



The 6th Asia Regional Committee

Annual Meeting & International Conference

Bali - Indonesia, March 27 - 29, 2008

Deposit Insurance & Small Banks

-Taiwan Experience

Lawrence L.C. Pan

Executive Vice President

Central Deposit Insurance Corporation,

Taiwan

Contents



- Introduction
- Features
 - Supervisory framework
 - Deposit insurance
 - Risk controls
- Resolution framework
- Future perspectives

The Financial System in Taiwan

Domestic Banks

Postal Savings System

**Local Branches of
Foreign Banks**

Credit Cooperatives

**Credit Departments
of Farmers' Associations**

**Credit Departments
of Fishermen's Associations**

The Financial System in Taiwan (cont.)

Number\FIs	Domestic Banks	Local Branches of Foreign Banks	Credit Cooperatives	Credit Departments of Farmers'and Fishermen's Associations	The Postal Savings System
Total	39	32	27	286	1
Total branches of FIs	3,313	83	267	851	1,321
Average number of branches of each FI	85	2.6	9.9	2.98	1,321

Source:Banking Bureau, Financial Supervisory Commission, Dec.2007

Introduction to Small Banks

Scope & Features

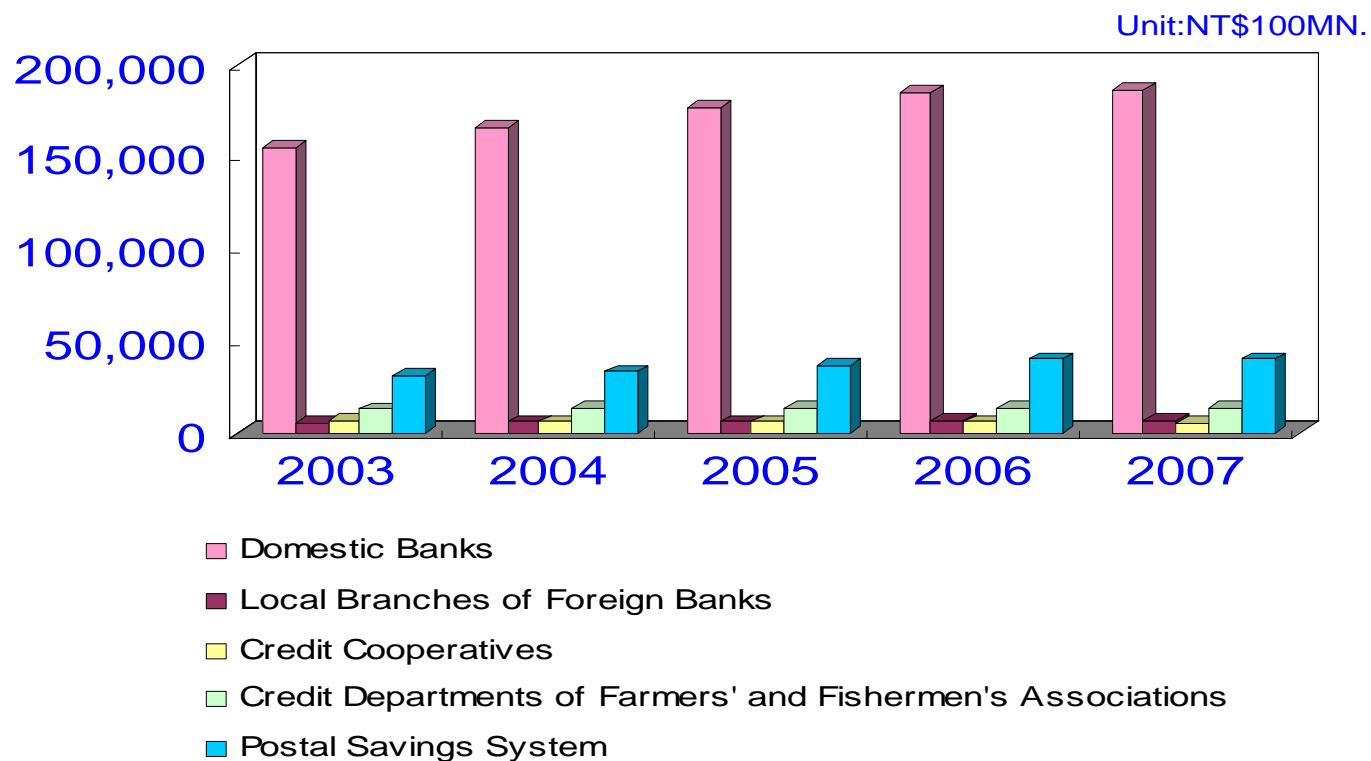
- Regional community financial institutions
- Provide financial services to farmers' and fishermen's associations
- Focus on traditional banking services
- Promote measures related to the farming and fishing industries



