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# Taiwan (ROC): Central Deposit Insurance Corporation<sup>1</sup>

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Yale Program on Financial Stability Case Study

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## **Abstract**

In September 2008, the failure of a large Taiwanese bank led depositors to shift billions of dollars from private banks to state-owned banks. To stem the runs, the government on October 7 invoked its authority under Articles 28 and 29 of the Deposit Insurance Act to announce a temporary, unlimited guarantee on all deposit accounts of institutions covered by the Central Deposit Insurance Corporation (CDIC). In addition to removing the previous TWD 3 million (USD 90,000) cap per depositor, the expanded coverage included several types of deposit accounts that had not been previously insured by the CDIC. As the CDIC's deposit insurance fund was fully depleted at the time, the government would have had to identify alternative financing if any banks had failed. The program was initially set to expire on December 31, 2009, but the government extended it by a year due to ongoing economic turmoil related to the GFC and international competition. As of year-end 2009, the CDIC insured TWD 910 billion in eligible accounts at 383 institutions. The CDIC did not pay out any claims under the expanded program.

**Keywords:** Account guarantees, Central Deposit Insurance Corporation, Global Financial Crisis, Republic of China, Taiwan

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<sup>1</sup> This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering account guarantee programs. Cases are available from the *Journal of Financial Crises* at <https://elischolar.library.yale.edu/journal-of-financial-crises/>.

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## Overview

Although Taiwan's financial sector had less direct exposure to the US subprime mortgage crisis than did more globalized economies, its economic and financial sector were not immune to the effects of the crisis. In September 2008, the government assumed control of the failed systemically important Chinfon Commercial Bank, an event that led depositors to transfer their funds from small private banks to larger state-owned banks and financial institutions, such as the Bank of Taiwan and the postal savings system (Marks and Yao 2008). The government, via the Financial Supervisory Commission (FSC) and Central Deposit Insurance Corporation (CDIC), responded on October 6, 2008, by increasing the deposit insurance cap per depositor from TWD 1.5 million to TWD 3 million<sup>3</sup> (Huang and Hsiu-Chuan 2008). Just one day later, on October 7, 2008, the government announced an unlimited guarantee of all principal and interest on deposits of insured institutions (Huang and Hsiu-Chuan 2008; CDIC 2008).

The government invoked its authority under Articles 28 and 29 of the Deposit Insurance Act to provide the unlimited guarantee (CDIC 2009a; ROC 1985). All financial institutions covered by compulsory CDIC insurance were automatically enrolled, excluding Taiwan branches of foreign banks that were already covered by other deposit insurance in their home country (CDIC 2010). In addition to increasing the level of coverage, the program broadened the previous scope of covered accounts to include negotiable certificates of deposit, government deposits, central bank deposits, and

## Key Terms

Purpose: "To stabilize [the] financial system, strengthen the confidence of depositors and the structure of financial institutions, as well as promote the healthy long-term development of financial markets" (CDIC 2009a)

Launch Dates	Announcement: Oct. 7, 2008 Authorization: Oct. 7, 2008 Operation: Oct. 7, 2008
End Date	Initially Dec. 31, 2009; extended until Dec. 31, 2010
Eligible Institutions	All operating financial institutions covered by the CDIC
Eligible Accounts	All TWD-denominated deposits covered under the Deposit Insurance Act, as well as those previously excluded
Fees	Existing risk-based insurance premium; no additional fees on wholesale or retail deposits; special assessment fee if needed
Size of Guarantee	Unlimited
Coverage	As of year-end 2009, 383 institutions covered, with TWD 910 billion deposits
Outcomes	No claims made
Notable Features	Special assessment fee written into the Deposit Insurance Act (although unclear if utilized) Enacted in response to fear of domestic runs from private banks to state-owned institutions

<sup>3</sup> Per Yahoo Finance, USD 1.00 = TWD 32.16 on October 1, 2008.

deposits of agricultural banks and credit cooperatives (CDIC 2009a; ROC 1985). Apart from the usual risk-based premiums that the CDIC charged, there were no additional fees associated with the unlimited guarantee (CDIC 2009a; ROC 1985). However, pursuant to Article 28 of the Deposit Insurance Act, the CDIC could levy—with approval from the FSC, Ministry of Finance, and the Central Bank of the Republic of China (Central Bank)—a special assessment fee, were the CDIC's special reserves insufficient to cover deposit payouts (ROC 1985).

