



中央存款保險公司

Central Deposit Insurance Corporation

Risk Premium System in Taiwan

Presented by

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May 2005

CDIC

Why Risk Premium System?

How to Implement?

How to Price?

Risk Premium Scheme in Taiwan

Lessons Learned

Future Plans

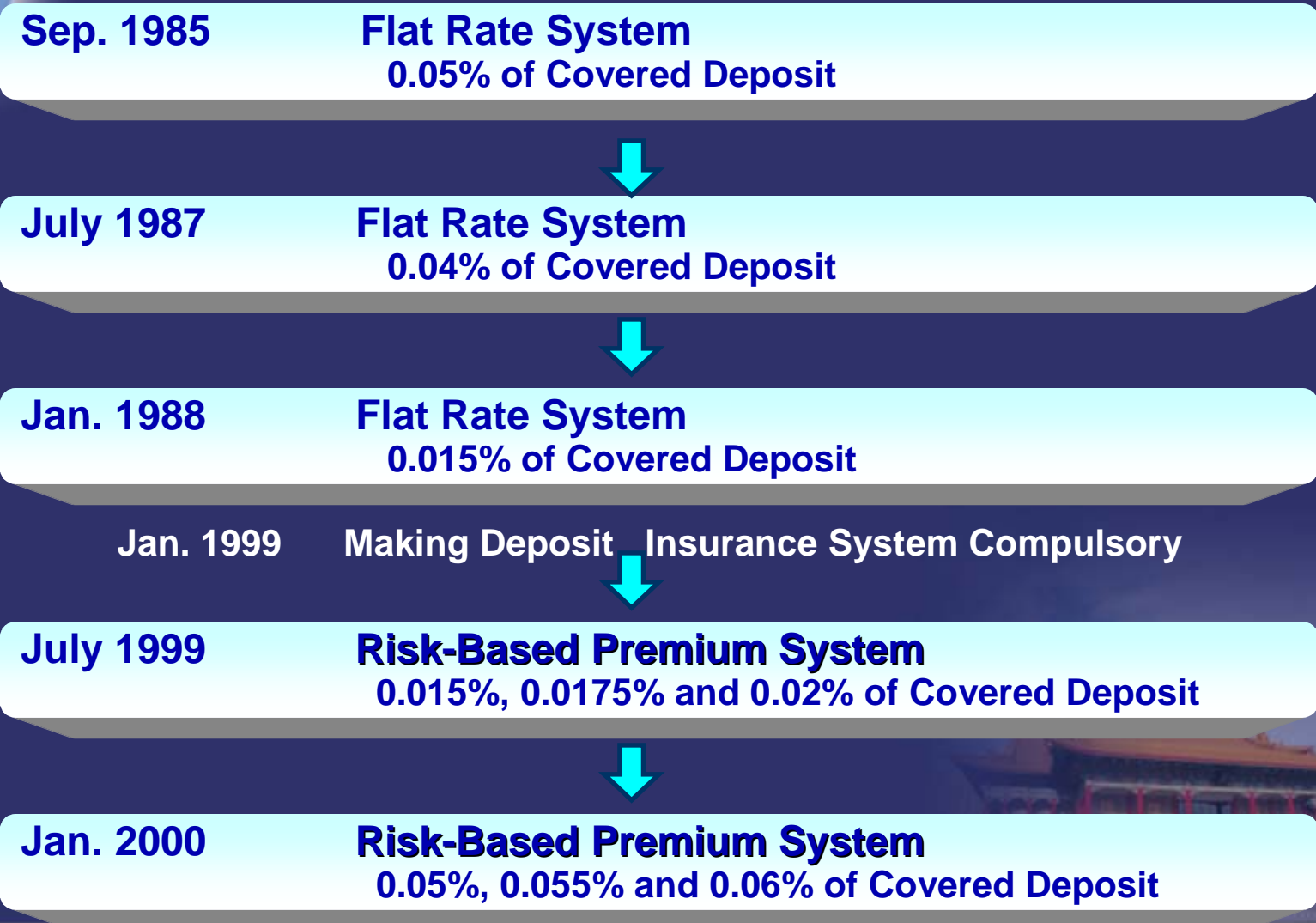




- Complement Measures of Implementation of Mandatory DIS
- To Reduce Moral Hazard
- To Reasonably Reflect the Risk Differentiation of Individual Member Institutions
- To Direct Member Institutions to Lower their Operational Risk



