

Central Deposit Insurance Corporation

# Maintaining Deposit Insurance System in Taiwan

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#### **Overview**

- Establishment of CDIC
- **Deposit Insurance System in Taiwan**
- Setting up Financial Restructuring **Fund**
- Major Policy Concerns & Future Plan



#### **Establishment**

# Background

- Failure of Continental Illinois Bank in U.S.A.
- Problem of Local Financial Institutions

# Organization

- Established in 1985
- A Government Agency





### Establishment (cont'd)

# Objectives

- To Safeguard the Benefits of Depositors in Financial Institutions
- To Promote Savings
- To Maintain an Orderly Credit System
- To Enhance the Sound Development of Financial Operations



## Establishment (cont'd)

# **Major Responsibilities**

- To Protect Small Depositors by Handling Deposit Insurance
- To Manage Insured Risk by On-Site
   Examinations and Early Warning System
- To Assist Problem Insured Institutions by Provision of Fund
- To Deal With Failed Insured Institutions



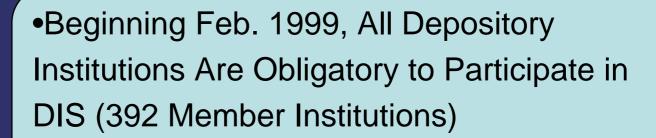
### **DIS** in Taiwan

- Membership System
  - Voluntary Basis (Sep. 1985 ~ Jan. 1999)
    - Most Government-Owned Banks Dominated the Market
    - Strict Regulations on Banking Business





- Compulsory Basis (Since Feb. 1999)
  - Financial Liberalization & Globalization
  - Market Share of Private-Owned Banks Was Increasing
  - Avoidance of Adverse Selection
  - Help to Build-up Exit Mechanism



Exclusion





### Coverage

**Principal** Only

- -NT\$ 1 Million (US\$ 31,250)
- -2.3 Times GDP Per Capita

#### Assessment

- Risk-based Premium System
- Assessment Base: Covered Deposits

### Funding

- Capital
- Assessment Income
- Special Financial Accommodation from the Central Bank



- Resolution Methods
  - Straight Pay-out
  - Insured Deposit Transfers
  - Purchase & Assumption
  - Open Bank Assistance
- Legal Receiver



- Risk Management
  - Risk-based Premium System
  - Financial Early Warning System
  - Internet Transmission Surveillance System
  - Account Officer System
- Public Awareness
  - Purpose
    - Better Exert the Functions and Fulfill the Objectives of DIS
    - Enhance Market Discipline and Reduce Moral Hazard
  - Various Tools Adopted



# Setting up Financial Restructuring Fund

- Purpose
- Public Fund Financed by Government and Executed by CDIC
- Provision of Blanket Guarantee (July 2001 ~ July 2005)



# Setting up Financial Restructuring Fund (cont'd)

#### Achievements

	Dec. 2001	Feb. 2005
NPL Ratio	7.48%	2.79%

	Dec. 2001	Dec. 2004
ROE	3.60%	10.30%
ROA	0.27%	0.63%
GDP (%)	-1.91%	5.71%



# **Major Policy Concerns** & Future Plan

- **Strengthen Transparency**
- Transition from Blanket Guarantee to **Limited Coverage**
- Enhancing Risk Management
  - Authority to Approve the Membership
  - Authority to Conduct Special Investigation on Specific Items



# Major Policy Concerns & Future Plan (cont'd)

- Setting Up Minimum Fund Level & Appropriate Funding Source
- Early Intervention & Prompt
   Corrective Action
- Enhancing Resolution Functions



# Major Policy Concerns & Future Plan (cont'd)

- Promoting Interrelationships & Clear Division of Responsibilities of Each Financial Safetynet Player
- Mechanism of Handling Systemic
   Crisis





# Conclusion

Thank You

