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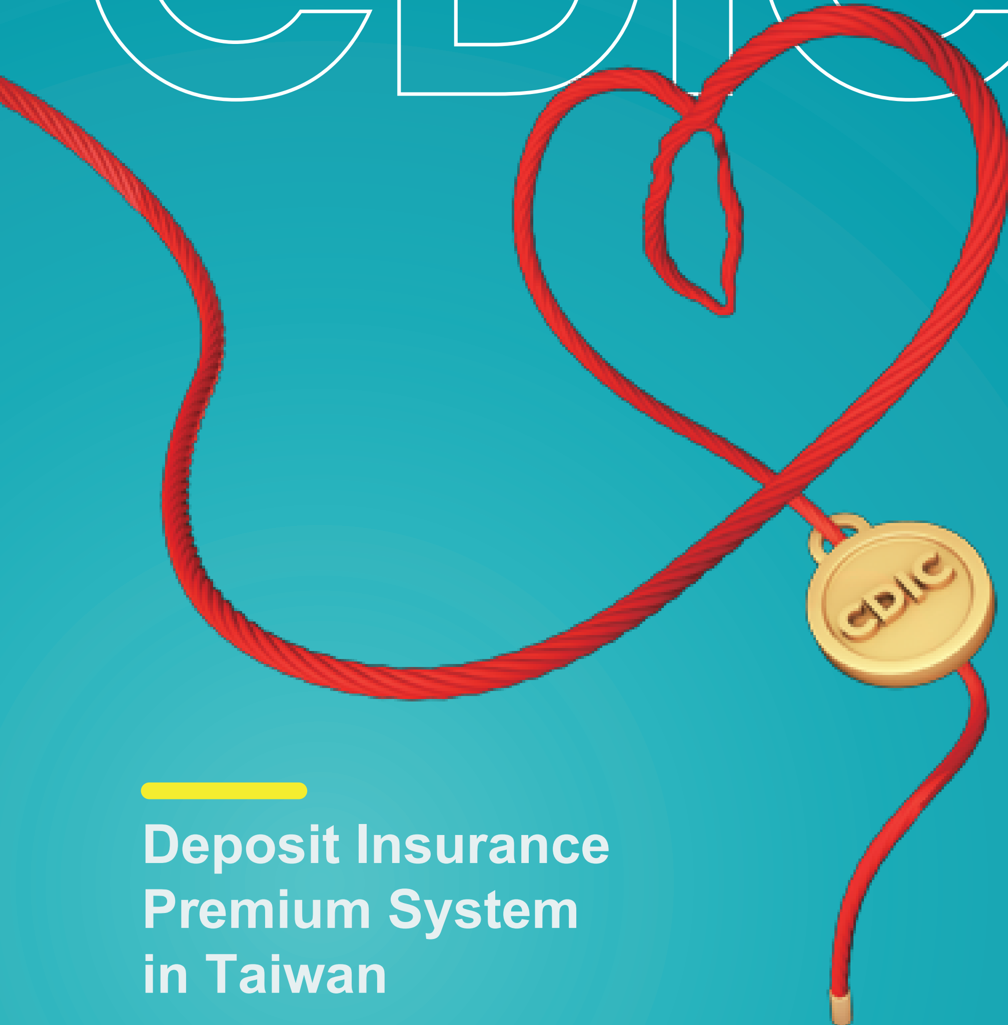

Deposit Insurance Premium System in Taiwan

中央存款保險公司
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1 Background

The deposit insurance system (DIS) of Taiwan was established in 1985. Membership to the system was not compulsory. The establishment and scope of operations of banks were subject to numbers of restrictions, and thus risk differentiation among financial institutions was small. Therefore, the DIS adopted a flat premium rate. Since then, Taiwan's financial sector has further liberalized and financial regulatory controls have been loosed. Meanwhile, the operations of financial institutions have become more diversified and internationalized, widening the differences among such institutions in terms of their levels of risk. These trends sparked debate over the fairness of the flat rate system and the tendency of the system may lead to moral hazard as well as encourage financial institutions to assume high levels of risk. In order to apply premium rates according to the different levels of risk assumed by individual institutions, the Central Deposit Insurance Corporation (CDIC Taiwan) drafted the "Proposal for a Deposit Insurance Risk-based Premium System."This system was formulated on the basis of a broad consensus among banking industries, the government and academia as well as in line with the implementation of the mandatory membership of deposit insurance system. The proposal was also drafted in accordance with the *Deposit Insurance Act* (Hereinafter referred to as "the Act") and was submitted to the Ministry of Finance (MOF), which ratified and officially enacted the *Implementation Scheme for the Deposit Insurance Risk-based Premium System* on July 1, 1999. At that time, Taiwan became the first Asian country to implement such a system.

2 Development

(1) Adopted a deposit insurance risk-based premium system based on three levels of risk on July 1, 1999

Taiwan introduced a deposit insurance risk-based premium system on July 1, 1999. At the beginning, premium rates were based on three levels of risk to reduce industry resistance to the new system and minimize the burden it posed on insured institutions. The premium rates for the three grades were 0.015%, 0.0175% and 0.02%, representing a difference of 0.0025% between successive rate categories. In order to accelerate accumulation of the deposit insurance payout special reserves (hereinafter referred to as "deposit insurance fund"), while remaining true to the user-pay principle, the premium rates were raised to 0.05%, 0.055% and 0.06%, representing a difference of 0.005% between successive rate categories, effective from January 1, 2000.