Small Banks

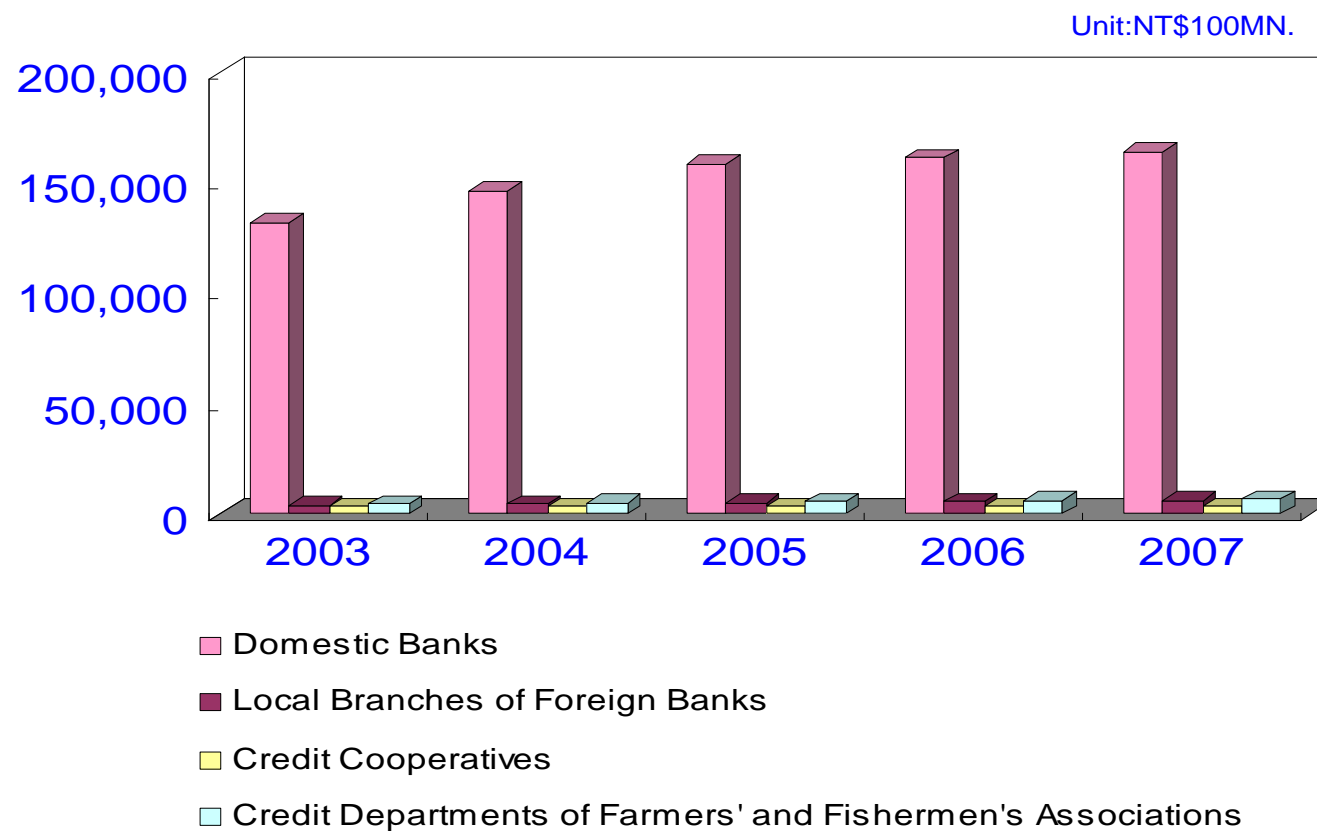
Credit departments of farmers' & fishermen's associations

