



The Funding and Risk Premium System in Taiwan and CDIC's Challenges

Central Deposit Insurance Corporation
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Presentation Overview

- ü CDIC profile and the status of the deposit insurance fund
- ü CDIC's premium system
- ü Conclusions





Introduction of CDIC (Taiwan)

§ Established in Sep. 1985



§ Government agency

§ Competent authority

- Financial Supervisory Commission (FSC)

§ Mandate

- Handle deposit insurance issues
- Control insured risks
- Deal with problem financial institutions

Risk
Minimizer



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Membership

§ Membership

- Compulsory application, but subject to CDIC's on-site inspection and review
- Number of member institutions: 392 (as of 02/28/2011)

Membership types	Competent authority	Types of member institutions'	No
General financial institutions	Financial Supervisory Commission	• Domestic banks	38
		• Local branches of foreign banks	27
		• Credit cooperatives	26
Agricultural financial institutions	Council of Agriculture	• Credit dept. of farmers' associations	276
		• Credit dept. of fishermen's associations	25
		Total	392



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Coverage & Premium

§ Coverage

- Blanket guarantee from Oct. 2008 – Dec. 2010
- **After Jan. 2011,** NT\$ 3 million
(about US\$100,000)

DOUBLE

Coverage limit NT\$ 1.5 million before crisis

§ Ex-ante funding

- **Risk-based differential premium system**
- Assessment base: eligible deposits
- Premium rates approved by competent authority



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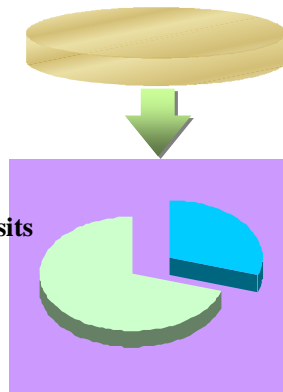
Status of Deposit Insurance Fund

Deposit insurance fund (DIF)

- Bank DIF**
- **Target ratio:**
2% of covered deposits
 - **Amount:**
(as of 02/28/2011)
US\$ **-1.8 billion**



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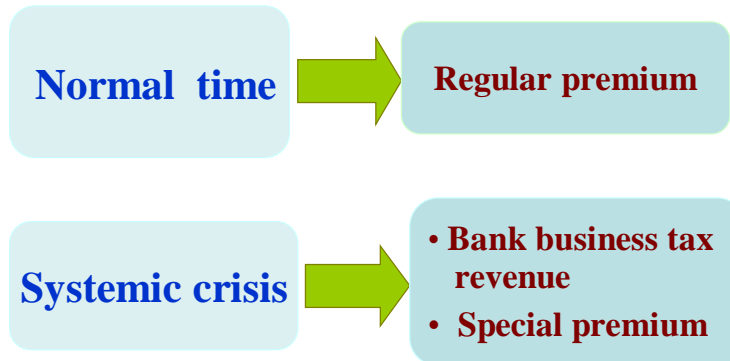


- Agricultural DIF**
- **Target ratio:**
2% of covered deposits
 - **Amount (including public fund):**
(as of 02/28/2011)
US\$ 0.8 billion; ratio:2.3%





Sources of Deposit Insurance Fund



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CDIC's Premium System

§ Development of CDIC's premium system

§ Current premium system



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Development of Premium System Sep.1985~June 1999

§ Adoption of flat premium rate at the beginning of CDIC's establishment in 1985

Time	Membership	Rate System	Premium Rate
09/1985	Voluntary	Flat rate	0.05% of covered deposits
07/1987			0.04% of covered deposits
01/1988 ~ 06/1999			0.015% of covered deposits

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Development of Premium System July 1999~June 2007

§ Adoption of risk premium rates from July 1999

- Membership was changed to compulsory in Jan. 1999
- Complement measures of the compulsory system

Time	Membership	Rate System	Premium Rate
07/1999	Compulsory	Risk-based (9 groups/ 3 levels)	0.015%, 0.0175%, and 0.02% of covered deposits
01/2000 ~ 06/2007			0.05%, 0.055%, and 0.06% of covered deposits