CDIC Adjustments of Rate Levels



- **Conducted Research Papers**
- **Consulted Experiences in Advanced Countries**
- **Discussed with Professionals , Academics and Representatives of the Banking Industry**
- **Sent Questionnaires to Member Institutions**
- **Held Seminars and Communicated with Member Institutions**

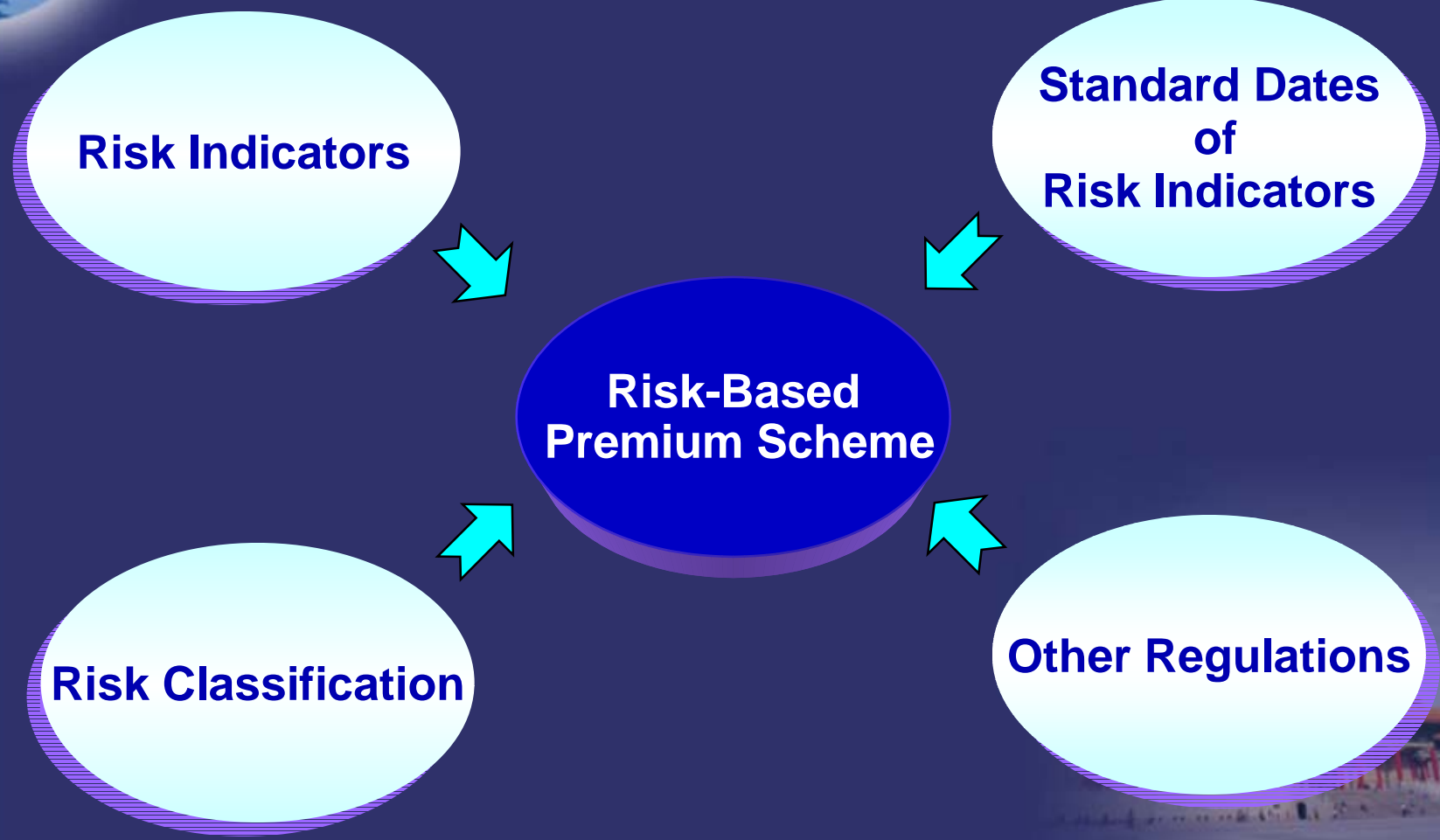
Determination of Risk Indicators

- Most Accountable & Prominent
- Least Controversial
- Quantitative
- Objective

Calculation Method

- Easy Computation
- Avoid Over Burdensome for Members
Reporting Requirements
Payment Amount





- **Capital Adequacy Ratio**
 - **Affordability of Risk**
 - Objective
 - Highly Regarded by Financial Supervisors Worldwide
 - Leading Member Institutions to Enhance Capital

Composite Score of the Examination Data Rating System

- **Exposure of Risk**
 - Objectivity > Subjectivity
 - Adopting Statistical Hypothesis
 - Effectively Reflecting Overall Operational Risks

