



Keep Current on a Differential Premium System

- Taiwan Case Study

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Presentation Overview

ü Deposit Insurance System in Taiwan

ü CDIC's premium system

- Past
- Now
- Future

ü Conclusion





DIS in Taiwan



CDIC (Taiwan)

- ü Established in Sep. 1985
- ü Government agency
- ü Competent authority
 - § Financial Supervisory Commission (FSC)



ü Mandate

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



**Risk
Minimizer**



Membership

ü Membership

§ Compulsory application, but subject to CDIC's on-site inspection, review and approval

§ Number of member institutions: 391 (as of 10/31/2011)

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	25
Agricultural financial institutions	Council of Agriculture	• Credit dept. of farmers' associations	276
		• Credit dept. of fishermen's associations	25
Total			391

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Coverage & Premium

ü 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

ü Ex-ante funding

§ Risk-based differential premium system

§ Assessment base : eligible deposits

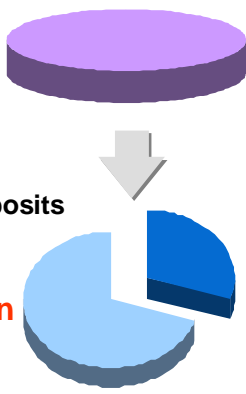
§ Premium rates approved by competent authority

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Status of Deposit Insurance Fund

Deposit insurance fund (DIF)

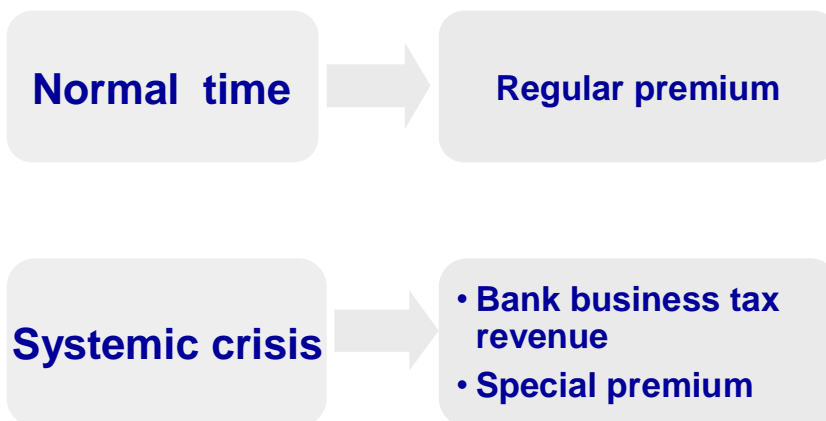
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- Bank DIF**
- Target ratio: 2% of covered deposits
 - Amount: (as of 06/30/2011) **US\$ -1.24 billion**
- Agricultural DIF**
- Target ratio: 2% of covered deposits
 - Amount (including public fund): (as of 06/30/2011) **US\$ 0.8 billion; ratio: 2%**



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Sources of Deposit Insurance Fund



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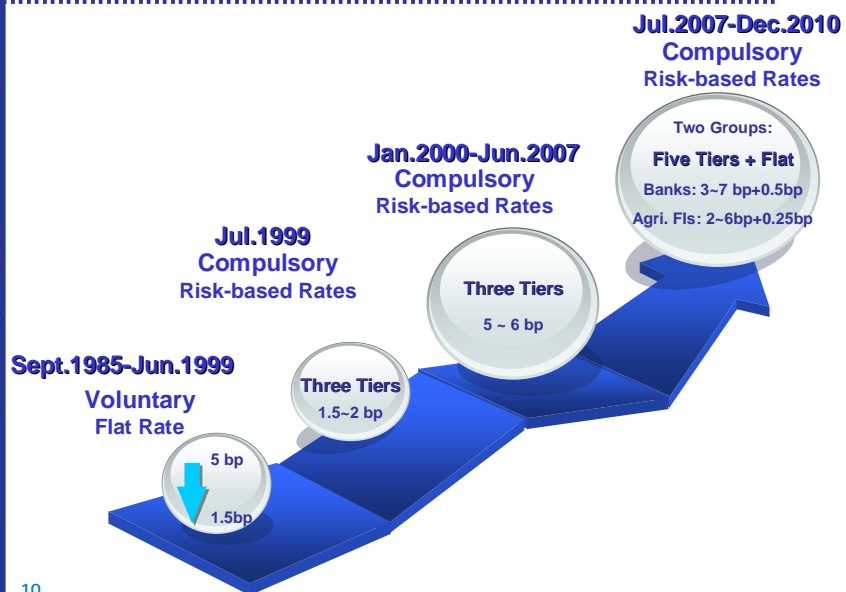