(2) Changed the premium assessment base from covered deposits to total eligible deposits from January 2007 and increased the number of risk-based premium grades from three to five in July 2007

Considering that the deposit insurance system is part of the financial safety net, CDIC Taiwan drafted revisions to the Act to strengthen deposit insurance mechanisms, protect the rights and interests of depositors, and maintain financial stability. The amended Act was approved by the Legislative Yuan and promulgated by the President on January 18, 2007. Under the amended Act, the premium assessment base changed from covered deposits to total eligible deposits. The expanded premium assessment base would have increased the premium burden on insured institutions under the original levels of premium rates. In order to prevent aforesaid burden, as well as to rationally reflect differences in operational risk among insured institutions and enhance the deposit insurance fund, it was proposed that the deposit insurance premium be adjusted. CDIC Taiwan had also convened several meetings with the related competent authorities and conducted briefing sessions on the deposit insurance premium for insured institutions to forge consensus and smoothly implement the new system. The resulting *Revised Implementation Scheme for the Deposit Insurance Premium System* was approved by the Financial Supervisory Commission (FSC) of the Executive Yuan and enacted on July 1, 2007. Under the revised scheme, an insured institution was required to pay a premium with a differential rate on covered deposits according to its calculated risk indicators and a flat rate on eligible deposits in excess of the coverage limit. The revised scheme also increased the number of risk-based premium grades from three to five and expanded the difference between successive rate categories from 0.005% to 0.01%. The approved premium rates were as follows:

- For domestic banks, local branches of foreign banks and credit cooperatives, the five premium grades were 0.03%, 0.04%, 0.05%, 0.06%, and 0.07%, as well as the flat rate was 0.0025%. On January 1, 2010, the flat rate was changed to 0.005%.
- For credit departments of farmers' and fishermen's associations, the five premium grades were 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%. The flat rate was 0.0025%.

(3) Increased the deposit insurance premium on January 1, 2011 to accelerate the fund accumulation

Since 2001, the government has smoothly removed 56 problem institutions from the market through the joint mechanism of the Executive Yuan's Financial Restructuring Fund and the deposit insurance fund, improving the operating conditions of financial institutions and the financial environment for such institutions.

However, CDIC Taiwan's Deposit Insurance Fund for general financial institutions has faced serious deficiencies. Based on the user-pay principle, and considering that the original rates were lower than those assessed in some advanced countries and that the coverage limit was increased to NT$3 million on January 1, 2011, CDIC Taiwan considered a proposal to adjust the deposit insurance premium to strengthen the deposit insurance fund by accelerating the fund accumulation and increasing its ability to bear risk. In order to smoothly carry out the rate adjustment and strengthen communication with the financial industry, CDIC Taiwan made several visits to related banker associations from mid-August 2010. It also held several discussion meetings to explain the premium rates adjustment policy to all domestic banks, foreign banks, credit cooperatives and other insured institutions respectively. FSC, as the competent authority, invited related government agencies, bankers associations, bank practitioners and scholars to discuss the policy at a meeting on November 4, 2010, during which consensus was reached on the rate adjustment. FSC approved the adjustment on November 24, 2010, and the new deposit insurance premium became effective on January 1, 2011, as follows:

- For domestic banks and local branches of foreign and mainland Chinese banks, the differential premium rates on covered deposits are 0.05%, 0.06%, 0.08%, 0.11%, and 0.15%. A flat premium rate of 0.005% is assessed for eligible deposits in excess of the coverage limit.
- For credit cooperatives, the differential premium rates on covered deposits are 0.04%, 0.05%, 0.09%, 0.10%, and 0.14%. A flat premium rate of 0.005% is assessed for eligible deposits in excess of the coverage limit.
- For credit departments of farmers' and fishermen's associations, the rates are unchanged at 0.02%, 0.03%, 0.04%, 0.05%, and 0.06% of covered deposits. A flat premium rate of 0.0025% is assessed for deposits in excess of the coverage limit.

CDIC Taiwan revised the *Implementation Scheme for the Deposit Insurance Premium System* to reflect the operational risk and financial status of insured institutions in the risk-based premium more effectively and promptly. The revised scheme replaces the Composite Score of the Examination Data Rating System with the Composite Score of the Risk-based Premium Rating System (CSRPRS) as one of the risk indicators in calculating differential premiums. It also specifies that the main source of information in calculating this score is the data reported by insured institutions. However, if an examination report is received and a score can be produced accordingly within six months before the standard dates for calculating insurance premiums, this shall be used for calculating the differential premium. Additionally, in order to confirm the accuracy of the data and files reported by insured institutions and to prevent the falsification or concealment of financial and business information in reported data from affecting the applicable premium rate, new supporting measures were formulated to allow CDIC Taiwan to conduct inspections at insured institutions and charge additional fees. The mentioned revisions were approved by FSC on October 31, 2011, and implemented on January 1, 2012.

