



中央存款保險公司

Central Deposit Insurance Corporation

Financial Reform and Securing Funds for Financial Stability – Taiwan Experience

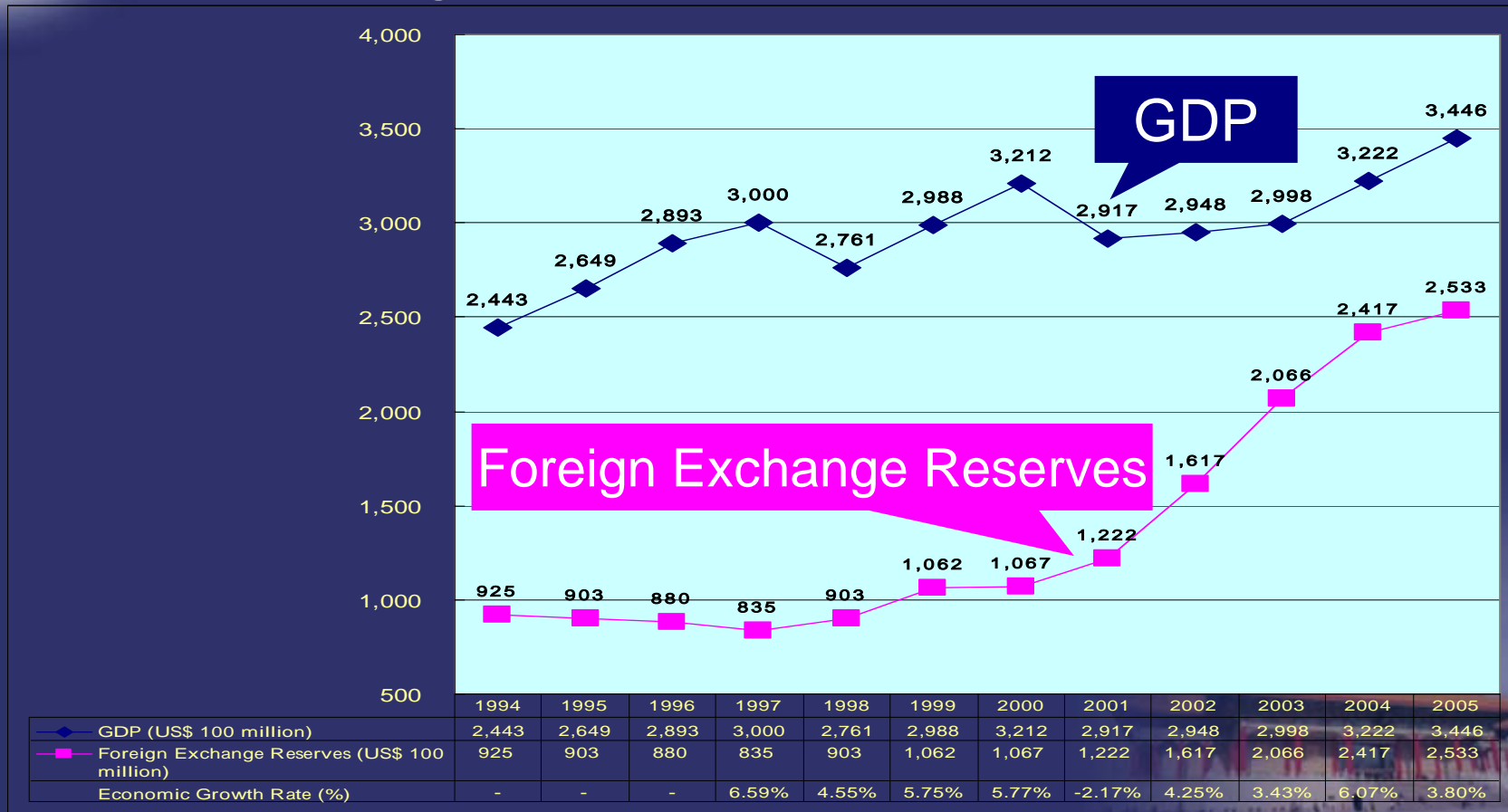
Presented by
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- Current Situation in Taiwan's Financial Sector
- Taiwan's Two-Stage Financial Reform and its Achievements
- Draft Amendments to the Deposit Insurance Act
- Funding Framework
- Major Tasks & Outlook for the Future
- Suggestions to DIS in Japan