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Development of Premium Rate July 2007~Dec. 2010

§ Assessment base was shifted from covered deposits to eligible deposits

§ Risk rates for covered deposits & a flat rate for eligible deposits in excess of the coverage limit

§ Increase of premium levels and spreads

Time	Membership	Rate System	Premium Rate		
			Type of financial institutions	Risk-based rate	Flat rate
07/2007 ~ 12/2010	Compulsory application but subject to CDIC's review	<u>Risk-based rates of covered deposits (9 groups/ 5 levels)</u>	Banks, Credit Cooperatives	0.03%, 0.04% 0.05%, 0.06% 0.07%	0.0025% (0.005% after Jan. 2010)
		<u>Flat rate of eligible deposits in excess of coverage limit</u>	Credit Dept. of Farmers' and Fishermen's Associations	0.02%, 0.03% 0.04%, 0.05% 0.06%	0.0025%

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Current Premium System

Time	Membership	Rate System	Premium Rate		
			Type of financial institutions	Risk-based rate	Flat rate
01/2011 ~ present	Compulsory application but subject to CDIC's review	<u>Risk-based rates of covered deposits (9 groups/ 5 levels)</u>	Banks	0.05%, 0.06% 0.08%, 0.11% 0.15%	0.005%
		<u>Flat rate of eligible deposits in excess of coverage limit</u>	Credit Cooperatives	0.04%, 0.05% 0.07%, 0.10% 0.14%	
				Credit Dept. of Farmers' and Fishermen's Associations	0.02%, 0.03% 0.04%, 0.05% 0.06%

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Reform of Premium Rate in 2011

§ Background

- To accelerate the process of making up for deficiencies in the bank deposit insurance fund
- To achieve 2% target ratio by request of the Parliament
- To provide better incentives for member institutions to enhance their operations

§ Key features of adjustment

- Increase the premium rates and expand the spreads for banks and credit cooperatives
- Charge different rates for different member categories
- Double premium income

DOUBLE



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Planning Process of Rate Adjustment in 2010

- § Drafted proposal to raise premium rates in consideration of member's financial burden
- § Consulted with the Bankers Association and related competent authorities regarding CDIC's proposal
- § Sent trial balloons through media to know public opinions
- § Held public seminars to fully communicate with all member institutions



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Keys for Successfully Raising the Premiums in 2011

- § Support from related competent authorities & the Parliament
- § Active communication with member institutions and Bankers Association
- § Better domestic economic and financial conditions
 - ⇒ *A good timing for raising the premium rates*
- § Emphasis on the user pay principle

