

# Funding Mechanisms of Deposit Insurance Systems in Asia

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CDIC

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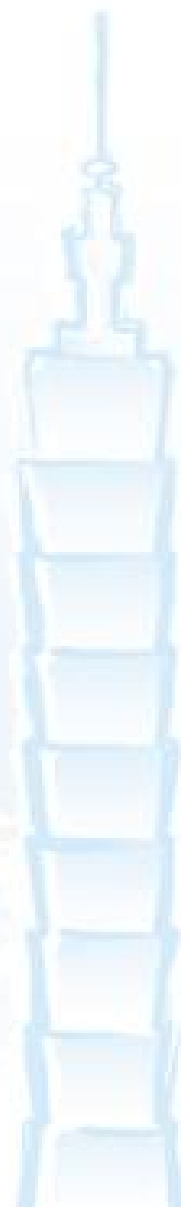
- **Basic frameworks of the deposit insurance systems (DIS)\***
- **Deposit insurance fund functions**
- **Sources of deposit insurance fund (DIF)**
- **Administration of DIF**
- **Handling of taxes and surpluses**
- **Dealing with systemic crises**
- **Conclusion**

\* 13 deposit insurers were surveyed in this study, including: HK=Hong Kong; IN=India; ID=Indonesia; JP=Japan; KZ=Kazakhstan; KR=Korea; MY=Malaysia; RU=Russia; SG=Singapore; TW=Taiwan; TH=Thailand; PH=The Philippines; VN=Vietnam.



# Basic Frameworks of DIS

	Date of DIS Implementation	Organization Type	Mandate	Membership Approach
HK	September 2006	Public corporation	Pay-box	Compulsory
IN	January 1962	Public corporation	Pay-box	Compulsory
ID	September 2005	Public corporation	In-between	Compulsory
JP	July 1971	Semi-Public corporation	In-between	Compulsory
KZ	November 1999	Public corporation	In-between	Compulsory
KR	June 1996	Public corporation	Risk-minimizer	Compulsory
MY	September 2005	Public corporation	Risk-minimizer	Compulsory
RU	December 2003	Public corporation	In-between	Compulsory
SG	April 2006	Public corporation	Pay-box	Compulsory
TW	September 1985	Public corporation	Risk-minimizer	Mandatory application, but subject to CDIC's approval
TH	August 2008	Public Corporation	Pay-box	Compulsory
PH	June 1963	Public corporation	In-between (transitioning to Risk-minimizer)	Compulsory
VN	July 2000	Public corporation	Risk-minimizer	Compulsory





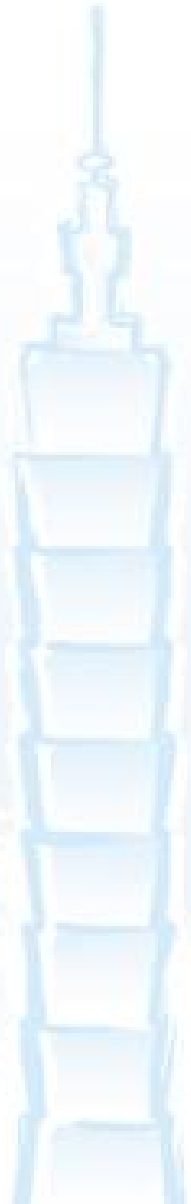
# DIF Functions

	Meeting Insurance Obligations			Financial assistance to improve the operations of problem institutions	Advance payments to depositors/creditors of failed institutions
	Reimbursement	Financial assistance for the sound financial institutions to P&A the failed insured institutions	Establishment of bridge banks		
HK	V	-	-	-	-
IN	V	-	-	-	-
ID	V	-	-	V	-
JP	V	V	V	V	V
KZ	V	V	-	-	-
KR	V	V	V	V	V
MY	V	V	-	V	V
RU	V	V	-	V	-
SG	V	-	-	-	V
TW	V	V	V	V	V
TH	V	-	-	-	-
PH	V	V	-	V	-
VN	V	-	-	V	-



# Sources of DIF

- **Capital**
- **Premium**
- **Earnings on investment**
- **Recoveries and other sources of revenue**
- **For liquidity purpose**
  - **Borrowing**
  - **Bonds issuance**





