

# Message from the Chairman and the President



The Central Deposit Insurance Corporation is an institution vested with special responsibility for handling deposit insurance in the Republic of China. Since its establishment in 1985, the CDIC has, with the full support of society at large, seen its business grow over a period of more than 15 years as the deposit insurance mechanism has been steadily promoted. The CDIC also shares in the work of examining insured financial institutions. Furthermore, since July 1996 it has been given responsibility by the Executive Yuan the cabinet for examining all community financial institutions in Taiwan. Its major duties are thus both handling deposit insurance in the R.O.C. and supervising financial institutions. In recent years, with the help of our hard-working staff and in line with government policies, the CDIC has succeeded in calming financial storms by preventing individual financial institutions facing operational difficulties and panic runs from precipitating a financial crisis. Thus, the function of deposit insurance in terms of stabilizing financial conditions has already become apparent in Taiwan.

The development of deposit insurance system in the years 1999 and 2000 have been an important milestone in Taiwan. Having given careful consideration to the financial environment, the CDIC has focused efforts on reforming the deposit insurance system, while taking into account the deposit insurance mechanisms being applied in the advanced countries. In addition to making participation in deposit insurance compulsory, which was previously administered on a voluntary basis, the CDIC has during this period accomplished the following:

1. Implementing a Risk-based Premium System and Adjusting the Deposit Insurance Assessment Rate to Speed Up the Accumulation of Insurance Pay-off Special Reserves

In order to guard against moral hazard and appropriately reflect the operational risk of each insured institution in its assessment rate, the CDIC, after giving careful consideration to local financial conditions, drew up and implemented, with the approval of the Ministry of Finance a risk-based deposit insurance premium system On July 1, 1999. Later, based on the premise that a sound system of deposit insurance should be operated on the principle of mutual assistance among the banking industry, and in order to accumulate sufficient funds for insurance pay-offs, thereby maintaining the confidence of depositors, the CDIC received the approval of the Ministry of Finance to raise its three-tiered deposit insurance assessment rates from 0.015%, 0.0175% and 0.02% to 0.05%, 0.055% and 0.06%, respectively. By having adequate deposit insurance pay-off special reserves, the CDIC is able to ensure the soundness of the deposit insurance system, strengthen its ability to

handle problem insured institutions, and thus not only safeguard the rights of depositors, but also assist insured institutions in lowering their operational risk and help maintain local financial order.

## 2. Setting up a Real-time On-line Data Transmission Service Monitoring System between Financial Institutions and the CDIC

After participation in the deposit insurance system was made compulsory, and in response to changes in the risks borne by it, the CDIC in FY 2000 set up an Internet-based real-time on-line data transmission monitoring system between financial institutions and itself, which became operational on February 1, 2000. Such a system can immediately warn the CDIC of as well as analyze the reasons for any abnormal variations in the business statistics submitted to it by the insured institutions, and is thus extremely helpful to the CDIC in its off-site supervision of financial institutions.

## 3. Establishing an Office in the South of Taiwan

In order to promptly handle emergencies involving insured institutions located in the southern part of Taiwan, as well as deal with problem insured institutions that are being examined, are receiving assistance, or are being placed under supervision or conservatorship, the CDIC, with the approval of the Ministry of Finance, in October 2000 established an office in Southern Taiwan. The addition of this office will further strengthen the effectiveness of the CDIC's supervision.

## 4. Strengthening Research and Development

In view of the rapid changes currently taking place in the financial environment, as well as the trend towards universalization in the financial sector, the CDIC has made every effort to strengthen its research and development in order to keep abreast of such changes. In addition to frequently soliciting the opinions of insured institutions, the CDIC has gathered the latest local and foreign CDIC-related information and compiled it into specialized reports to be referred to the competent authority and its own workforce, thereby enabling information to flow freely. The annual research project conducted in FY 1999 entitled "A Study on Using Computers to Assist in the work of Financial Examination." awarded a top prize by the Ministry of Finance and was also used to represent the Ministry of Finance in a very distinguished research competition organized by the Executive Yuan, where it was also awarded top honors. This clearly shows the outstanding quality of the research.

## 5. Implementing Six New Sub-regulations

In line with the successful passing of the revisions to the Deposit Insurance Act and the CDIC's being given the authority to handle problem financial institutions, the CDIC has drawn up six new sub-regulations. These are the Regulation Governing the CDIC's Handling of Cash Pay-offs, the Regulation Governing the CDIC's Provision of Financial Assistance to Problem Insured Institutions, the Regulation Governing the CDIC's Provision of Financial Assistance to Encourage Mergers and Acquisitions among Financial Institutions, the Regulation Governing the CDIC's Continuing to Operate Failed Institutions on a Temporary Basis, the Regulation Governing the CDIC's Handling of Insured Deposit Transfer Pay-offs, and the Regulation Governing the CDIC's Making Cash Advances to Uninsured Creditors on behalf of a Liquidator. Each of these

sub-regulations has been ratified by the Ministry of Finance and publicly implemented by the CDIC. In the future, the CDIC will be in a better position to deal with problem financial institutions.

#### 6. Reorganizing the Deposit Insurance Premium and Problem Insured Institutions Consultative Committee

In accordance with the principles of fairness, objectivity and appropriateness, the CDIC established a Deposit Insurance Premium and Problem Insured Institutions Consultative Committee to assist in adjusting the deposit insurance assessment rate and handling problem insured institutions. The Committee, which is made up of finance professionals, academics and representatives of the financial community, has already discussed several important issues related to the deposit insurance system, which have included adjusting the deposit insurance assessment rate, handling problem insured institutions, and evaluating the provision of financial assistance. The professional opinions that have been given by members of this Committee have significantly improved the CDIC's policy formulation process.

An important concern of the people in Taiwan at the moment is the way in which problem financial institutions are dealt with. "Financial reform" is at the top of the government's agenda as we launch into the 21st century. The government has made clear its resolve in this area, and several measures to this end have been implemented. For example, the government has just recently enacted the Law Governing Mergers of Financial Institution, and is currently promoting the Financial Holding of Company Law and the Regulations Governing the Establishment and Management of a Financial Restructuring Fund. These laws, together with the proposed private-sector asset management company, will result in significant changes to the local financial scene. Besides enabling it to adapt to the global trends towards larger-scale and more diverse operations, problems involving financial institutions can be effectively resolved, and institutions in trouble can be encouraged to peacefully withdraw from the market.

The CDIC is one of the government bodies entrusted with the work of financial supervision. In the future, based on the principle of a deposit insurance mechanism whereby "prevention is better than cure," it will make appropriate adjustments in line with the reforms to the system of financial revision, effectively using various kinds of preventative measures to control and lower insured risk. In the future the CDIC will continue to promote the following:

1. It will work with the competent authority to deal with failing and failed insured institutions, in order to maintain financial order and safeguard the rights of depositors.
2. It will adjust the CDIC's position in the financial community, in order to strengthen the function of deposit insurance business.
3. It will review and revise deposit insurance-related regulations, in order to strengthen the operation of deposit insurance business.
4. It will speed up the accumulation of deposit insurance pay-off special reserves, so that they reach an adequate level.
5. It will strengthen risk management, to prevent the occurrence of financial crises.
6. It will actively train financial examination personnel to execute the work of financial examination entrusted to it by the government.
7. It will assist government policies by promoting the disclosure by financial institutions of important operating information, in order to enhance market discipline.

During the current fiscal year, with everyone's care and support and the diligent efforts of the whole of our workforce, deposit insurance has already effectively demonstrated its ability to stabilize financial conditions. It is for these

reasons that we would like to sincerely thank all our supporters. Faced with the current trend towards globalization, internationalization and liberalization, the CDIC will continue, as one of the financial supervisory bodies, to exercise its responsibility of preventing financial risk. In addition, in line with the changing environment, the CDIC will formulate and promote regulations related to the sound operations of financial institutions, and will make every effort to establish stable and efficient financial markets.

