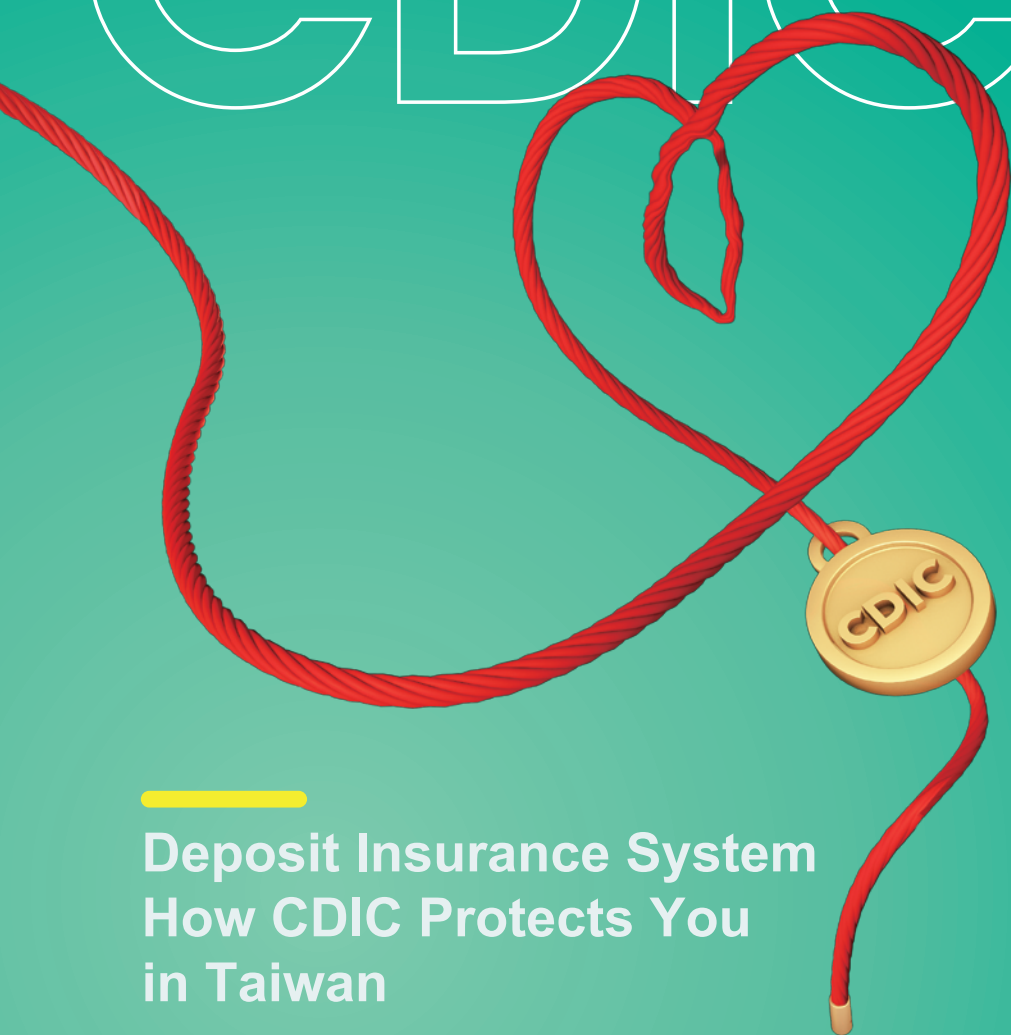


CDIC



Deposit Insurance System How CDIC Protects You in Taiwan



中央存款保險公司
Central Deposit Insurance Corporation

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1

What is deposit insurance?

Deposit insurance is a kind of policy insurance that insured financial institutions (hereinafter referred to as insured institutions) take out from the Central Deposit Insurance Corporation (CDIC Taiwan), for which they pay a premium. If an insured institution has been ordered to close by the competent authority, CDIC Taiwan will compensate each individual depositor for deposit up to NT\$3 million per institution, thereby protecting the depositors' rights and interests and maintaining financial stability.

2

Why is deposit insurance needed to protect the rights and interests of depositors?

Financial institutions differ from most industrial and commercial enterprises in that they depend mainly on deposits for their working capital and have low stockholders equity. If a financial institution is unable to pay off its deposit liabilities due to operational problems or business failure, depositors may panic. The stability of the financial system and social order in general would also be at risk. Moreover, most depositors have small deposit amounts and therefore cannot cost-efficiently collect information on the financial institutions they do business with. The government has therefore established a deposit insurance mechanism, under which CDIC Taiwan is entrusted, to provide safeguards for small depositors and preserve financial and social order.

