

Session 1: Transition Back to Limited Guarantee - Taiwan's Experience

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Outline



Mark Twain: *"History does not repeat itself,
but it does rhyme."*

I. Temporary blanket guarantee in Taiwan

II. Transition measures

III. Conclusion

I. Temporary Blanket Guarantee in Taiwan (1)



- **Temporary blanket guarantee adopted to maintain public confidence (Oct. 2008 – Dec. 2010)**

Due to instability in international financial markets
& over reporting by the local media



Lack of depositor confidence



Flight to quality + Liquidity pressure



Temporary blanket guarantee

I. Temporary Blanket Guarantee in Taiwan (2)



■ Implementation results

- Liquidity pressure relieved
- Huge outflow of deposits from private banks decreased
- Inter-bank call-loan market returned to normal

■ Timeline for transition back to limited coverage



II. Transition Measures



- For insured institutions
- For the public
- For the deposit insurance system

II. Transition Measures - For Insured Institutions (1)



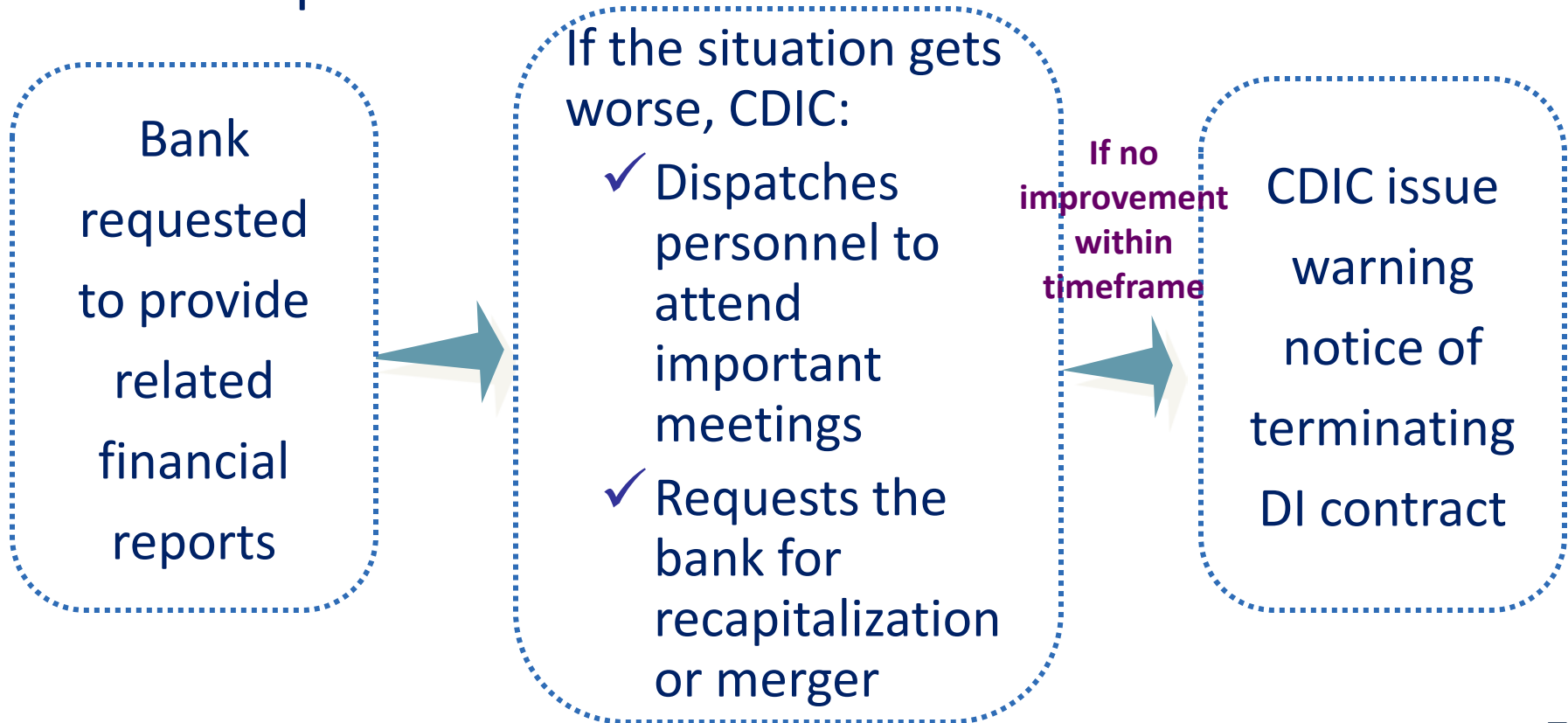
- **Continue to strengthen risk management**
 - **CDIC's risk management mechanisms**
 - ✓ Financial Early-warning System: on a quarterly basis
 - ✓ Real-time Internet Transmission System: on a daily basis
 - ✓ Account Officer System: on a case-by-case basis

II. Transition Measures - For Insured Institutions (2)



■ CDIC's risk management measures

● Example



II. Transition Measures - For Insured Institutions (3)



■ Enhance liquidity management

● Example:

For making
transition
smooth



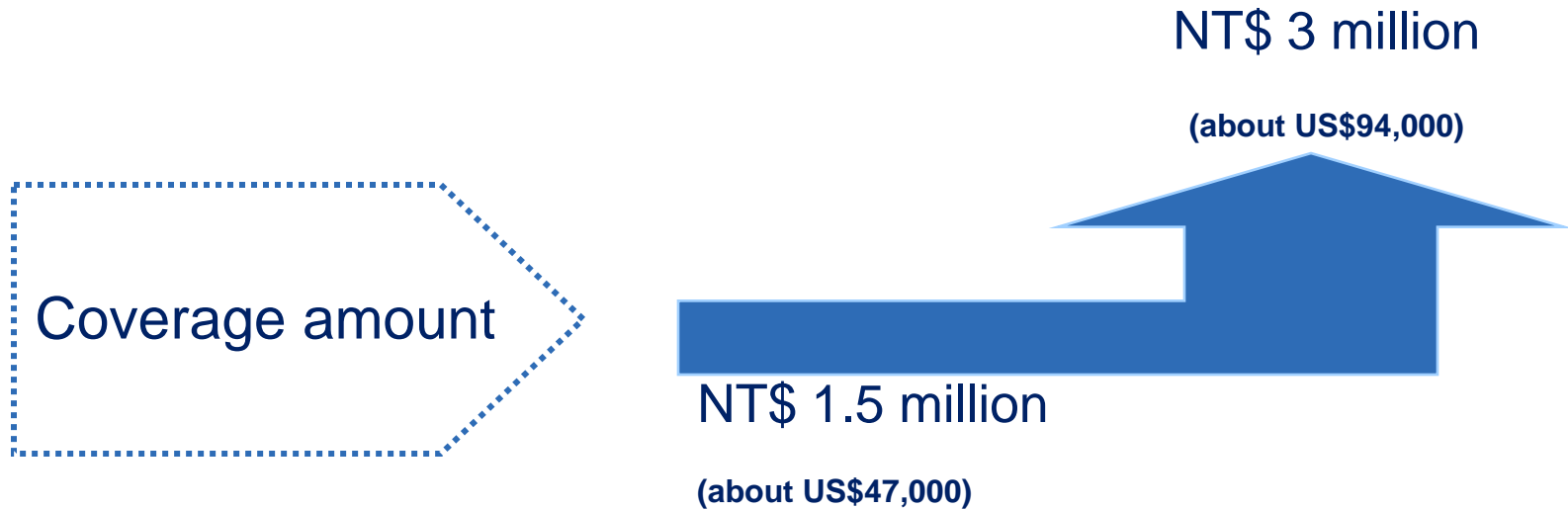
Some FIs are required to submit a contingency plan for liquidity risk to CDIC when:

- Inappropriate deposit structure
- Maturity mismatch between assets & liabilities
- Poor funding capacity

II. Transition Measures - For the Public (1)



- Increase the maximum coverage



- Conduct an extensive public awareness campaign

II. Transition Measures - For the Public (2)



- Extensive public awareness campaign (1)
 - CDIC's Website



- Posters

➤ Displayed in every branch of insured institutions



存款保險保障加倍
提高為**300萬元**

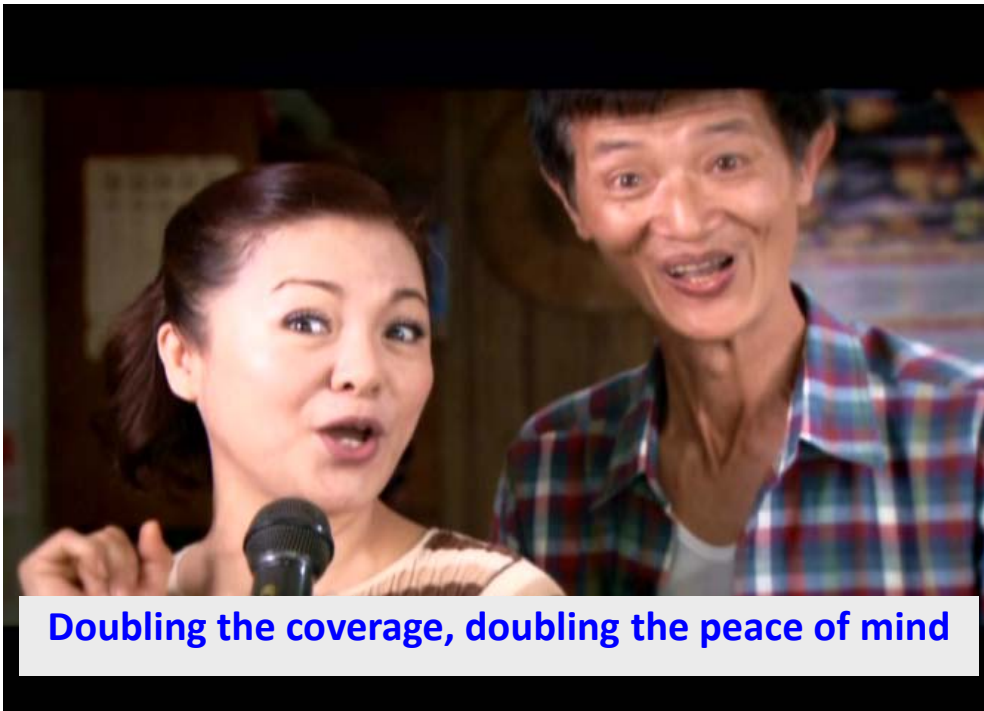


II. Transition Measures - For the Public (3)



■ Extensive public awareness campaign (2)