(4) Used call report data submitted by insured institutions as the sole information source of financial indicators for risk-based premiums

In light of the situation that the economy of Taiwan had undergone several business cycles and resulted in the change of financial environment, plus the financial industry began to incorporate Basel III in 2013, CDIC Taiwan started from the first half of 2012 not only revising both risk indicators and weights in the Risk-based Premium Rating System, but also adopting the call report data submitted by insured institutions as the sole resource of the financial indicators in the "Composite Score of the Risk-based Premium Rating System" in order to respond to the change of financial environment and to match up with the objectives of financial supervision. Furthermore, CDIC Taiwan also coped with the competent authority on revising and declaring on November 26, 2012 the related regulations stated in the *Regulations Governing the Capital Adequacy and Capital Category of Banks* about the requirement of raising minimum capital adequacy year by year, and further amended the regulations about the risk category of banks regarding the "Capital Adequacy Ratio", another risk indicator for the risk-based premium. The abovementioned content of amendments was approved by FSC on October 16, 2013 and became effective on January 1, 2014.

Time	Membership	Rate System	Premium Rate (s)
09/1985	Voluntary	Flat rate	0.05% of covered deposits
07/1987	Voluntary	Flat rate	0.04% of covered deposits
01/1988	Voluntary	Flat rate	0.015% of covered deposits
07/1999	Mandatory*	Risk-based rate (9 groups/3 grades)	0.015%, 0.0175%, and 0.02% of covered deposits
01/2000	Mandatory	Risk-based rate (9 groups/3 grades)	0.05%, 0.055% and 0.06% of covered deposits
07/2007	Mandatory Application **	Risk-based rate for covered deposits (9 groups/5 grades) Flat rate for eligible deposits in excess of the coverage limit	1. For domestic banks, local branches of foreign banks, trust and investment companies and credit cooperatives, the five-grade premium rate were 0.03%, 0.04%, 0.05%, 0.06%, and 0.07%, and the flat rate was 0.0025%. From Jan. 1, 2010, the flat rate was changed to 0.005%. 2. For credit departments of farmers' and fishermen's associations, the five-grade premium rates were 0.02%,0.03%, 0.04%,0.05%, and 0.06%. The flat rate was 0.0025%.
01/ 2011	Mandatory Application	Risk-based rate for covered deposits (9 groups/5 grades) Flat rate for eligible deposits in excess of the coverage limit	1. Banks: Five-grade premium rates are 0.05%, 0.06%, 0.08%, 0.11%, and 0.15%; a flat rate is 0.005%. 2. Credit cooperatives: Five-grade premium rates are 0.04%, 0.05%, 0.07%, 0.10%, and 0.14%; a flat rate is 0.005%. 3. Credit departments of farmers' and fishermen's associations: Five-grade premium rates are 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%; a flat rate is 0.0025%.

Note: *The voluntary system was replaced by a mandatory one on February 1, 1999.
**The mandatory application system was adopted on January 20, 2007.

3 Key Features of the *"Implementation Scheme for the Deposit Insurance Premium System"*

(1) Premiums

The deposit insurance premium of insured institutions is assessed at a differential rate for covered deposits based on the institution's calculated risk indicators. A flat rate is applied to eligible deposits in excess of the coverage limit.

(2) Risk Indicators

The two risk indicators are the Capital Adequacy Ratio (CAR) and the Composite Score of the Risk-based Premium Rating System (CSRPRS).

- Determination of CAR:

CAR of banks refers to the ratio of equity capital to total risk-weighted assets. CAR of credit cooperatives refers to the ratio of eligible equity capital to total risk-weighted assets. For local branches of foreign and mainland Chinese banks, CAR refers to the ratio of equity capital to total risk-weighted assets of the foreign and mainland Chinese banks. CAR for credit departments of farmers' and fishermen's associations refers to the ratio of eligible net worth to total risk-weighted assets.

(3) Standard Dates for Calculating Risk Indicators

The standard dates for calculating CAR are March 31 and September 30, which are determined as the end of the quarters before the standard dates for calculating deposit insurance premiums (June 30 and December 31), based on the most recent report submitted by insured institutions to the competent authority. For local branches of foreign and mainland Chinese banks, data reported to the competent authority in their home countries shall serve as the basis.

The standard dates used for calculating CSRPRS are March 31 and September 30, determined as the end of the quarters before the standard dates for calculating deposit insurance premiums (June 30 and December 31). The score is produced from the data reported by insured institutions. However, if CDIC Taiwan, within half year before the standard dates for calculating deposit insurance premiums, receives an examination report of the insured institution with an examination standard date prior to March 31 or September 30 and the examination results are different from the financial data submitted by the insured institution, the insured institution should make adjustments based on the examination results. Accordingly, CDIC Taiwan should use the data after adjustments made by the insured institution, to generate the CSRPRS and calculate the risk premium rate of the current payment period. If the examination standard date of the abovementioned examination report is after March 31 or September 30, the premium rate for the next payment period should be calculated based on the principle above.

