

Deposit Insurance System in Taiwan

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- Introduction of CDIC
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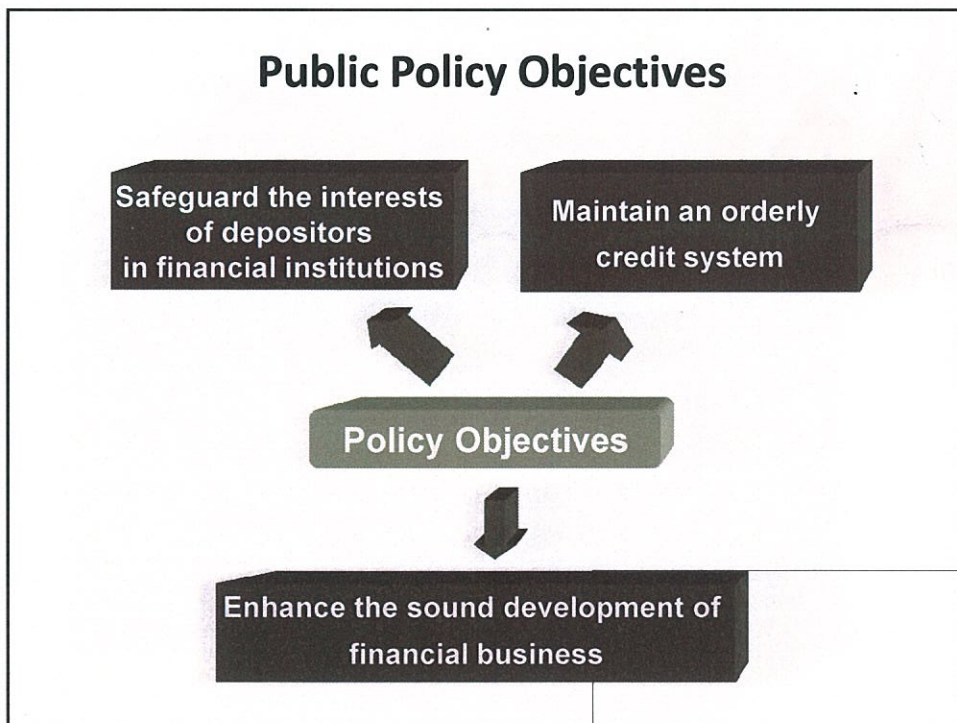
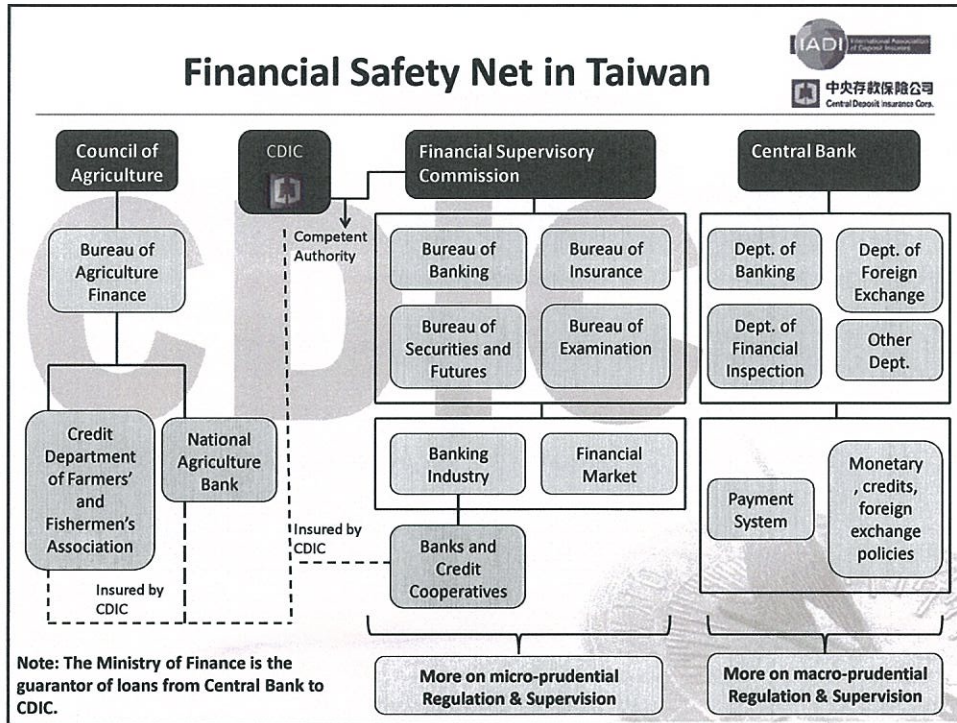


Introduction of CDIC

Introduction of CDIC

- Establishment in 1985  28 years
- The only deposit insurer in Taiwan
- Major shareholders: Financial Supervisory Commission (FSC) and Central Bank.
- Mandate and Powers
 - Manage deposit insurance business
 - Control deposit insurance risk
 - Deal with problem insured financial institutions





1. Membership

Voluntary participation (Sept. 1985 – Jan. 1999)

Compulsory system (Since Jan. 1999)

Mandatory application (since Jan. 2007)
but subject to CDIC's approval

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Number of insured institutions

As at Aug 31, 2013

Types of insured institutions	No.	No. of branches
Domestic banks	39	3,437
Local branches of foreign banks	29	37
Credit cooperatives	24	257
The postal savings system	1	1,322
Credit dept. of farmers' associations	277	819
Credit dept. of fishermen's associations	25	44
Total	395	5,916

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2. Limit and Scope of Coverage

NT\$ 0.7 million (US\$23,300, September 1985)

NT\$ 1 million (US\$33,300, August 1987)

Temporary blanket guarantee on the deposits in unsound Financial institutions (July 2001- July 2005)
Era of Financial Restructuring Fund

Resume to NT\$ 1 million (July 2005)

NT\$ 1.5 million (US\$50,000, July 2007)

In response to financial tsunami by providing temporary full coverage (October 7, 2008 ~ December 31, 2010)

NT\$ 3 million (US\$100,000, January 2011)

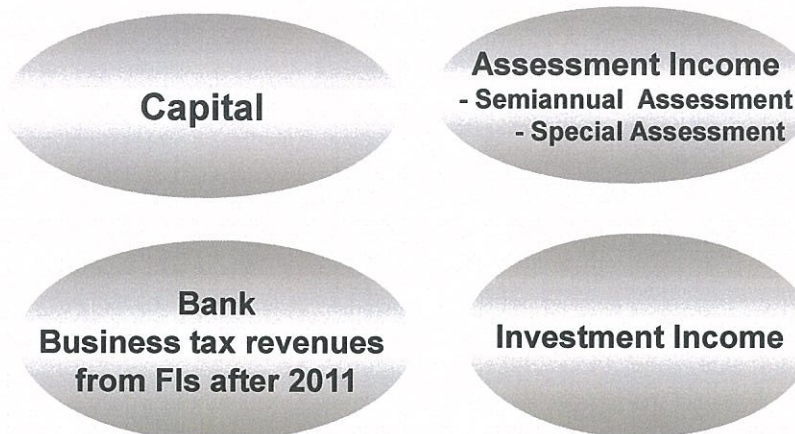
Insured & Uninsured Deposits

Coverage amount  NT\$ 1.5 million (about US\$50,000)  NT\$ 3 million (about US\$100,000)

Insured Deposits	Uninsured Deposits
<ol style="list-style-type: none"> 1. Checking deposits 2. Demand deposits 3. Time deposits 4. Deposits required by law to be deposited in certain financial institutions 5. Other deposits approved as insurable by the Financial Supervisory Commission 	<ol style="list-style-type: none"> 1. Negotiable certificates of deposit 2. Deposits from government agencies 3. Deposits from the Central Bank 4. Deposits from banks, postal savings bank, credit cooperatives, and farmers' and fishermen's associations with credit departments 5. Other deposits which the Financial Supervisory Commission has approved as non-insurable 6. Deposits exceeding the per-institution maximum insurance coverage established for each depositor

• CDIC covers insured deposits of natural & legal persons both in local and foreign currencies.