CDIC's Premium System

Past, Now & Future



Past: Development of Premium System





Keep Current!

DPS Now



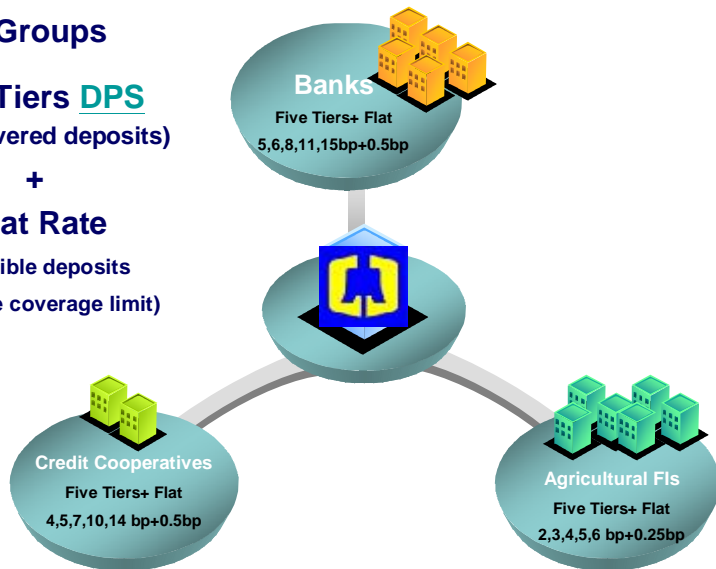
Now: Current Premium System

§ 3 Groups

§ 5 Tiers **DPS**
(covered deposits)

+

Flat Rate
(eligible deposits
above coverage limit)





Adjusting Premium Rates in 2011

ü 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

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Planning Process (2010)

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



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Keys to Success

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



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Economic & Financial Condition (2006~2010)



Note : Economic Growth Rate (2011 forecast) : 4.8%

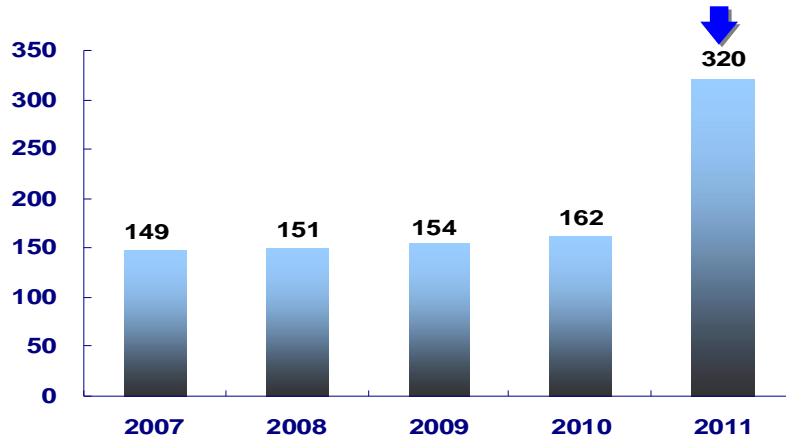
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Premium Income (2007~2011)