# Capital

	Capital Amount	Source
HK	No start-up capital	-
IN	INR0.5 billion	Central Bank
ID	IDR 4 trillion	Government (MOF)
JP	JPY455 million	Government (MOF), Central Bank, Private financial institutions
KZ	KZT110 billion	Central Bank
KR	No start-up capital	-
MY	No start-up capital	-
RU	RUR8.4 billion	Government (MOF)
SG	No start-up capital	-
TW	NT\$10 billion	Government (MOF), Central Bank
TH	No start-up capital	-
PH	PHP3 billion	Government (national government)
VN	VND5 trillion	Government (MOF)



# Premium

	General Premium		Special Premium
	Premium Assessment Basis	Rate System	
<b>HK</b>	Insured deposits	Risk-based rate	V
<b>IN</b>	Insurable deposits	Flat rate	-
<b>ID</b>	Insurable deposits	Flat rate	-
<b>JP</b>	Insurable deposits	Flat rate	V
<b>KZ</b>	Insurable deposits	Risk-based rate	V
<b>KR</b>	Insured deposits	Flat rate	V
<b>MY</b>	Insured deposits	Risk-based rate	V
<b>RU</b>	Insurable deposits	Flat rate	-
<b>SG</b>	Insured deposits	Risk-based rate	V
<b>TW</b>	Insurable deposits	Risk-based rate	V
<b>TH</b>	Insurable deposits	Flat rate	-
<b>PH</b>	Total deposit liability of banks	Flat rate	-
<b>VN</b>	Insured deposits	Flat rate	-



# Earnings on Investment

	Bonds					Notes	Deposits		Other
	Gov. Bonds	Bank Debentures	Corporate Bonds	U.S. Gov. Bonds	Foreign Financial Bonds	Short-term Notes	Central Bank Deposits	Deposits in Sound Financial Institutions	
HK	V	-	-	V	-	-	V	V	V
IN	V	-	-	-	-	-	V	-	-
ID	V	-	-	-	-	-	-	-	V
JP	V	-	-	-	-	V	-	V	-
KZ	V	V	V	V	V	V	V	-	V
KR	V	-	-	-	-	-	-	V	V
MY	V	-	-	-	-	-	-	-	-
RU	V	V	V	-	V	-	V	-	V
SG	V	-	-	-	-	-	V	-	-
TW	V	-	-	-	-	-	V	-	-
TH	V	-	-	-	-	-	V	-	V
PH	V	-	-	-	-	-	-	-	-
VN	V	-	-	-	-	-	-	-	-





# Recoveries & Other Sources of Revenue

	Recovery from Liquidation	Other Sources of Revenue	
		Penalties on Late Premium Payment (Fines)	Contributions
HK	V	V	-
IN	V	V	-
ID	V	V	V
JP	V	V	-
KZ	V	V	-
KR	V	V	V
MY	V	V	-
RU	V	V	V
SG	V	V	-
TW	V	V	-
TH	V	V	-
PH	V	V	-
VN	V	V	-



## For Liquidity Purpose—Borrowing

	Borrowing from govt. or central bank			Borrowing from FI	
	Govt.	Central bank	Guarantor if central bank	Financial Institutions	Credit Risk weight
HK	-	V	-	V	100%
IN	-	V	-	-	-
ID	V	-	-	-	-
JP	-	V	govt.	V	0%
KZ	-	V	-	-	-
KR	V	V	govt.	V	0%
MY	V	-	-	-	-
RU	V	V	-	-	-
SG	V	V	-	V	Depending on government guarantee
TW	-	V	CDIC/govt.	V	20%
TH	-	-	-	V	0%
PH	-	V	-	V	Local currency: 0%; Foreign currency: 100%
VN	V	V	govt.	V	0%



## For Liquidity Purpose—Bond Issuance

	Debt-based Financing	Credit rating required
HK	-	-
IN	-	-
ID	-	-
JP	Government-guaranteed deposit insurance bonds	No
KZ	-	-
KR	Government-guaranteed DIF bonds and DIF bond repayment fund bonds	No
MY	Any Debt Instruments	-
RU	Deposit Insurance bonds	Not specified
SG	Any Debt Instruments	-
TW	-	-
TH	Deposit insurance bonds, bills or other financial instruments approved by the Minister of Finance	V (for public offering)
PH	Bonds, debentures or other obligations	No
VN	-	-