3. Funding Sources

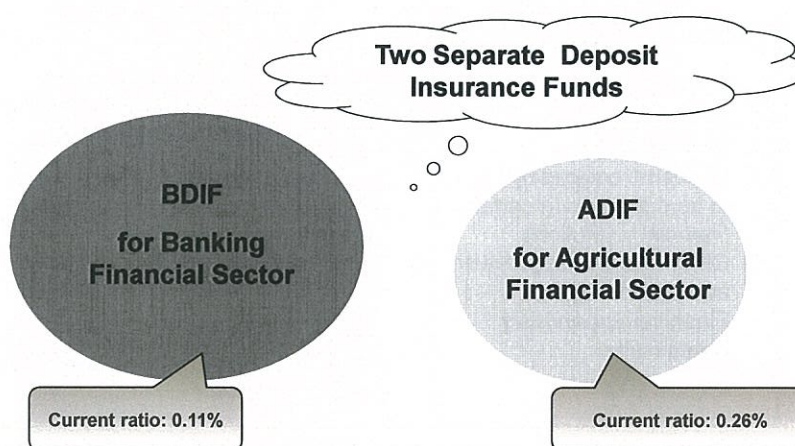


Emergency liquidity needs: CB & other FIs

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Deposit Insurance Funds

DI Fund target ratio: 2%



4. Risk Premium System

- Adoption of risk premium system since 1999
- The new modified system has been implemented from Jan. 2011: *Increase premium rates and spreads*

Premium Rate		
Type of financial institutions	Risk-based Rate*	Flat rate**
Banks	0.05%, 0.06% 0.08%, 0.11% 0.15%	0.005%
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%	0.0025%

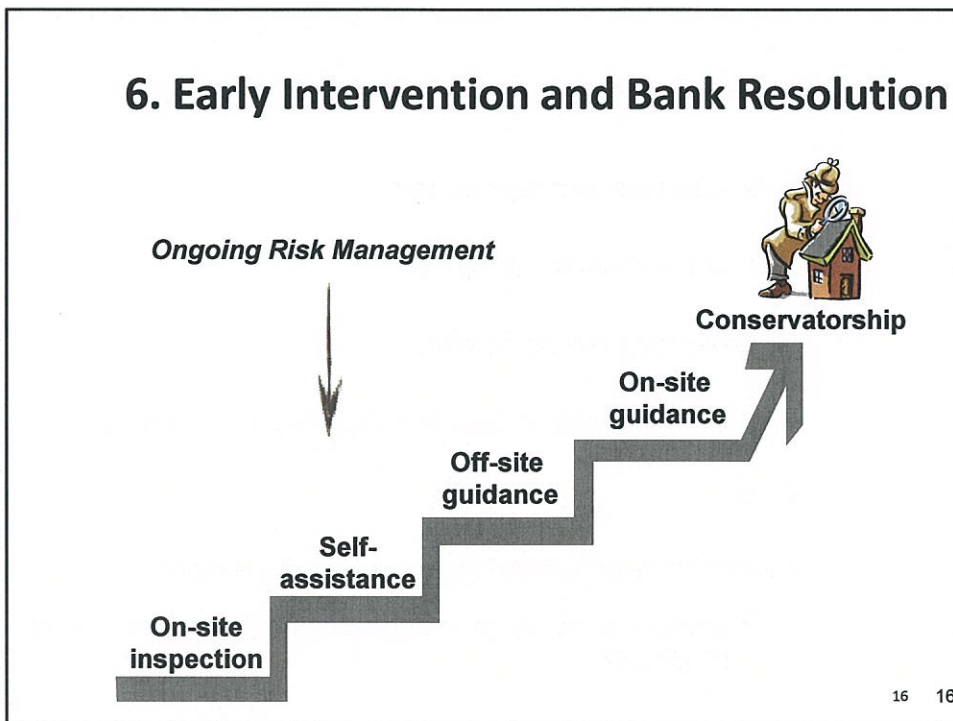
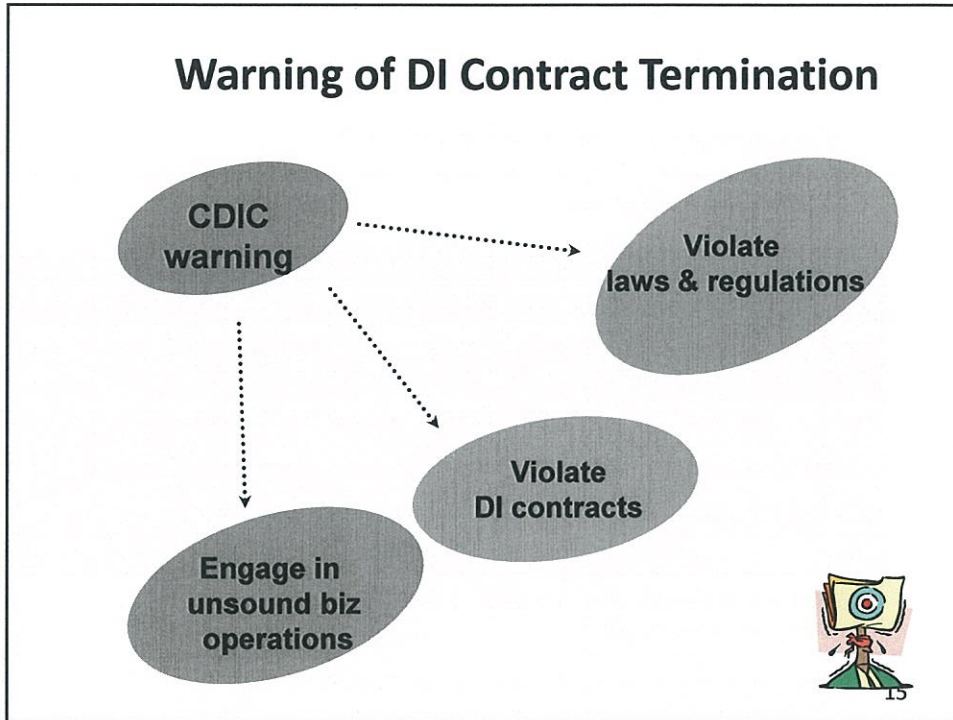
* Risk-based rates of covered deposits: 9 groups / 5 levels

** Flat rate of eligible deposits in excess of coverage limit

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5. Risk Management Mechanisms

- Financial Early-warning System:
 - Examination Rating System
 - Call-report Rating System
- Internet Transmission Surveillance System: on a daily basis
- Account Officer System: on a case-by-case basis
 - Warning & termination of deposit insurance membership if necessary.