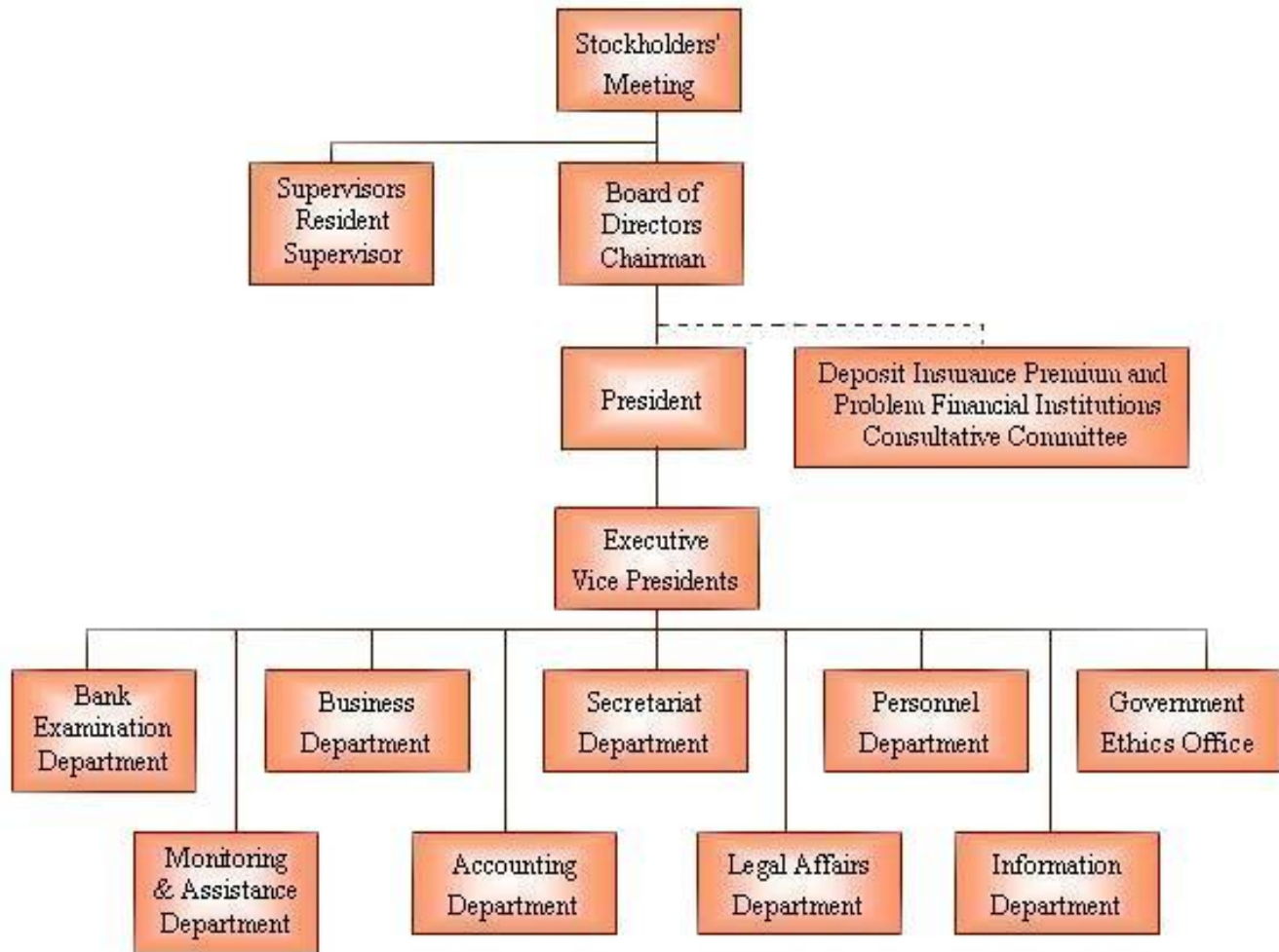
A handwritten signature in black ink, reading "C. T. Tsay". The signature is written in a cursive style with a large, sweeping "T" and a long, horizontal stroke at the end.

Chairman

A handwritten signature in black ink, reading "Johnson Chon". The signature is written in a cursive style with a large, sweeping "J" and a long, horizontal stroke at the end.

President

# Organization Chart



# Board of Directors, Supervisors and Executives

## Board of Directors

Chairman	Chin-Tsair Tsay (Representative of the Central Bank of China)
Directors	Ching-Nain Tsai (Representative of the Ministry of Finance)
	Fred S.C. Chen (Representative of the Central Bank of China)
	Cheng-Shang Chang (Representative of the Ministry of Finance)
	Jiin-Tang Yue (Representative of the Central Bank of China)
	Ming-Nang Yu (Representative of the Central Bank of China)
	Johnson C.S. Chen (Representative of the Ministry of Finance)

---

## Supervisors

Resident Supervisor	Chang-Shang Chen (Representative of the Ministry of Finance)
Supervisors	Kuo-Chung Hsu (Representative of the Ministry of Finance)
	Tang-Chieh Wu (Representative of the Ministry of Finance)

---

## Senior Executives

President	Johnson C.S. Chen
Executive Vice Presidents	W.H. Lai
	L.C. Pan
	Howard N.H.Wang

# Business Operations

---

## 1. Deposit Insurance

### (1) Financial Institutions and their Participation in Deposit Insurance

After participation in deposit insurance became compulsory on February 1, 1999, all financial institutions that were by law able to accept deposits in accordance with the law participated in deposit insurance, and hence became CDIC-insured institutions. As of December 31, 2000, there were 456 insured institutions. The deposit insurance system in the Republic of China, now that it has encompassed all financial institutions, has had a positive impact in terms of enhancing financial stability and safeguarding the benefits of depositors in financial institutions.

### (2) Insured Deposits and Fully Covered Depositors of All Insured Institutions

The maximum insurance coverage that the CDIC extends to each individual depositor in any insured institution has been set at NT\$1 million since August 15, 1987. According to the statistics reported by all of the insured institutions, as at June 30, 2000, total insurable deposits amounted to NT\$16,773 billion, of which NT\$7,583 billion were under maximum coverage. The average ratio of insured deposits to the total insurable deposits of all insured institutions was 45.2%. The ratio of depositors whose deposits were fully covered to total depositors of all insured institutions averaged 94.9%. Based on these indicators, the CDIC believes that the current maximum coverage of NT\$1 million is able to provide most small depositors with full protection.

---

## 2. Bank Supervision

### (1) The Scenario of Examination

The CDIC currently uses two methods to examine insured financial institutions, namely, on-site examinations and off-site monitoring. On-site examinations consist of general-scope examinations and specific-scope examinations. General-scope examinations are conducted on a routine basis and key aspects of the examination can be adjusted along with financial trends. Specific-scope examinations are of a specific nature and are directed towards specific business issues. The CDIC's work of examination is not only based on the concept of "providing assistance rather than just conducting examinations" and adherence to the policy of sharing the duties of supervision among the various regulatory bodies, but is also concerned with providing assistance to financial institutions by means of these examinations, in the hope that they will operate more soundly.

The examinations of insured institutions conducted by the CDIC may be categorized into examinations of insured institutions and commissioned examinations. Examinations of insured institutions are handled in accordance with Article 21 of the Deposit Insurance Act. Commissioned examinations are handled by the CDIC in accordance with the Regulations Governing the Ministry of Finance's Commissioning the CDIC with the Examination of Community Financial Institutions. The CDIC has, since July 1996, taken over the task of examining all community financial institutions in Taiwan. In addition, in accordance with Article 45 of the Banking Law and a resolution passed at the



8th meeting of the Financial Examination Committee, from December 1998 onwards, the CDIC was commissioned by the Ministry of Finance to engage in the work of examining the various information centers shared by the community financial institutions.

During fiscal year 2000(July 1,1999~December 31,2000), the CDIC completed a total of 438 general-scope examinations (involving 1,257 branches), which was 1.6% more than the 431 such examinations that had been planned. In addition, in order to control insured risk, a total of 218 specific-scope examinations were completed over the same period.

When examining an insured institution, the CDIC will list recommendations for improvement based on the deficiencies found, and will request that the insured institution's officers quickly correct the operational shortcomings. If major deficiencies are found, the CDIC will report to the complete authority, for a formal enforcement action. In terms of the applicability of the financial laws and regulations currently in use, if there are outdated regulations that hamper the smooth operations of financial institutions, the CDIC will gather information concerning these and then recommend to the competent authority that the existing regulations be revised. By so doing, the healthy development of financial institutions will be enhanced.

## (2)Improving the Effectiveness of Supervision

- a. Revising the Original Guidelines for the Work of Examination, to Increase the Efficiency of Examination

The recent revisions to the guideline for the work of examination were directed towards the different kinds of business handled by the various kinds of units being examined, including head offices and branches of banks, trust and investment companies, credit cooperative associations, and the credit departments of farmers' and fishermen's associations. Classified according to different categories, these revised guidelines have been rearranged into a set of examination work manuscripts that cover all aspects of the business of these financial institutions and which are able to indicate the depth of the examination. These are provided for the use of the examination personnel, and have proved very useful in terms of increasing the efficiency of examination. These work guidelines have also been installed on the CDIC's website and may be accessed for reference purposes by financial institutions for downloading and activating computer programs, and so that the operations of those institutions being examined may abide.

- b. Implementing a Letter of Confirmation into the Correspondent Banking Relationships of Financial Institutions, to Strengthen the Results of Examination

In order to strengthen the CDIC's work of examining the internal control procedures of institutions being examined in relation to their correspondent banking relationships and securities investments, the CDIC has, by consulting the practice of external confirmation adopted by independent accounting firms, drawn up a letter of confirmation and related operating procedures that can be implemented by its examination personnel when engaged in the work of examining financial institutions. In this way the results of the examination are strengthened.



- c. Reviewing the Important Items that Need to be Checked by Examination Personnel when Examining Financial Institutions to Enhance the Quality of Examination

In order to firmly grasp the major business operating conditions of those institutions being examined and reduce manpower requirements and time, the Important Items that Need to be Checked by Examination Personnel had previously been drawn up for the use of examiners. The current revision of these guidelines was directed towards classifying financial institutions into two major categories, namely, banks and community financial institutions. Furthermore, based on the present financial operating environment and newly-introduced financial legislation, the contents of some of the items were reviewed and revised to enable examiners to firmly grasp the key issues of the examination.