Unit:US\$ Million

The biggest premium rise since 1985

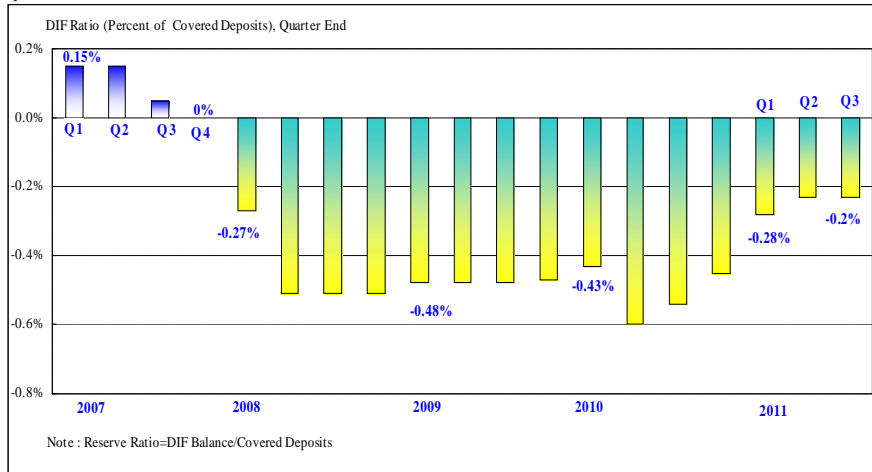


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Bank DIF Ratio (2007~2011)

Bank DIF ratio went negative in 2008, but is expected to turn positive in 2013.



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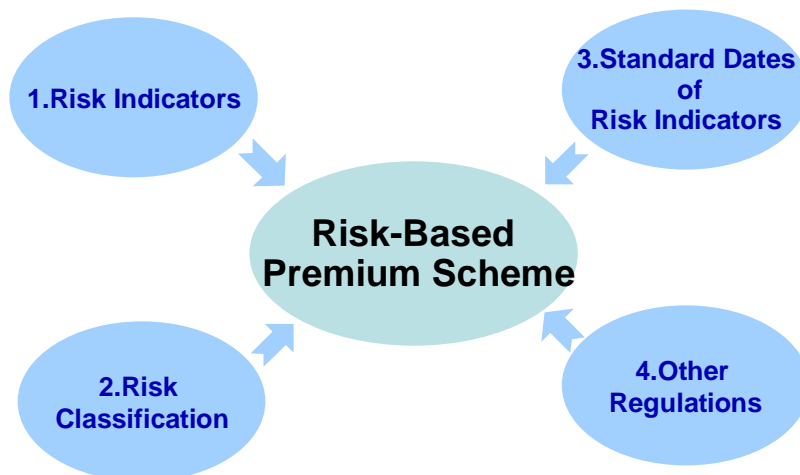


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DPS Now – More Details



Current Risk-Based Premium Scheme





Risk Indicators (I)

ü Capital Adequacy Ratio (CAR)

§ Affordability of risk

- Objective
- Highly recognized by financial supervisors worldwide
- Lead member institutions to enhance capital

ü Composite score of the Examination Data Rating System

§ Based on on-site examination data

- Objectivity > Subjectivity
- Effectively reflect overall operational risks
- Incorporate CAMELS framework

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Risk Indicators (II)

ü Capital Adequacy Ratio (CAR)

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

ü 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

ü 9 Risk groups & 5 tier rates

Capital Adequacy	Composite Score		
	A (≥ 65)	B ($<65; \geq 50$)	C (<50)
Well capitalized ($\geq 12\%$)	First tier rate Group 1(5bp)	Second tier rate Group 2(6bp)	Third tier rate Group 3(8bp)
Adequately capitalized ($>12\%; \leq 8\%$)	Second tier rate Group 4(6bp)	Third tier rate Group 5(8bp)	Fourth tier rate Group 6(11bp)
Undercapitalized ($<8\%$)	Third tier rate Group 7(8bp)	Fourth tier rate Group 8(11bp)	Fifth tier rate Group 9(15bp)

23 * Using example of differential premium rates and cut-off points for banks



Cut-off Points of Risk Indicators

ü 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%

ü 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

ü Capital Adequacy Ratio (CAR)

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

ü Composite score

§ Based on the latest examination data as of May 31 or Nov. 30



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Other Regulations (I)

ü 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)