- The domestic economy continues to exhibit stable growth



Source of Data: DGBAS, Executive Yuan and Central Bank of China



- Taiwan's foreign exchange reserves continue to increase

Since QFIIs were abolished in September 2003, accumulated net inward remittances of foreign capital have continued to increase, breaking through the US\$100 billion barrier in November 2005 and amounting to US\$108.9 billion at the end of December. This represents an increase of US\$48.5 billion over the US\$60.4 billion recorded at the end of September 2003.

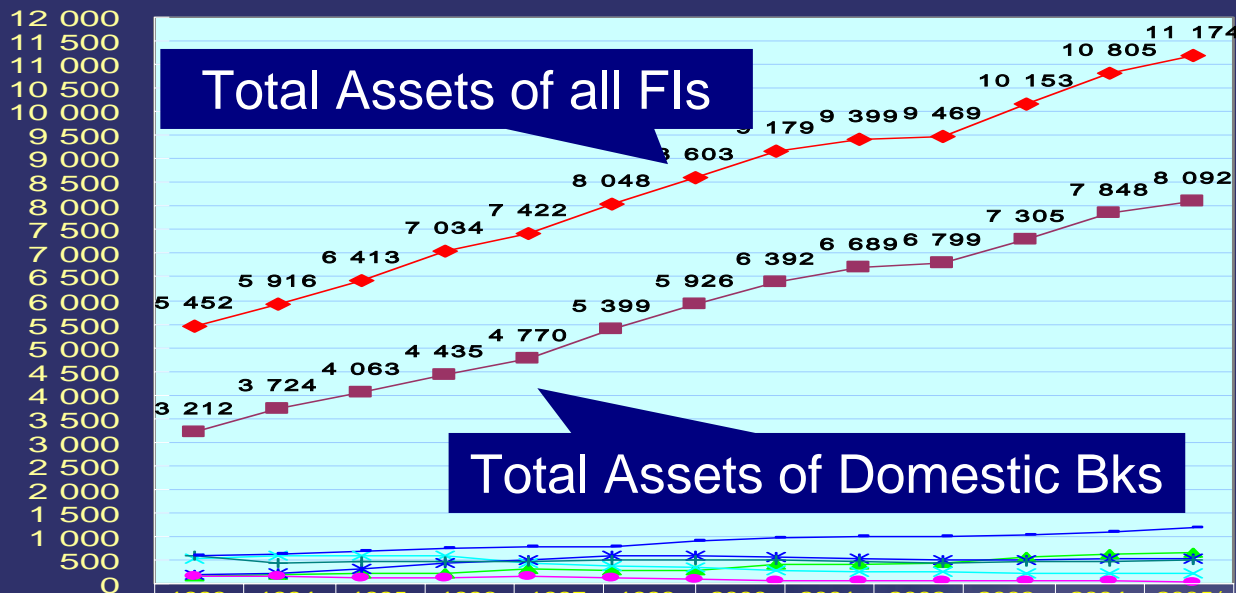


Note: Foreign capital includes foreign institutional investors, overseas Chinese and foreign legal persons.

Source of data: Securities and Futures Bureau, Financial Supervisory Commission (<http://www.sfb.gov.tw>).