3

How does deposit insurance maintain financial stability?

Financial institutions play an important role in regulating the supply and demand of capital and promoting economic development. They accept deposits, which are a highly liquid form of debt, yet most of their assets are tied up in long-term illiquid instruments. Financial institutions therefore have a hard time realizing their assets, when their business runs into problems, so depositors can lose confidence, triggering a bank run. The limited liquidity of financial institutions also encourages a perception among depositors that making an early withdrawal is the only way to get their money back. This sentiment can exacerbate a bank run and also have a chain reaction that leads to runs on other banks as well. The government established the deposit insurance system to prevent this by providing guarantee of deposit repayment to the great majority of depositors. In doing so the system also prevents systemic risk and ensures the stability of the financial system.

4

Who manages the deposit insurance system? —

CDIC Taiwan is a government-owned institution established on September 27, 1985, with capital jointly invested by the Ministry of Finance (MOF) and the Central Bank of the Republic of China (Taiwan) (the share rights held by MOF were transferred to the Financial Supervisory Commission in 2011 after approval from the Executive Yuan) as the only institution in Taiwan exclusively in charge of managing the deposit insurance system.

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How does deposit insurance differ from other types of insurance?

- (1) Different purposes: The purposes of deposit insurance is to protect the rights and interests of depositors, maintain credit order, and promote the sound development of the financial industry. It is designed to serve the public welfare with no profit-earning motive. Property and life insurance, on the other hand, are commercial types of insurance.
- (2) Different beneficiaries: Under the deposit insurance system, insured institutions pay insurance premiums to CDIC Taiwan, which uses these funds to protect the depositors of the insured institutions. If an insured institution goes out of business or is unable to pay its deposit liabilities, CDIC Taiwan will reimburse the depositors of the failed institutions by law. The applicant (the insured institution) therefore is different from the beneficiaries (the depositors). With property and life insurance policies, the insured party can designate itself or another party as the beneficiary. When an insurance incident occurs, the insured party or beneficiary of a property or life insurance will claim compensation from the insurance company. The insured party can also be the beneficiary.

- (3) Different functions: With property and life insurance, claims are paid by the insurer after an insurance incident. Deposit insurance claims are also paid after an insurance incident. However, the deposit insurance system in Taiwan also takes proactive measures to keep such insurance incidents from occurring. When a financial institution experiences trouble, CDIC Taiwan uses the Financial Early-Warning System, off-site monitoring of insured institutions, enhancement on information exchange with other financial supervisory agencies, guidance and other measures, to thereby help the insured institution return to sound operations.
- (4) Different policy role: Deposit insurance also plays a policy role as part of the financial safety net. In addition to fulfilling deposit insurance responsibilities toward the insured institutions which are unable to perform their deposits payment obligations or non-viable, the deposit insurance system helps the government to establish mechanisms for smoothly withdrawing problem financial institutions from the market in order to effectively prevent the occurrence of systemic risk.

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How can the public find out if a financial institution is covered by deposit insurance? —

In order to help the public easily identify deposit insurance status, all insured institutions reviewed and approved by CDIC Taiwan shall, according to the *Deposit Insurance Act*, prominently display at their places of business a large CDIC Taiwan Membership sign stating that they are insured by CDIC Taiwan.





What is the coverage limit of deposit insurance? —

On January 1, 2011, the deposit insurance coverage limit was increased to NT\$3 million. The coverage limit is the maximum amount of principal and accrued interest for each depositor at each insured institution covered by the deposit insurance. All payouts made by CDIC Taiwan are paid in New Taiwan dollars.

For employee pension accounts opened by organizations, business entities or groups at insured institutions, if the account records clearly distinguish the amount of each employee's pension deposits, and if the insured institution has paid deposit insurance premium for each account individually, the pension deposits of the individual employees and other deposits of such an employee at the same insured institution shall each receive protection up to the coverage limit.

8

Which types of deposits are within scope of deposit insurance?

According to Article 12 of the *Deposit Insurance Act*, deposit types insured by CDIC Taiwan include local currency and foreign currency deposits within the territory of the Republic of China.

Eligible Deposits

- Checking deposits
- Demand deposits
- Time deposits
- Deposits required by law to be deposited in certain financial institutions
- Other deposits which the competent authority has approved as eligible

Ineligible Deposits

- Negotiable certificates of deposits
- Deposits from government agencies
- Deposits from the Central Bank
- Interbank deposits from financial institutions
- Other deposits that the competent authority has approved as ineligible

9

If an insured institution is ordered by the competent authority to cease doing business, what insurance obligations does CDIC Taiwan have to do to the depositors of that institution?