Deposits of Financial Institutions



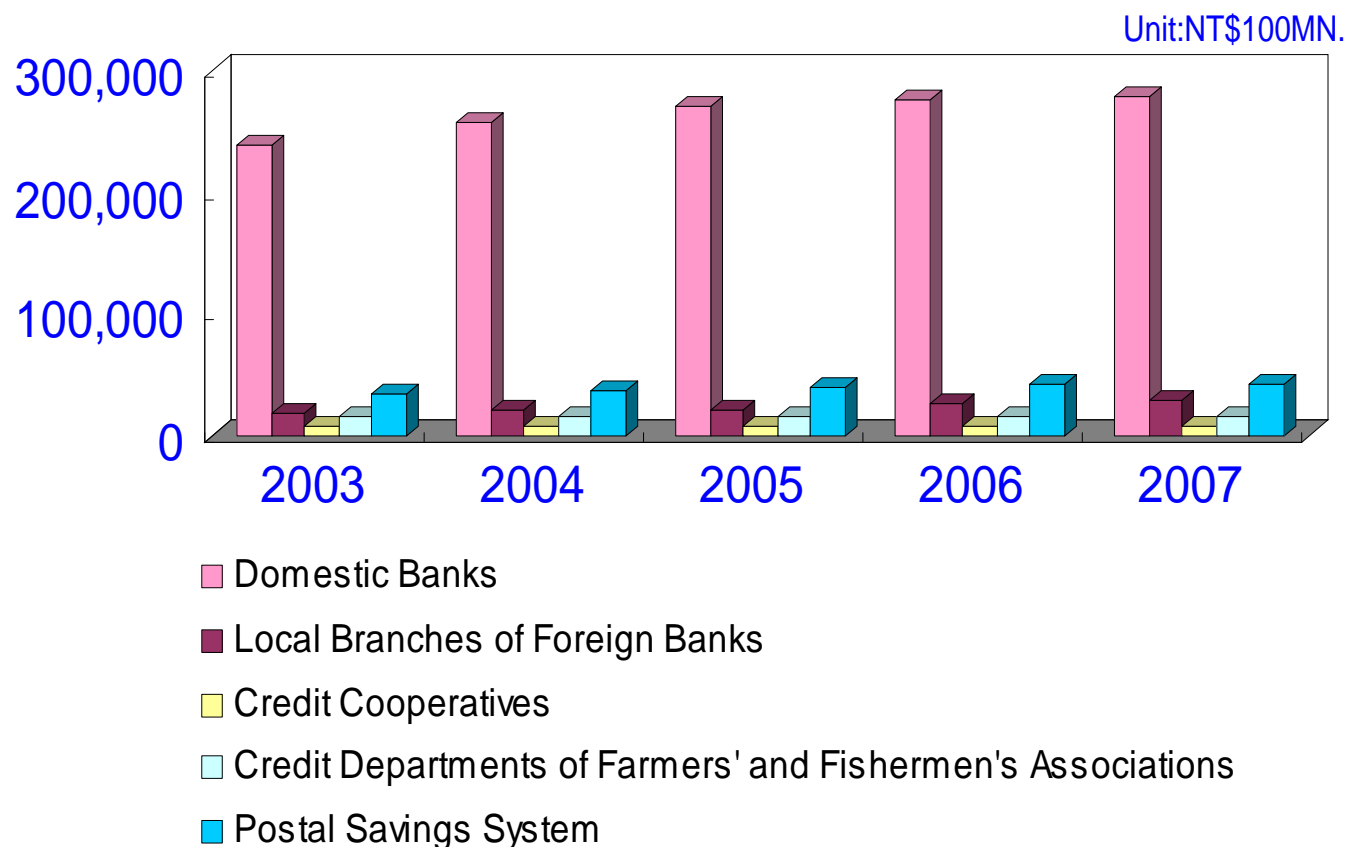
Source:Banking Bureau,Financial Supervisory Commission