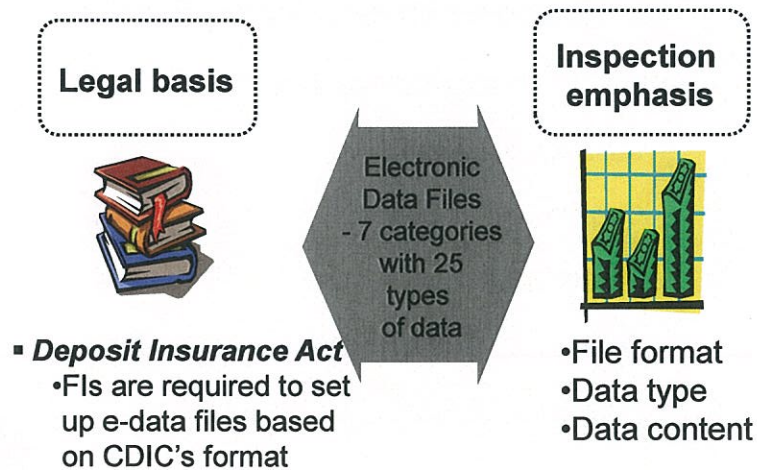


7. On-site Inspection

- Any event causing termination of deposit insurance contract
- Assets and liabilities of insured institutions before bank closure
- Properties of employees of failed insured institutions, who violate the laws, to pursue civil liabilities
- Accuracy of deposit assessment base and content of electronic data files



7. On-site Inspection of Electronic Data Files



8. Self-assistance & Off-site Guidance Mechanisms

- Self-assistance by problem financial institutions
 - Recapitalization or self-improvement plan
- Off-site guidance by CDIC
 - Ask financial institution to provide related data
 - Attend board of director meetings and other important meetings
 - Review meeting resolutions and minutes
 - Assist in completion of capital reduction, recapitalization or consolidation plans

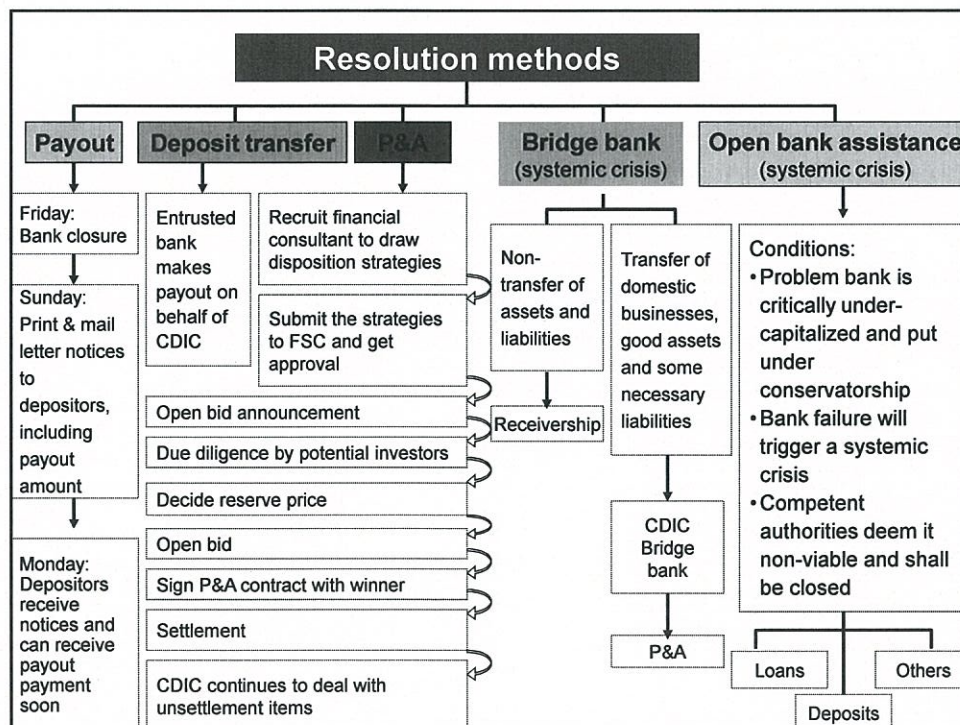
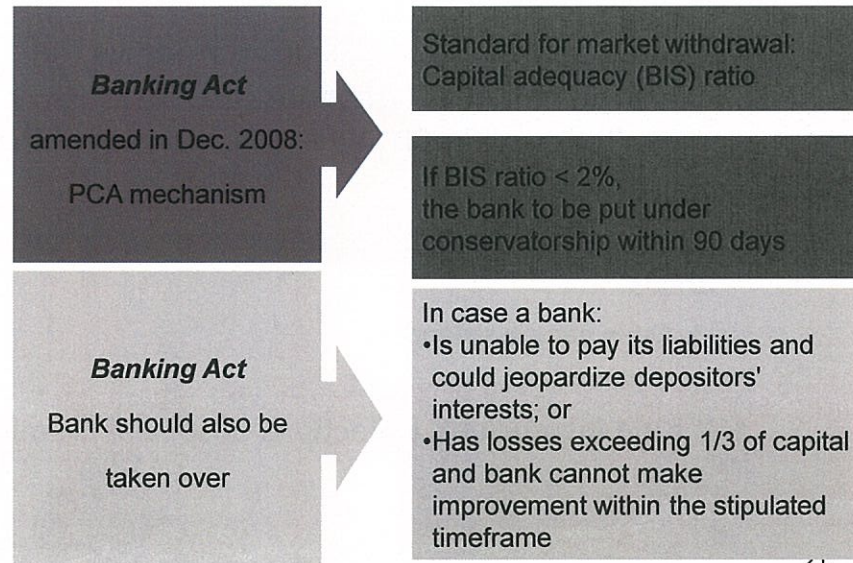
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9. On-site Guidance

- CDIC dispatches officers to provide on-site guidance to closely monitor:
 - Business operations
 - Corporate governance
 - Internal controls
 - Problem institution's capital restructuring
- Intervention as early as possible



10. Early Banking Resolution - Conservatorship



11. Mechanism for Handling Systemic Crisis

- CDIC can reimburse the depositors above the coverage limit, if CDIC obtains consent of FSC in consultation with ,CBC and with approval of the Executive Yuan
- Two resolution methods for handling systemic crises
 - Open bank assistance
 - Bridge bank
- If fund insufficient, collections of special premiums



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Transition Measures

Transition Measures

1. Period within the Establishment of Financial Restructuring Fund
2. The Global Financial Crisis in 2008
3. Implementation Results
4. Key Measures for a Smooth Transition

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1.Period within the Establishment of Financial Restructuring Fund

Bank Resolution History

- Before deposit insurance system in place (~ 1985)
 - Policy/administrative guidance by the government
 - Government-owned bank as the 1st choice of the acquirer
- In the period of voluntary DIS (1985~1999)
 - Non-member institutions of CDIC: Assumed through government guidance; acquirers assumed the loss
 - Member institutions of CDIC: Handled according to the *Deposit Insurance Act*; no failure cases during this period
- In the period after compulsory DIS (1999~2001)
 - CDIC resolved problem insured institutions by P&A transactions after 1999
 - No market mechanism before 2001
- Financial Restructuring Fund (2001~2005)