# Comparison of Sources of DIF

	Capital	Revenue						Liquidity		
		Premium		Earnings on Investment	Recovery from Liquidation	Other		Accommodation		Bond Issuance
		General	Special			Fine	Contribution	Accommodation from Government / Central Bank	Loans from FI	
HK	-	V	V	V	V	V	-	V	V	-
IN	-	V	-	V	V	V	-	V	-	-
ID	V	V	-	V	V	V	V	V	-	-
JP	-	V	V	V	V	V	-	V	V	V
KZ	V	V	V	V	V	V	-	V	-	-
KR	-	V	V	V	V	V	V	V	V	V
MY	-	V	V	V	V	V	-	V	-	V
RU	V	V	V	V	V	V	-	V	-	V
SG	-	V	V	V	V	V	-	V	V	V
TW	-	V	V	V	V	V	-	V	V	-
TH	-	V	-	V	V	V	-	-	-	V
PH	V	V	-	V	V	V	-	V	V	V
VN	-	V	-	V	V	V	V	V	V	V



# Administration of DIF- Setting of DIF Target Value

		DIF Target Value	Periodical review
HK	V	0.3% of the insured deposits	-
IN	-	-	-
ID	V	2.5% of the insurable deposits	-
JP	-	-	-
KZ	V	Not less than 5% of the insurable deposits	-
KR	V	- Banks, financial investment companies, non-life insurance companies: 1.5% ~ 2.0% - Life insurance companies: 1.2% ~ 1.7% - Mutual savings banks : 3.0% ~ 3.5%	-
MY	-	MDIC is currently developing a target fund framework	
RU	V	5% of insured deposits (excluding banks with ratings equal or higher than the Russian Federation' rating)	1 year
SG	V	0.3% of the insured deposits	-
TW	V	2% of the insured deposits	-
TH	-	-	-
PH	V	P87.6 billion	2 years
VN	-	-	-



# Methods for Dealing with DIF Deficits

	Government	Premium	
		General	Special
HK	-	-	V
IN	-	V	-
ID	V	V	-
JP	V	V	V
KZ	V	-	V
KR	V	-	V
MY	-	V	V
RU	V	V	-
SG	-	-	V
TW	V	V	V
TH	-	-	-
PH	V	-	-
VN	-	V	-



# Handling of Taxes and Surpluses

	Tax				Surplus
	Premium Income	Government Bond Investment Income	Other Income	Surplus	Transfer to DIF
HK	-	-	-	-	V
IN	-	-	-	V	V
ID	-	V	V	-	V
JP	-	-	-	-	V
KZ	-	-	V	-	V
KR	-	-	-	-	V
MY	-	-	-	-	V
RU	-	-	V	-	V
SG	-	-	-	-	V
TW	V	-	-	-	V
TH	-	-	-	-	V
PH	V	V	V	-	V
VN	-	-	-	-	V



# Dealing with Systemic Crises

- **Agencies responsible for dealing with systemic crises**
- **Mechanism for dealing with systemic crises**
- **Scope of protection during the financial crisis**
- **Reactions to the global financial crisis in terms of coverage and premium**
- **Difference between the funding sources for an individual failure and a systemic crisis**







# Agencies Responsible for Dealing with Systemic Crises

	Agencies Responsible for Dealing with Systemic Crises				
	Central Bank	Ministry of Finance	Financial Supervisory Agency/Commission	Deposit Insurer	Other
HK	V	V	-	-	-
IN	V	V	-	-	-
ID	V	V	-	V	-
JP	V	V	V	V	-
KZ	V	V	V	V	V
KR	V	V	V	V	-
MY	V	V	-	V	-
RU	V	V	-	V	-
SG	V	V	-	-	-
TW	V	V	V	V	-
TH	V	V	-	-	-
PH	V	-	-	V	-
VN	V	V	V	V	-