Loans of Financial Institutions



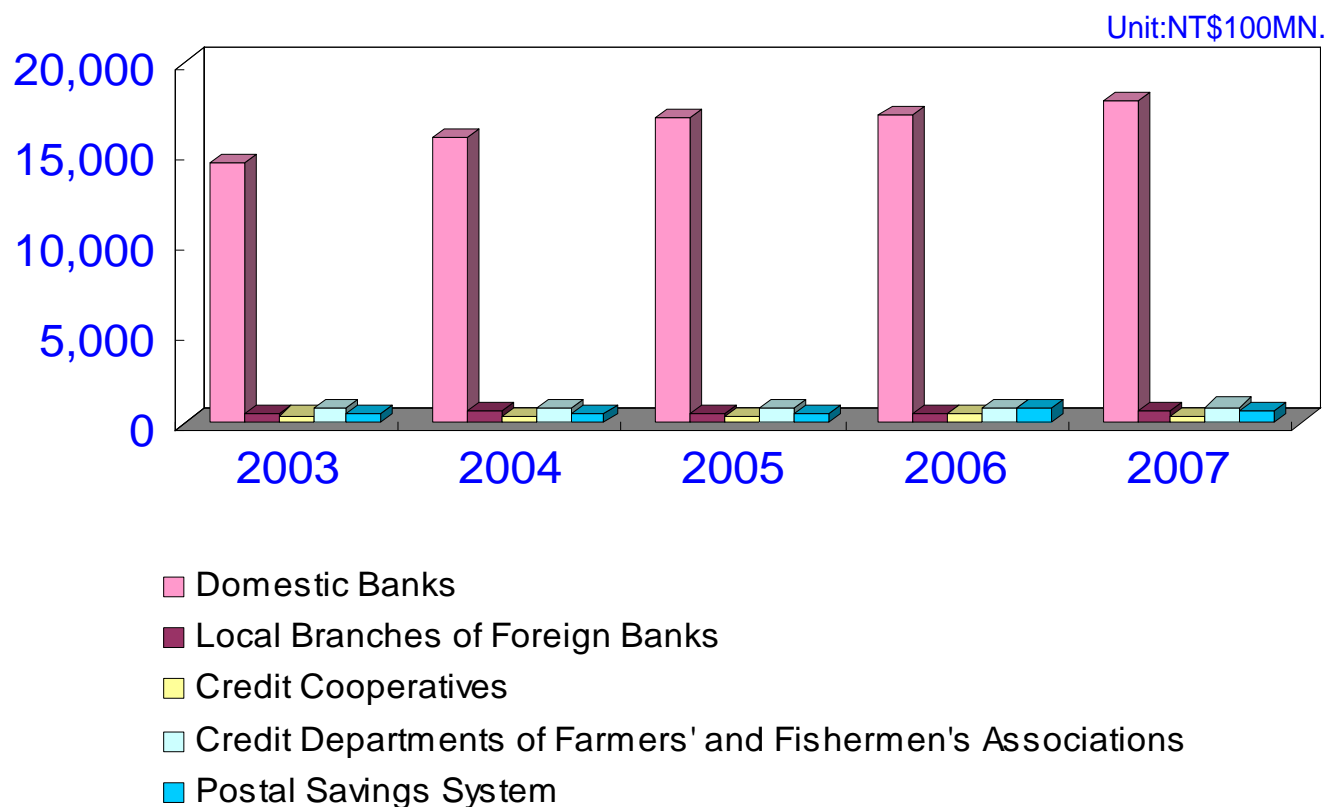
Source:Banking Bureau,Financial Supervisory Commission