(4) Risk Grading

A. CAR is divided into three risk grades:

- Domestic banks, local branches of foreign and mainland Chinese banks, with a CAR of 12% and over from 2014 to 2015 and with a CAR of 12.5% and over after 2016; credit cooperatives with a CAR of 12% and over; credit departments of farmers' and fishermen's associations with a CAR of 10% and over.
- Domestic banks, local branches of foreign and mainland Chinese banks, with a CAR of 8% to less than 12% from 2014 to 2015, with a CAR of 8.625% to under 12.5% in 2016, with a CAR of 9.25% to under 12.5% in 2017, with a CAR of 9.875% to under 12.5% in 2018, and with a CAR of 10.5% to under 12.5% after 2019; credit cooperatives with a CAR of 8% to under 12%; credit departments of farmers' and fishermen's associations with a CAR of 8% to under 10%.
- Domestic banks, local branches of foreign and mainland Chinese banks, with a CAR of under 8% from 2014 to 2015, with a CAR under 8.625%, 9.25%, 9.875% from 2016 to 2018 respectively, and with a CAR of under 10.5% after 2019; credit cooperatives, credit departments of farmers' and fishermen's associations with a CAR of under 8%.

For insured institutions required by the competent authority to meet the minimum CAR, the risk grades are divided into three levels: a CAR of 12.5% and over; a CAR of less than 12.5% but of and over the minimum required CAR; and less than the minimum required CAR.

B. CSRPRS is divided into three levels:

- Composite scores of 65 and over
- Composite scores of 50 to under 65
- Composite scores of less than 50

(5) Risk Groups

Nine risk groups are distinguished according to a three-by-three matrix, in which the Y-axis represents CAR and the X-axis represents CSRPRS.

(6) Deposit Insurance Premium Rates

A. For covered deposits, the applicable premium rates are categorized in five grades according to nine risk groups:

- For domestic banks and local branches of foreign and mainland Chinese banks, the premium rates are 0.05%, 0.06%, 0.08%, 0.11%, and 0.15%, respectively.
- For credit cooperatives, the premium rates are 0.04%, 0.05%, 0.07%, 0.10%, and 0.14%, respectively.
- For credit departments of farmers' and fishermen's associations, the premium rates are 0.02%, 0.03%, 0.04%, 0.05%, and 0.06%, respectively.

B. A flat premium rate of 0.005% is applied to eligible deposits in excess of the coverage limit for domestic banks, the local branches of foreign and mainland Chinese banks and credit cooperatives. The flat rate is 0.0025% for such deposits at the credit departments of farmers' and fishermen's associations.

C. Premium rates for each type of financial institutions are detailed in Appendix: Differential Premium Grading for Insured Institutions

(7) Exceptions:

A. Calculation of the risk-based premiums for insured institutions in the process of a merger or assumption:

- For the payment period at the time of merger/assumption: The calculation of premium rates is based on the risk indicators of each institution before a merger/assumption.
- For the payment period after a merger/assumption:

  (a) If there is no CSRPRS data available, the CSRPRS for the surviving institution shall be used to calculate premiums. The premium rate of the newly incorporated institution is based on the higher CSRPRS of the original institutions before a merger/assumption.

  (b) If there is no CAR data available, the premium rate is based on the CAR of the surviving institution. The premium rate of the newly-incorporated institution is based on the higher CAR of the original institutions before a merger/assumption.

B. The differential premium rates for insured institutions that do not have CSRPRS or CAR data available due to reorganization are based on the latest CSRPRS or CAR before the reorganization.

C. Insured institutions that are newly established and do not yet have a CSRPRS shall pay the Grade 3 differential premium rate. However, the Grade 4 differential premium rate must be applied to credit departments of farmers' and fishermen's associations established under special permission by the central competent authority of agricultural finance in accordance with the proviso of Subparagraph 2 of the *Auditing Standards for Applications to Re-establish Credit Departments by Farmers' and Fishermen's Associations whose Credit Departments were Assumed by a Bank*.

D. The premium rate for government-owned insured institutions, excluding those institutions subject to the lowest premium rate, should be calculated as one grade lower than the rate for their risk group.

E. The premium rate for insured institutions that accept deposits but do not make loans other than time deposit pledges; or for deposits required by law to be deposited in certain financial institutions; or for preferential interest deposits such as the deposits for civil servant and teacher pension funds or military retirement funds or Personnel Savings Division Comptroller EAU, M.N.D., shall be determined specially by the competent authority.

F. Insured institutions shall pay the highest premium rate if they are under guidance, superintendence, conservatorship or their authorities are exercised by officers delegated by the competent authority or the central competent authority of the agricultural finance in accordance with the law.

G. Bridge banks that are set up in accordance with the Act do not need to pay the insurance premium.

H. If an insured institution receives a warning notice of terminating the deposit insurance agreement by CDIC Taiwan in accordance with Article 25 of the Act, CDIC Taiwan can legally raise the premium rate of the institution by 0.01% to 0.05%.

(8) Regulations on Appealing a Premium Rate

- The insured institutions that object to their differential premium rates are still required to pay the insurance premiums on time. A written request for review of the premium rates may be submitted to CDIC Taiwan between the date of receiving notification of premium payment and the due date of the premium payment (January 31 or July 31, based on the postmark date). Only one such request is allowable per payment period.

