



中央存款保險公司  
Central Deposit Insurance Corporation

# Coverage of Deposit Insurance Protection

- Rationale & Taiwan Experience -

Yvonne Y. Fan  
Deputy Director  
Central Deposit Insurance Corporation  
March 2007

# Agenda



- **IADI's Research Project on Determining Deposit Insurance Coverage Limit**
- Taiwan Experience

# IADI Research Project on Coverage Limit



- Research incentives
- Policy considerations
- Potential impact of coverage limit
- Considering factors
- Comparisons among countries

# Research Incentives



- Determine the potential liabilities under the deposit insurance system
- Influence the extent to depositors' confidence in the financial system

# Policy Considerations



- **Fulfill the public-policy objectives**
  - Protect the payments system - blanket coverage
  - Protect small depositors - limit coverage
- **Potential cost**
- **Be credible**
- **Be internally consistent with other features of DIS, i.e. funding**



# Potential Impacts of Coverage Limit

- **Too low** - Be counter productive to the objective of ensuring financial stability
- **Too high** - Reduce the incentives for depositors to monitor banks' risk-taking activities

# Considering Factors



- Based on a benchmark, such as per capita GDP
- Based on the proportion of deposits/ depositors covered
- The process of reviewing the adequacy
- Moral hazard and coinsurance
- Fairness of competition
- Specific protecting groups
- Fixed amount or indexed coverage



# Comparisons among Countries



- In most countries, the range of maximum coverage is around **2~3 times** of its per capita GDP

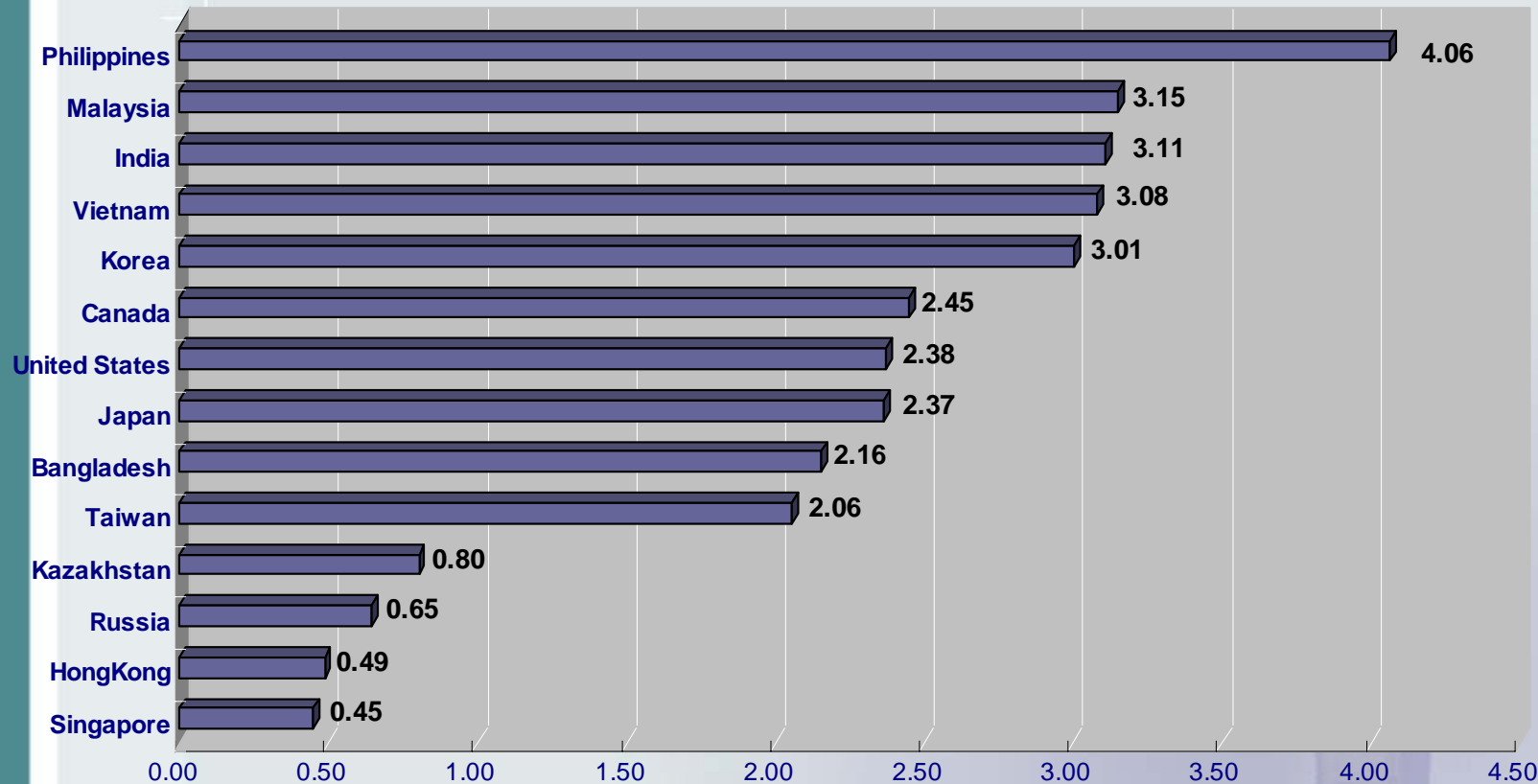
country	item	Coverage Limit as of 2005		GDP Per Capita (in US\$)	Ratio of Coverage to GDP Per
		In local currency	In US\$		
Bangladesh		TK 60,000	870	403	2.16
Canada		Can.\$ 100,000	85,874	35,064	2.45
HongKong		HK\$ 100,000	12,392	25,444	0.49
India		RS 100,000	2,219	714	3.11
Japan		Yen 10,000,000	84,767	35,787	2.37
Kazakhstan		Tenges 400,000	2,986	3,717	0.80
Korea		Won 50,000,000	49,358	16,421	3.01
Malaysia		Ringget 60,000	15,873	5,040	3.15
Philippines		Peso 250,000	4,711	1,159	4.06
Russia		Rubles 100,000	3,474	5,369	0.65
Singapore		S\$ 20,000	12,018	26,835	0.45
Taiwan		NT\$1,000,000	31,088	15,120	2.06
United States		US \$ 100,000	100,000	42,101	2.38
Vietnam		VND 30,000,000	1,885	612	3.08
Indonesia		blanket guarantee	NA	1,259	NA
Thailnad		blanket guarantee	NA	2,577	NA
Mongolia		NA	NA	736	NA
<b>Average</b>			<b>29,108.13</b>		<b>2.16</b>