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Establishment of Financial Restructuring Fund (FRF)

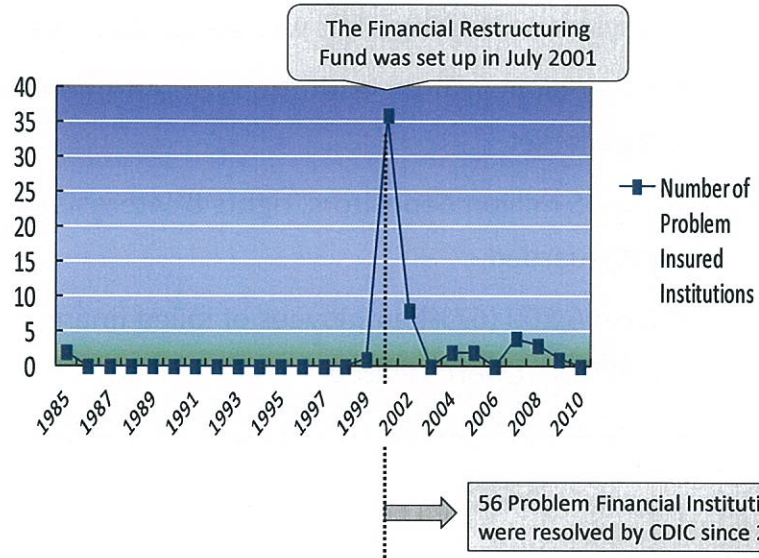
Macro factors	Non-macro factors
<ul style="list-style-type: none"> • Real estate market mired in recession after the burst of economic bubbles in late 1990's • Situations exacerbated by 1997 Asian financial crisis • The shock of big earthquake in Sept. 21, 1999 further impacted real estate market • Bad loans continued soaring, but no NPLs secondary market until 2001 • Rampant rumors of domestic systemic financial risk 	<ul style="list-style-type: none"> • Unqualified member FIs in voluntary DIS became a member in compulsory DIS and continued deteriorating in business • No PCA mechanism for problem FIs to exit from market until net worth turned negative

July 2001

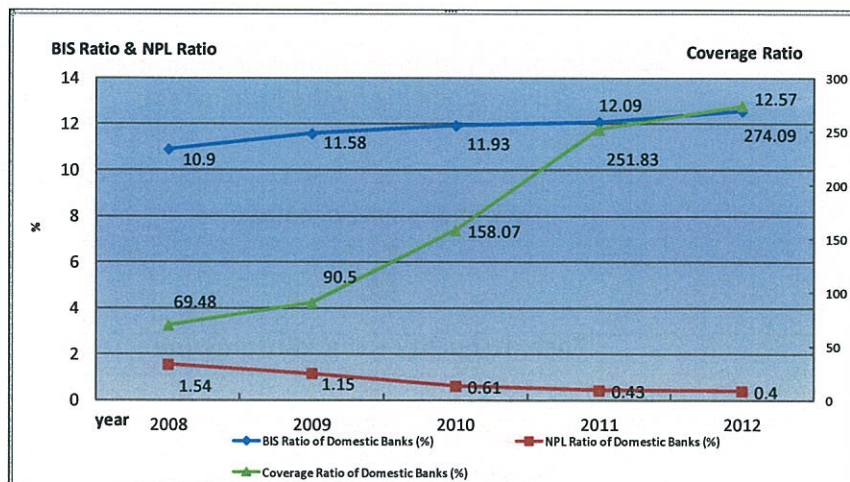
Government appropriated US\$ 8.3 billion to provide blanket guarantee for bank resolution

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Problem Insured Institutions Resolved by FRF



Better Banking Conditions - High BIS%, Low NPL% & High Coverage%



Effectiveness of FRF

- A systemic banking crisis was successfully resolved
- 56 problem insured institutions exited smoothly from the market
- Over 5 million depositors' rights & interests were safeguarded
- Over 6,800 (67%) employees of failed financial institution were rehired
- Total resolution cost to 2011 GDP was only 2.1%

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2.The Global Financial Crisis in 2008

Due to instability in international financial markets
& over reporting by the local media



Lack of depositor confidence



Flight to quality + Liquidity pressure



Temporary blanket guarantee

3. Implementation Results

- Liquidity pressure relieved
- Huge outflow of deposits from private banks decreased
- Inter-bank call-loan market returned to normal

4. Key Measures for a Smooth Transition

- Increase the maximum coverage
- Continue to strengthen risk management
- Improvement of deposit insurance fund status
- Conduct an extensive public awareness campaign

Future Perspectives

Future Perspectives

- Strengthening resolution mechanism for dealing with failing financial institutions and continuing the testing of the Payout IT System.
- Developing better risk management mechanism and risk-based premium system
- Maintaining an expected awareness level and replenishing the deposit insurance fund



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Thank You !

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Public Awareness of Deposit Insurance System

The Taiwan Experience

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October 30, 2013

Outline

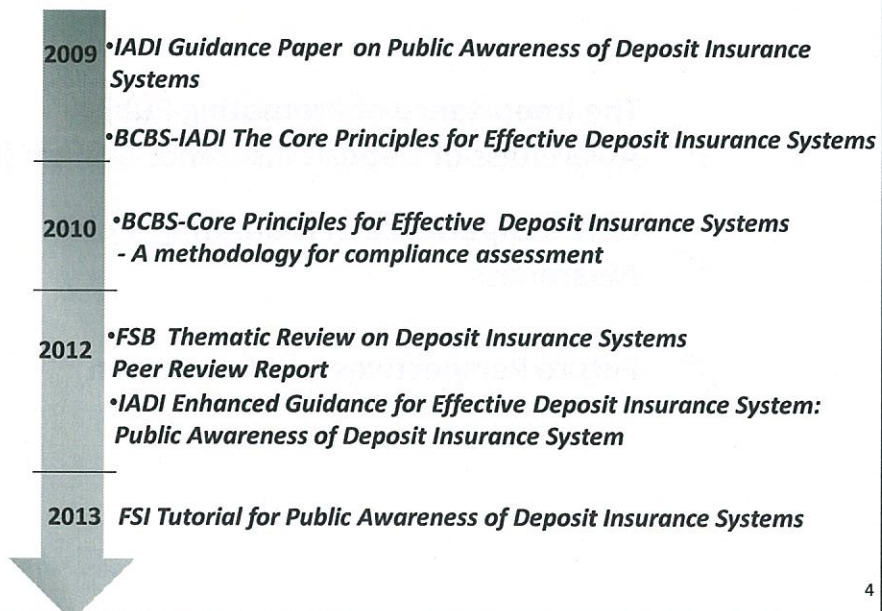
-  **The Importance of Promoting Public Awareness of Deposit Insurance System (DIS)**
-  **CDIC's Experience in Promoting Public Awareness**
-  **Future Perspectives and Conclusion**

The Importance of Promoting Public Awareness of DIS



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Developments of Promoting Public Awareness of DIS