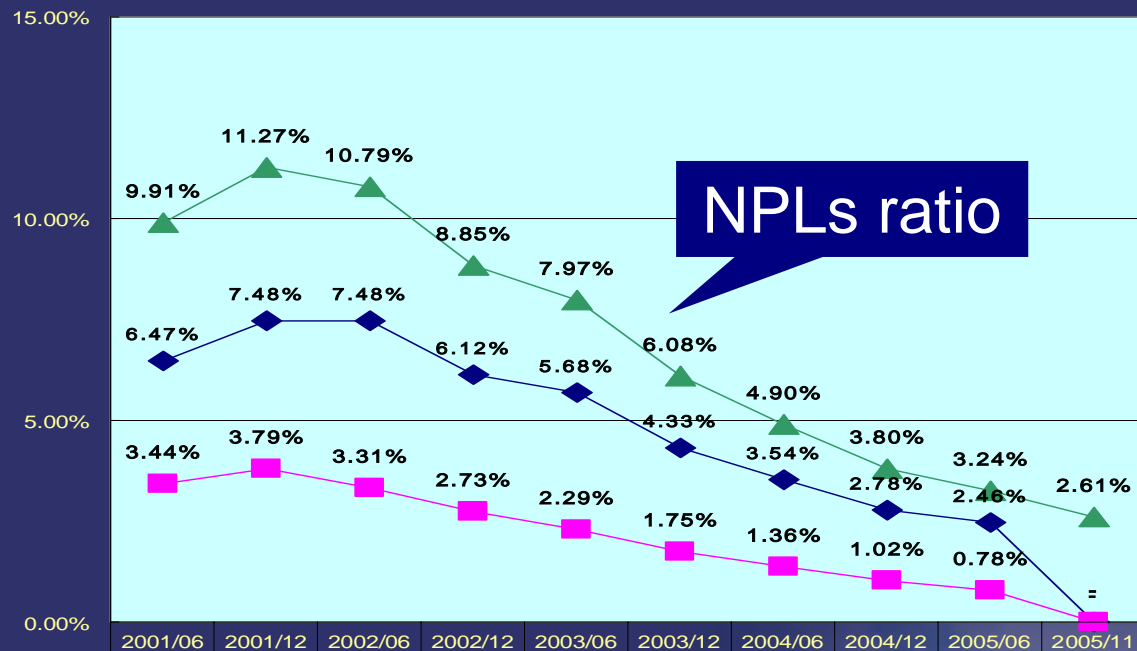
- Total assets have gradually increased



	1993	1994	1995	1996	1997	1998	2000	2001	2002	2003	2004	2005/
◆ Total Assets of All Financial Institutions	5 452	5 916	6 413	7 034	7 422	8 048	9 179	9 399	9 469	10 153	10 805	11 174
■ Total Assets of Domestic Banks	3 212	3 724	4 063	4 435	4 770	5 399	6 392	6 689	6 799	7 305	7 848	8 092
▲ Total Assets of Branches of Foreign Banks in Taiwan	161	183	207	228	300	269	406	407	434	565	611	643
✕ Total Assets of Credit Cooperatives	545	602	591	585	431	385	295	247	238	229	208	203
★ Total Assets of Securities Finance Companies	202	207	302	442	512	583	564	523	489	496	521	529
● Total Assets of Investment and Trust Companies	160	155	125	132	150	133	66	68	62	60	57	43
⊕ Total Assets of the Credit Departments of Farmers' and Fishermen's Associations	586	436	452	454	471	484	501	467	446	458	467	485
— Total Assets of the Postal Savings System	586	609	672	758	787	794	955	996	1 001	1 040	1 094	1 179