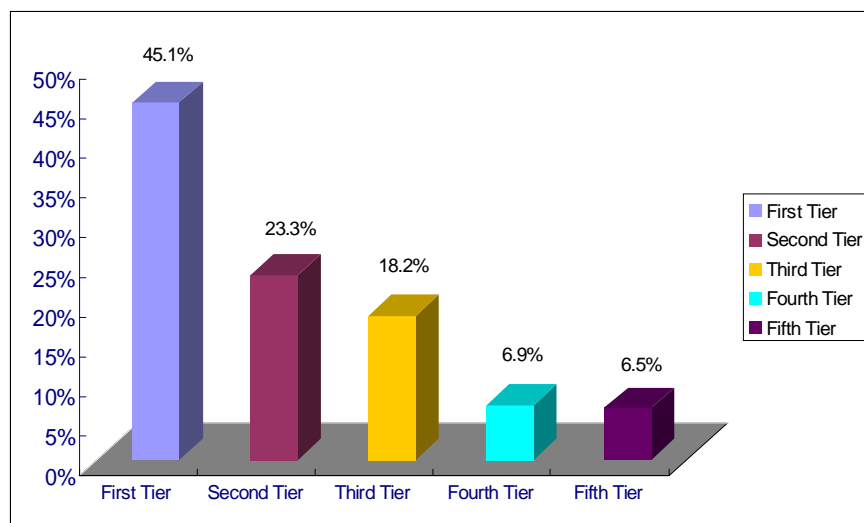
ü Requests of Rate Review

- 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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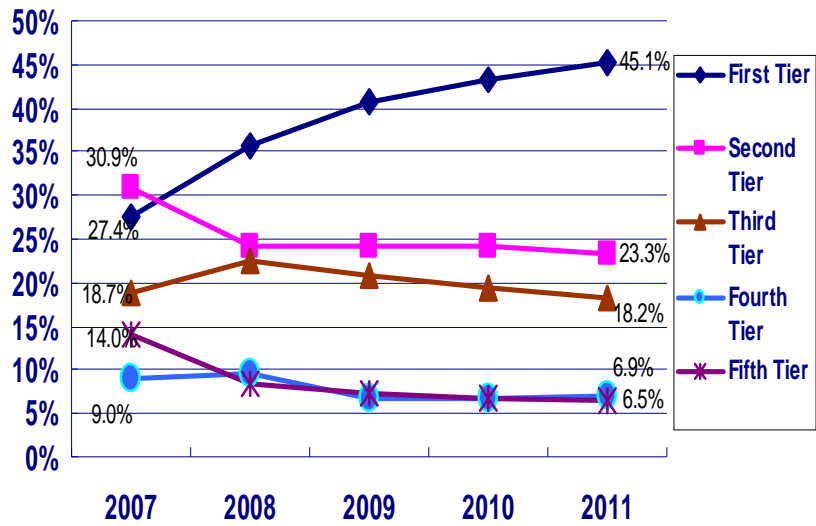
Current Distribution of 5 Tiers



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Changes of 5-Tiered Distribution during Recent 5 Years



2.



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DPS Onward





Future: DPS 2012

ü Revision of risk indicators

§ Revise data source of composite score by adding call report data of member institutions



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Reasons

- ü Big time lag between the date of latest examination report and the standard date of premium collection
- ü To timely and effectively reflect the different operating risks and financial status of member institutions into CDIC's risk-based premium system
- ü FSC's instruction to review the risk indicators

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Source of Data (I)