(9) Punitive Regulations

- CDIC Taiwan sends a written notification of the applicable premium rate to each insured institution. Insured institutions cannot publicly announce their CSRPRS. CDIC Taiwan may increase the differential premium rate of violators of this regulation by 0.01% for the current payment period.
- If an insured institution does not pay its premium on time as stipulated under CDIC Taiwan regulations, CDIC Taiwan may increase the differential premium rate of the violators by 0.01% for the current payment period.
- If an insured institution dishonestly reports data and files or conceals important financial information, such that the applied premium rate is affected for various periods, the institution must pay the difference of the revised premiums after adjustments. CDIC Taiwan may charge an additional premium of 0.01% to 0.04% for the current payment period depending on the level of severity.

(10) Inspection and other Regulations

- In order to confirm the accuracy of the data and files related to risk indicators reported by insured institutions, CDIC Taiwan may conduct inspections of insured institutions.
- If an insured institution has a major financial or operational risk event between the standard dates for reporting data and the standard dates for calculating deposit insurance premiums, such that the risk indicators are unable to timely reflect operational risks, CDIC Taiwan may charge an additional premium of 0.01% to 0.04% for the current payment period depending on the degree of risk. However, the increased premium rate may not exceed the highest rate.

Appendix: Differential Premium Grading for Insured Institutions(Five Premium Grades)

• Premium Rates for Domestic Banks and Local Branches of Foreign and Mainland Chinese Banks

<table>
<tr><th>YEAR</th><th>CAR / CSRPRS</th><th>65 and Over</th><th>50 to Under 65</th><th>Less than 50</th></tr>
<tr><td>2014~2015</td><td>12.0% and over</td><td rowspan="2">Grade 1
0.05%</td><td rowspan="2">Grade 2
0.06%</td><td rowspan="2">Grade 3
0.08%</td></tr>
<tr><td>After 2016</td><td>12.5% and over</td></tr>
<tr><td>2014~2015</td><td>8% to less than 12%</td><td rowspan="5">Grade 2
0.06%</td><td rowspan="5">Grade 3
0.08%</td><td rowspan="5">Grade 4
0.11%</td></tr>
<tr><td>2016</td><td>8.625% to less than 12.5%</td></tr>
<tr><td>2017</td><td>9.25% to less than 12.5%</td></tr>
<tr><td>2018</td><td>9.875% to less than 12.5%</td></tr>
<tr><td>After 2019</td><td>10.5% to less than 12.5%</td></tr>
<tr><td>2014~2015</td><td>Less than 8%</td><td rowspan="5">Grade 3
0.08%</td><td rowspan="5">Grade 4
0.11%</td><td rowspan="5">Grade 5
0.15%</td></tr>
<tr><td>2016</td><td>Less than 8.625%</td></tr>
<tr><td>2017</td><td>Less than 9.25%</td></tr>
<tr><td>2018</td><td>Less than 9.875%</td></tr>
<tr><td>After 2019</td><td>Less than 10.5%</td></tr>
</table>

• Premium Rates for Credit Cooperatives

CSRPRS / CAR	65.0 and Over	50.0 to Under 65.0	Less than 50.0
12.0% and over	Grade 1 0.04%	Grade 2 0.05%	Grade 3 0.07%
8.0% to less than 12.0%	Grade 2 0.05%	Grade 3 0.07%	Grade 4 0.10%
less than 8.0%	Grade 3 0.07%	Grade 4 0.10%	Grade 5 0.14%

• Premium Rates for Credit Departments of Farmers' and Fishermen's Associations

CSRPRS / CAR	65.0 and Over	50.0 to Under 65.0	Less than 50.0
10.0% and over	Grade 1 0.02%	Grade 2 0.03%	Grade 3 0.04%
8.0% to less than 10.0%	Grade 2 0.03%	Grade 3 0.04%	Grade 4 0.05%
less than 8.0%	Grade 3 0.04%	Grade 4 0.05%	Grade 5 0.06%

Note:

1. CSRPRS is based on the data reported by insured institutions.
2. CAR of banks refers to the ratio of equity capital to total risk-weighted assets. CAR of credit cooperatives refers to the ratio of eligible equity capital to total risk-weighted assets. For local branches of foreign and mainland Chinese banks, CAR refers the ratio of equity capital to total risk-weighted assets of the foreign and mainland Chinese banks. CAR for credit departments of farmers' and fishermen's associations refers to the ratio of eligible net worth to total risk-weighted assets.

4 FAQ

(1) Why did Taiwan introduce a risk-based premium system?