Assets of Financial Institutions



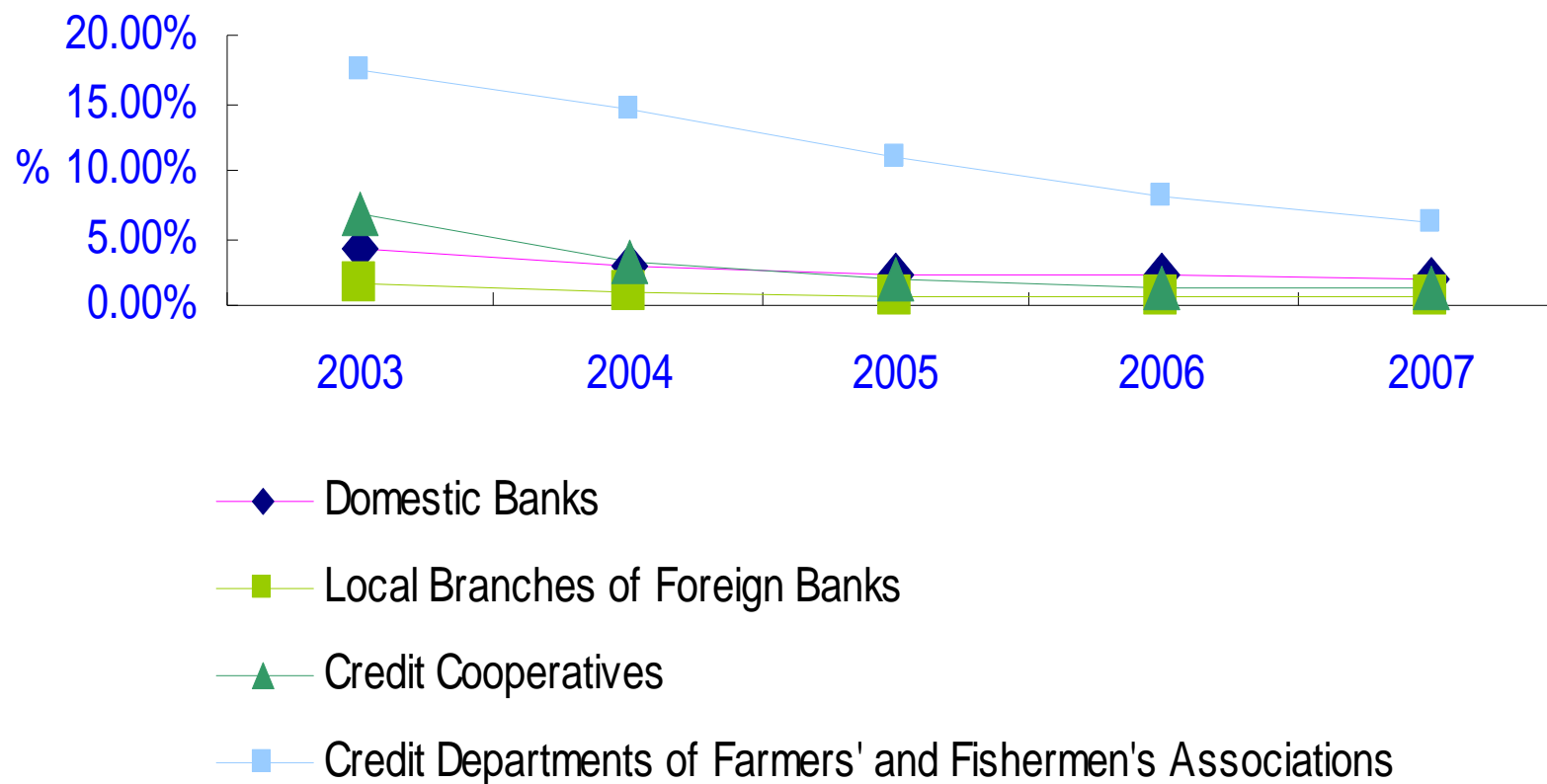
Source:Banking Bureau,Financial Supervisory Commission