- d. Assisting Financial Institutions in Getting Through the Year 2000 Computer Date Crisis

In line with the Checklist of Business Items for Financial Institutions Responding to the Year 2000 Computer Date Crisis announced by the Ministry of Finance, the CDIC, in addition to drafting together with the Ministry of Finance's Bureau of Monetary Affairs and the Central Bank of China the examination items, working guidelines and application principles regarding Y2K-related specific-scope examinations, carried out a comprehensive examination of the extent to which financial institutions had responded to Y2K. The results showed that these financial institutions had been able to successfully weather the crisis.

In addition, in order to effectively remain informed of the ability of the data processing systems of each financial institution being examined to transition into the new millennium, the CDIC established a "Financial Institutions' Response to Y2K Information-sharing Task Force" to determine whether the information systems of these institutions had successfully made the transition into the year 2000. Because the CDIC actively engaged in follow-up and took immediate action where necessary, each of those institutions which it had responsibility for supervising was able to peacefully transition through the year 2000 computer date crisis.

- e. Hosting a Financial Institutions' Internal Auditing Business Conference

In order to strengthen the internal auditing function, and introduce new laws and regulations as a means to promoting the sound operations of financial institutions, the CDIC from March 8-10, 2000 hosted a Financial Institutions' Internal Auditing Business Conference. A total of 356 internal auditors from 334 institutions attended the four sessions held. Issues discussed included the practical problems involved in examination and how external financial examiners could coordinate their efforts with those of the internal auditors. A consensus was reached on many issues, which will serve as useful reference material for implementation in the future.

- f. Coordinating Important Bank Examination Activities through the Financial Examination Committee

At the meetings of the "Financial Examination Committee" convened during FY 2000, the proposed revisions to the Regulations Governing the CDIC's Examination of Financial Institutions and the Guidelines for the Evaluation of the Performance of Auditors in Domestic Banks, Trust and Investment Companies and Bills Finance Companies were discussed. In addition, many other concrete measures, including the time limits for improvements to be made in relation to the opinions given by foreign supervisory bodies that examine the overseas branches of local banks, were studied and discussed.

g. Actively Training Bank Examination Personnel

The CDIC has always attached great importance to the training of its examiners. In order to effectively make use of its examination manpower and increase the efficiency of supervision, the CDIC has compiled a training program to enhance the professional skills of examination personnel who are dispatched for training in specialized financial training institutions. In addition, at regular intervals the CDIC holds tests for its staff on laws and regulations, in order to ascertain the professional abilities of its staff, and serve as reference material when planning examinations. The CDIC also holds training courses for examination purposes with the Central Bank of China and the Bureau of Monetary Affairs of the Ministry of Finance on a regular basis. During FY 2000, nine meetings of examination team leaders and other special training courses were held. In addition, the CDIC dispatched examiners to take part in examinations conducted by the Central Bank of China. Through these, the examiners will gain an in-depth understanding of the skills required for examining new kinds of financial services. This has been very helpful in terms of raising the quality of examinations conducted by the CDIC.

h. Promoting the Exchange of Opinions Among Examination Personnel

In order to be able to strengthen the exchange of opinions among examination personnel, sharpen examiners' skills and unify examination standards, the CDIC holds seminars and discussion meetings at irregular intervals so that examination team leaders may exchange opinions. The CDIC also holds meetings that are attended by the chiefs of each division and their staff. By reaching a consensus in relation to difficulties in examination, it is able to raise the quality of examination. A total of nine meetings of examination team leaders and division chiefs and their staff were held during FY 2000.

---

### 3. Establishing a Financial Early-Warning System

#### (1) Revision of the National Financial Institutions' Early-Warning System

Under the guidance of the Ministry of Finance, the CDIC in July 1993 established the National Financial Institutions' Early-Warning System (NFIEWS) to serve as a tool to assist in the work of financial examination and risk management. Through this system the CDIC is able to evaluate each insured institution based on capital adequacy, asset quality, management capacity, earnings, liquidity, market risk sensitivity and other indicators. Then, by referring to the results of the rating and ranking of insured institutions as well as the exception list, the CDIC can determine the priority, scope and frequency of examinations, and implement appropriate policy measures. In addition, in order to respond to the changing financial environment and the needs of financial supervision, the NFIEWS has recently been amended. The amended version was ratified by the Ministry of Finance on June 25, 1999, and became operational during the second half of that year.

## (2) Conducting a Financial and Business Analysis of Community Financial Institutions

- a. In order to strengthen the function of off-site supervision in the work of examining community financial institutions, the CDIC has compiled and published a "Quarterly Analysis of the Finance and Business of Community Financial Institutions," and a "Quarterly Statistical Report on the Financial Data and Related Indicators in Respect of Community Financial Institutions in the R.O.C." These reports have been made available to the management to enable them to better understand the financial and operating conditions of community financial institutions, and have also been forwarded to the competent authority for reference. In addition, by progressively complying with the government's public disclosure policy in respect of financial institutional data, the CDIC has disclosed excerpts from these reports in its quarterly Deposit Insurance Journal and made this information available to the general public on the CDIC Internet website.
  - b. In order to enhance the ability of the financial early-warning system to assist in the work of financial supervision, the CDIC has compiled a "Summary Report on Community Financial Institutions with Abnormal Financial Data" on a quarterly basis for supervisory reference purposes.
- 

## 4. Off-site Monitoring and Follow-up Evaluation

In order to safeguard the benefits of depositors and promote the healthy development of financial institutions, the CDIC, in addition to adopting both general-scope and specific-scope examinations, has in accordance with relevant regulations drawn up the CDIC Guideline for the Follow-up Evaluation of Insured Institutions' Business Deficiencies, and has established the CDIC Enforcement Procedures for the Follow-up Evaluation of Insured Institutions' Business Deficiencies as enforcement regulations to regulate institutions' operations. Furthermore, based on Article 6 of the Regulations Governing the Ministry of Finance's Commissioning the CDIC with the Examination of Community Financial Institutions, the CDIC conducts follow-up operations as part of its overall scope of operations. These follow-up evaluation measures have included the following:

1. Establishing and amending files for insured financial institutions, in order to firmly control information relating to the operations of these institutions.
2. Conducting follow-up evaluations in relation to those financial institutions which the CDIC is responsible for examining, and requesting in writing that those insured institutions with major operational deficiencies make improvements within a specified time period.
3. Attending meetings of the Special Guidance Task Force convened by the competent authority or other important meetings.
4. Reviewing the internal audit reports of institutions being examined in order to understand the internal audit function, as well as to serve as valuable reference material for on-site examinations.

5. Referring to an analysis of the results of the early-warning systems and Internet-based supervision systems of insured institutions, and taking follow-up evaluation measures in cases where the financial situations of the institutions concerned have worsened.
6. Establishing specific files with regard to significant events involving insured financial institutions, important warning signal files, as well as documents relating to financial institutions with high dishonored-check ratios.

---

## **5.Setting up the Internet-based Supervision System**

### **(1)The Establishment of the Internet-based Real-Time On-line Data Transmission Monitoring System between Financial Institutions and the CDIC**

In January 1999, after Article 3 of the Deposit Insurance Act was revised and participation in deposit insurance was made compulsory, in order to respond to the changes in insured risk, the CDIC made plans to set up the "Internet-based Real-Time On-line Data Transmission Monitoring System between Financial Institutions and the CDIC." Such a system can immediately warn the CDIC of as well as analyze the reasons for any abnormal variations in the business statistics submitted to it by insured institutions, and is thus extremely helpful to the CDIC in terms of strengthening its off-site monitoring of financial institutions and in enabling it to quickly implement appropriate response measures.

### **(2)The Current Situation of the Internet-based Supervision System**

The "Internet-based Real-Time On-line Data Transmission Monitoring System between Financial Institutions and the CDIC" became operational on February 1, 2000. In addition, the CDIC in accordance with the Ministry of Finance's instructions conducted an efficiency evaluation, which it turned into an evaluation report. Assisted by this transmission monitoring system, the CDIC's account officers are able to immediately discover problems that the quarterly or monthly reports of financial institutions cannot promptly reveal. This shows that this transmission system is indeed able to increase the efficiency of financial supervision.

---

## **6.Strengthening Off-site Assistance to Insured Institutions with Major Operational Deficiencies**

In order to reduce insured risk and maintain financial order, the CDIC during FY 2000 assisted 58 insured institutions with major operational difficulties (of which 5 were already receiving on-site assistance) through its account officer system. It is hoped that, by making use of the appropriate and timely guidance offered in relation to their operational deficiencies, these institutions will quickly make improvements.

---

## **7.Increasing CDIC's Paid-in Capital**

In order to enlarge the CDIC's pay-off capacity, the Executive Yuan in November 1995 amended Article 4 of the Enforcement Regulations of the Deposit Insurance Act, thereby increasing the total prescribed capital of the CDIC

from NT\$5 billion to NT\$10 billion. At the end of fiscal year 1999, CDIC's paid-in capital amounted to NT\$9.077 billion. In order for the CDIC to have an ample supply of deposit insurance funds and to strengthen its ability to take charge of financial crises, the CDIC in accordance with budgetary procedures increased its paid-in capital by NT\$923 million, this amount being invested by the Ministry of Finance and the Central Bank of China in the same equal proportions as before. For this reason, the CDIC now already has a paid-in capital of NT\$10 billion.