Taiwan was the first Asian jurisdiction to raise its deposit insurance limit in response to the GFC (Ko 2008). Upon announcing the program, government officials emphasized the importance of boosting depositor confidence in the domestic financial system to prevent unnecessary withdrawals (Huang and Hsiu-Chuan 2008). Premier Liu Chao-shiuan spoke generally about the importance of depositor confidence, pledging that the FSC and Central Bank would work together to calm the markets (Huang and Hsiu-Chuan 2008). The CDIC also stated that its main intention was to stabilize the banking sector while strengthening the structure of financial institutions and promoting the long-term health of the financial system (CDIC 2009a).

Although the program was initially set to expire on December 31, 2009, the government extended it by a year in October 2009, citing continued volatility in the domestic economy and the continued existence of Hong Kong and Singapore's expanded deposit guarantee schemes (CDIC 2009b; HZW 2009). Taiwan ended the policy on December 31, 2010, and immediately transitioned back to a limited guarantee program that would cover TWD 3 million per deposit account (CDIC 2010). As of year-end 2009, the CDIC insured TWD 910 billion in eligible accounts at 383 institutions (CDIC 2009b). There were no claims made under the unlimited guarantee.

### **Summary Evaluation**

Sources consulted reveal little about the efficacy of the expanded guarantee, although government officials seemed confident that the measure effectively bolstered depositor confidence while reducing the risk of depositor runs (Ko 2008). Media sources reported two days after the initial announcement of the program that outflows from smaller private banks to state-owned financial institutions had fallen by over 65% (Ko 2008).

In its 2009 Annual Report, the CDIC argued that the expansion of coverage helped stabilize financial conditions (CDIC 2009b). It also recognized the need to limit the risk of moral hazard while implementing the program, citing the enhanced supervisory functions that allowed it to closely monitor insured institutions' activities (CDIC 2009b). The CDIC took active steps to conduct on-site inspections and "safeguard the rights and interests" of depositors while reducing underwriting risk (CDIC 2009b).

Similarly, the Central Bank concluded in its May 2011 Financial Stability Report that the unlimited deposit guarantee had "effectively stabilized depositor confidence and further improved financial stability" during its operation (Central Bank 2011).

<b>Context: Taiwan (ROC) 2007–2008</b>	
<b>GDP (SAAR, nominal GDP in LCU converted to USD)</b>	\$408.2 billion in 2007 \$417.5 billion in 2008
<b>GDP per capita (SAAR, nominal GDP in LCU converted to USD)</b>	Data not available for 2007 Data not available for 2008
<b>Sovereign credit rating (five-year senior debt)</b>	Data for 2007: Moody's: Aa3 S&P: AA- Fitch: AA  Data for 2008: Moody's: Aa3 S&P: AA- Fitch: AA
<b>Size of banking system</b>	Data not available for 2007 Data not available for 2008
<b>Size of banking system as a percentage of GDP</b>	Data not available for 2007 Data not available for 2008
<b>Size of banking system as a percentage of financial system</b>	Data not available for 2007 Data not available for 2008
<b>Five-bank concentration of banking system</b>	Data not available for 2007 Data not available for 2008
<b>Foreign involvement in banking system</b>	Data not available for 2007 Data not available for 2008
<b>Government ownership of banking system</b>	Data not available for 2007 19.0% in 2008
<b>Existence of deposit insurance</b>	Yes, in 2008 Yes, in 2009
<i>Sources: Bloomberg, World Bank Global Financial Development Database, World Bank Deposit Insurance Dataset.</i>	

## Key Design Decisions

- 1. Purpose: The government announced the expanded deposit insurance program to shore up depositor confidence and stem the flow of deposits from private banks to state-owned financial institutions during the Global Financial Crisis (GFC).**

On October 7, 2008, the Taiwanese government introduced a full guarantee of all insured deposits as a preemptive measure to shore up depositor confidence and stem the movement of deposits from small private banks to state-owned financial institutions, such as the Bank of Taiwan and the postal savings system (CDIC 2009a; Marks and Yao 2008). The announcement followed the failure of the systemically important Chinfon Commercial Bank the previous month. Although FSC Vice Chairwoman Lee Jih-chu said that the policy was a “preventive measure to...calm panicked depositors,” depositors had already transferred a significant amount of funds from private banks to state-owned financial institutions (Marks and Yao 2008). *Taiwan Today* reported that the total value of certificates of deposit at the postal bank Chunghwa Post Co. Ltd. increased by more than USD 1.85 billion over the course of September 2008 (Ko 2008).