# Comparisons among Countries



Ratio of Max. Coverage to GDP Per Capita



# Agenda



- IADI's Research Project on Determining Deposit Insurance Coverage Limit
- Taiwan Experience

# Taiwan Experience



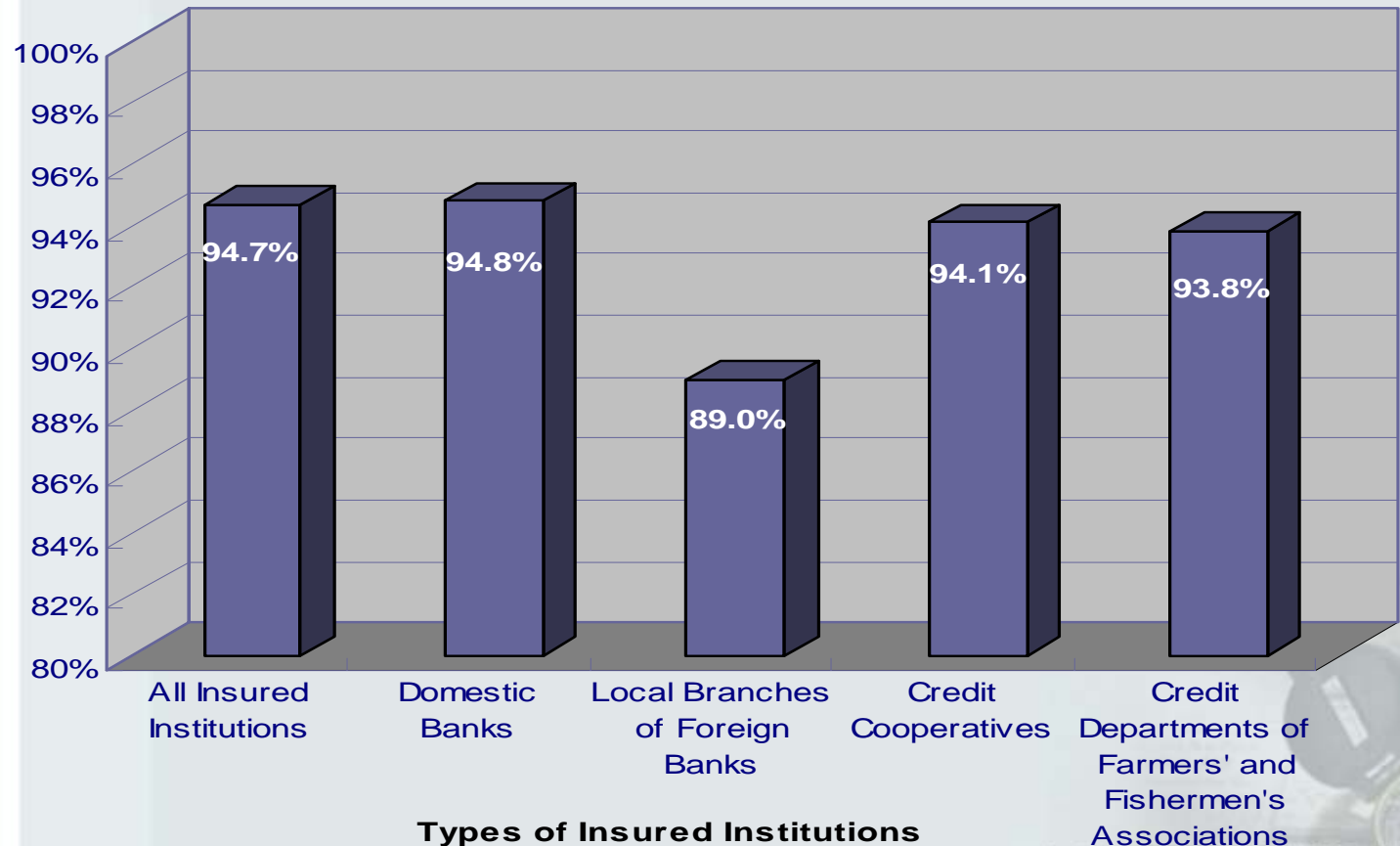
- **Development**
  - **NT\$ 700,000 (US\$21,219) in 1985**
  - **NT\$1,000,000 (US\$30,312) since 1987**
    - Meet with the expectation of financial institutions
    - Protect more small depositors
    - Be in line with the definition of “small deposits”
    - Strengthen financial stability
    - Attract more financial institutions joining the deposit insurance scheme
  - **Limited to principal only since 1999**