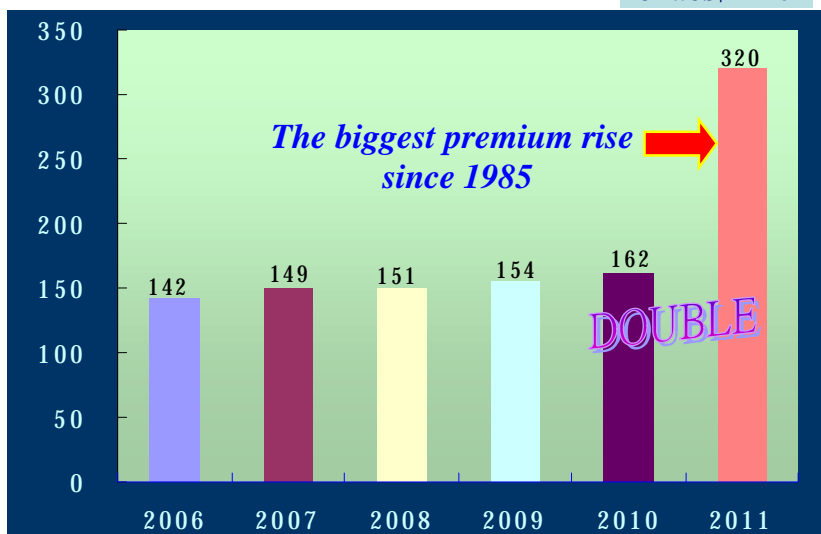


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Premium Income 2006~2011

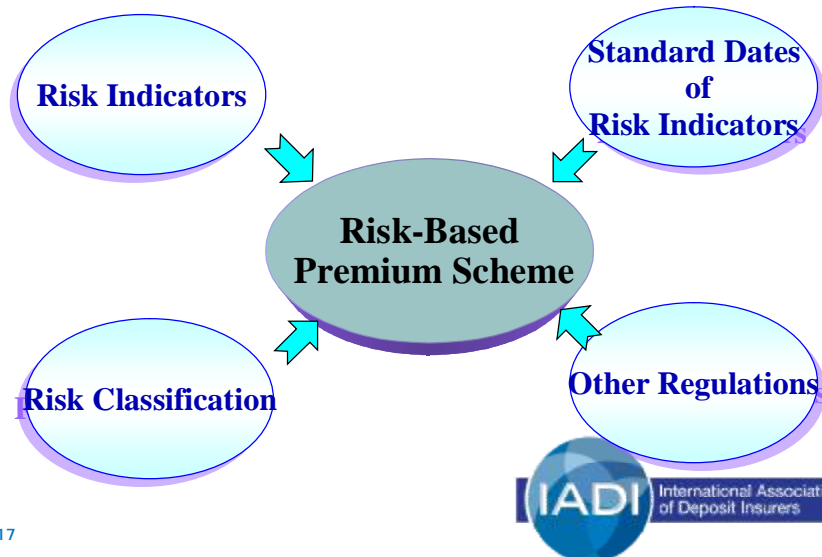
Unit: US\$ Million



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Current Risk-Based Premium Scheme



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Risk Indicators I

§ Capital Adequacy Ratio (CAR)

- **Affordability of risk**
 - Objective
 - Highly recognized by financial supervisors worldwide
 - Lead member institutions to enhance capital

§ Composite score of the examination data rating system

- **Exposure of risk**
 - Objectivity > Subjectivity
 - Effectively reflect overall operational risks
 - Incorporate CAMELS framework



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Risk Indicators II

§ Capital Adequacy Ratio (CAR)

- I. Well capitalized
- II. Adequately capitalized
- III. Undercapitalized

§ Composite score

I. Subgroup A:

- Examination rating of 1 or 2
- Financially sound institutions with few minor weaknesses

II. Subgroup B:

- Examination rating of 3 or better part of 4
- Institutions with weaknesses which could result in significant insured risks to CDIC

III. Subgroup C:

- Examination rating of worse part of 4 or 5
- Institutions with substantial possibility of loss to CDIC unless effective corrective actions are taken



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Risk Classification

9 Risk groups & 5 tier rates

Capital Adequacy	Composite Score		
	A	B	C
Well capitalized	First tier rate Group 1	Second tier rate Group 2	Third tier rate Group 3
Adequately capitalized	Second tier rate Group 4	Third tier rate Group 5	Fourth tier rate Group 6
Undercapitalized	Third tier rate Group 7	Fourth tier rate Group 8	Fifth tier rate Group 9



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Cut-off Points of Risk Indicators

§ Capital Adequacy Ratio (CAR)

- For banks and credit cooperatives,
CAR equals the ratio of equity to risk assets
 - I. Well capitalized :12% and over
 - II. Adequately capitalized : 8% to 12%
 - III. Undercapitalized : less than 8%
- For credit departments of farmers' and fishermen's associations,
CAR equals the ratio of net worth to risk assets
 - I. Well capitalized:10% and over
 - II. Adequately capitalized: 8% to 10%
 - III. Undercapitalized:less than 8%

§ Composite score

- For all member institutions
 - I. A : Composite score of 65 and over
 - II. B : Composite score of 50 to 65
 - III. C : Composite score of less than 50



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Standard Dates of Risk Indicators

§ Capital Adequacy Ratio (CAR)