- 2. Part of a Package: The Taiwanese government introduced state guarantees of other debts and expenses.**

In addition to the full guarantee of deposit accounts, the government also announced a full guarantee of interbank call loans, any expenses related to the conservatorship of failed banks taken over by the CDIC, and bank debentures issued before or on June 23, 2005 (CDIC 2009a). In September, the government had launched an Economic Vitalization Package that included monetary, fiscal, and stabilization policies intended to provide emergency liquidity, bolster demand, and calm financial market participants (Freund Larus and Wu 2010).

- 3. Legal Authority: The government used its authority under Articles 28 and 29 of the existing Deposit Insurance Act to raise coverage on all insured accounts.**

In the press release entitled “Full Deposit Insurance Coverage and Related Supplementary Measures,” the CDIC invoked the provisions under Articles 28 and 29 of the Deposit Insurance Act to implement the full guarantee (CDIC 2009a; ROC 1985). Specifically, the proviso contained in Section 3, Paragraph 2 of Article 28 allowed the CDIC—with approval from the FSC, the Ministry of Finance, the Central Bank, and the Executive Yuan<sup>4</sup>—to dedicate more funding than in non-crisis times to the payout of deposits, if there is “any potential [event] that will significantly endanger credit order and financial stability” (ROC 1985). Section 3, Paragraph 3 of Article 28 also permitted the CDIC to charge a special insurance premium if there was any deficiency in its deposit insurance special reserves account (ROC 1985).

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<sup>4</sup> The Executive Yuan is the executive branch of the government of Taiwan.

Article 13 of the Deposit Insurance Act stipulated that the deposit insurance limit was determined jointly by the FSC, the Ministry of Finance, and the Central Bank (ROC 1985).

**4. Administration: The CDIC, with regulatory assistance from the FSC, administered the expanded guarantee program.**

Article 3 of the Deposit Insurance Act provided for the government's establishment of the CDIC (ROC 1985). Although the Ministry of Finance and Central Bank jointly invested capital in the institution, the CDIC was the only body "exclusively in charge" of managing the deposit insurance system (CDIC 2021a). It was a government-owned corporation (CDIC 2021a).

Articles 22 and 24 of the Deposit Insurance Act outlined the internal controls and oversight responsibilities that the CDIC shared with the FSC, the Agricultural Bank of Taiwan, and the Central Bank (ROC 1985). The CDIC could, for instance, collect financial data and other relevant information from insured institutions for any of the following reasons:

- To ensure the "accuracy of [the] deposit assessment base and content of electronic data files" submitted for review
- To investigate "any event causing the termination of the deposit insurance agreement"
- To inspect "assets and liabilities of insured institutions prior to the fulfillment of insurance responsibilities"
- To examine "property information and information needed to pursue civil liabilities for illegal acts or omissions by employees of failed insured institutions and by those of problem insured institutions that receive financial assistance according to Paragraph 1 of Article 29" (ROC 1985).

**5. Governance: The CDIC and FSC collaborated to actively monitor banking activity throughout the implementation of the full guarantee.**

In addition to the above directives, the CDIC created a Department of Inspection in March 2008 to handle "on-site verification" of financial institutions applying for membership (CDIC 2008).

The six-member Board of Directors of the CDIC consisted of four representatives from the Ministry of Finance, one of whom served as chairman, and two representatives from the central bank. A group of four supervisors, comprising two members from the Ministry of Finance and two from the central bank, also helped to oversee the CDIC's operations (CDIC 2008).