- Asset quality has improved significantly

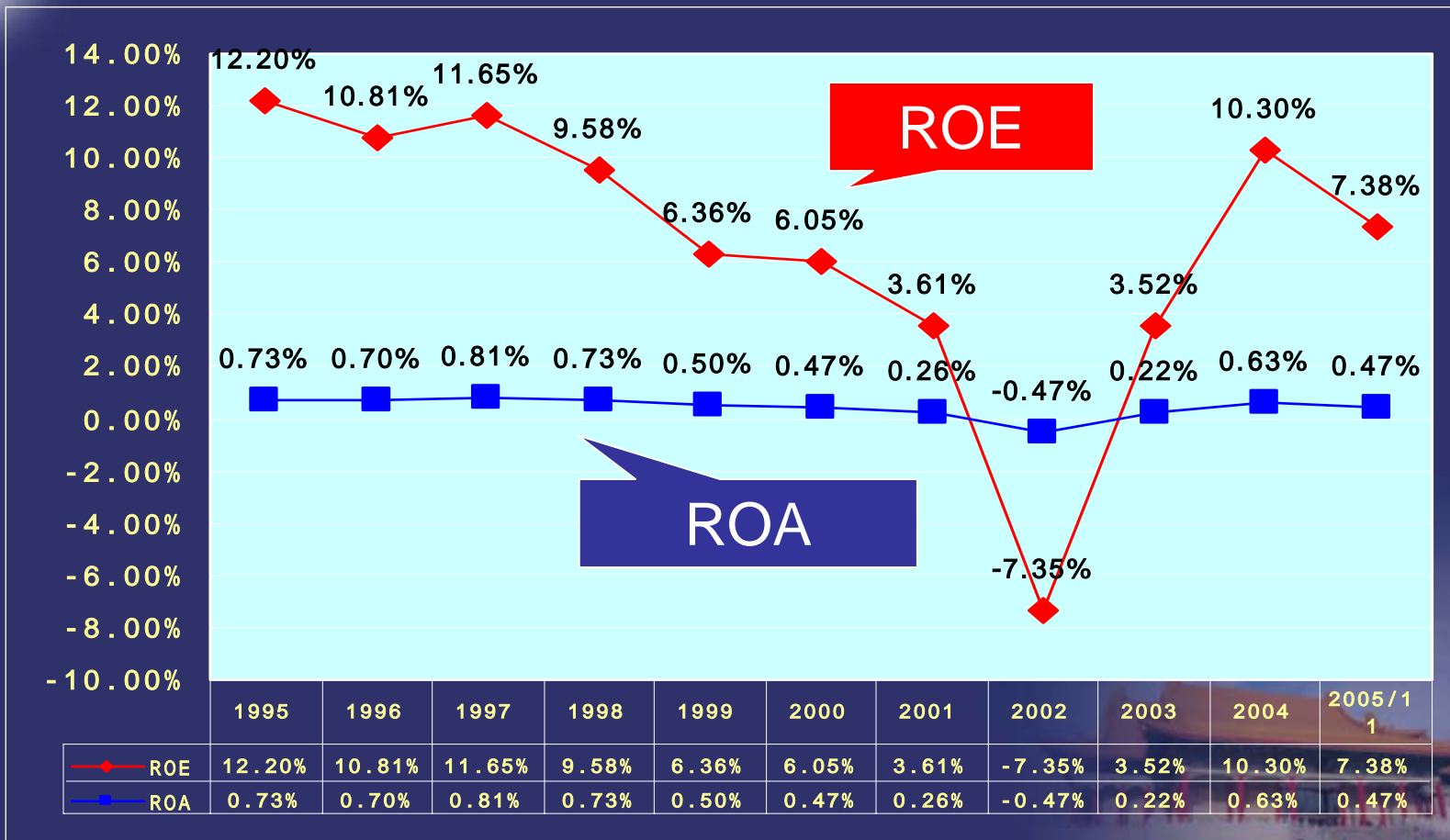


	2001/06	2001/12	2002/06	2002/12	2003/06	2003/12	2004/06	2004/12	2005/06	2005/11
◆ Pastdue Loans Ratio	6.47%	7.48%	7.48%	6.12%	5.68%	4.33%	3.54%	2.78%	2.46%	-
■ Loans Subject to Observation	3.44%	3.79%	3.31%	2.73%	2.29%	1.75%	1.36%	1.02%	0.78%	-
▲ Pastdue Loans Ratio + Loans Subject to Observation (Broadly-defined Non-performing Loans)	9.91%	11.27%	10.79%	8.85%	7.97%	6.08%	4.90%	3.80%	3.24%	2.61%
Provision for Bad Debts Coverage Ratio for Broadly-defined Non-performing Loans	-	13.57%	-	17.24%	-	22.68%	-	30.34%	-	40.62%