9 Risk Groups & 3 Tier Rates

Capital Adequacy	Composite Score		
	A	B	C
Well Capitalized	First Tier Rate Group 1	First Tier Rate Group 2	Second Tier Rate Group 3
Adequately Capitalized	First Tier Rate Group 4	Second Tier Rate Group 5	Third Tier Rate Group 6
Undercapitalized	Second Tier Rate Group 7	Third Tier Rate Group 8	Third Tier Rate Group 9

Well Capitalized

Adequately Capitalized

Under Capitalized





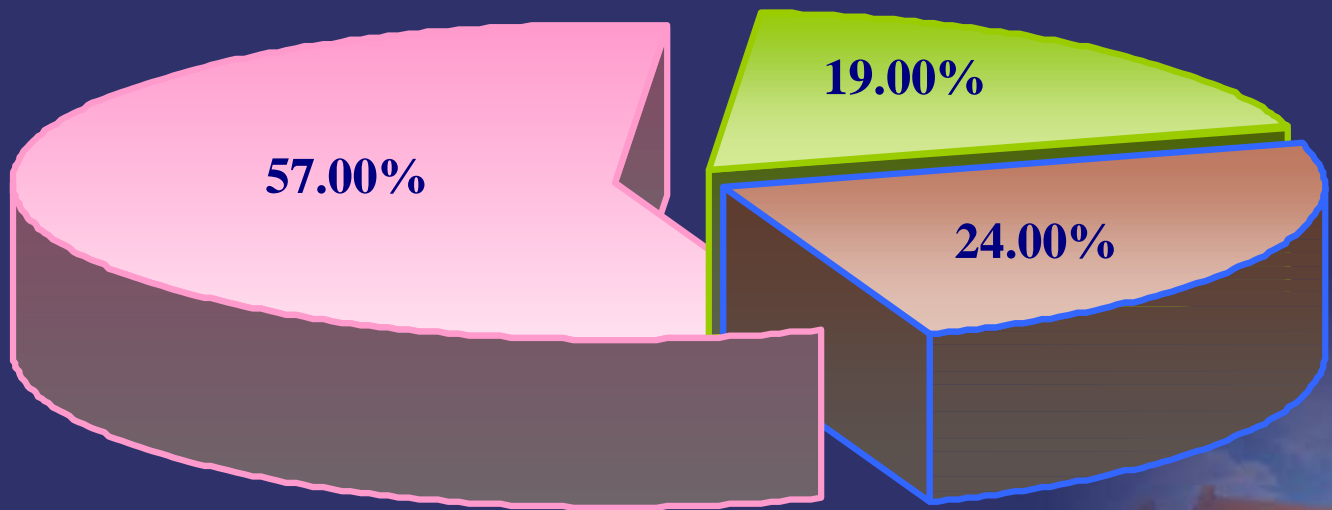
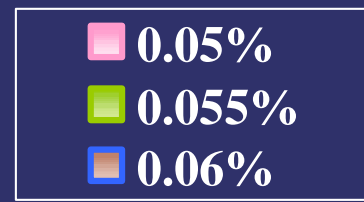
- **Subgroup A:**
 - Primary Regulator's Examination Rating of A or B
 - Financially Sound Institutions with Few Minor Weaknesses
- **Subgroup B:**
 - Primary Regulator's Examination Rating of C or Better Part of D
 - Institutions with Weaknesses which Could Result in Significant Deterioration and Risk to CDIC
- **Subgroup C:**
 - Primary Regulator's Examination Rating of Worse Part of D or E
 - Institutions with Substantial Possibility of Loss to CDIC unless Effective Corrective Actions Taken