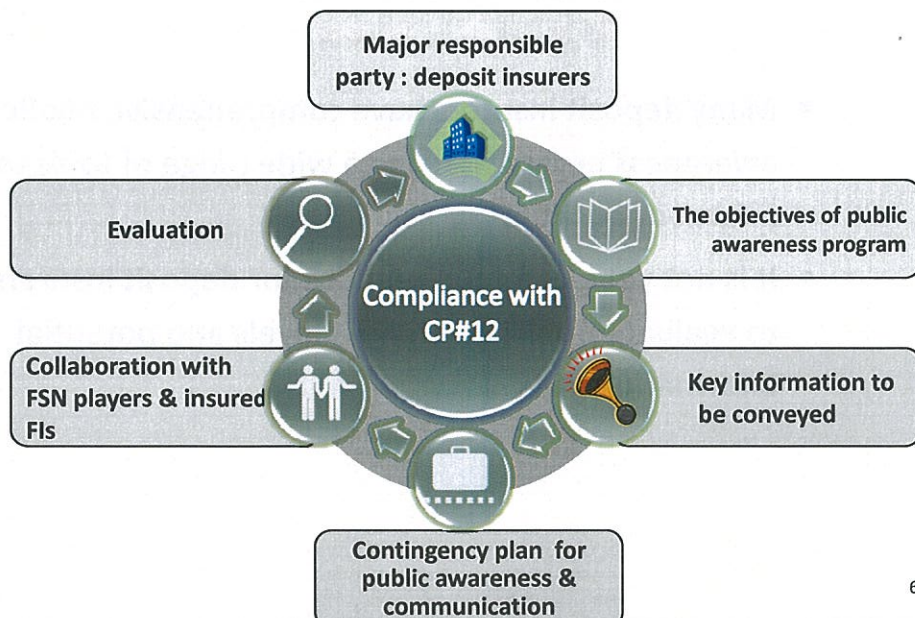
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Core Principle on Public Awareness

In order for a deposit insurance system to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.



Essential Criteria in Promoting Public Awareness



Additional Criterion in Promoting Public Awareness

- **The public awareness program is tailored to define target audiences**
- **Various communication tools should be adopted**
- **The desired level of visibility and awareness is a primary factor in determining the budget for the program**



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Findings of the FSB

- **Many deposit insurers have comprehensive public awareness programs using a wide range of tools to inform depositors**
- **It is not yet a common practice for deposit insurers to evaluate public awareness levels and potential information gaps**

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Highlights of the New Enhanced Guidance

- **Setting a long-term strategy and make budget allocations**
- **Including social media as one of communication tools**
- **Providing more details on evaluating public awareness of DIS**
- **Developing a crisis management contingency program**

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Objectives of a PA Program

- **Enhancing the effectiveness of a deposit insurance system**
 - Building acceptance
 - Enhancing the level of stakeholder awareness
 - Building public confidence in the DI and banking system
- **Reinforcing consumer protection**
 - Public awareness should be promoted from the perspective of consumer protection
 - Financially-informed consumers can impose additional discipline on the banking system

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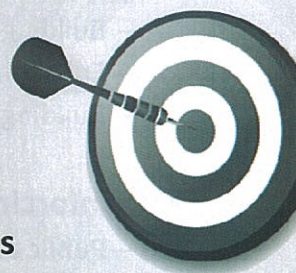
Organizing an Effective PA Campaign

- Strategy
- Target audience
- Responsible parties
- Content
- Communication tools
- Frequency and timing
- Budgets and resources
- Evaluation

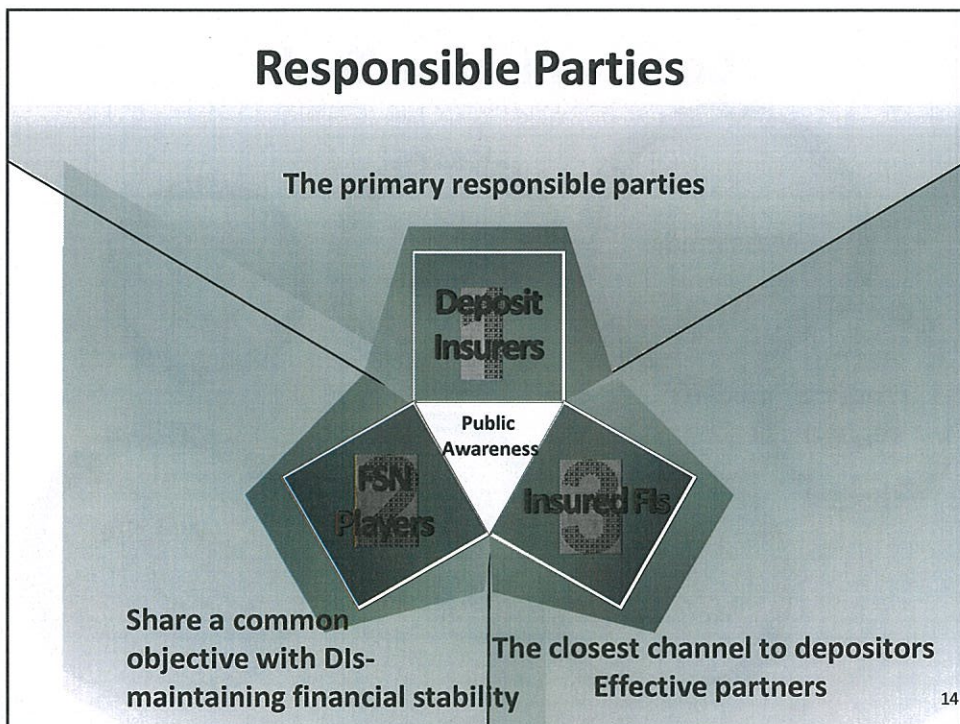
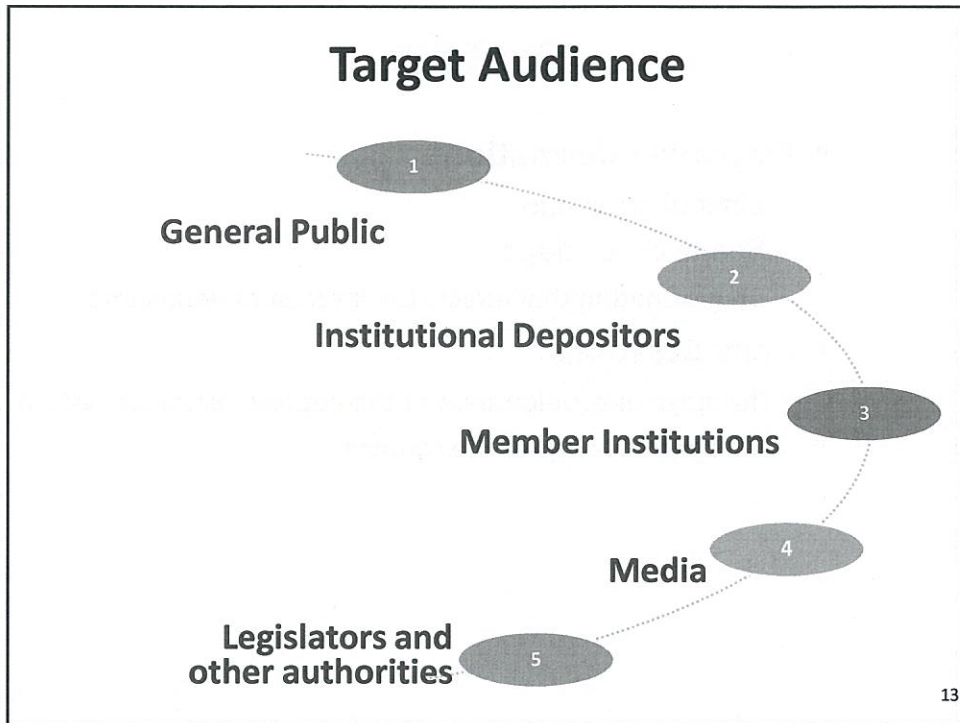
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Strategy