Note: Since July 2005, pastdue loans have been calculated in accordance with the broadly defined standards adopted in other countries.
 Source of data: Financial Supervisory Commission website: <http://www.fscey.gov.tw/>



- Profitability has turned to positive

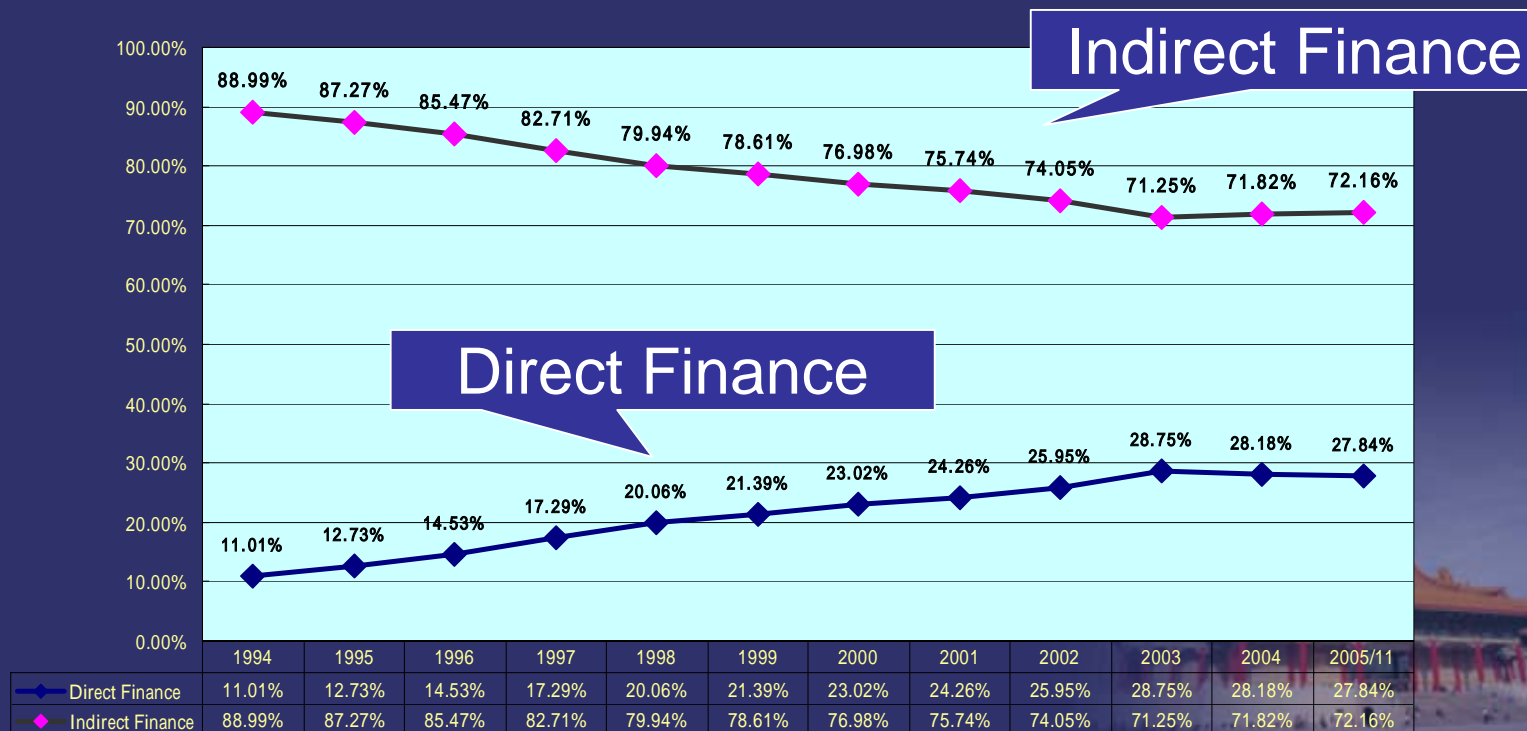


Source of Data: Compiled from Financial Statistical Indicators for Taiwan, R.O.C.