- TV commercial



- Deposit Insurance Journals & other magazines



- Seminar + mass media



II. Transition Measures - For Deposit Insurance System (1)



- **Amendments to the Deposit Insurance Act** (proposal)
- **Improvement of deposit insurance fund status**
- **Active communication with stakeholders**

II. Transition Measures - For Deposit Insurance System (2)



■ Amendments to the Deposit Insurance Act (proposal)

- 1st stage of amendments



- 2nd stage of amendments

- ✓ Reinforce risk management

- Formal authority to evaluate the assets and liabilities of the problem financial institutions

- ✓ Strengthen resolution mechanism

- Authority by law to enter a failing bank confidentially and prepare for resolution before bank closure

II. Transition Measures - For Deposit Insurance System (3)



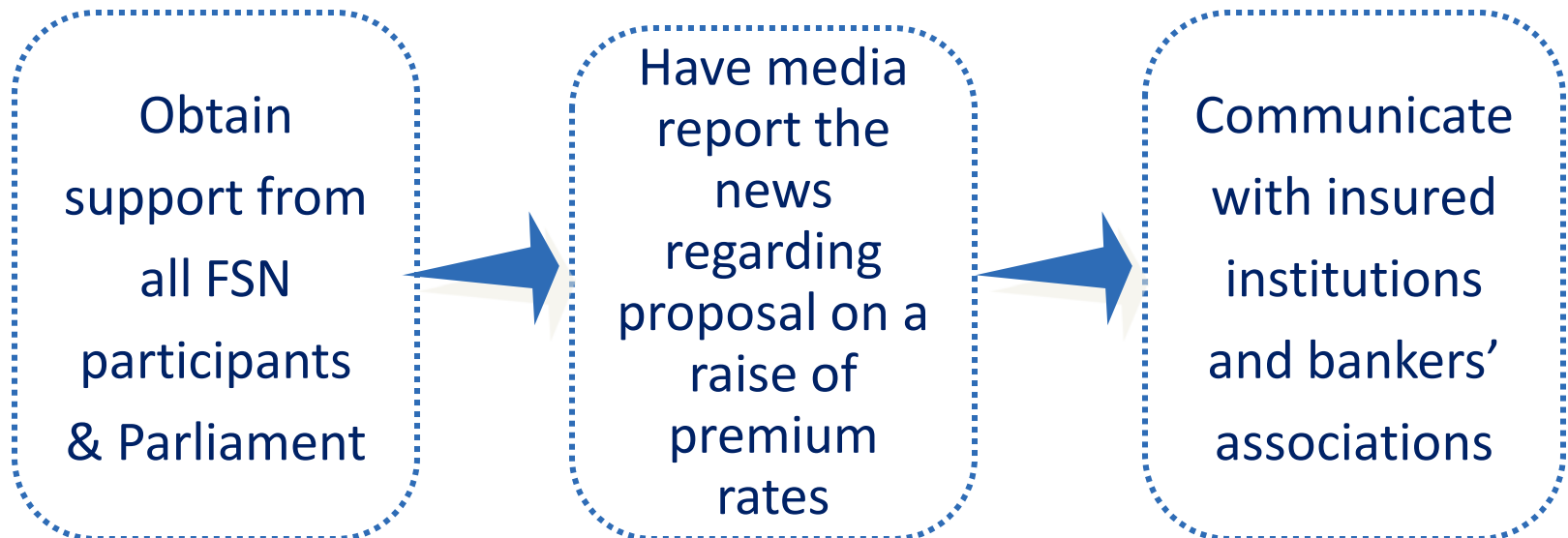
- **Improvement of deposit insurance fund status**
 - Collect bank business tax revenue to inject the deposit insurance fund from 2011
 - Raise the premium rates starting next year

II. Transition Measures - For Deposit Insurance System (4)



■ Active communication with stakeholders

- Well communication is a key factor for a smooth and successful transition & implementation of new policies
- Example: Raise the premium rates



Conclusions



- **For all financial safety net participants**
 - Work together for a smooth and successful transition
 - Re-examine the effectiveness of the financial safety net
 - Enhance the overall framework.
- **For insured institutions**
 - Closely monitor their risk and liquidity management
- **For the public**
 - Manage their expectation by providing sufficient deposit protection and clear information
- **For deposit insurer**
 - Strengthen deposit insurance system
 - Intensively communicate with all stakeholders



Thank you !

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