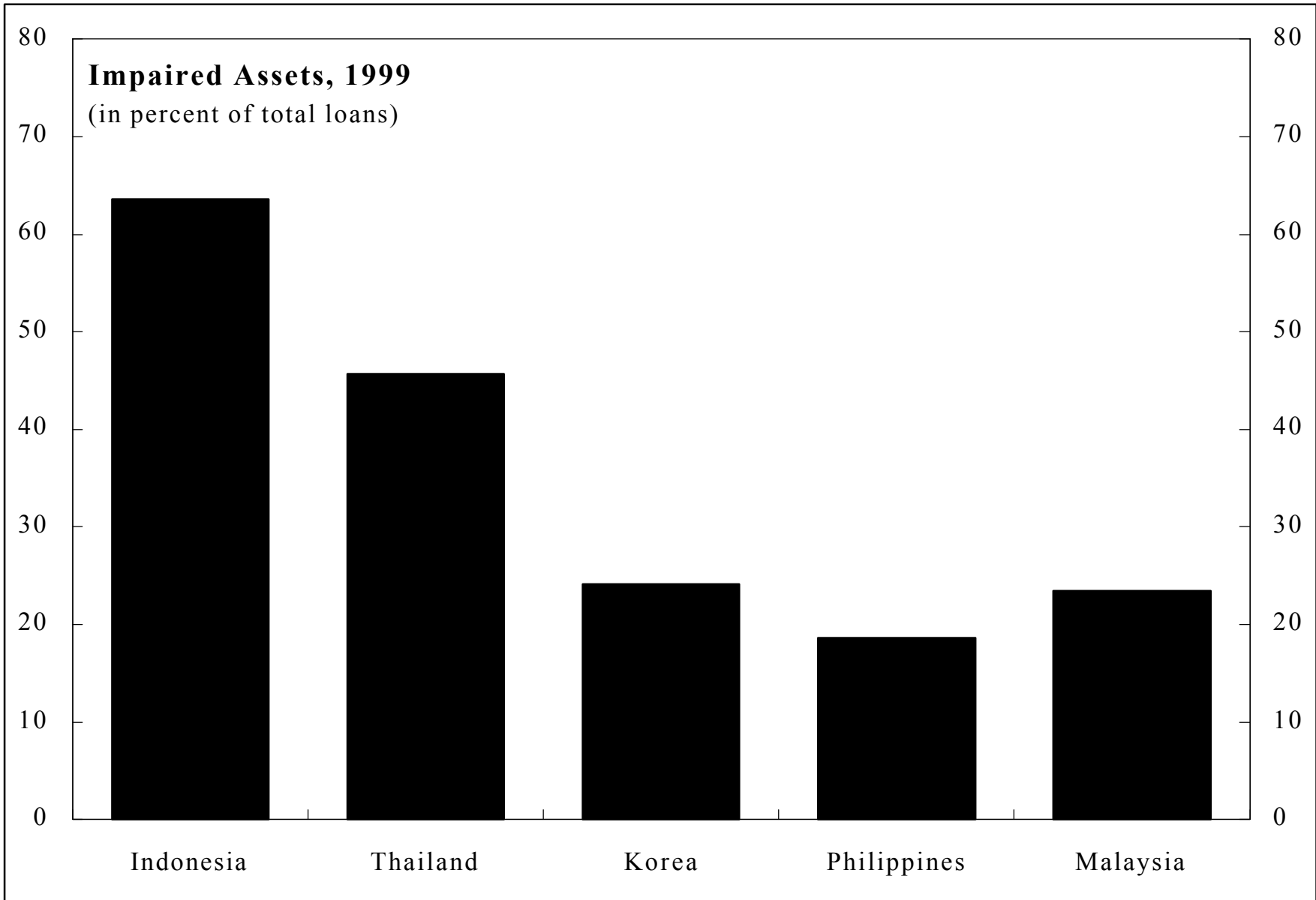


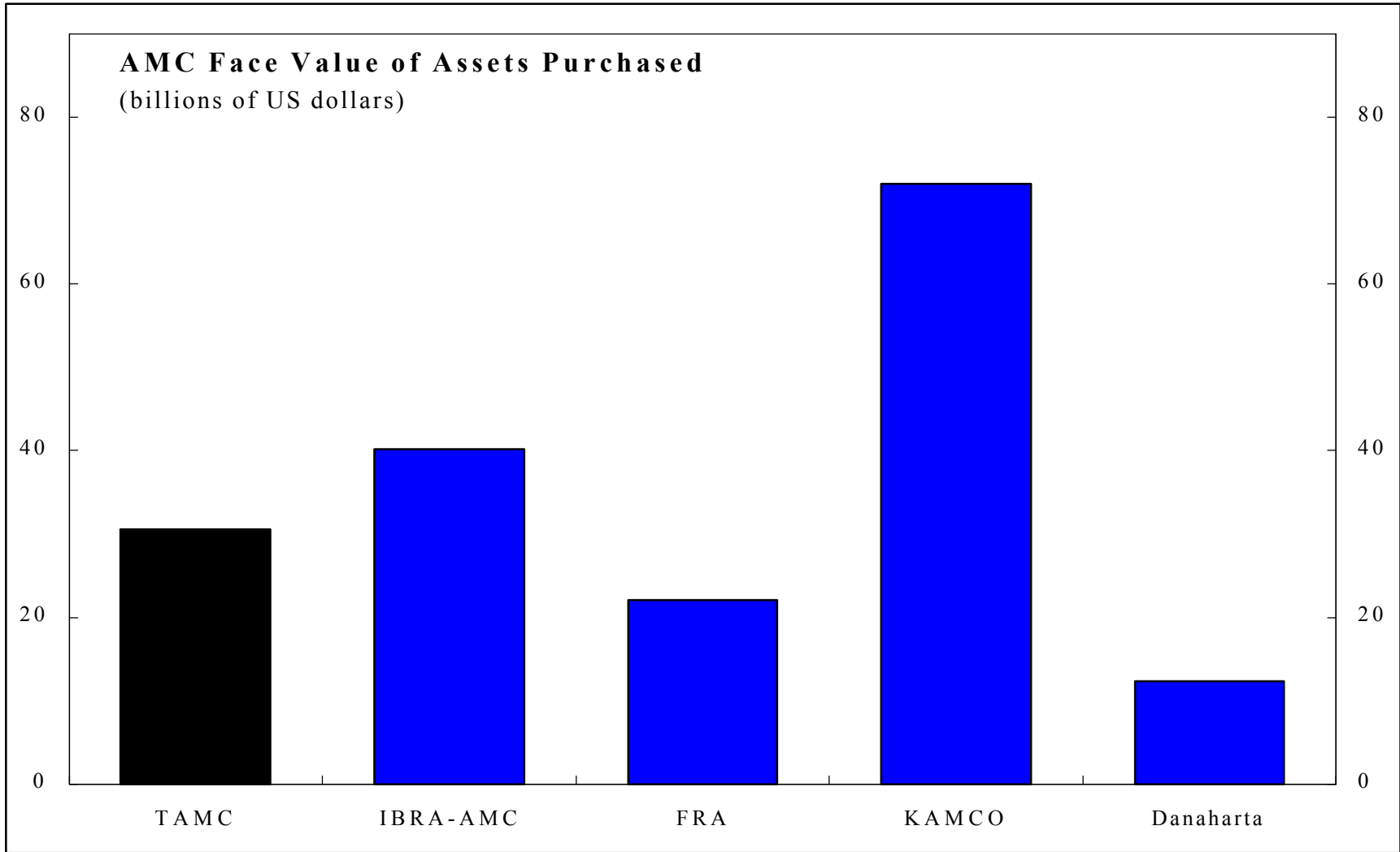
Less successful AMCs hindered by:

- Politically-motivated assets e.g., Philippines, Mexico, and Ghana
- Lack of expertise: No outsourcing
- Large share of banking sector assets e.g., Ghana
- Debtor friendly legal framework

AMCs in Asia-Crisis Countries

- AMCs established since 1997 crisis
 - Indonesia
 - Korea
 - Malaysia
 - Thailand
- Broad mandate for bank and corporate sector restructuring
- Large relative to international comparators





TAMC = Thailand (2001)