- The proportion of direct finance is gradually increasing

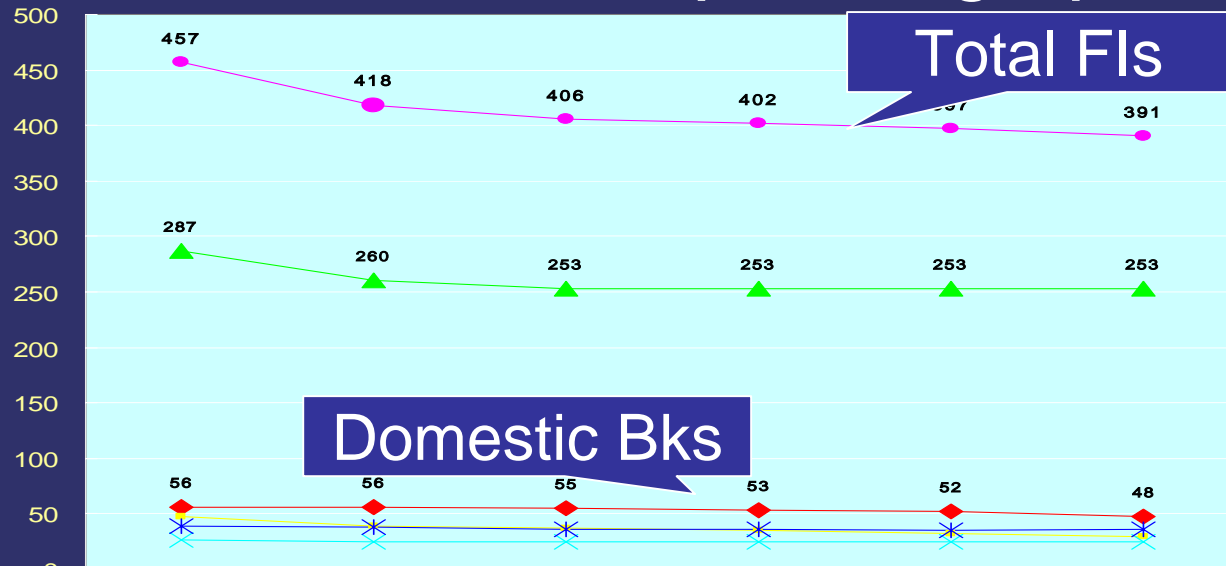
- Both traditional banking business and the room for making profits have been curtailed



Source of Data: Central Bank of China



- The process of mergers among financial institutions is speeding up



	2000	2001	2002	2003	2004	2005
◆ Domestic Banks	56	56	55	53	52	48
■ Credit	48	39	37	35	32	29
▲ Farmers' Associations	287	260	253	253	253	253
⋈ Fishermen's Associations	27	25	25	25	25	25
✱ Branches of Foreign Banks in Taiwan	39	38	36	36	35	36
● Total	457	418	406	402	397	391



- **A two-stage financial reform**
(The beginning year:2001)

 in order to:

- Establish an exit mechanism
- Provide a superior quality financial environment
- Move towards closer integration with international markets

CDIC The First Stage of Financial Reform



- Period: 2001 - 2004
- Main emphasis: Abolishing what is harmful
- Concrete measures
 - Strengthening financial laws and regulations
 - Establishing a mechanism for dealing with NPLs
 - Establishing a Financial Restructuring Fund & strengthening the exit mechanism for failed institutions