---

## **8.Implementing a Deposit Insurance Risk-based Premium System and Enhancing the Accumulation of Insurance Pay-off Reserves**

After the revisions to the Deposit Insurance Act became effective in January 1999, all deposit-taking financial institutions in the R.O.C., with the exception of the Taipei branch of Deutsche Bank, which was excused from participating in view of its operations being safeguarded by the deposit insurance system in Germany, were participating in Taiwan's deposit insurance system.

In order to avoid moral hazard, and appropriately reflect the operating conditions of each insured institution, the CDIC, after having given careful consideration to local financial conditions, drew up a set of recommendations regarding a risk-based deposit insurance assessment rate, which it implemented with the approval of the Ministry of Finance on July 1, 1999. This risk-based premium system regards the "capital adequacy ratio" of each financial institution as well as the overall grade it has received based on the Examination Data Rating System under the National Financial Institutions' Early Warning System (NFIOWS)" as indicators of risk. It is hoped that these indicators can appropriately reflect differences in insured risk among financial institutions, in order to encourage insured institutions to lower their operational risk, and ensure that the deposit insurance premium system remains equitable.

Later, based on the premise that a sound system of deposit insurance should operate on the principle of mutual assistance among the banking industry , and in order to accumulate sufficient funds for insurance pay-offs, thereby maintaining the confidence of depositors, the CDIC received the approval of the Ministry of Finance to raise its three-tiered deposit insurance assessment rates, effective January 1, 2000, from the previous 0.015%, 0.0175% and 0.02% rates of insured deposits to 0.05%, 0.055% and 0.06%, respectively. By having adequate deposit insurance pay-off special reserves, the CDIC is able to ensure the soundness of the deposit insurance system, strengthen its ability to handle problem insured institutions, and thus not only safeguard the benefits of depositors, but also assist insured institutions in lowering their operational risk and help maintain local financial order.

---

## **9.Assisting Insured Institutions that have not Complied with the CDIC Insurance Standard in Improving their Operational Shortcomings**

In response to the implementation of compulsory participation in deposit insurance, the CDIC required, in accordance with Article 2 of the Enforcement Regulations of the Deposit Insurance Act, that those 36 newly-insured institutions that had failed to comply with the CDIC Insurance Standard drawn up prior to the implementation of the amended Deposit Insurance Act should submit a concrete improvement plan to the CDIC for approval and report on the plan's progress every three months. In addition to submitting reports to the Ministry of Finance on a regular three-monthly basis detailing how the improvement plans of these institutions that have failed to comply with the CDIC Insurance Standard are progressing and how insured institutions with worsening financial situations are being handled, the CDIC,

by also offering guidance to these insured institutions, hopes that the operational shortcomings can be completely rectified within the prescribed period.

---

#### **10.Implementing Six New Sub-regulations that have been Ratified by the Ministry of Finance**

In line with the successful passing of the revisions to the Deposit Insurance Act, the CDIC drew up six new sub-regulations. These were the Regulation Governing the CDIC's Handling of Cash Pay-offs, the Regulation Governing the CDIC's Provision of Financial Assistance to Problem Insured Institutions, the Regulation Governing the CDIC's Provision of Financial Assistance to Encourage Mergers and Acquisitions among Financial Institutions, the Regulation Governing the CDIC's Continuing to Operate Failed Institutions on a Temporary Basis, the Regulation Governing the CDIC's Handling of Insured Deposit Transfer Pay-offs, and the Regulation Governing the CDIC's Making Cash Advances to Unsecured Creditors on behalf of a Liquidator. These six sub-regulations were subsequently ratified by the Ministry of Finance and publicly declared by the CDIC on May 12, 1999, May 31, 1999, September 17, 1999, October 11, 1999, December 16, 1999 and June 3, 2000, respectively.

---

#### **11.Implementing an "Account Officer" System**

In order to upgrade the quality of service that the CDIC extends to insured institutions and further engage in off-site monitoring to avoid troubles that might be caused by problem insured institutions, the CDIC implemented an "account officer" system during the second half of 1998. The CDIC assigns "account officers" to designated administrative areas or else in accordance with specific issues, whom it dispatches to take responsibility for extending service and coordinating activities. In addition, these "account officers" frequently visit these financial institutions and attend meetings that are relevant to their work, while at the same time keeping in close contact with other financial supervisory agencies. In this way, the CDIC is able to remain informed of the problems these financial institutions are facing and effectively deal with them.

---

#### **12.Establishing an Office in the South of Taiwan**

In order to promptly handle emergencies involving insured institutions located in the southern part of Taiwan, as well as deal with problem insured institutions that are being examined, are receiving assistance, or are being placed under supervision or conservatorship, the CDIC established an office in Southern Taiwan with the approval of the Ministry of Finance on October 20, 2000. The office is located on the 10th floor at 31, Hai-Pian Rd., Kaohsiung, Taiwan.

---

#### **13.Research and Development**

In view of the rapid changes currently taking place in the financial environment, as well as the trend towards universalization in the financial sector, the CDIC, in order to keep pace with current trends, has made every effort to strengthen its research and development. In addition to gathering information related to the opinions of insured institutions and the latest developments in deposit insurance both at home and abroad, the CDIC has also completed a number of research reports. Important achievements during the current fiscal year include the following:

(1) Ten staff members and senior management executives were dispatched during the year to the United States, the United Kingdom, Germany, South Korea and Southeast Asian countries to study or attend seminars on topics such as deposit insurance systems, and financial supervisory skills, etc. All of those sent abroad have subsequently returned, and will shortly be submitting reports on the respective topics covered as is normally required of such personnel.

(2) The CDIC during the previous year (fiscal year 1999) dispatched personnel overseas to conduct research. The following detailed, informative and high-quality research reports were submitted during the current year and are proving very useful for reference purposes:

- a. A Report on Participating in the 35th Annual Conference of the Federal Reserve Bank of Chicago entitled "Lessons from Recent Global Bank Failures and Financial Supervision."
- b. A Report on the Bank for International Settlements' Standards of Supervision and the Federal Financial Supervisory System in the Germany.
- c. A Report on Participating in the Conference on Financial Supervision hosted by Germany's Bundesbank.
- d. A Report on the Reform of the System of Financial Supervision in Japan and its Handling of Financial Crises.
- e. A Report on the Financial Supervisory System in the United Kingdom and its Reform.
- f. A Report on the Latest Developments of the Financial Early-Warning System in the U.S.A.
- g. A Report on the U.S. Federal Deposit Insurance Corporation's Handling of Problem Financial Institutions and Related Laws and Regulations.

(3) One of the CDIC's research projects conducted during the previous year (FY 1999) entitled "A Study on Using Computers to Assist in the Work of Financial Examination" was not only awarded a top prize by the Ministry of Finance, but also represented the Ministry of Finance in a very distinguished research competition organized by the Executive Yuan, where it was also awarded top honors.

(4) One of the CDIC's research projects commissioned by the Ministry of Finance during FY 2000 and entitled "A Study on Strengthening the Mechanism for Handling Problem Financial Institutions in the R.O.C." has already been completed and submitted to the Ministry of Finance for ratification.

(5) The CDIC collected the latest information with regard to deposit insurance and banking supervision both locally and overseas completed numerous research papers.

(6) Six copies of the Deposit Insurance Journal, a quarterly periodical containing highlights of the operation and management of financial institutions, financial supervision, financial regulations, the deposit insurance system, etc., were published during the year and sent to various agencies and institutions for reference.



(7)Seven issues of CDIC research papers that included annual work commissioned by the Ministry of Finance and work done by staff studying abroad over the last year were published in order to provide financial institutions, related government agencies, research institutions and scholars with valuable materials for reference.

(8)The second meeting of the "CDIC Deposit Insurance Premium and Problem Insured Institutions Consultative Committee" was convened during the year. Issues discussed included the role of the CDIC, the CDIC's authority in handling of problem insured institutions, standards for levying the deposit insurance premium, and the way in which the CDIC raises new capital. The members of the consultative committee offered many informative opinions that are very valuable as reference material to the reform of the deposit insurance system and the scope of business of the CDIC.

---

#### **14.Computerization**

(1)The CDIC's "Internet-based Real-time On-line Data Transmission Monitoring System between Financial Institutions and the CDIC" was completed during the year. This system is able to analyze each kind of business operations data that is transmitted by financial institutions to the CDIC via the Internet. It also integrates data received through the Financial Early-Warning System, Account Officer System and the Business Analysis Quarterly Report System, and is able to immediately generate charts and tables upon request and automatically highlight irregularities, thereby strengthening the off-site monitoring of financial institutions.

(2)In order to increase business efficiency and replace old systems with Windows-based application systems, the CDIC during FY 2000 in this way completed the updating of its Examination Reporting Application Systems for Fishermen's and Farmers' Associations, its Examination Data Rating Application System, and its Call Report Percentile Ranking Application Systems.