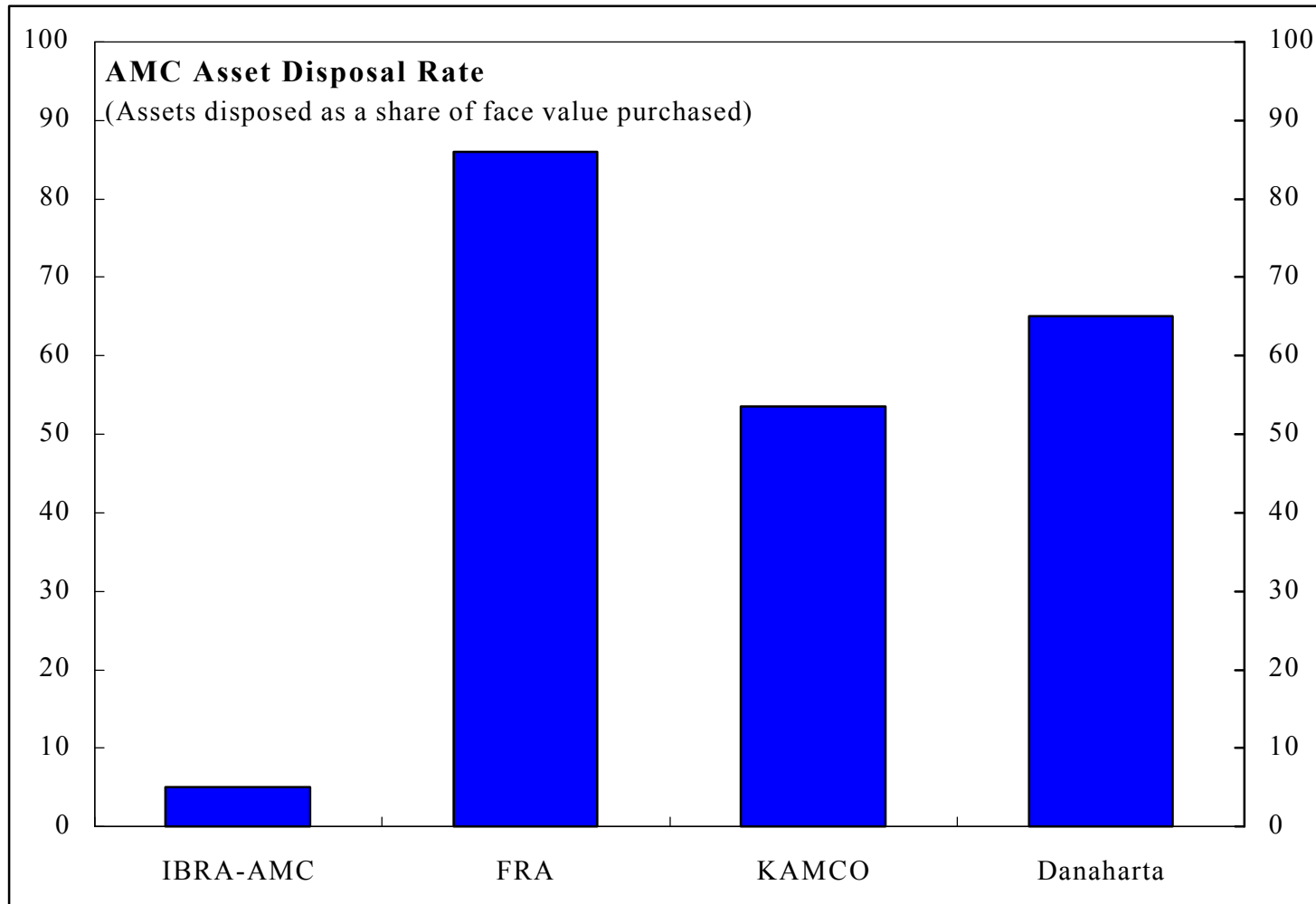
IBRA = Indonesia

Danaharta = Malaysia

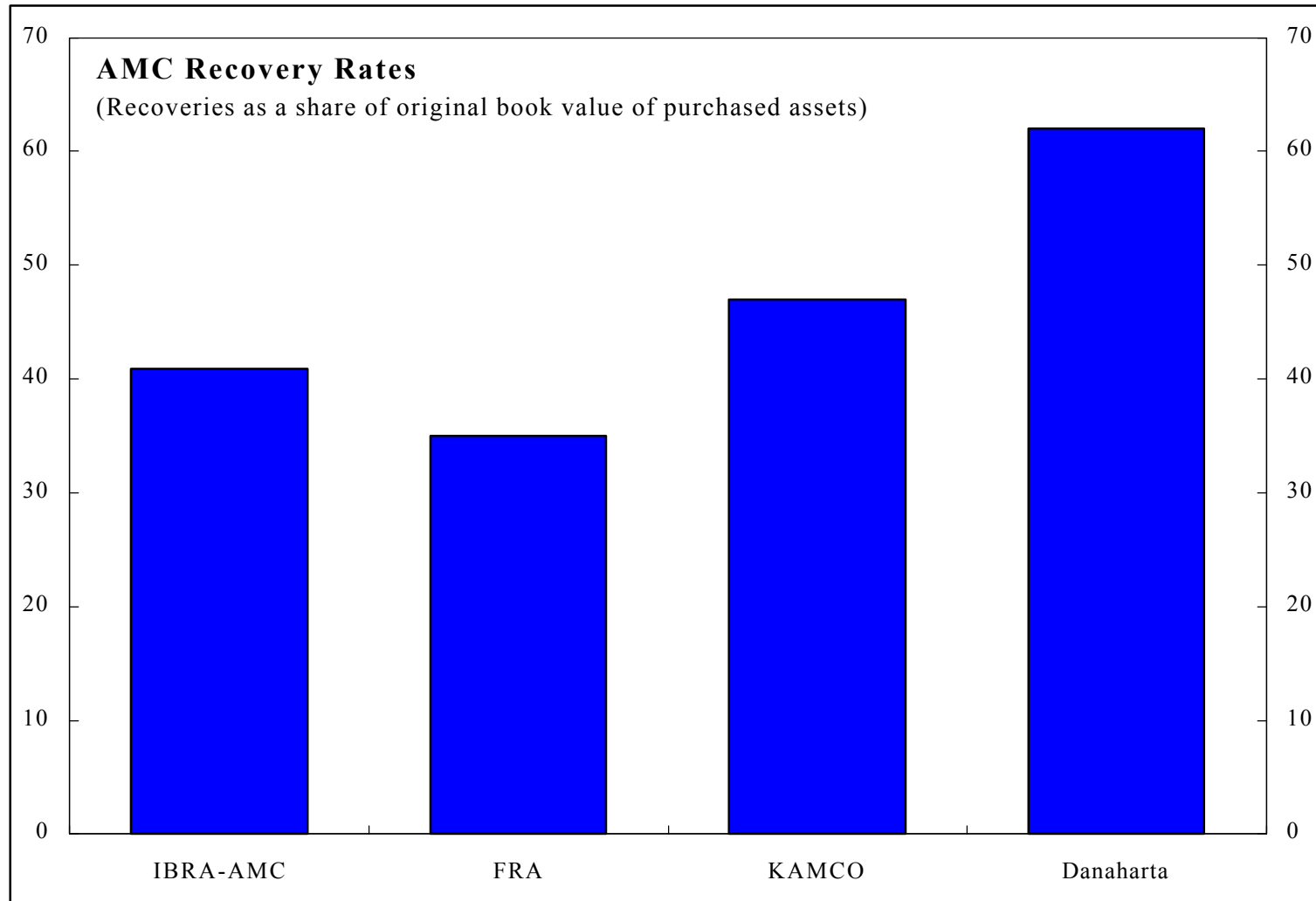
FRA = Thailand, Financial Sector Restructuring Authority

KAMCO = Korea

Speed of asset disposal has varied, depending on the mandate



Recovery rate about 50 percent so far, but likely to fall sharply as “harder-to-sell” assets are sold.



Danaharta and KAMCO have been more successful in disposing of assets, because of:

- Political independence
- Transparency
- Private sector representatives in management
- Outside experts
- Commercial criteria in restructuring
- Concentration on large-sized NPLs
- Danaharta leveraged its special legal powers

But AMCs in Asia just one part of broader strategy, that included:

- Closure of insolvent institutions
- Recapitalization of viable institutions
- Liberalization of foreign ownership rules
- Modernizing financial laws and regulations
- Strengthening prudential supervision
- Restructuring the corporate sector

Conclusion

Success of AMCs depends on:

- Political independence, including ability to
 - Exercise ownership rights
 - Restructure assets without political interference
 - Apply commercial criteria
- Legal framework
 - Creditor rights
 - Bankruptcy rules
- Adequate funding

- Professional approach
 - Strong Management
 - Outside skills
 - Transparency
- Concentration on large NPLs
- Adequacy of broader response to banking problems
- Sound macroeconomic policies