During the "extraordinary period" of the full guarantee program, the CDIC utilized its Financial Early-Warning System and Account Officer Analysis system to monitor insured institutions more closely (CDIC 2008). Furthermore, the FSC played an active supervisory role alongside the CDIC, urging insured institutions to improve their balance-sheet

management while strengthening its own corporate governance, internal controls, and audit mechanisms (CDIC 2009a). It also closely monitored financial institutions' leadership for any signs of misconduct and pledged to strengthen capital adequacy and financial soundness by encouraging institutions to merge (CDIC 2009a).

**6. Communication: The CDIC produced various publicity materials to ensure that both institutions and depositors were fully aware of the purpose, duration, and terms of the program.**

The CDIC took active steps to promote the full deposit guarantee, using various channels to communicate with depositors, publishing advertisements for mass transit systems, and inviting government officials to speak publicly about the program (CDIC 2008). It also sent letters to all insured institutions to inform them of operational details associated with the program, while endeavoring to “bolster” public understanding about their rights under the expanded guarantee and the importance of “stabilizing financial order” (CDIC 2008).

Upon announcing the transition back to the limited guarantee, the CDIC undertook an “extensive” campaign to help the public understand how their deposit accounts would be affected (Wang 2010). Activities included publishing articles in the CDIC’s quarterly journals and hosting informational sessions for both the public and insured institutions (Wang 2010).

**7. Size of Guarantees: All depositors with accounts in CDIC-insured institutions received unlimited coverage under the expanded deposit guarantee.**

On October 6, 2008, the Taiwanese government increased the deposit insurance cap per depositor from TWD 1.5 million to TWD 3 million per insured institution (Huang and Hsiu-Chuan 2008). One day later, it announced a full guarantee of all insured principal and interest (CDIC 2008). On July 1, 2007, the CDIC had raised the depositor insurance cap from TWD 1 million to TWD 1.5 million (CDIC 2008).

**8. Source(s) and Size of Funding: Government support to the depositors and other creditors of failed banks prior to the GFC had fully depleted the CDIC’s Deposit Insurance Fund, so the government would have had to find additional financing to cover payments on the full deposit guarantee if any bank had failed.**

The CDIC had no resources in its deposit insurance fund when the GFC began. Given the lack of resources in the fund at the time Taiwan introduced its full deposit guarantee, an academic paper noted, “it is safe to assume that the Taiwanese government will step in and provide additional financing when a bank fails” (Ho, Lai, and Lee 2014, 61).

The CDIC’s statutory funding included capital from the government and premiums that insured banks paid. Article 3 of the Deposit Insurance Act allowed the government to provide the CDIC with legally prescribed capital, which in 1995 was increased to TWD 10 billion (ROC 1985; CDIC 2010). Prior to the GFC, the CDIC derived a majority of its income from semiannual risk-weighted premiums paid by member institutions (CDIC 2016; CDIC 2008). Additionally, pursuant to Article 8 of the Deposit Insurance Act, funds that remained after the payment of operational expenses, insurance responsibilities, and other duties associated

with the Act were invested in government bonds or deposited with the Central Bank (CDIC 2016).

After the failure of five financial institutions between 2006 and 2007, the government amended the Act in January 2007 to establish a fixed target ratio of 2% of insured deposits (Ho, Lai, and Lee 2014).

Article 28 of the Deposit Insurance Act allowed for the collection of special assessments from insured institutions in the case that the CDIC could not meet its obligations due to a situation that would “significantly endanger credit order and financial stability” (ROC 1985). Furthermore, Article 31 of the Deposit Insurance Act permitted the CDIC, with FSC and Central Bank approval, to access special financing from other private financial institutions “in case of emergency” (ROC 1985).

In 2001, the government put the CDIC in charge of a separate Financial Restructuring Fund to restructure the banking system and dispose of failing banks. The resources of the fund were raised from a special business tax and an increase in the deposit insurance premium (Executive Yuan 2005). Between 2001 and 2005, the CDIC fully guaranteed both deposits and non-deposit liabilities of banks resolved through the Financial Restructuring Fund, although its deposit insurance was capped at TWD 1 million per depositor (CDIC 2008). By the end of 2007, the CDIC had resolved 55 unsound financial institutions, costing the Financial Restructuring Fund a total of TWD 206 billion by the end of 2008 and fully depleting it (CDIC 2008).