(3)In line with the business needs of its South Taiwan office, the CDIC completed its installation of eight different kinds of applications systems, including a regional Internet-based system and an administration system for the work of examination. In addition, these systems have been linked up on line with the CDIC's head office mainframe, so that the systems in North and South Taiwan have identical modes of operation. This has resulted in an overall increase in efficiency in terms of data processing.

(4)The CDIC has completed its installation of anti-virus software, to not only screen files received via the Internet, and protect the CDIC's firewall system and electronic mail system, but also to safeguard the file server equipment. By these means, viruses are prevented from entering CDIC's systems and spreading, thereby increasing the safety of its network systems.

(5)The CDIC has installed an Internet-based operating system, with the result that all CDIC employees may access the Internet, and receive and send electronic mail both internally within CDIC and externally. It has also installed a bulletin board system, so that each department within CDIC may post bulletins and announcements for the benefit of employees. By replacing the traditional method of circulating hard copies of notices among employees, the CDIC is able to significantly speed up the free flow of information.

---

#### **15.Personnel Training**

In order to enhance the quality of CDIC personnel as well as the specialized knowledge and examination skills of examiners, the CDIC takes personnel training very seriously. The main kinds of training provided during the past fiscal year included the following:

- (1) There were in total 376 enrollments by CDIC personnel in courses provided by the Taiwan Academy of Banking and Finance, the Institute for Information Industry, and the Training Program for Government Personnel.
- (2) Conferences focusing on particular issues were held every month, the speakers being either outstanding CDIC examination personnel or else experts hired from outside. A total of 36 meetings to discuss specific examination cases were held and outside experts and scholars were invited to lecture on specific topics at the CDIC on a further 24 occasions.
- (3) A total of 15 people made visits or attended courses or seminars held overseas, in order to increase their specialized knowledge of deposit insurance.
- (4) In order to improve the overall standard of both English and Japanese of CDIC personnel, the CDIC hosted English and Japanese language classes one or two times a week with much success.
- (5) To help its staff engage in lifestyle planning and combine work with personal interests, the CDIC has, based on recommendations put forward by its employees, arranged special classes for staff covering such topics as health care, increasing work satisfaction, resolving work-related stress, the art of leadership, interpersonal relationships and communication, entering the world of classical music through movies and the history of various kinds of popular music.

#### 16. CDIC's Manpower Structure

year	No. of Employees	Average Age	Educational Background		
			Graduate School	College	Others
2000	282	38	43	230	9
1999	291	35	51	231	9
1998	296	34	54	233	9
1997	272	34	55	209	8
1996	150	37	37	107	6

#### Departmental Deployment (2000):

Bank Examination Department	163
Business Department	15
Accounting Department	11
Personnel Department	5
Government Ethics Office	2
Monitoring & Assistance Department	43
Legal Affairs Department	9
Secretariat Department	20
Information Department	14

# Financial Statements

## BALANCE SHEET

(NT\$000s)

	FY 2000 (Ended Dec. 31, 2000)	FY 1999 (Ended June 30, 1999)
<b>Assets</b>		
Cash and deposits with Central Bank	15,016,658	6,520,930
Securities purchased	2,384,560	7,241,574
Receivables, prepayments and short-term advances	407,943	490,809
Fixed assets	540,430	511,724
Intangible assets	4,912	5,561
Other assets	12,468	12,497
<b>Total Assets</b>	<b>18,366,971</b>	<b>14,783,095</b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	392,213	1,161,974
Special financial accommodation from Central Bank of China	1,810,000	840,000
Insurance pay-off special reserves	4,915,643	2,586,977
Long-term liabilities	27,423	113,063
Other liabilities	2,007	2,394
<b>Total Liabilities</b>	<b>7,147,286</b>	<b>4,704,408</b>
Capital stock	10,000,000	9,077,000
Paid-in capital	40,986	40,986
Retained earnings	1,178,699	960,701
<b>Total Stockholders' Equity</b>	<b>11,219,685</b>	<b>10,078,687</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>18,366,971</b>	<b>14,783,095</b>

## STATEMENT OF INCOME

(NT\$000s)

	FY 2000 (Ended Dec. 31, 2000)	FY 1999 (Ended June 30, 1999)
<b>Operating Revenue</b>		
Interest revenue	1,400,318	751,416
Insurance revenue	3,803,703	662,713
Other revenue	918	3,923
<b>Total Operating Revenue</b>	<b>5,204,939</b>	<b>1,418,052</b>
<b>Operating Costs and Expenses</b>		
Provision for insurance pay-off special reserves	3,613,518	596,442
Interest Expenses	281,666	91,034
Commissioned expenses	268,187	-----
Business expenses	400,046	260,783
Administrative expenses	74,299	53,293
R&D and staff training expenses	7,355	5,826
Other expenses	634	5,828
<b>Total Operating Costs and Expenses</b>	<b>4,645,705</b>	<b>1,013,206</b>
<b>Net Operating Income</b>	<b>559,234</b>	<b>404,846</b>
<b>Net Non-operating Loss</b>	<b>1,706</b>	<b>168,651</b>
<b>Net Income before Income Tax</b>	<b>557,528</b>	<b>236,195</b>
<b>Income Tax</b>	<b>139,531</b>	<b>60,749</b>
<b>Net Income after IncomeTax</b>	<b>417,997</b>	<b>175,446</b>

## Notes to Financial Statements

1. The figures specified in the Balance Sheet and the Statement of Income for FY 1999 (July 1, 1998 - Jun. 30, 1999) are those reviewed and adjusted by the Ministry of Audit, while those for FY 2000 (July 1, 1999 - Dec. 31, 2000) remain subject to audit by the Ministry.
2. The CDIC's significant accounting principles are summarized as follows:
  - a. Pursuant to the decree of the Executive Yuan, the CDIC records its assets and liabilities on an accruals basis in accordance with the Generally Accepted Accounting Principle.
  - b. "Securities purchased" under the Deposit Insurance Act are limited to government bonds and bank debentures.
  - c. In fixed assets, land is booked at its reappraised value, while buildings and improvements, machinery, transportation and communications equipment and other equipment are stated at cost less accumulated depreciation. Depreciation is calculated by means of the straight-line method.
  - d. According to the Enforcement Regulations of the Deposit Insurance Act, "Insurance pay-off special reserves," are provided each year in an amount not less than 60% of that year's insurance revenue. However, in order to more speedily enhance the CDIC's pay-off capability, the actual amounts provided for in past years have constituted 80% of annual insurance assessment income. Since it was expected that CDIC's operational risk would increase following the amendments to the Deposit Insurance Act, the CDIC submitted a letter to the Ministry of Finance asking that the amount provided for "Insurance pay-off special reserves" be changed to 90% of annual insurance assessment income. The Ministry of Finance subsequently gave the CDIC permission, within a four-year period commencing July 1, 1999, to fully provide 3% of its other income (i.e. income not related to major income categories) for "Insurance pay-off special reserves" in accordance with Article 11(3) of the Business Tax Law. In addition, in line with the Executive Yuan's policies, provision was made for a special reserve of 2% of insurance revenue to handle pay-offs relating to problem insured community financial institutions before the end of the year 2001. Through these measures, the CDIC will be able to more rapidly accumulate insurance pay-off special reserves and will thereby strengthen its ability to bear risk.
  - e. NT\$1,810 million in special accommodation was extended to the CDIC by the Central Bank of China during the 1999 fiscal year in accordance with Article 20 of the Deposit Insurance Act which states that the CDIC may apply to the Central Bank of China for special accommodation to be transferred to insured institutions to assist them in meeting their liquidity requirements.
  - f. "Appropriated Retained Earnings" include a legal reserve based on 10% of net income after income tax, as well as a special reserve based on 40% of net income after income tax, according to the Company Law and the CDIC's Regulations.
3. FY 2000 income before income tax of NT\$417,997 thousand together with FY 1999 retained earnings (ending of NT\$41,115 thousand, resulting in a total of NT\$459,112 thousand is appropriated in accordance with the laws and regulations as follows:
  - a. Legal reserve: NT\$41,800 thousand.
  - b. Special reserve: NT\$167,199 thousand.
  - c. Dividend to shareholders: NT\$200,000 thousand.
  - d. Unappropriated earnings: NT\$50,113 thousand. (This unappropriated residual is kept until the end of the next accounting year and then included in distributable earnings.)