- Banks, Foreign Banks, Investment and Trust Companies, Credit Cooperative Associations

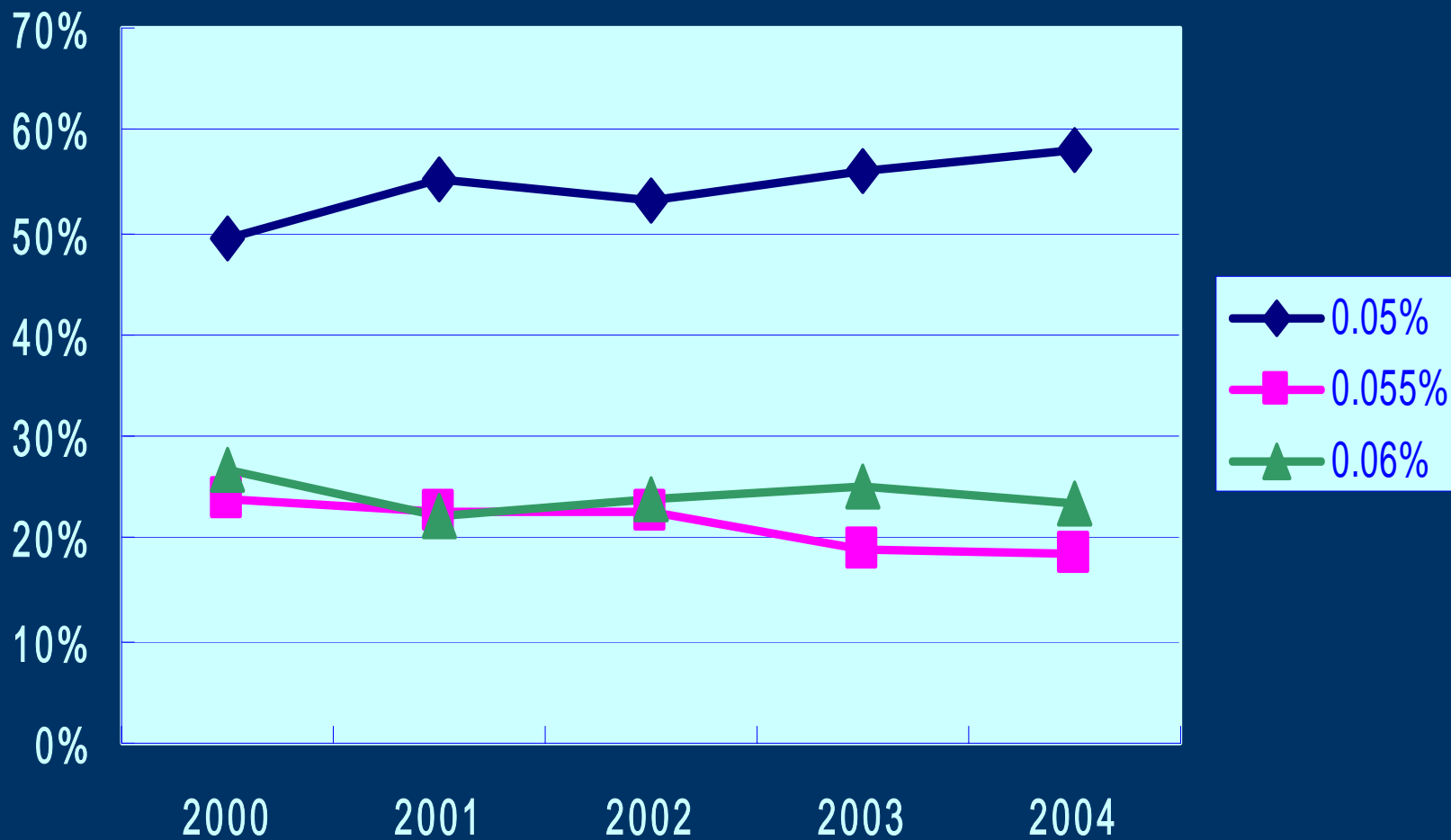
Capital Adequacy Ratio	Composite Score		
	Over 65	50 to 65	Less than 50
Over 12%	0.05%	0.05%	0.055%
8% to 12%	0.05%	0.055%	0.06%
Less than 8%	0.055%	0.06%	0.06%