Net Worth of Financial Institutions



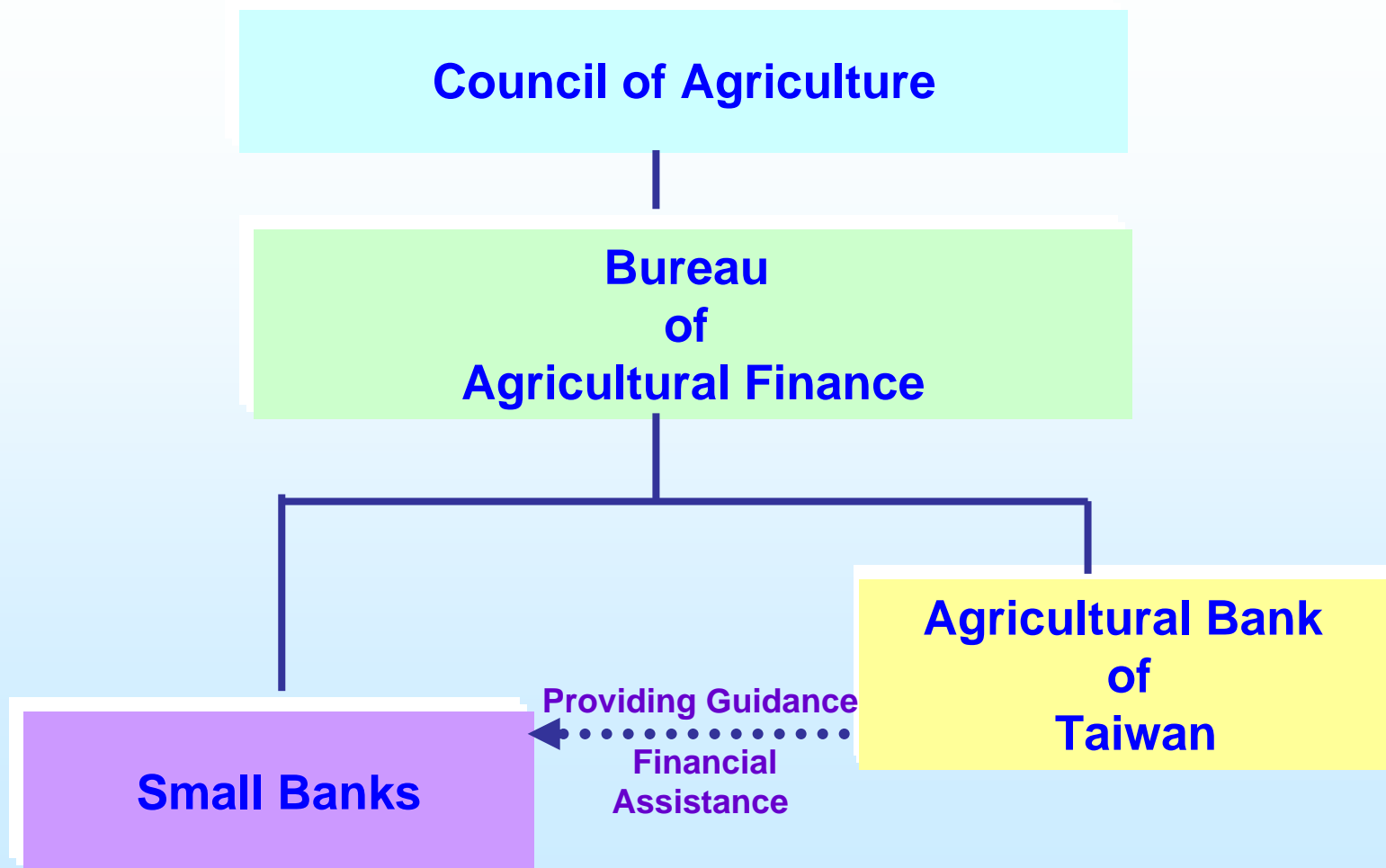
Source:Banking Bureau,Financial Supervisory Commission

