

Ceremony for the Signing of the Letter of Exchange between CDIC and DICJ

Remarks by Chairman Tsay

August 30, 2006

Governor Mr. Nagata, Deputy Governors Mr. Hatano and Mr. Tanabe, distinguished guests, ladies and gentlemen, Good afternoon! My name is Chin-Tsair Tsay, and I am the Chairman of Central Deposit Insurance Corporation (CDIC, Taiwan). Today it is indeed a great honor for CDIC to be able, together with the Deposit Insurance Corporation of Japan, to sign the Letter of Exchange, and formally establish a bilateral cooperative relationship between our two organizations. This constitutes an important milestone in the development of and cooperation between our respective deposit insurance systems. In relation to this, it is my pleasure to be on behalf of CDIC, Taiwan to join in this occasion.

Due to the impacts of the global financial crisis, the deposit insurance system has become an issue to which the governments of every country are giving their close attention. In order to enable deposit insurance to more fully discharge its function of maintaining financial stability and to facilitate the exchange of information and enhance cooperation among deposit insurance institutions, the International Association of Deposit Insurers (IADI) was formally established in May 2002. Both the Deposit Insurance Corporation of Japan and the Central Deposit Insurance Corporation were signatories of IADI's Statutes and founding members of that association. In addition, because of the two corporation's close geographical proximity to each other, they also became members of IADI's Asia Regional Committee. The Deposit Insurance Corporation of Japan at the same time served as the Chair of the Asia Regional Committee, and orchestrated the Committee's affairs, thereby playing a leading role in the research and cooperative activities conducted among the various deposit insurance corporations in the region. Through this platform for discussion, a very good cooperative relationship has been established between our respective organizations.

Since the Deposit Insurance Corporation of Japan in 1996 started to strengthen Japan's deposit insurance mechanism and significantly amend the *Deposit Insurance Law*, it has played a very important role in Japan's financial reforms, as it has dealt with problem financial institutions and stabilized financial order. Its contribution to the stability of Japan's financial system and economic recovery and subsequent prosperity has been universally recognized. In addition, the Deposit Insurance

Corporation of Japan has guided the activities of IADI's Asia Regional Committee, and has made every effort to assist governments in the Asian region to either establish or improve their deposit insurance systems. In this regard, it has had a tremendous contribution in terms of increasing the number of member institutions of the Asia Regional Committee and in promoting cooperation in deposit insurance at the regional level. As one small part of the IADI myself, I would like to take this opportunity to express my most profound respect to the Deposit Insurance Corporation of Japan for their untiring efforts in this regard.

Japan's political and economic culture and legal and regulatory system are very similar to those of Taiwan, and so when it comes to reforming the deposit insurance system and assisting in stabilizing financial order, Japan's experiences are of tremendous value to Taiwan. I would like to take this opportunity, now that Taiwan has already experienced a financial crisis, to briefly explain Taiwan's experiences of using deposit insurance to handle problem financial institutions. These experiences may be summarized as follows:

- (1) In July 2004, Taiwan formally implemented a unified financial supervisory system. After the powers to conduct examinations and supervise banks were consolidated into one agency, the Financial Supervisory Commission, CDIC, Taiwan was no longer responsible for the work of bank examination. At the same time, in line with the separation of the supervision of agricultural financial sector from general financial sector, a separate agricultural deposit insurance account will be set up, in order to make CDIC, Taiwan easier to control its deposit insurance risk.
- (2) After Taiwan made participation in deposit insurance mandatory in 1999, it implemented a differential risk-based premium system and strengthened the financial early-warning system, in order to control insured institutions' risk.
- (3) It was recommended that speedy and effective prompt corrective actions based on the risk and a mechanism for failed financial institutions to withdraw from the market be established within the *Banking Law*, so that the criteria for withdrawal from the market would have a clear legal basis, in order to reduce the costs of dealing with such problem financial institutions.
- (4) Because a systemic financial crisis is not something that a deposit insurance organization or any of the financial safety net players can resolve by itself, it is recommended that a systemic crisis handling mechanism be established so that, within prescribed administrative procedures, the crisis not be restricted by limited deposit insurance coverage, so that before the financial crisis gets larger and out of hand, the problem can be swiftly resolved.

- (5) In order to boost the general public's confidence in the deposit insurance system, and enhance the CDIC's ability to bear risk, it is recommended that the deposit insurance fund be enlarged to a target ratio of 2% of covered deposits be set as the fund's objective.
- (6) Internationally, regardless of whether the role of the deposit insurance organization has shifted from that of being a pay box or that of serving as a risk manager, legally there should be a clear division responsibilities among each participant of the financial safety net, so that they can be distributed in a timely manner. In addition, the cooperation and sharing of information among the financial safety net players should be strengthened, in order to effectively deal with systemic risk.

Along with the trend towards liberalization and internationalization in global finance, the latent operating risk within financial institutions has also increased and become more complex. In particular, the development of banking business across borders has made it easier for a regional financial crisis to spread by means of a domino effect. In order to construct a bilateral cooperation mechanism for the exchanging of experiences and the sharing of information, and through this to enhance the function of the deposit insurance mechanism, we have today signed this Letter of Exchange as a formal prelude to a closer bilateral cooperation. In the future, we will be able, through the sharing of information, the exchange of personnel, and conferences on either side, to provide professional expertise to facilitate such cooperation. It is hoped that, by means of this platform, we can together engage in research on such important topics to do with cross-border issues or other issues related to deposit insurance, and thereby make the deposit insurance system more complete. In closing, I would like to thank Mr. Nagata for cordially inviting us and everyone at the Deposit Insurance Corporation of Japan for their enthusiasm and warm hospitality. May I wish today's meeting every success. Thank you very much!