- The Credit Departments of Farmers' and Fishermen's Associations

Ratio of Equity to Loan	Composite Score		
	Over 65	50 to 65	Less than 50
Over 10%	0.05%	0.05%	0.055%
6% to 10%	0.05%	0.055%	0.06%
Less than 6%	0.055%	0.06%	0.06%



•Weighted-average Assessment Rate : 5.49 b.p.



- **Capital Adequacy Ratio**
 - Based on Financial Information of Member's Call Reports as of Mar. 31 or Sep. 30
- **Composite Score**
 - Based on the Latest Supervisory Examination Information under EWS as of Nov. 30 or May 31
- **Note:**
 - **Assessment Base: Computed Once Every Semi-Annual Period**
 - **Standard Dates: June 30 and Dec. 31**
 - **Assessment Payment: By Jan. 31 and July 31**



- **Reorganized Member Institutions w/o New Composite Scores**
 - Composite Score before Reorganization Applied
- **Newly Established Institutions w/o Composite Scores**
 - Second Tier Rate Applied
- **Government-Owned Institutions**
 - One Tier Rate Lower Than Their Risk Group Classification, Excluding those Quality for the Lowest Rate
- **Depository Institutions w/o Lending Business**
 - Special Rate Applied
- **Member Institutions under Assistance or Conservatorship**
 - Highest Tier Rate Applied

Premium Rate of Each Member

Institution: **Confidential**

CDIC May Raise Premium Rate by
0.005% If A Member Discloses Its
Rate Level

•Term for Accepting Request

Before Assessment Payment
Deadline (July 31 & Jan. 31)

•Forms of Request

By Written Notice

• Special Unit for Review

Deposit Insurance Premium
Review Committee



- **Set up Priority before Implementation**
- **Low Premium Rates Couldn't Effectively Accumulate Deposit Insurance Fund**
- **Sufficient Rate Levels & Wide Spreads Could Better Achieve Policy Objectives**
- **Periodical Review Mechanism Is Necessary to Adapt to Environmental Changes**



- **Expanding Spreads and Levels of Tier Rates**
- **Taking Call Report Data into Consideration to Reflect More Up-to-Date Risk Profile**
- **On-Site Inspection for Data Verification**
- **Periodically System Review**





Thank You.

Questions?