# Coverage Ratio - 1



## Ratio of Depositors Covered in Full at Coverage Limit to Total Depositors

As of Dec.31, 2006



中央存款保險公司

Central Deposit Insurance Corporation 12

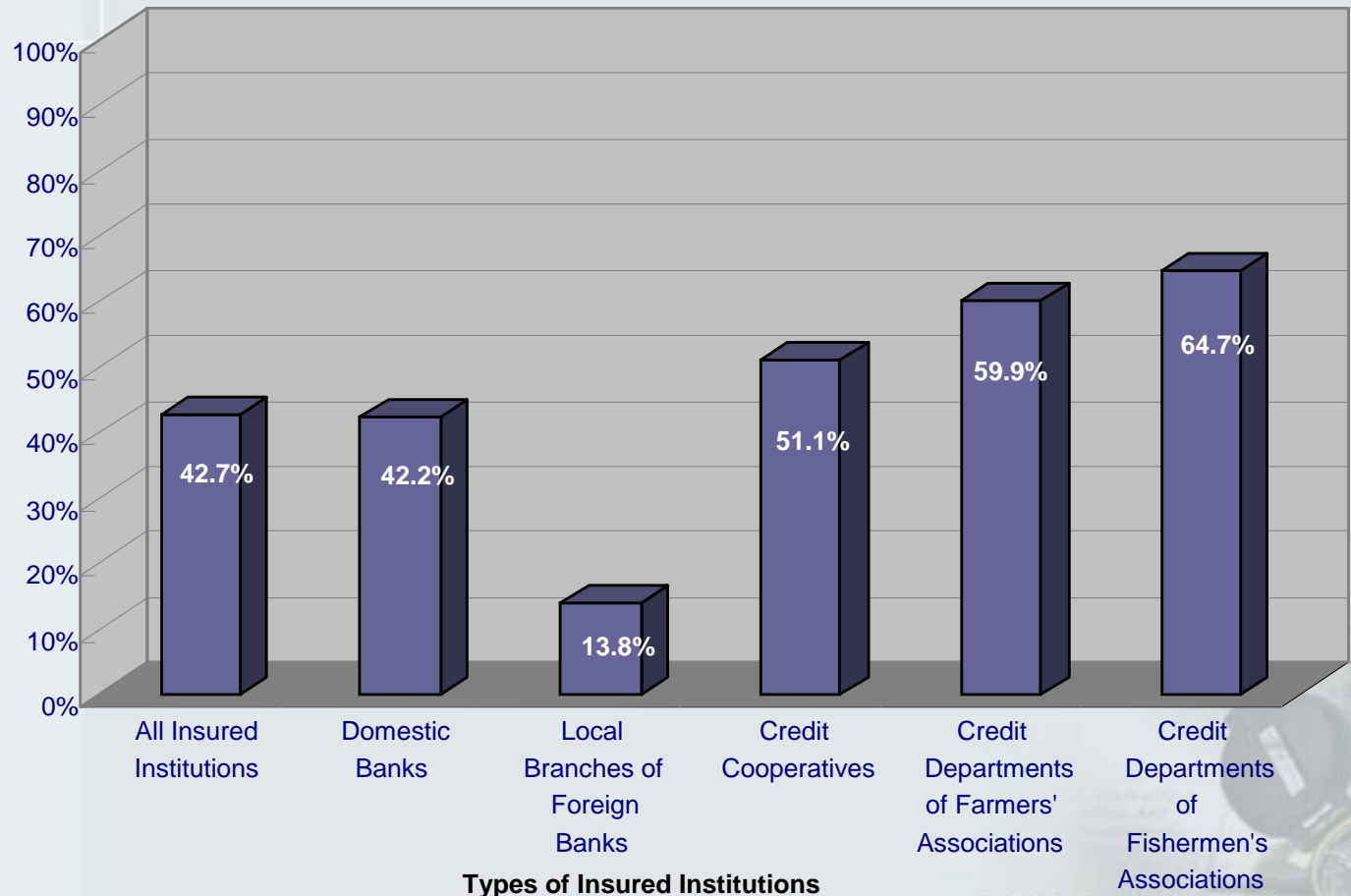
Note: Domestic Banks include Agricultural Bank of Taiwan, Taiwan Post Co., Ltd and investment and trust corporations.

# Coverage Ratio - 2



## Ratio of Insured Deposits to Total Insurable Deposits

As of Dec.31, 2006



中央存款保險公司

Central Deposit Insurance Corporation 13

Note: Domestic Banks include Agricultural Bank of Taiwan, Taiwan Post Co., Ltd and investment and trust corporations.

# Reasons for Raising Coverage



- Reflecting the increase of income level and CPI
- Respond to the present condition of the financial market and expectation of the public
- To comply with the lately amended *Deposit Insurance Act*

# Proposed Change



- **NT \$ 1,500,000**
  - **3** times of GDP per capita
  - Coverage ratio:
    - In terms of total deposit accounts: **97%**
    - In terms of total insurable deposits: **53%**
- **Complement measure: Raise of the insurance premium**



# Coverage after Termination of Membership



- *Previous Deposit Insurance Act*
  - One year after termination
- *Amended Deposit Insurance Act*
  - Half a year after termination
- **Calculation of coverage amount**

# Scope of Coverage



- **Insured Deposits**
  - Checking deposits
  - Passbook deposits
  - Time deposits
- **NT Dollar deposits only**

# Scope of Coverage



- **Uninsured Deposits**
  - Foreign currency deposits
  - Negotiable certificates of deposits
  - Deposits due to all levels of government
  - Deposits due to the Central Bank
  - Deposits due to banks
  - Structured deposits

# Special Considered Deposits



- **Structured deposits**
  - Non-traditional/core deposits
  - Mainly for investment purpose
  - Principal might not be 100% guaranteed



# Special Considered Deposits



- **Pension accounts**
  - The amended *Deposit Insurance Act* provides the pension account additional coverage amount
- **Foreign currency deposits**
  - Debate on the popularity of foreign currency deposits

# What's Next?



- Include interests on principal into scope of coverage
- Consider/review the necessity to cover foreign currency deposits
- Promoting public awareness of the coverage of deposit insurance
- Cross border issues

# Thank You

[www.cdic.gov.tw](http://www.cdic.gov.tw)

Welcome to CDIC



中央存款保險公司  
Central Deposit Insurance Corporation