- Set out a long-term strategy & plan
- Determine important elements of a campaign
- Review the strategy on an ongoing basis



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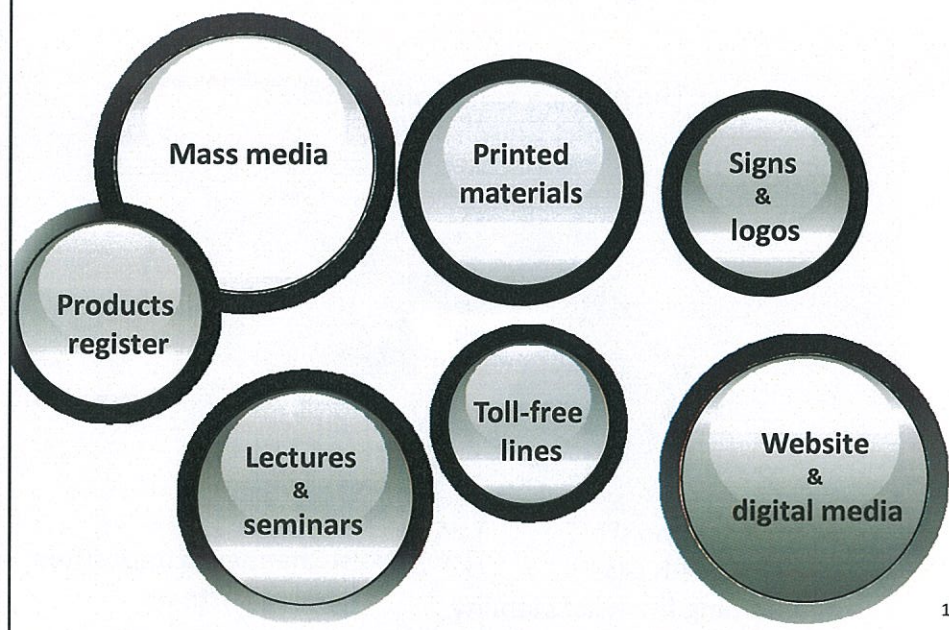


Content

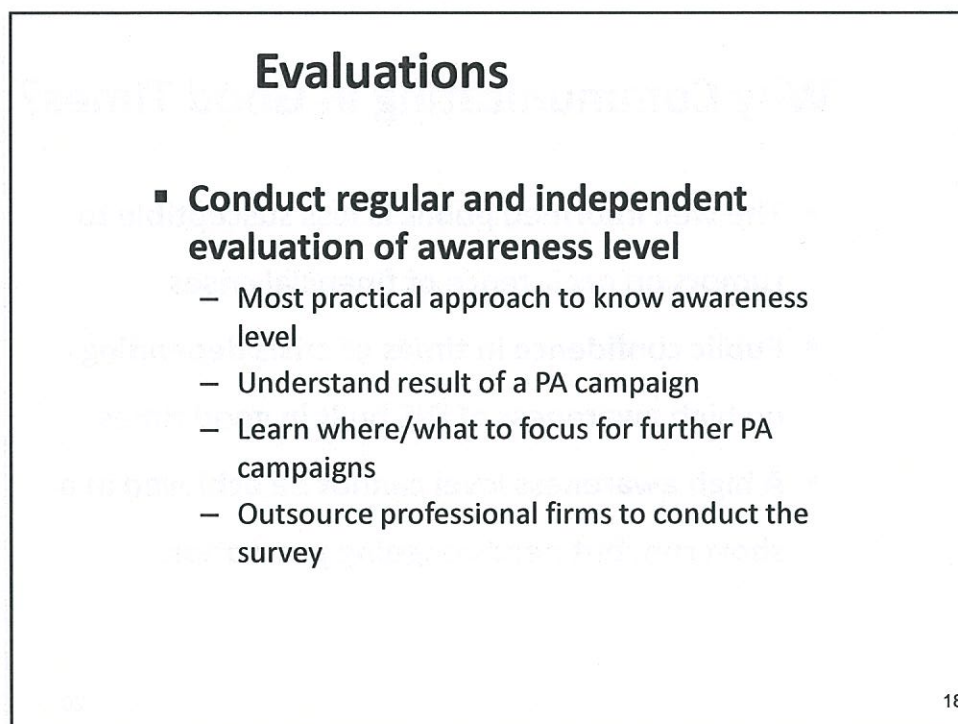
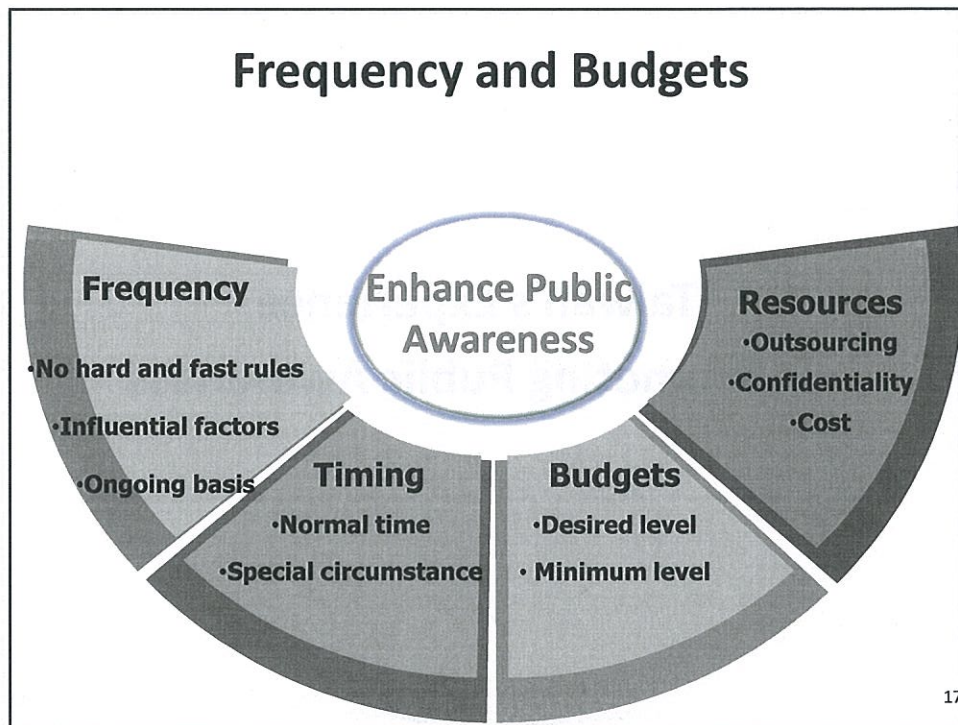
- **Essential information**
 - Limit of coverage
 - Scope of coverage
 - DI information that affects the interest of depositors
- **Considerations**
 - The stage of development of the deposit insurance system
 - The specific needs of the country