The Taiwan government has been aggressively liberalizing and internationalizing the financial sector, leading to growing disparities between financial institutions in terms of their levels of risk. The original flat premium rate adopted by the deposit insurance system failed to reflect these different risk levels, thereby unfairly disadvantaging sound financial institutions. Since financial institutions engaged in high-risk operations did not pay higher rates, they were more likely to increase their high-risk portfolio and business risk, leading to moral hazard. Such problems can be avoided under a risk-based premium system. CDIC Taiwan therefore studied the experience of advanced countries and conducted various studies on the pricing of premium rates. After reaching a broad consensus among the banking industries, the government, academic communities and insured institutions, CDIC Taiwan drafted the "Proposal for a Deposit Insurance Risk-based Premium System" and submitted it to MOF. MOF ratified the proposal on July 1, 1999, at which time the *Implementation Scheme for the Deposit Insurance Risk-based Premium System* officially came into force.

(2) Did CDIC Taiwan consult with related competent authorities and all insured institutions about the revised *Implementation Scheme for the Deposit Insurance Premium System* prior to its implementation?

In order to smoothly implement the rate adjustments, as well as to enhance communication with related competent authorities, bankers associations, and insured institutions, CDIC Taiwan held several briefing sessions during rate adjustments or revisions to related provisions of the *Implementation Scheme for the Deposit Insurance Premium System* to reach consensus.

CDIC Taiwan attached great importance to the views and suggestions of insured institutions. The purpose for holding the above-mentioned sessions was to seek out the views of insured institutions and related financial supervisory agencies, built consensus through opinion exchanges, and thereby smoothly implemented new deposit insurance mechanisms.

Q&A

(3) Why are a differential risk-based premium rate applied to covered deposits and a flat rate applied to eligible deposits in excess of the coverage limit?

The amended Act promulgated by the President on January 18, 2007 changed the premium assessment base from covered deposits to total eligible deposits. This expanded premium assessment base would have greatly increased the premium burden on insured institutions under the original premium levels. In order to prevent this sudden increase, CDIC Taiwan proposed that the deposit insurance premium be adjusted.

The revised assessment base would also result in relatively higher premium increases for foreign and domestic banks compared to increases for other types of insured institutions, since the financial institutions in the former group have a higher ratio of deposits exceeding the coverage limit to total eligible deposits. In order to reduce the impact of the changes on these financial institutions, and considering that deposits in excess of the coverage limit are not covered by the deposit insurance system, separate premium calculation methods were adopted for covered deposits and eligible deposits in excess of the coverage limit. Under this approach, covered deposits continue to be subject to the original risk-based premium rates and eligible deposits in excess of the coverage limit are subject to a lower flat premium rate.

(4) Why were the premium rates of the risk- based premium grading expanded from three levels to five levels? Why was the difference between each successive premium rate category expanded from 0.01% to 0.01%, 0.02%, 0.03% and 0.04%?

When initially formulating the risk-based premium system, CDIC Taiwan referred to the experiences of advanced countries, the findings of questionnaire surveys, and inputs from scholars and experts. To ensure that the premium was within the scope acceptable to the banking industry in the initial implementation period, it was preferable that the difference between the highest and lowest rates not be too large and that the premium be adjusted upward phase by phase. Therefore, the premium rates for covered deposits were set at the three grades of 0.015%, 0.0175%, and 0.02%. In order to accelerate the accumulation of the deposit insurance fund, the three premium rate grades were adjusted upwards, to 0.05%, 0.055%, and 0.06%, respectively, increasing the successive rate difference from 0.0025% to 0.005% effective from January 2000. However, scholars, experts and practitioners repeatedly raised questions over the effectiveness of the three-grade premium rate system and 0.005% successive rate difference to adequately reflect differences in the operational risks of individual insured institutions. Therefore, the number of premium grades was increased from three to five and the successive rate difference was increased from 0.005% to 0.01% from July 2007.

The 0.01% rate difference under the premium system implemented in July 2007 was still small compared to other countries such as the United States, Canada, Singapore, and Malaysia which also adopted a risk-based premium system. In addition, scholars and experts frequently offered suggestions on increasing the number of premium rates and expanding the difference between successive rates. In order to more rationally reflect differences in operational risks among insured institutions, as well as guide insured institutions to reduce such risk, CDIC Taiwan included the proposal to expand differential premium rate differences from 0.01% to 0.01%, 0.02%, 0.03%, and 0.04% in deliberations on the plan to adjust the deposit insurance premiums for banks and credit cooperatives in 2010, effective from 2011.

(5) Why are the two risk indicators of CAR and CSRPRS used in calculating the risk-based premiums of insured institutions? Can these two risk indicators measure the operational risks of the financial institutions in an effective and timely manner?

A. CDIC Taiwan uses the insured institution's CAR and CSRPRS to calculate the risk-based premium. CAR reflects the abilities of financial institutions to assume risk and is the most important financial indicator adopted by financial supervisors worldwide. CSRPRS is derived from the Risk-based Premium Rating System, with scores produced mainly from the data reported by insured institutions up to the end of the quarter before the standard dates (March 31 and September 30) for calculating deposit insurance premiums (June 30 and December 31).

B. In order to reflect the operational risk of insured institutions more effectively and promptly in the risk-based premium, the system mainly uses objective quantitative indicators and assesses the areas such as capital adequacy, asset quality, management ability, earnings, liquidity, sensitivity of market risk and others.

C. The mentioned two indicators are sufficient to assess the degree of "risk occurrence" and "risk tolerance" of insured institutions. These two indicators can also encourage insured institutions to place importance on risk management and enhance their abilities to absorb losses.