Past Due Loan Ratios of Financial Institutions



Source: Banking Bureau, Financial Supervisory Commission

Competent Authorities



Deposit Insurance Fund

**Two Separate
Deposit Insurance Funds**

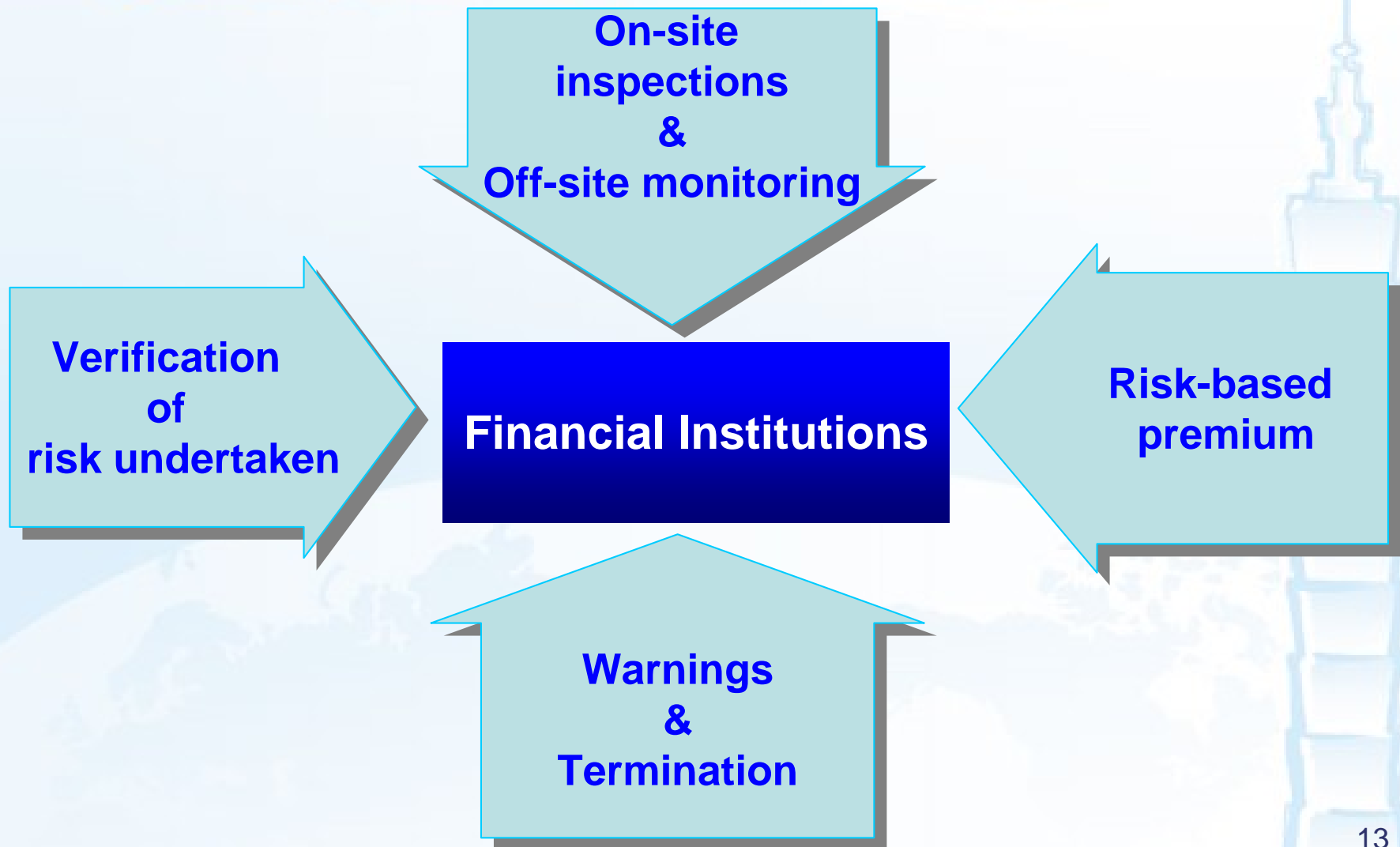
BDIF

**for Banking
Financial Sector**

ADIF

**for Agricultural
Financial Sector**

Risk Controls



Risk Controls - 1st Stage

Entry of Membership

- Mandatory application for DIS membership
- CDIC established verification criteria
- CDIC has right to approve or reject the application
- CDIC can conduct on-site inspections of the financial institutions when necessary

Risk Controls - 2nd Stage

On-site Inspections

- **Accuracy of deposit assessment base and content of electronic data files**
- **Any event causing termination of membership**
- **Assets and liabilities of insured institutions prior to the fulfillment of insurance responsibilities**
- **Property information and information needed to pursue civil liabilities of problem insured institutions**

Risk Controls - 2nd Stage (cont.)

Off-site Monitoring

- **National Financial Early-Warning System**
- **Account Officer System**
- **Periodic analysis of insured institutions' operating conditions**
- **A variety of response measures**

Risk Controls - 3rd Stage

•Implementation of a Risk-based Premium System

Type of Financial Institutions	Below Max. Coverage	Above Max. Coverage
Domestic Banks, Local Branches of Foreign Banks and Credit Cooperatives	0.03%, 0.04%, 0.05%, 0.06% and 0.07% of covered deposits	0.0025% (0.005% after Jan. 2010) of insurable deposits
Credit Departments of Farmers' & Fishermen's Associations	0.02%, 0.03%, 0.04%, 0.05% and 0.06% of covered deposits	0.0025% of insurable deposits