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Communication Tools



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Taiwan's Experience in Promoting Public Awareness

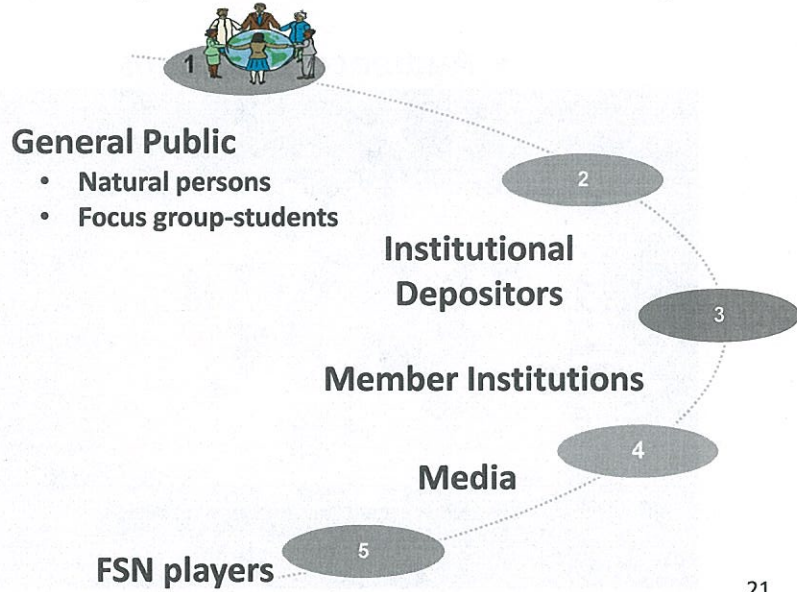
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Why Communicating in Good Times?

- **The well informed public is less susceptible to rumors on occurrence of financial crises**
- **Public confidence in times of crisis depending on high awareness of DIS built in good times**
- **A high awareness level cannot be achieved in a short run, but needs ongoing promotion**

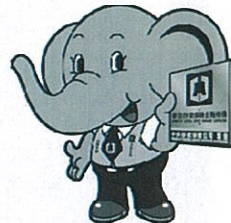
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Target Audience of CDIC's PA Program



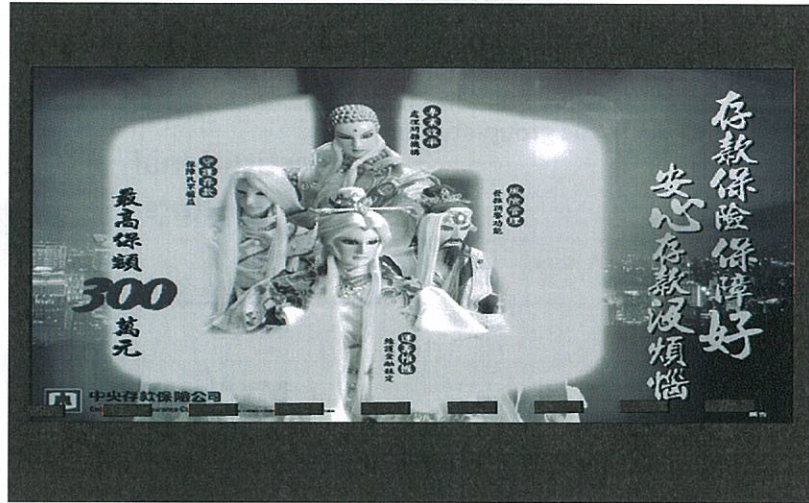
Key Messages —in Good Times

- Coverage limit
- Coverage scope
- CDIC's Corporate image



TV – PSA TV Spot

✓ Audience: all groups



* PSA: Public Service Announcement

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TV – PSA Short Short Films

✓ Audience: the young generation

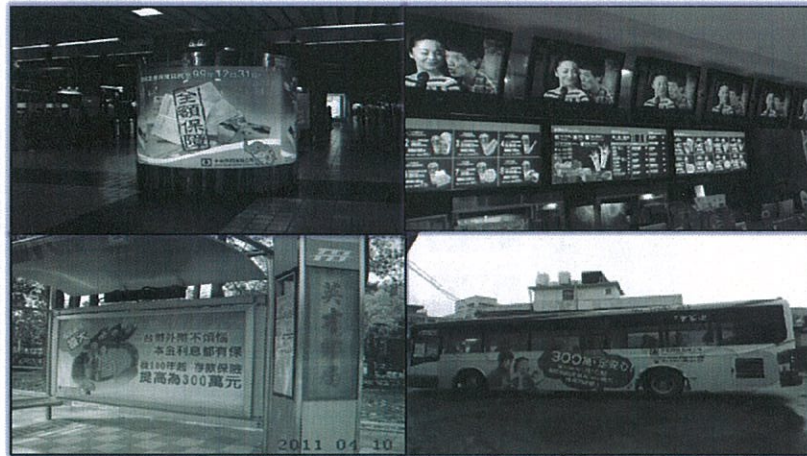


✓ Combining TV & Internet PSAs

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Outdoor Media

✓ Audience : the public and commuters



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Public Awareness Activities for Students

- Include DI information into school curricula
- Public awareness tours on campus
- Deposit insurance comics for young students



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Public Awareness Activities for Students

(cont'd.)

✓ Internet promotion with prizes for CDIC's events



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Newspapers and Magazines

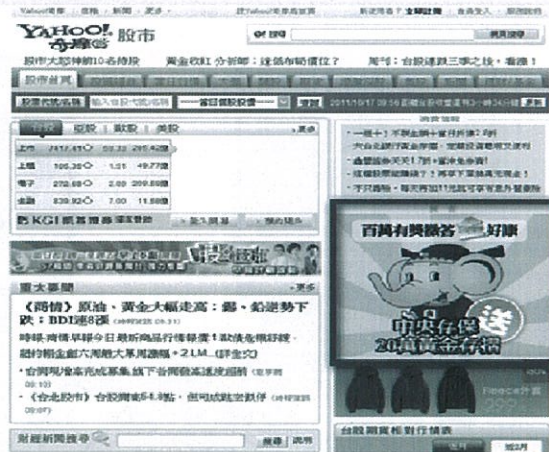
✓ Audience : white collar class



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Internet

✓ Audience : youth & Internet users



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Mobile Phones and Radio

- ✓ Audience :
- youth & employees (mobile)
 - the elderly (radio)



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Insured Member Institutions

✓ Audience : depositors



(large sign)



(desktop sign)

自100年起存款保額提高為新臺幣300萬元
加倍保障 加倍安心 中央存款保險公司

(Scrolling banners)

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Insured Member Institutions

(cont'd.)

- Playing PSA films on ATMs or providing stickers with CDIC's logo and mascot
- Providing electronic messaging in places of business
- Q&A Brochures



(brochures)



(Stickers)

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Insured Member Institutions

(cont'd.)