# Statistics

**Table 1**  
**Major Revenue and Expense Items for the Last Five Years**

Items	FY2000	FY1999	FY1998	FY1997	FY1996
Operating Revenues	5,204,939	1,418,052	1,396,353	1,157,379	1,021,201
Interest revenue	1,400,318	751,416	710,085	706,868	633,020
Insurance revenue	3,803,703	662,713	484,680	448,301	385,767
Other revenues	918	3,923	38	2,210	2,414
Commissioned revenue	—	—	201,550	—	—
Operating Costs and Expenses	4,645,705	1,013,206	912,827	770,256	687,725
Provision for insurance pay-off special reserves	3,613,518	596,442	387,744	358,641	308,613
Interest expense	281,666	91,034	43,053	132,356	121,898
Commissioned expenses	268,187	—	188,033	—	—
Business expenses	400,046	260,783	232,397	225,372	207,034
Administrative expenses	74,299	53,293	51,795	47,597	42,208
R&D and staff training expenses	7,355	5,826	6,121	5,879	6,331
other expenses	634	5,828	3,684	411	1,641
Net Operating Income	559,234	404,846	483,526	387,123	333,476
Net Non-operating Loss	1,706	168,651	1,800	2,007	2,579
Net Income before Income Tax	557,528	236,195	481,726	385,116	330,897

Notes :

1. The figures specified in the above table for FY 1996 to FY 1999 are those reviewed and adjusted by the Ministry of Audit, while those for FY 2000 (i.e. July 1, 1999 - Dec. 31, 2000) remain subject to audit by the Ministry.
2. Accumulated insurance pay-off special reserves as at Dec. 31, 2000 amount to NT\$4,916 million.

**Table 2**  
**Numbers of Examinable Insured Institutions On-Site Examinations**

Types of Depository Institutions	2000	1999	1998	1997	1996
Domestic Banks	17 (2)	16	13	9	8
Trust and Investment Companies	2	2	3	3	3
Credit Cooperative Associations/th>	48 (2)(3)	51	56	71	28
Credit Departments of Farmers' Associations	287	287	287	285	35
Credit Departments of Fishermen's Associations	27 (4)	27	27	27	8
Information Centers of Community Financial Institutions	7	6	-	-	-
Number of Examined Head Office On-Site Examinations	388	389	386	395	82
Number of Examined Head Office & Branch On-Site Examinations	1,913 (1)	1,589	1,524	1,545	547

Notes :

1. The numbers of examined insured institutions in respect of on-site examinations include general-scope examinations and specific-scope examinations. During the 18-month period from July 1, 1999 to Dec. 31, 2000, general-scope examinations were performed in relation to 438 head offices and 1,257 branches, while 218 specific-scope examinations were conducted.

2. During fiscal year 2000 ( i.e. July 1, 1999 - Dec. 31, 2000), the Taichung Sixth Credit Cooperative merged with the Pingtung City First Credit Cooperative, and they were reorganized to become United-Credit Commercial Bank.
3. Taiwan Bank acquired Pingtung County's Tungkan Credit Cooperative.
4. The Panchiao Farmer's Associations Information Center was established in January 1998.

**Table 3 Number of Insured Institutions for the Last Five**

Types of Depository Institutions	Number of Insured Institutions				
	FY 2000 (7.1.1999-12.31.2000_	FY 1999	FY 1998	FY 1997	FY 1996
Privately-run Financial Institutions:					
Domestic Banks	48(1)	42	34	30	29
Trust and Investment Companies	3	3	4	4	4
Credit Cooperative Associations	48(2)	51	53	67	66
Credit Departments of Farmers' Associations	287	287	249	243	226
Credit Departments of Fishermen's Associations	27	27	27	27	23
Local Branches of Foreign Banks	38(3)	42	29	28	29
Sub-total	451	452	396	399	377
Government-owned Financial Institutions:					
Banks and the Postal Saving System	5(4)	9	5	5	5
Total	456(5)	461	401	404	382

Notes :

1. There were six more privately-owned domestic banks during the 18-month period ended December 31, 2000 than in FY 1999. The reasons for this were the privatization of four government-owned banks, and the addition of one new commercial bank and one industrial bank.
2. The number of credit cooperative associations at the end of FY 2000 was three less than in FY 1999, the reasons for this being the merger of two of these associations to become a commercial bank and the acquisition of one other by a domestic bank.
3. The number of local branches of foreign banks at the end of FY 2000 was four less than for FY 1999, the reasons for this being the closing of the business operations in Taiwan of three such branches, and the acquisition of the other such branch by a domestic bank.
4. The number of government-owned financial institutions at the end of FY 2000 was four less than for FY 1999, the reasons for this being that these four institutions were all successfully privatized.
5. Following the implementation of compulsory participation in deposit insurance from FY 1999 onwards, apart from the Taipei branch of Deutsche Bank, which was already protected by the deposit insurance system in Germany and on that basis was excused from participation in the deposit insurance system in the R.O.C., the total number of financial institutions that participated in deposit insurance in FY 2000 was 5 less than the 461 recorded in FY 1999. The reasons for this are explained in notes (1), (2), (3) and (4) above.

**Table 4 Total Insurable Deposits for the Last Five Years**

Types of Depository Institutions	FY 2000 (7.1.1999-12.31.2000)			Insured Institutions			
	(1) Insured Institutions (a)	(2) Insurable Institutions(b)	Insured Ratio (a)/(b) %	FY 1999 %	FY 1998 %	FY 1997 %	FY 1996 %
Privately-run Financial Institutions:							
Domestic Banks	3,472,716	8,850,413	39.2	40.4	42.0	37.3	36.9
Investment and Trust Companies	46,532	145,700	31.9	26.2	26.3	26.0	27.8
Credit Cooperative Associations	475,605	839,703	56.6	56.0	54.9	53.9	52.0
Credit Departments of Farmers' Associations	816,411	1,302,742	62.7	62.8	63.0	63.6	62.7
Credit Departments of Fishermen's Associations	21,923	32,540	67.4	67.4	69.5	70.1	71.6
Local Branches of Foreign Banks	78,763	320,123	24.6	27.7	27.9	23.8	23.8
Sub-total	4,911,950	11,491,221	42.7	44.2	46.6	44.7	44.4
Government-owned Financial Institutions:							
Banks and the Postal Savings System	2,670,785	5,282,255	50.6	51.3	31.1	27.9	27.3
Total	7,582,735	16,773,476	45.2	46.6	45.0	42.8	42.3

Notes :

1. Insured deposits are the total of each individual depositor's deposits which are less than the maximum insurable coverage. (The maximum insurance coverage was originally set at NT\$700,000, but was increased to NT\$1,000,000 effective in FY 1988) in the case of each insured institution. The insured deposits are calculated on the basis of the balance as of December 31 for each fiscal year, apart from the period covering the second half of 1999 and the whole of the year 2000 in which case the balance on June 30 is used.
2. Total insurable deposits refer to the total of checking accounts, passbook deposits, passbook savings deposits, time deposits, time savings deposits and trust funds in NT dollars for specific uses accepted by each deposit money institution. (All deposits are based on the balance as of December 31 for each fiscal year, apart from on June 30 for the accounting year covering the second half of 1999 and the whole of the year 2000.)



**Table 5 Insured Deposits, Insurance Pay-off Special Reserves and Stockholders' Equity**

year-end (Dec.31)	The Max. Insurance Coverage	Insured institutions				Insurable Deposits Ratio %	Premiums	Insurance Pay-off Special Reserves (c)	Stockholders' Equity (d)	Ratio of Insurance Pay-off Special Reserves to Insured Deposits% (c)/(b)
		No. of Insured Institutions	Total Insurable Deposits (a)	Insured Deposits (b)	Ratio of Insured Deposits to Total Insurable Deposits% (b)/(a)					
2000(1)	1,000	456	16,773,476	7,582,735	45.2	99.8	3,321(5)	4,916	11,220	0.06
1999	1,000	459	16,420,852	7,769,081	47.3	100.0	900	1,752(4)	10,185	0.02
1998	1,000	406	8,113,246	3,594,906	44.3	64.0	509	2,200	8,967	0.06
1997	1,000	403	7,313,529	3,289,797	45.0	67.9	465	1,793	8,457	0.05
1996	1,000	400	7,152,291	3,058,978	42.8	65.8	427	1,421	5,753	0.05
1995	1,000	350	6,550,052	2,772,773	42.3	63.6	325	1,080	5,587	0.04
1994	1,000	200	4,935,265	1,923,972	39.0	51.9	252	820	5,472	0.04
1993	1,000	183	4,076,410	1,608,539	39.5	48.7	189	618	5,331	0.04
1992	1,000	173	3,038,070	1,151,692	37.9	40.6	146	481	4,181	0.04
1991	1,000	163	2,444,853	943,196	38.6	39.4	120	396	2,076	0.04
1990	1,000	157	1,916,763	753,861	39.3	37.3	98	300	2,007	0.04
1989	1,000	151	1,524,996	618,248	40.5	33.2	77	222	1,985	0.04
1988	1,000	141	1,110,468	483,378	43.5	31.4	59	157	1,974	0.03
1987	1,000	99	808,249	379,379	46.9	23.4	97	116	1,611	0.03
1986	700	79	531,693	201,850	38.0	18.9	69	48	1,195	0.02

Notes :

1. The figures specified in the above table are dated as at December 31 of each year; those for 1986 to 1998 are those reviewed and adjusted by the Ministry of Audit, while those for 2000 remain subject to audit by the Ministry.
2. Insured deposits are the total of each individual depositor's deposits which do not exceed the maximum insurable coverage.
3. The insurable deposits ratio refers to the ratio of total insurable deposits of insured institutions to those of insurable institutions in each year.
4. The CDIC provided NT\$1.284 billion in financial assistance in September 1999, in order to assist the Bank of Taiwan in acquiring the Tungkang Credit Cooperative in Pingtung county, which resulted in a decrease in insurance pay-off special reserves.
5. In view of the rapidly changing local financial environment and the experiences of the advanced countries, and in order to speed up the accumulation of the CDIC's insurance pay-off special reserves, the CDIC on January 1, 2000 upwardly adjusted its very low risk-based assessment rates to 0.05%, 0.055% and 0.06% of insured deposits for the three different risk categories.