Risk Controls - 4th Stage

Warning

- **Conditions**
 - Violation of laws & regulations
 - Unsound business operations of FIs
- **Action taken by CDIC**
 - CDIC will warn FIs and request them to make improvements within a certain period

Risk Controls - 4th Stage (cont.)

Termination of Membership

•Conditions

- **Deterioration of financial condition of FIs**
- **FIs are unable to make improvements**
- **Fraud or illegal activities that could lead to an increase in the DI payouts**

•Action taken by CDIC

- **In consultation with the competent authorities to terminate bank's DI contract**

Resolution Framework

Before Jan. 30,2004

- The Financial Restructuring Fund
- The Financial Institutions Merger Act

After Jan. 30,2004

- The Financial Restructuring Fund
- The Agricultural Finance Act

Under Limited DIS

- The Deposit Insurance Act
- Maximum coverage - NT\$1.5 million (about US\$ 48,600)

Future Perspectives

Agricultural Finance Policies

- **Effective policy for separation of financial supervision**
- **Enhance coordination of the agricultural financial policies with other related agricultural measures**

Future Perspectives (cont.)

Financial Stability

- **Adhere to the principle of “independence of authority, but no isolation in cooperation”**
- **Strengthen coordination and the sharing of information among FSN participants**

Future Perspectives (cont.)

Deposit Insurance Risk Controls

- **Keep monitoring abnormal operations of small banks via on-line transmission operating system**
- **Increase the use of reported information by small banks to enhance risk management**



Thank You

www.cdic.gov.tw