# Mechanism for Dealing with Systemic Crises

	Mechanism for Dealing with Systemic Crises		
	Y/N	Stipulation	
		Deposit Insurance Act	Other
HK	N	-	-
IN	N	-	-
ID	Y	V	-
JP	Y	V	-
KZ	Y	-	Special emergency law
KR	Y	V	Act on the Structural Improvement of the Financial Industry
MY	Y	V	Central Banking Act
RU	Y	-	Special emergency law
SG	Y	-	Banking Act
TW	Y	V	-
TH	N	-	-
PH	Y	V	-
VN	N	-	-



## Scope of Protection During Financial Crisis

	Insured Deposits	Uninsured Deposits	Non-deposit Liabilities
HK	V	-	-
IN	V	-	-
ID	V	V	V
JP	V	V	-
KZ	V	V	-
KR	V	V	-
MY	V	V	-
RU	V	-	-
SG	V	-	-
TW	V	V	V
TH	V	-	-
PH	V	-	-
VN	V	-	-



## Reactions—Coverage Adjustments

	Increase in Coverage				Full Coverage / Blanket Guarantee	
	Y/N	Duration	Coverage From	Coverage To	Y/N	Duration
HK	N	-	-	-	Y	10/14/ 2008– 12/31/2010
IN	N	-	-	-	N	-
ID	Y	10/13/2008-	RP 100 million	RP 2 billion	N	-
JP	N	-	-	-	N	-
KZ	Y	10/23/2008- 01/01/2012	KZT 0.7 million	KZT 5 million	N	-
KR	N	-	-	-	N	-
MY	N	-	-	-	Y	10/16/2008– 12/31/2010
RU	Y	10/1/2008- Permanent	RUB 400,000	RUB 700,000	N	-
SG	N	-	-	-	Y	10/16/2008– 12/31/2010
TW	N	-	-	-	Y	10/7/2008– 12/31/2010
TH	N	-	-	-	Y	10/28/2008– 8/10/2011
PH	Y	6/1/2009- Permanent	Peso 250,000	Peso 500,000	N	-
VN	N	-	-	-	N	-



## Reactions—Premium Adjustments

	Change in Premium rates			Collection of Special Premium	
	Y/N	Duration	Content	Y/N	Duration
HK	N	-	-	N	-
IN	N	-	-	N	-
ID	N	-	-	N	-
JP	N	-	-	N	-
KZ	Y	-	Since January 2008 the premium rates were decreased by 25%	N	-
KR	N	-	-	N	-
MY	N	-	-	Y	10/16/2008 – 12/31/2010
RU	Y	Permanent	Starting October 2008 the premium rate was decreased from 0.13 to 0.10% per quarter	N	-
SG	N	-	-	N	-
TW	N	-	-	Y	11/1/2008 – 12/31/2010
TH	N	-	-	N	-
PH	N	-	-	N	-
VN	N	-	-	N	-



## Difference between the Funding Sources for An Individual Failure & A Systemic Crisis

	Same as Funding Sources for an Individual Failure	Other Funding Source
HK	V	-
IN	V	-
ID	V	-
JP	V*	-
KZ	-	<p>During the present crisis and in case of a deficit the Central Bank and the national welfare fund "Samruk-Kazyna" are defined as the funding sources till the end of 2011.</p> <p>After January 2012: Additional premiums from the financial institutions.</p>
KR	V*	-
MY	V	-
RU	-	The "emergency" law which authorizes the Agency to take measures aimed at prevention of bankruptcies of systemically important banks will be effective till Dec. 31, 2011.
SG	V	-
TW	-	<p>1. Special premium can be charged from insured institutions when there is the possibility of a systemic crisis.</p> <p>2. Government</p>
TH	V	-
PH	V	-
VN	V	-

\* DICJ (Japan) and KDIC (Korea) received fund injection from government in the previous (Asian) financial crisis.



## Conclusion (I)

- **Diversified funding vehicles are necessary to ensure sufficient funds and liquidity of deposit insurers**
- **Deposit insurance fund investment should consider mainly safety and liquidity**
- **More Asian DIs set up DIF target values**



## Conclusion (II)

- **Deposit insurers shall be exempt from all taxes to speed up the accumulation of deposit insurance fund**
- **Overall financial condition should be considered while adjusting deposit insurance premium during a financial crisis**
- **Cost of handling a financial crisis should not be borne by deposit insurance organization alone**





***Money is not everything,  
but without money one can achieve nothing.***





***Thank You!***

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