# The Deposit Insurance System

## 1. Establishment of the Central Deposit Insurance Corporation

Pursuant to Article 46 of the Banking Law, the government or banks may set up a deposit insurance organization to safeguard the benefits of depositors in financial institutions. In response to the world-wide tendency to liberalize financial markets, the government proposed the idea of deposit insurance at a National Banking Conference in 1982, at which a consensus was reached by the banks and scholars represented there to go ahead and implement it. Shortly afterwards, the Ministry of Finance, in consultation with the Central Bank of China, invited representatives of the banking sector to draw up the Deposit Insurance Act, which was submitted to the Executive Yuan with the approval of the Legislative Yuan and promulgated by the President on January 9, 1985. Thereafter, the Ministry of Finance and the Central Bank jointly established the Central Deposit Insurance Corporation (CDIC), which formally opened on September 27, 1985. The CDIC is the sole agent in charge of deposit insurance and serves as an integral part of the country's financial system. The board of directors consists of seven members who are appointed by the Ministry of Finance and the Central Bank of China.

---

## 2. Objectives

The objectives of a deposit insurance system are defined in Article 1 of the Deposit Insurance Act as follows:

- 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
- 

## 3. Insured Financial Institutions

All financial institutions that may, pursuant to law, either accept deposits or trust funds whose principal and interest are guaranteed and which are designated for special uses shall participate in deposit insurance as insured institutions. For those branches of foreign banks in the Republic of China that accept deposits and are already safeguarded by the deposit insurance system in their own countries, this regulation is not applicable.

---

## 4. Ways of Applying for Deposit Insurance

In order to achieve the goal of maintaining the confidence of depositors and enabling deposit insurance to have its full effect, the CDIC in December 1996 completed its draft revisions to the amended Deposit Insurance Act, the most notable of which was making deposit insurance compulsory. On December 29, 1998, the Legislative Yuan completed its 3rd reading of the amended draft, and then, on January 20, 1999, after being formally promulgated by the President, it became effective. In line with the implementation of this

comprehensive deposit insurance system, the CDIC requested that all financial institutions that had not participated in the deposit insurance system should do so from February 1, 1999 in accordance with the law. Those insured institutions participating in this way were to furnish the CDIC with a business report, a balance sheet, an income statement, a property inventory and other reports, in order to enable the CDIC to determine whether they were complying with the Insurance Standard which had been drawn up prior to the implementation of the amended Deposit Insurance Act. Insured institutions that did not abide by the contents of this Insurance Standard were required to present a concrete improvement plan that covered a period not exceeding three years, thereby enabling the CDIC to control its insurance risk. In the case of those insured institutions that did not submit a concrete improvement plan to the CDIC, and there was either a deterioration in the financial and business conditions facing these institutions during the time frame of the plan, or else the insured institutions in question failed to make the needed improvements within the three-year time period, the CDIC was required to report to the competent authority and to handle these problem institutions in accordance with relevant regulations either through the provision of assistance, or in the capacity of a supervisor or conservator, according to the extent of the improvements made.

---

## 5. Insured Deposits

The following items are covered by deposit insurance:

- Checking accounts
- Passbook deposits
- Time deposits
- Savings deposits, including postal savings deposits
- Trust funds whose uses are not designated by the trustors
- Other deposits which the Ministry of Finance has approved as insurable

The following are not covered by deposit insurance:

- Foreign currency and foreign exchange proceeds deposits
  - Trust funds whose uses are designated by the trustors
  - Negotiable certificates of deposit
  - Amounts due to all levels of government
  - Amounts due to the Central Bank
  - Amounts due to banks, the postal savings system, trust and investment companies, credit cooperative associations, and the credit departments of farmers' and fishermen's associations
  - The balance of those deposits which exceeds the maximum insurance coverage offered to individual depositors
- 

## 6. Insurance Coverage

The maximum insurance coverage that the CDIC extends to each depositor in any insured institution was originally set at NT\$700,000, but was increased to NT\$1,000,000 effective August 15, 1987.

---

## 7. Deposit Insurance Assessments

As stipulated by the Deposit Insurance Act, the assessment rate for deposit insurance shall be proposed by the CDIC and approved by the competent authority, i.e. the Ministry of Finance, prior to implementation. The CDIC originally assessed insured banks at the rate of 0.05% of the insured deposit liability, but lowered this rate to 0.04% effective July 1, 1987 in order to promote the business of deposit insurance and increase financial institutions' willingness to be covered. On January 1, 1988, the assessment rate was further lowered to 0.015%. Later, in line with the implementation of the compulsory system of deposit insurance, the CDIC on July 1, 1999 implemented the Guidelines for Implementing a Deposit Insurance Risk-based Premium whereby assessment rates for different risk categories were to be based on three different levels, namely, 0.015%, 0.0175% and 0.02%. Subsequent to this development, as a means to speeding up the accumulation of the CDIC's insurance pay-off special reserves, these assessment rates were readjusted to 0.05%, 0.055% and 0.06%. Assessments are due in advance for each six-month period. The assessment base is computed once every semi-annual period. The standard dates for computing such a base are June 30 and December 31, and may be altered from time to time by the Ministry of Finance in conjunction with the Central Bank.

---

## 8. Sources of Funds

### Capital

The total capital of the CDIC is prescribed by the Executive Yuan. The original level was NT\$2 billion but was increased to NT\$5 billion in July 1992, and further to NT\$10 billion in November 1995. Interest income generated from the above-said capital is the main source of funds for meeting operating expenses.

### Assessment income

Assessment income is the major source of the insurance payoff. In order to enhance the payoff capability, the CDIC, pursuant to the Enforcement Regulations of the Deposit Insurance Act, shall set aside insurance pay-off special reserves each year in an amount of not less than 60% of that year's assessment income. In addition, under the provisions of CDIC's corporate charter, the CDIC should appropriate 10% and 40% of the profit as legal surplus and special surplus, respectively, after the CDIC closes all accounts at the end of each business year.

### Special financial accommodation from the Central Bank of China

According to Article 20 of the Deposit Insurance Act, in order for the CDIC to take action in accordance with Articles 15, 15-1, 15-2, 16 and 17 of the Deposit Insurance Act, the CDIC may apply to the competent authority (i.e. the Ministry of Finance) to negotiate with the Central Bank of China for special financial accommodation. In the case where such accommodation exceeds the amount for which the CDIC is able to provide collateral, the excess portion shall be guaranteed by the National Treasury. Should the amount for which collateral is provided exceed the CDIC's net worth, the Ministry of Finance together with the Central Bank of China shall submit a report regarding that amount to the Executive Yuan for approval.

---

## 9. Examining Insured Institutions

Pursuant to Article 21 of the Deposit Insurance Act and the Designated Task Assignment Guideline of Bank Examination promulgated by the Executive Yuan, the CDIC together with the Ministry of Finance and the Central Bank of China have, based on the principle of designated task assignment, conducted on-site examinations for 76 financial institutions. In line with the government's policy and the instructions laid down in the Plan Governing the Reform of Financial Supervision and Regulation which was put forward by the Executive Yuan in April 1996, and the Regulations Governing the Ministry of Finance's Commissioning the CDIC with the Examination of Community Financial Institutions, the CDIC has since July 1, 1996 taken over from the Central Bank of China and Taiwan Cooperative Bank the examination of all of the community financial institutions in Taiwan. The CDIC's work of examination has thus expanded to include all community financial institutions. In addition, in line with the reorganization of the Ministry of Finance's Financial Information Center into the Financial Information Service Co. Ltd., the work of examining the joint information centers relating to the credit departments of farmers' and fishermen's associations, which had previously been entrusted to this Financial Information system Center, has since December 1998, in accordance with Article 45 of the Banking Law and a resolution passed at the 8th meeting of the Financial Examination Committee, been entrusted by the Ministry of Finance to the CDIC.

---

## 10. Handling Problem Financial Institutions

### Assisting Problem Insured Institutions

Pursuant to paragraph 1 of Article 17 of the Deposit Insurance Act, the CDIC, with the prior approval of the Ministry of Finance, may when necessary dispatch personnel to assist insured institutions with their business operations, thereby safeguarding the rights of depositors.

Providing Financial Assistance Paragraph 2 of Article 17 of the Deposit Insurance Act stipulates that the CDIC may extend loans to, or deposit funds in, an insured institution to which the CDIC provides assistance or in relation to which the CDIC performs the functions of a supervisor or conservator. In the event that another healthy insured institution intends to merge with such a problem institution, the CDIC may on the basis of item 3 in paragraph 1 of Article 15 of the Deposit Insurance Act extend financial assistance to the healthy insured institutions, in order to facilitate a merger with the problem insured institution. The purpose behind the above regulation is to enable the CDIC to extend needed financial support to problem insured institutions in emergency situations (such as panic runs), so as to assist them in maintaining stable business operations, or else to enable such problem insured institutions to withdraw from the market without affecting the stability of the financial system. In this way, the crisis can be prevented from spreading, and the rights of depositors may be effectively safeguarded, orderly credit maintained, and the sound development of financial operations enhanced.