(6) Does CDIC Taiwan adopt the insured institutions' CAR calculated at the end of March and September respectively?

The laws stipulate different due dates for reporting CAR to the competent authorities depending on the types of insured institutions. In order not to create an additional burden for the insured institutions, the standard dates for calculating CAR are March 31 and September 30, which are determined as one quarter before the standard dates for calculating deposit insurance premiums (June 30 and December 31), based on the most recent information reported by the insured institutions to the competent authorities. According to Paragraph 1 of Article 14 under the *Regulations Governing the Capital Adequacy and Capital Category of Banks*, domestic banks are required to report their CAR information on a quarterly basis. Under Paragraph 1 of Article 8 of the *Regulations Governing the Capital Adequacy Ratio and Capital Grade of Credit Cooperatives*, credit cooperatives shall report their CAR information every half year. Under Paragraph 1 of Article 6 of the *Regulations Governing the Net Worth to Risk Assets of the Credit Departments of Farmers' and Fishermen's Associations*, CAR information shall be reported after preparation of the final accounts for the year. For local branches of foreign and mainland Chinese banks, CDIC Taiwan uses the CAR information, which they report to their competent authorities in the home countries.

(7) The cut off points of CAR of the credit departments of farmers' and fishermen's associations are 8% and 10% respectively. Why are they lower than those of CAR applied to other types of insured institutions?

According to Article 7 of the *Regulations Governing the Eligible Net Worth to Risk Assets of the Credit Departments of Farmers' and Fishermen's Associations* (amended in November 2005), CAR of credit departments shall not be less than 8%. Therefore, the minimum CAR risk grading for credit departments of farmers' and fishermen's associations was set at 8%. Moreover, farmers' and fishermen's associations are required by law to use any profits not allotted for operational reserves to make up accumulated loss as well as to be allocated for legal surplus, funds for public interest, and promotion of agricultural or fishery affairs. It is therefore very difficult for such institutions to accumulate net worth. In view of the operational characteristics of these institutions, and in consultation with the related competent authorities, CDIC Taiwan set the CAR cut off points for the credit departments of farmers' and fishermen's associations at two percentage points less than CAR for other types of insured institutions.

(8) What are the assessment indicators in CSRPRS? And how does CDIC Taiwan calculate CSRPRS?

The assessment indicators applied by CSRPRS under the Risk-based Premium Rating System include capital adequacy, asset quality, management ability, earnings, liquidity, sensitivity of market risk and other indicators. CSRPRS is calculated based on information reported by the insured institutions. Statistical models are then applied to assign weights to the various assessment indicators and through calculation the individual indicator scores are produced. These individual scores are then added up to a composite score.

(9) In respect to the rule of the level of capital adequacy ratio for determining the applicable deposit insurance premium rates (original cut-off points are 8% and 12%), how does CDIC Taiwan respond to the annual increase of the Basel III capital adequacy requirement for banks?

In consideration of the consistency of financial supervision and in accordance to the Article 5 of the *Regulations Governing the Capital Adequacy and Capital Category of Banks*, the original cut-off point of 8% will remain as 8% for the year of 2014 and 2015, and be increased to 8.625% for 2016, 9.25% for 2017, 9.875% for 2018, and 10.5% after 2019. Regarding the cut-off point of 12%, it will be raised to 12.5% after 2016.

(10) What is the source of the data for CSRPRS generated by reported information?

The quantitative indicators used to calculate the scores derived from various sources. Data for domestic banks and local branches of foreign and mainland Chinese banks come from FSC's "Single Window for Reporting of Financial Supervisory Information by Banks and Bills Finance Companies"; data for credit cooperatives are reported to CDIC Taiwan; and data for the credit departments of farmers' and fishermen's associations are reported through the Bureau of Agricultural Finance's internet reporting system. To reduce the burden of reporting on insured institutions and prevent duplicate reporting, each institution only needs to report accurate financial and business information via the original reporting mechanism.

(11) How does CDIC Taiwan deal with insured institutions that dishonestly report data or files or intentionally hide important financial and business information?

A. Subparagraph 4 of Point 3 of the *Implementation Scheme for the Deposit Insurance Premium System* empowers CDIC Taiwan to conduct inspections of insured institutions.

B. In the described situations where dishonesty or concealment has occurred, the institution is required to make supplemental payment following adjustment, affecting their premium for various periods. CDIC Taiwan can also increase the rate of the differential premium applied to the insured institutions by 0.01% to 0.04% for the current payment period depending on the level of severity, as well as report the case to the competent authority for handling, according to Article 46 of the Act.

(12) Why are the premium rates for the credit departments of farmers' and fishermen's associations lower than those for other types of insured institutions under the *Implementation Scheme for the Deposit Insurance Premium System*?

After the *Agricultural Finance Act* was enacted in January 2004, the competent authority for agricultural financial institutions (referring to the credit departments of farmers' and fishermen's associations and the Agricultural Bank of Taiwan) was changed to the Council of Agriculture of the Executive Yuan, while FSC supervises general financial institutions (financial institutions other than agricultural financial institutions). Since the two types of financial institutions differ in terms of their competent authorities, supervision rules, and risk assumption, the January 2007 revision of the Act divided the deposit insurance fund into two funds: one for general financial institutions and the other for agricultural financial institutions, to undertake and handle deposit insurance for each of these types of institutions.