- ✓ Displaying posters in every business unit of FIs



(posters)

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Cooperation with News Media



FSN Players

- Financial Liaison Team consisted of FSN players coordinate public awareness policies if necessary
- Deliver accurate and consistent messages to maximize synergy



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Other Approaches

- Customer service: trilingual toll-free line, email and mail boxes
- Fliers, pamphlets, brochures



(trilingual toll free line)



(brochures)


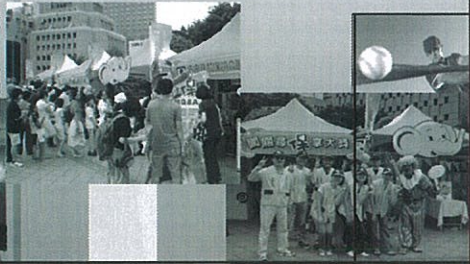


(souvenirs)

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Other Approaches

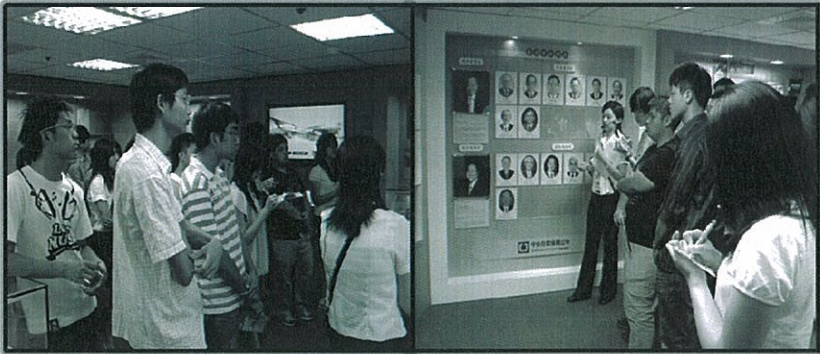
(cont'd.)

<h3>Organizing Conferences and Seminars</h3> <p>✓ Audience : employees of insured institutions</p> 	<h3>Outdoor Events</h3> <p>✓ Audience : the general public</p> 
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Other Approaches

(cont'd.)

✓ Tours at the Historical Exhibition Hall

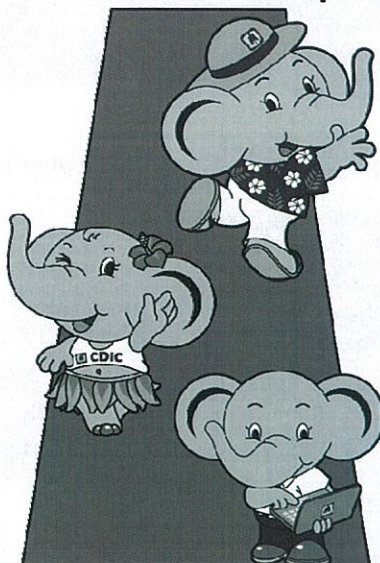


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Other Approaches

✓ CDIC Mascot - elephants

(cont'd.)



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Public Awareness under Special Occasions

- Transitioning to limited coverage
- Bank runs
- Failure of a member institutions
- Cross-border issues

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Transitioning to Limited Coverage

- **Engage in public awareness activities early**
- **Disseminate accurate information of coverage limit and transition schedule**

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Bank Runs

- **Communication must be quick and wide reach**
- **Make good use of the media: press release and media updates**
- **Distribute announcement of deposit protection at bank units and to bank staff**



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Bank Failures

- Plan ahead
- Crisis communication plan should be part of SOP
- Activate the dark site for reimbursement
- Utilize all media to disseminate information about reimbursement
- Coordinate with other financial safety net players to maximize synergies

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Cross-border Issues

- Public awareness of cross-border issues related to deposit insurance is low up to the present
- The need for promoting public awareness in following cases
 - Depositors are protected by multiple systems
 - Depositors of a banking group operating with different franchises are under a single maximum aggregate protection limit
- Clear information must be made available by DIs and FIs

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Compliance with IADI Guidance cont.

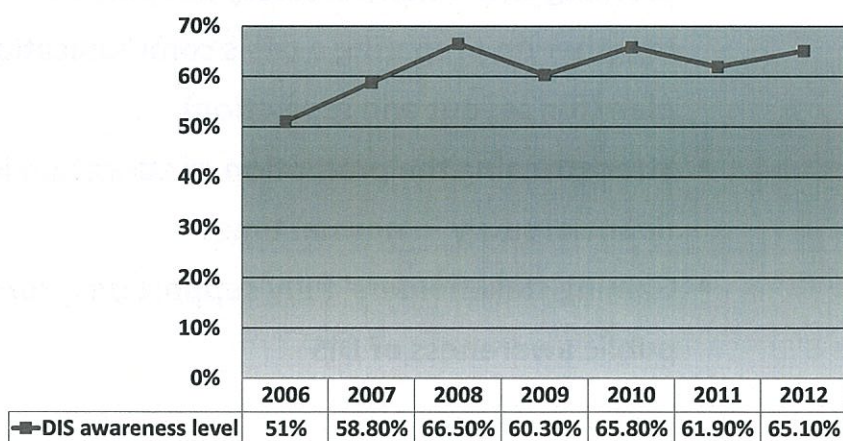
▪ Evaluation on effectiveness of communication tools

	2008		2009		2010		2011		2012	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
TV	55.5%	1	News 41.5%	1	News 48.6%	2	64.6%	1	61.9%	1
			Ads 31.0%	3	Ads 51.0%	1				
FIs	15.4%	5	31.6%	2	31.6%	3	39.4%	2	37.6%	2
Newspaper	33.3%	2	17.1%	5	19.5%	4	17.0%	3	16.9%	3
Friends & relatives	18.1%	4	17.4%	4	17.3%	5	12.3%	4	14.2%	4
Internet	26.5%	3	7.6%	6	13.6%	6	10.1%	5	11.0%	5
Bulletin Ad	-	-	0.5%	9	4.6%	9	7.9%	6	1.9%	9
Magazines	12.5%	6	5.5%	7	7.8%	8	7.1%	7	5.9%	6
Broadcast	2.8%	8	0.5%	9	7.9%	7	5.6%	8	2.5%	8
Campus	-	-	0.5%	9	2.5%	10	0.6%	10	0.8%	10
Work	3.2%	7	-	-	-	-	-	-	-	-
DM	0.6%	9	-	-	-	-	-	-	-	-
Others	-	-	4.7%	8	2.2%	11	2.1%	9	4.9%	7

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Compliance with IADI Guidance cont.

▪ Evaluation on overall awareness level of public



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Future Perspectives and Conclusion



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Future Perspectives

- **Working with financial safety net players together on preparing a crisis communication plan (for payout and resolution)**
- **Strengthening the promotion of education in financial savvy in normal times**
- **Gaining stakeholders' fully support on promoting public awareness of DIS**

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Challenges

- **Budget & resources**
- **Maintaining an expected awareness level**
- **Crisis communication plan**

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Conclusion

- **For deposit insurance to be effective, it is essential that public must be informed and educated about the benefits and limitations of the system**
- **Promoting public awareness of the deposit insurance system is an ongoing process**

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Thank You
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