- Based on financial information of member's call reports as of March 31 or Sep. 30

§ Composite score

- Based on the latest examination data under the examination data rating system as of May 31 or Nov. 30



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Other Regulations I

✓ Punitive Regulations

§ Member institutions cannot publicly announce their composite score

- If a member institution publicly announces its composite score, CDIC may raise the risk premium rate by 0.01% as a penalty of violation

§ Member institutions have to pay their premium on time

- If a member institution does not pay its premium on time, CDIC may raise the risk premium rate by 0.01% as a penalty of violation



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Other Regulations II

✓ Requests of Review

• Term for CDIC to accept request

Before premium payment deadline (Jan. 31 & July 31)

• Forms of request

By written notice
only one review per term

• Special unit for review

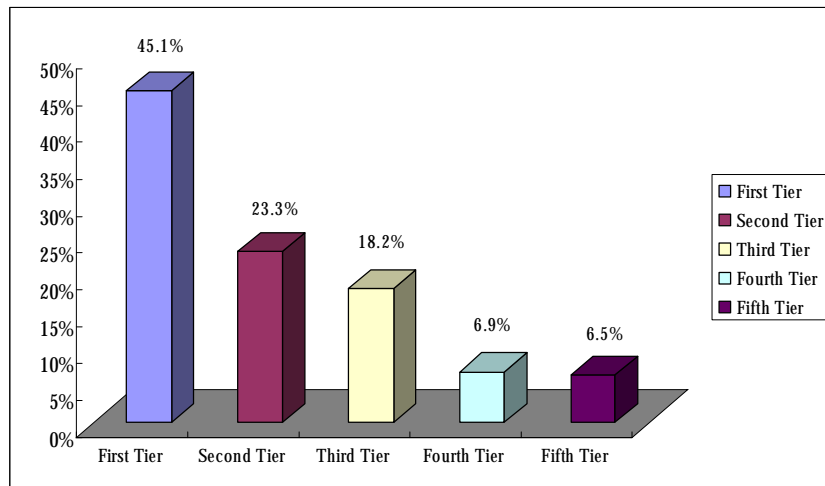
Premium Rate
Review Committee



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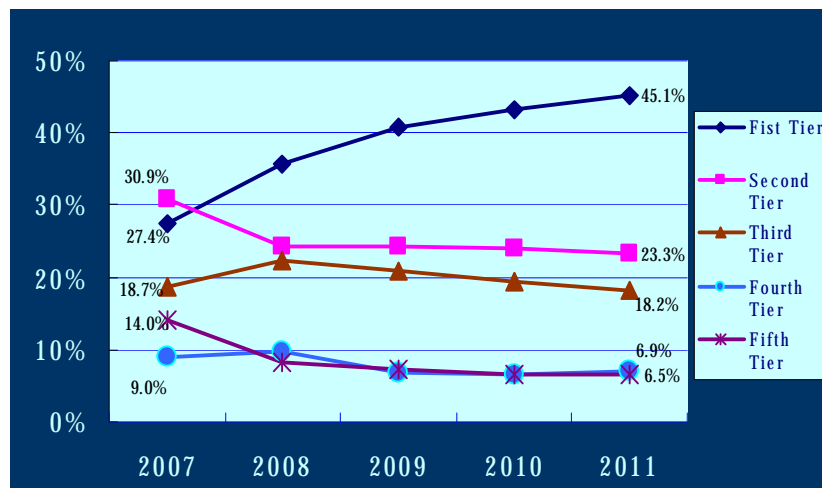
Current Distribution of 5 Tiers



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Changes of 5-Tiered Distribution during Recent 5 Years



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Conclusions

- Ü Increasing premium rates during better economic and financial conditions can reduce the *pro-cyclical* effects of funding
- Ü Widening tier rates and spreads in phases can reduce resistance from member institutions
- Ü Enhancing communication and reaching consensus with stakeholders can implement the new scheme more smoothly
- Ü Funding of the deposit insurance system should be based on the user pay principle



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Thank You!



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