According to Paragraph 2 of Article 4 of the revised *Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund* enacted in June 2005, a special fund in the amount of NT$22 billion was established for future reimbursement of the credit departments of farmers' and fishermen's associations. As of June 30, 2010, over NT$20 billion remained in this fund, and about NT$2.5 billion remained in the fund for agricultural financial institutions. Since the funds are sufficient for handling the resolution of problem credit departments of farmers' and fishermen's associations, and since the balance of this fund remained positive, the competent authority on November 24, 2010, granted approval to provisionally exempt the credit departments of farmers' and fishermen's associations from the deposit insurance premium adjustment for general financial institutions in 2011.

The differential premium rates for credit cooperatives was set 0.01% lower than those for banks for each premium level in consideration of their simpler operations and lower risk, for instance, in the fact that credit cooperatives have a lower non-performing loan ratio than banks, and that their CAR and coverage ratio of allowance for bad debt are higher than those of banks.

(13) Under what circumstances may an insured institution apply to CDIC Taiwan for a review of its premium rate? What are the regulations concerning the period and frequency of such applications?

Insured institutions that have questions about their differential premium rates should submit a written request for review to CDIC Taiwan between the date of receiving notification of premium payment and the due date of the premium payment (January 31 and July 31 each year). Each insured institution may only submit one request for review during one payment period.

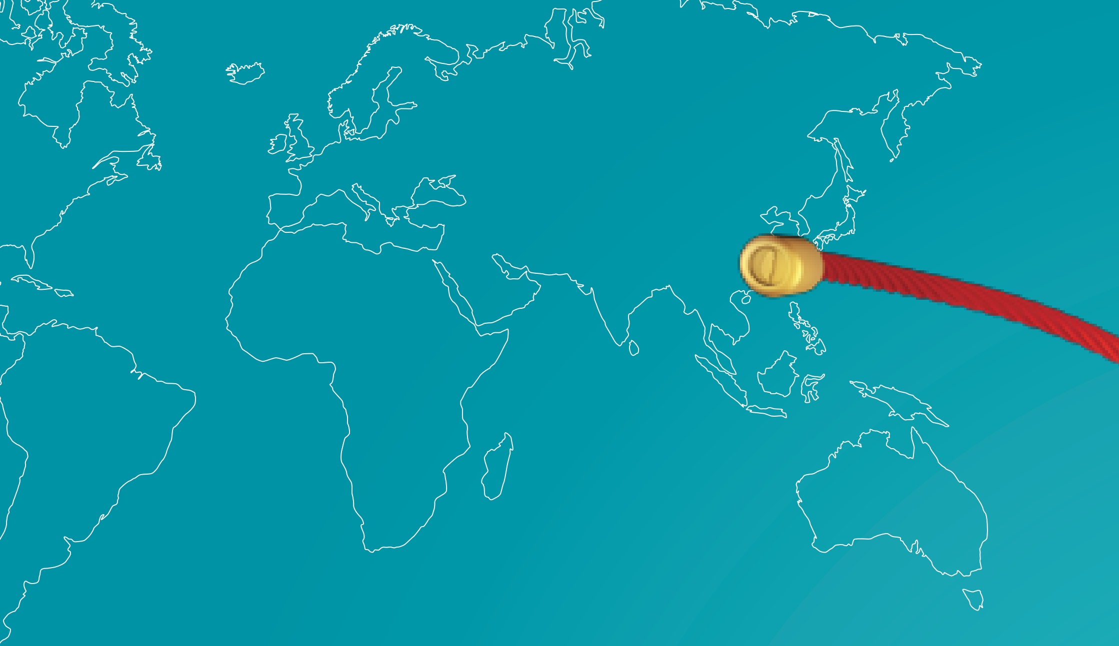
(14) Is an insured institution required to pay its premium on time even when a review of the premium rate is in process?

Yes. CDIC Taiwan takes every effort to handle applications for premium rate reviews as quickly as possible. However, the time taken to complete a review can vary according to when the insured institutions apply for the review and the complexity of individual cases. Therefore, the insured institutions that are notified by CDIC Taiwan of a rate change before the payment deadline should pay the premiums at the adjusted rate. Those have not received such notification by the deadline should pay the premiums as originally assessed. In such cases, the insured institution will pay a supplement or receive a refund equal to the difference between the original and adjusted premium amounts. Interest will not be applied to such adjusted amounts.

(15) Who handles the premium rate review applied by insured institutions? What are the major items reviewed by CDIC Taiwan?

CDIC Taiwan has set up a Deposit Insurance Premium Rate Review Committee specially for handling rate reviews requested by insured institutions. Particular weight is given to the insured institution's CSRPRS and items affecting the applicable premium rates most.

CDIC



DEPOSIT INSURANCE:
Bringing Smiles of Satisfaction and Security to Taiwan's Financial Sector

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