

Future Prospect and Challenge

1. Strengthen the Functions of Deposit Insurance

In order to ensure that the deposit insurance system adapt to the changes of financial environments and accommodates the government's policy of financial reforms, CDIC has reviewed current mechanism of deposit insurance and amended the regulations to enhance the functions of deposit insurance as follows:

1. After the promulgation and implementation of the *Agricultural Finance Act*, the management of deposit insurance of the financial institutions of agriculture has to be separated since these institutions have a different competent authority with different supervision regulations. In addition, the risks they undertake are also different. It has been under study to set up two deposit insurance pay-off special reserves, one covering general finance and the other agriculture finance.
2. Strengthen risk management mechanism and establish information sharing mechanism between CDIC and financial safety network institutions. Furthermore, to give CDIC the power of examination so that CDIC may examine assessment base, termination of insurance, and performance of insurance liabilities.
3. Step prompt corrective action for undercapitalized financial institutions as soon as possible, and establish an unequivocal withdrawal mechanism to reduce pay-off losses of deposit insurance.
4. Set up target value of deposit insurance fund to facilitate the accumulation of deposit insurance pay-off special reserves.
5. To cope with systemic risk, CDIC should be allowed to exclude the limitation of less cost principle after applying for and being approved by the Executive Yuan by abiding some given procedures.

2. Analysis and Adjustment of the Corporation's Position and the Correlation between the Corporation Position and Financial Security

Network

At present, the role of international deposit insurance mechanisms has evolved from that of a Pay Box handling matters of troubled financial institutions to that of a Risk-Minimizer and Loss-Minimizer. Advanced nations are hoping to see to the effective performance of the deposit insurer for the protection of depositor interests and stabilization of the banking system endowed the deposit insurer with an independent status and authorities. For its part, the ROC Government amended the *Deposit Insurance Act* in 1999 to provide for the compulsory insurance system. Thereafter, the corporation became a chain in the national financial security network. The primary function of the system is to handle the withdrawal of problem financial institutions from the market. However, the present administration system of business operations of limited liability corporations and orientations of government-owned enterprises is patterned under the regular financial operations administration system of the Financial Supervisory Commission of the Executive Yuan. However, there are some doubts as to whether such role and orientation are capable of assuring the interests of depositors and safeguarding the stability of banks. In view of the significant role of the deposit insurance system in the international financial

security network, it is only appropriate that the government amends pertaining laws and regulations, and adjust its organizational orientation in order to achieve the objectives of such laws and regulations. Furthermore, when coping with a systemic financial crisis, a solution could not be achieved through the singular efforts of a financial security network member; hence it is imperative that the law clearly define the authorities of each member of the network and the liaison and coordination mechanisms of the network to ensure the swift and effective solution of the problem.