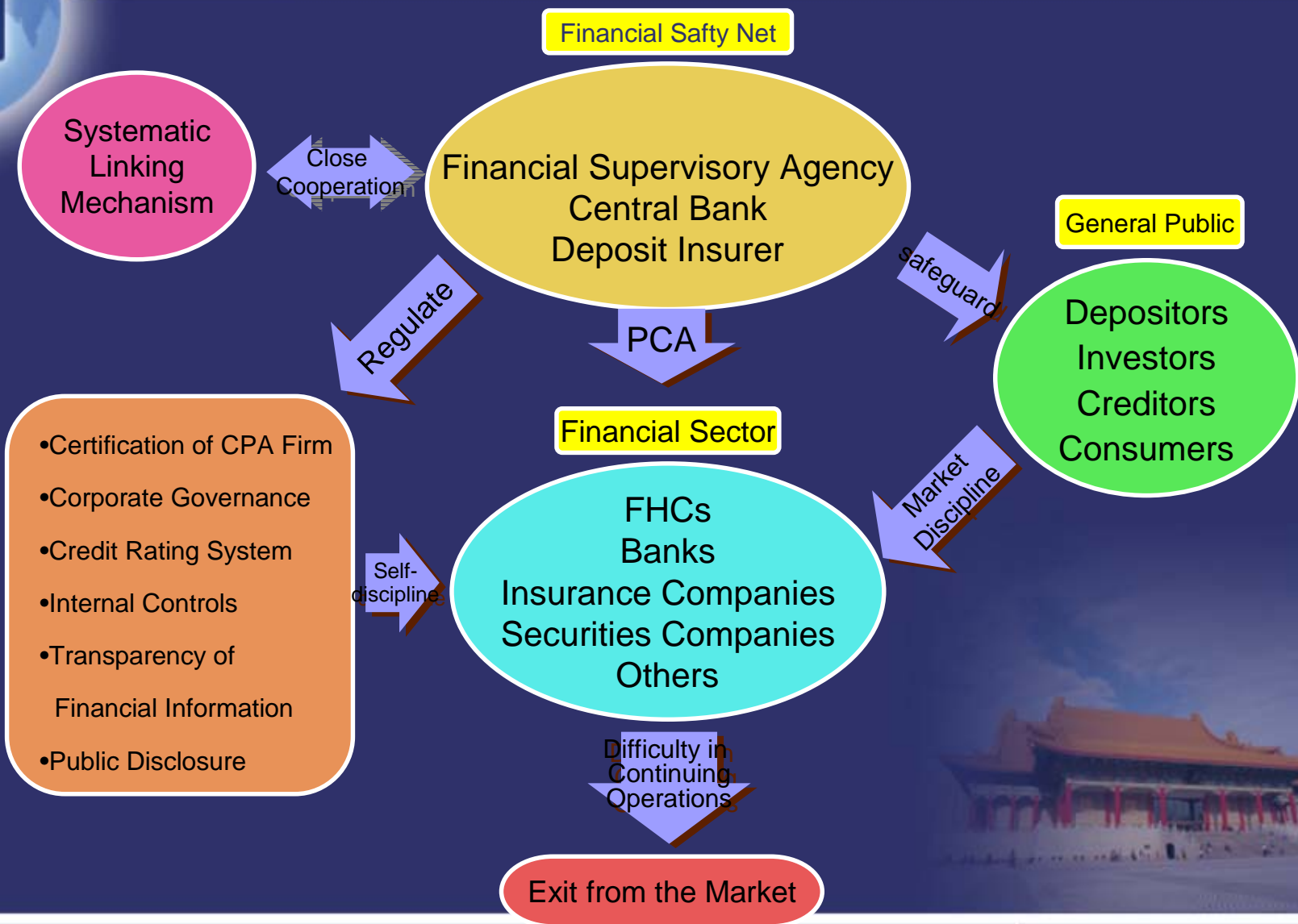


CDIC The First Stage of Financial Reform



• Outcome

- Improvements in bank asset quality
- 48 problem financial institutions withdrawing from the market
- Strengthening the measures for combating financial crime
- Unifying the implementation of financial supervision and constructing a more complete financial safety net



- Certification of CPA Firm
- Corporate Governance
- Credit Rating System
- Internal Controls
- Transparency of Financial Information
- Public Disclosure