When an insured institution is ordered to close by the competent authority or the central competent authority of the agricultural finance, CDIC Taiwan shall fulfill its insurance responsibilities by any of the following methods:

- (1) Make payout by cash, remittance, transfer or other payment methods to reimburse depositors of the failed institution (cash payout).
- (2) Consult with other insured institutions to make payout on behalf of CDIC Taiwan (deposit transfer).
- (3) Facilitate other insured institutions or financial holding companies to acquire or assume all or part of the businesses, assets and liabilities of the closed insured institutions.

The estimated cost to CDIC Taiwan of carrying out the measures outlined in items (2) or (3) above shall be less than the estimated loss arising from the payout subject to item (1) above.

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In executing its insurance obligations, how does CDIC Taiwan calculate the amount reimbursed to depositors?

(1) When CDIC Taiwan fulfils its insurance obligations through cash payout or deposit transfer, the amount reimbursed to each depositor shall be calculated based on the amount of insured principal and interest recorded in the account on the last business day of the closed insured institution, after aggregating accounts for all of the deposits and other creditor rights and liabilities of the depositor, up to a coverage limit of NT\$3 million. However, if a depositor has liabilities created by deposits pledged as collateral of the closed insured institution or liabilities reaching due or deemed to be due according to the applicable agreements, or liabilities fit to be offset in accordance with other laws and regulations, CDIC Taiwan may offset the claims of depositors of a closed insured institution according to the following order before handling any payout by the above mentioned methods of calculating the reimbursement amount.

A. Liabilities created by deposits pledged as collateral of the closed insured institution will be the amount of the result that the principal and interest of the deposit that the depositor has mortgaged against a loan and the principal and interest in relation to that loan.

B. Liabilities reaching due or deemed to be due according to the applicable agreements, or liabilities fit to be offset in accordance with other laws and regulations will be offset according to the agreements, laws and regulations. However, if there is lack of such agreements or laws and regulations, the depositor's claim other than that insured by CDIC Taiwan shall be offset against the debt first and the covered deposit shall then be used for offset.

In aggregating accounts as mentioned above, if the head office and branch (or internal unit) of a depositor (e.g. legal entity) both have deposit accounts at a closed insured institution, the reimbursement amount shall be calculated based on the consolidated deposit accounts of the branch (or internal unit) and head office.

If a depositor's creditor's rights and debts are denominated in foreign currency, such funds shall be calculated in NT dollars based on the exchange rate on the last business day of the closed insured institution.

- (2) When CDIC Taiwan successfully encourages another institution to acquire or assume a closed insured institution, and if the transaction scope of the acquisition extends to all operations, assets and liabilities, then the depositors' rights and interests do not change and the acquiring institution will continue to handle all follow-up deposit and other operations. If the transaction scope only extends to a part of the operations, assets and liabilities, then the deposit amounts assumed by the acquiring institution shall, at the very least, be calculated the reimbursement amount according to the aforementioned methods.

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Are deposits in a closed insured institution protected by deposit insurance after the institution is acquired or assumed?

A closed institution's depositors whose deposits are acquired or through purchase and assumption transactions become deposits of the acquiring or assuming financial institution. The acquiring or assuming financial institution is responsible for the payment service of acquired deposits from the closed institution. If a depositor has another deposit account in the acquiring or assuming institution, he/she can receive CDIC Taiwan's protection up to the coverage limit of NT\$ 3 million after aggregating the deposits of all the accounts.

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If the insured status of an insured institution is terminated, are the deposits of the institution's depositors still protected? —

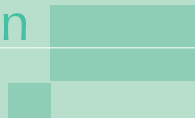
If the insured status of an insured institution is terminated by CDIC Taiwan, the deposits of its depositors are still protected against the occurrence of insurance incidents for up to half a year from the day that the insured status of the institution ends. The amount of covered deposits is calculated as the lowest deposit amount at the end of the business day between the period of contract termination and the final business day of the institution, up to the coverage limit of NT\$ 3 million. Deposits in the institution are no longer protected by CDIC Taiwan after one half year from the date of the termination of deposit insurance agreement.

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How can the public contact CDIC Taiwan about questions and suggestions regarding deposit insurance?

- (1) For quick answers to your questions, call our toll-free service line and interactive automated voice response system at: 0800-000-148.
- (2) Information on the deposit insurance system can be accessed from the CDIC Taiwan website at: <http://www.cdic.gov.tw>.

Central Deposit Insurance Corporation





DEPOSIT INSURANCE:

Bringing Smiles of Satisfaction and Security to Taiwan's Financial Sector



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