In addition, in order to facilitate business assistance operations and communications with community financial institutions, the CDIC, in compliance with the Designated Task Assignment Guideline of Bank Examination issued by the Executive Yuan, has coordinated its efforts with the Taiwan Cooperative Bank to draw up the Guidelines Concerning Providing Business Operations Assistance to Community Financial Institutions by the CDIC and the Taiwan Cooperative Bank. These Guidelines were promulgated by the Ministry of Finance in 1987, and revised in October 2000. Pursuant to these Guidelines, insured community financial institutions that experience insufficient liquidity may apply for financial assistance.

### Termination of Deposit Insurance

Pursuant to Article 19 of the Deposit Insurance Act, if an insured institution violates laws or regulations or the

Insurance Agreement or engages in unsafe and unsound business practices, and fails to rectify such violations within the time-limit prescribed by the CDIC, the CDIC shall terminate its status as an insured institution. In addition, Article 18 of the same Act stipulates that, in the event that an insured institution suspends its business of receiving deposits and trust funds, that insured institution should give written notice to the CDIC to terminate its status as an insured institution. Once the institution has had its insured status terminated, the total insured deposit balance of the depositors in such an institution on the date of such termination, less all subsequent withdrawals from any deposit account of such depositors, shall continue to be insured up to the maximum insurance coverage for a period of one year from the date of termination.

---

## 11. Handling Failed Insured Institutions

Pursuant to Article 15 of the Deposit Insurance Act, in the event that an insured institution shall have been closed by the competent authority, the CDIC should, in order to maintain an orderly credit system and protect the interests of that insured institution's depositors or its designated beneficiaries in the case of trust funds, fulfill its responsibility as a deposit insurer by means of any one of the following four methods:

- By directly making cash pay-offs in relation to principal from its insured deposits in accordance with the failed institution's own accounting records or based on evidence of outstanding amounts provided by the depositors.
- By holding consultations with other insured institutions that are in close proximity to the failed institution, and transferring the deposit accounts of the depositors in the failed institution to those institutions so that the claims of depositors can be met.
- By extending financial assistance to other insured institutions through the provision of funds, loans or deposits, or by guaranteeing the liabilities of the closed institution to make it easier for the sound institutions to merge with the closed institution or else to assume its operations, assets and liabilities either in whole or in part.
- By assuming and temporarily continuing the operations of the closed institution in the name of the CDIC should the CDIC be unable through negotiation to find other insured institutions to handle the matters referred to in methods two and three above, before once again resorting to method three.

It needs to be noted, however, that the cost to CDIC of proceeding with any one of the last three methods needs to be less than the losses that would arise from directly making a cash pay-off on the basis of the first method.

Upon the closing of an insured institution, the CDIC, in addition to performing the insurance obligation mentioned above, shall, pursuant to paragraph 1 of Article 16 of the Deposit Insurance Act, be appointed by the competent authority as the receiver to commence the winding up of the closed institution. In addition, according to paragraph 2 of Article 16 of the Deposit Insurance Act, the CDIC may, in order to meet the liquidity needs of the creditors of the closed institution, without increasing the costs incurred by the CDIC in relation to any one of the four methods referred to above and after having calculated the value of the closed institution's assets, make advance payment against claims filed by depositors beyond the maximum insurance coverage and non-depositors based on the anticipated reimbursement ratio. Any such advance payments should be recorded item by item in order of payment and set against any amounts recovered arising from such

claims. Such amounts may first be deducted from the total sum of money finally realized from the liquidation and repaid to the CDIC.


## 12.The Enlargement and Improvement of the Deposit Insurance System in the Republic of China

	1985 (The Year of CDIC's Establishment)	Subsequent Changes	1999 (After the <i>Deposit Insurance Act</i> was Amended)
Type of Participation	Voluntary	→	Compulsory
Capital	<ul style="list-style-type: none"> <li>● Total capital prescribed by the Executive Yuan: NT\$2 billion</li> <li>● Actual paid-in capital: NT\$800,050,000</li> </ul>	<ul style="list-style-type: none"> <li>● Total prescribed capital was increased in July 1992 to NT\$5 billion</li> <li>● In November 1995 the capital was further increased to NT\$10 billion</li> </ul>	At the end of FY 2000, actual paid-in capital amounted to NT\$10 billion
Participating Institutions	<ul style="list-style-type: none"> <li>● Domestic Banks (not including the Postal Savings System)</li> <li>● Medium Business Banks Postal Saving System</li> <li>● Trust and Investment Companies</li> <li>● Credit Cooperative Associations</li> <li>● Credit Departments of Farmers' and Fishermen's Associations</li> </ul>		<ul style="list-style-type: none"> <li>● All of the institutions listed to the left as well as the Postal Savings System</li> </ul>



	<ul style="list-style-type: none"> <li>● Local Branches of Foreign Banks (Local branches of foreign banks that accept deposits that are protected by their respective countries may still participate)</li> <li>● Other financial institutions appointed by the Ministry of Finance</li> </ul>	→	<ul style="list-style-type: none"> <li>● Local Branches of Foreign Banks in Taiwan that have already had their deposits guaranteed by their respective countries are not required to participate</li> </ul>
Insurance Premium	A uniform rate of 0.05% of insured deposits →	<ul style="list-style-type: none"> <li>● in July 1987 , the uniform assessment rate was lowered to 0.04%</li> <li>● In January 1988, the assessment rate was further lowered to 0.015%</li> </ul>	In July 1999, the CDIC adopted a risk-based assessment rate system, whereby three rates were used, namely, 0.015%, 0.0175%, and 0.02% of insured deposits. Later, to ensure sufficient insurance pay-off special reserves and enhance CDIC's ability to bear risk, these three assessment rates were raised 0.05%, 0.055%, and 0.06%.
Maximum Insurance Coverage	NT\$700,000 →	On August 15, 1987, the maximum coverage was increased to NT\$1 million.	
Scope of Coverage	Principal and Interest relating to Deposits	→	Restricted to Principal only

Institutions in which CDIC Funds may be Deposited	Limited to the Central Bank of China	→	<ul style="list-style-type: none"> <li>● The Central Bank of China</li> <li>● Financial institutions approved by the competent authority to provide government bonds as collateral</li> </ul>
Means of Fulfilling the Insurance Obligation	<ul style="list-style-type: none"> <li>● Cash Pay-offs</li> <li>● Deposit transfers</li> <li>● Temporarily continuing to operate failed institutions in the name of the CDIC</li> </ul>	→	In addition to the three methods to the left, financial assistance may be provided to encourage other insured institutions to either merge with or acquire the failed institution or its operations, assets and liabilities in whole or in part
Making of Advance Payments (Against Claims filed by the depositors beyond the Maximum Insurance Coverage and also by Non-depositors)	No premium	→	Based on the principle that the costs incurred by the CDIC do not increase, the CDIC may make advance payments against claims to meet the liquidity needs of creditors of the closed institution
Exemption of Handling Problem Insured Institutions and Failed Insured Institutions	No provision		New Amendment

from Invitation for Tender, Price Comparison, Price Negotiation and Articles 25 to 27 of the <i>Budget Law</i>			
Recipient of Financial Assistance and the Form of such Assistance	Limited to assistance either in the form of loans or asset purchases to enable those failed institutions to resume operations		<ul style="list-style-type: none"> <li>● For those insured institutions receiving assistance, or being put under supervision or conservatorship, the CDIC may extend loans and place deposits in such institutions</li> <li>● Other financial institutions that either merge with or acquire the operations, assets and liabilities, in whole or in part, of financial institutions, which are receiving assistance, or are being put under supervision or conservatorship or have failed, are eligible for such assistance, which can take the form of extending loans, placing deposits in those institutions, and providing funds and guaranteeing liabilities</li> </ul>

Borrowing Funds from the Other Financial Institutions before Applying to the Central Bank for Special Accommodation in Case of Emergency	No provision	→	New Amendment
The Provision of Collateral when Applying to the Central Bank for Special Accommodation	Sufficient collateral must be provided	→	<ul style="list-style-type: none"> <li>● That part for which the CDIC is unable to provide collateral shall be guaranteed by the National Treasury</li> <li>● For that part guaranteed that exceeds the CDIC's net worth, the competent authority and the Central Bank of China shall seek the approval of the Executive Yuan</li> </ul>
Penalty for Refusing to Participate in Deposit Insurance	No provision	→	A fine of two times the insurance premium payable
Penalty for Failure to Accept the Personnel Dispatched by the CDIC or to Comply with the Opinions Given by the Personnel	No provision	→	A fine of between NT\$360,000 and NT\$1,800,000

Penalty for Failing to Comply with a Corrective Order within the Time Limit Imposed	No provision	→	A further fine of between 1 and 5 times the aforesaid penalty on the same fact or action
---	--------------	---	---