- Period: 2004 - Present
- Main emphasis: Promoting what is beneficial
- Major strategies
 - Creating a sound overall financial environment
 - Promoting the concept of a regional funding center
 - Promoting asset management business
 - Developing a broad variety of financial services
 - Strengthening the structure of financial markets



• Concrete objectives

- State-owned banks being merged to become half
- Financial holding companies being merged to be halved
- 3 financial institutions having market shares of more than 10%
- Promoting Taiwan as a regional financial center
- Continuing to promote mergers among financial institutions



- **Replenishing and reforming the deposit insurance fund**
 - Separating deposit insurance funds--one for regular banking sector; the other for agricultural financial sector
 - Setting the target ratio of the deposit insurance fund at 2% of insured deposits



- Way of Participation in DIS
 - Newly established banking institution submitting the application for deposit insurance to CDIC who has a right for determination of approval or disapproval
- Mechanism for facilitating coordination among financial safety net participants
- Special inspection and investigation

Strengthening the Mechanism for Handling Problem Financial Institutions



- Mechanism for handling systemic crises
- Requiring insured institutions to build up electronic files of their deposit-related data





- Guidance for Developing Effective Deposit Insurance Systems
 - Issued by Financial Stability Forum in 2001
 - Eight key points for “Funding”





- Taiwan's experience
 - CDIC has adopted a low premium ever since its established in 1985
- ➔ Slow accumulation of DI fund



User-pay Principle



- “Taking from banking sector and using among banking sector”
- Taiwan’s experience
 - Deposit insurance fund was insufficient to deal with problem financial institutions
 - ➔ Taiwan government in 2001 established a Financial Restructuring Fund amounting to US\$7.5 billion



- Two approaches for calculating the deposit insurance premium:
 - Insured deposits
 - Insurable deposits
- Taiwan's experience
 - Currently: Insured deposits
 - Proposal in progress: Insurable deposits



- DI Fund should be appropriately administered to effectively respond to payoff needs
- Taiwan's experience
 - DI Act clearly stipulates the institutions in which the fund should be deposited and the types of investment



Ex-ante vs. Ex-post Basis



- Deposit insurance systems often are funded on a combined ex-ante and ex-post basis
- Taiwan's experience
 - Mainly: Ex-ante funding
 - Special accommodation from Central Bank
 - Current draft amendments to the *DIA*:
 - Special premium
 - Business tax of banks
 - Surplus from Financial Restructuring Fund



- Two ways
 - Steady long-term accumulation of premium income
 - Setting of targets
- Taiwan's experience
 - Presently: Slow accumulation of DI fund
 - Current draft amendments to the *DIA*
 - Setting a target ratio at 2% of insured deposits



- Taiwan's experience
 - At present: One DI fund
 - Current draft amendments to the *Deposit Insurance Act*: two separate deposit insurance funds:
 - One for regular banking sector
 - The other for agricultural financial sector





- Risk-based premium is able to reflect the premium's fairness and lowers moral hazard
 - ➔ more and more deposit insurers adopt this system
- Taiwan's experience
 - Since July 1999: Risk-based premium system
 - Current premium rates: 0.05%, 0.055% and 0.06% of insured deposits
 - Future plan: Adjustment in premium rates after the passage of draft amendments to the *DIA*



- Strengthening the organizational positioning of the deposit insurance mechanism to implement corporate governance and independence
- promoting information transparency of financial institutions and enterprises in line with the international community



- Establishing prompt corrective actions as well as an exit mechanism
- Establishing a clear division of responsibilities and a coordinating mechanism among financial safety net participants



- Helping establish a systemic financial crisis handling mechanism
- Establishing a method for achieving the target ratio for the deposit insurance fund





- Setting a target ratio of DI fund
- Adopting the risk-based premium system
- Dealing with financial crisis timely and efficiently



- Transforming the operations of the RCC after fulfilling its missions
- Moving toward a risk minimizer





Thank You.

Questions?