ù Composite Score

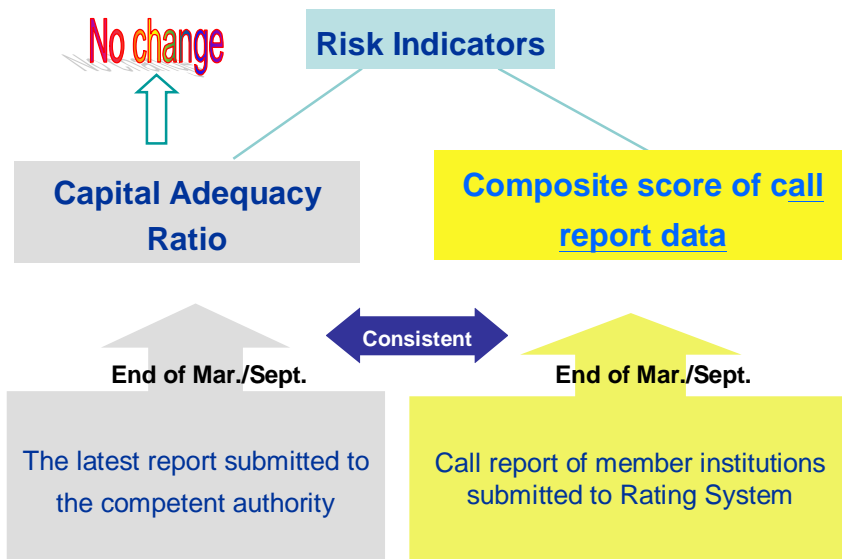
- Present: on-site examination reports
- From 2012: Mainly from call reports



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Source of Data (II)

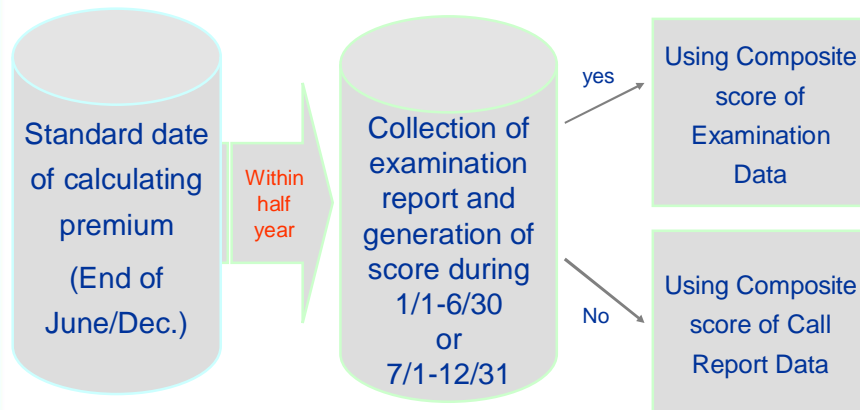


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Source of Data (III)

ü In case of an examination report :

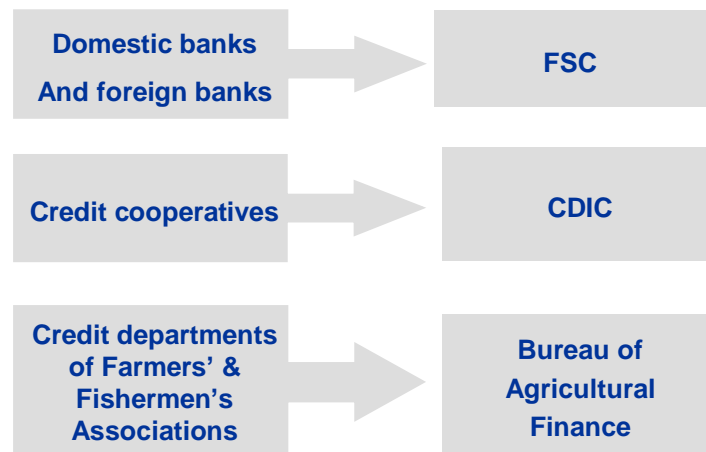


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Source of Data (IV)

ü Single window of call report



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Complementary Measures

ü If member institutions submit call reports with serious inaccuracies or omissions resulting in CDIC's wrong rating and premium calculation, CDIC may:

- Conduct on-site inspections
- Charge punitive premium rates
- Submit it to competent authority for handling

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Conclusion





üKeep Checking

üKeep Communicating

üKeep Current



Thank You!



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Keep Current. Keep
Communicating. Keep
Checking.



Development of Premium System Sep.1985~June 1999

ü 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

ü 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

- ü Assessment base was shifted from covered deposits to eligible deposits
- ü Risk rates for covered deposits & a flat rate for eligible deposits in excess of the coverage limit
- ü 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%