With the Financial Restructuring Fund depleted, the government directed the CDIC to draw on its Deposit Insurance Payout Special Reserves, its deposit insurance fund. By 2008, the CDIC had paid TWD 69 billion to protect depositors of five failing banks and the deposit insurance fund was also depleted (CDIC 2008). In 2008, the CDIC borrowed from Taiwanese banks at low interest rates to make up for the shortfall and paid back that debt over five years through the business tax (CDIC 2008). From 2011 to 2014, the business tax was exclusively appropriated to the Deposit Insurance Payout Special Reserves under Paragraph 7 of Article 11 of the Value-added and Non-value-added Business Tax Act (CDIC 2015).

The Deposit Insurance Payout Special Reserves remained at TWD 0 until 2013. At that time, the CDIC had fully paid back its bank loans and could begin once again to accumulate reserves in the deposit insurance fund toward the 2% target (CDIC 2014). As of the end of 2020, the fund stood at just under 0.5% of insured deposits (CDIC 2021b).

### **9. Eligible Institutions: The full deposit guarantee covered all financial institutions insured by the CDIC.**

The Taiwanese government amended Article 10 of the Deposit Insurance Act in January 1999 to enforce mandatory CDIC membership for all domestic financial institutions that accepted deposits and postal savings, or that were “consigned to manage trust funds” (CDIC 2010; ROC 1985). These included the following:

- Domestic banks (excluding Chunghwa Post Co., Ltd.)

- Small- and medium-business banks
- Credit cooperatives
- Credit departments of farmers' and fishermen's associations
- Foreign bank branches in Taiwan (even if protected in their home countries)
- Other financial institutions designated by the Ministry of Finance (CDIC 2010).

Article 10 also compelled all depository institutions to apply for CDIC membership; failure to do so would result in a report to the FSC and the removal of the institution's leadership or revocation of its license (ROC 1985). Taiwan-based branches of foreign banks, whose deposits were insured by their home jurisdictions, were not required to apply for CDIC membership (ROC 1985).

As of year-end 2009, the CDIC insured 383 institutions (including 38 domestic banks, 26 credit cooperatives, 289 agricultural credit associations, and 30 local branches of foreign banks), with insured deposits totaling approximately TWD 910 billion (CDIC 2009b). In the years leading up to the GFC, the CDIC had actively promoted financial consolidation to improve domestic "financial market efficiency and international competitiveness" (CDIC 2009b).

**10. Eligible Accounts: The government expanded the scope of coverage to include a wide range of accounts that had been previously excluded under the Deposit Insurance Act.**

Article 12 of the Deposit Insurance Act specifies the types of accounts covered under the CDIC's standing deposit insurance program (ROC 1985). These included checking, demand, and time deposits, as well as "deposits required by law to be deposited in certain financial institutions" and other FSC-approved deposits (ROC 1985). In October 2008, the government broadened the scope of eligible accounts to include the following:

- Negotiable certificates of deposit
- Government deposits
- Central bank deposits
- Deposits of banks, postal institutions handling postal savings and remittance business, credit cooperatives, farmers' and fishermen's associations with credit departments, and the Agricultural Bank of Taiwan (CDIC 2009a).

**11. Fees: The CDIC charged its members a risk-based semiannual premium but did not assess additional fees under the full deposit guarantee.**

Taiwan was the first Asian country to have implemented a risk-based scheme, having transitioned from a flat premium in July 1999 (Ho, Lai, and Lee 2014). According to Article 14 of the Deposit Insurance Act, the CDIC calculated the premium assessment base on a semiannual basis and comprised the total liabilities of underlying deposits, minus any uninsured deposits (ROC 1985).

The annual deposit insurance premium rates depended on the type and rating of the financial institution (CDIC 2008). Banks paid a risk-based premium rate plus a flat premium rate for deposits exceeding the maximum insurance coverage. General financial institutions (including domestic banks, local branches of foreign banks, trust and investment companies, and credit cooperatives) were charged a risk-based premium broken down into five tiers, ranging between 0.03% and 0.07% (CDIC 2008). Risk-based premium tiers for credit departments of farmers' and fishermen's associations ranged from 0.02% to 0.06%, (CDIC 2008). Both categories of institution were charged an additional flat premium rate of 0.0025% for deposits exceeding the maximum insurance coverage (CDIC 2008). The CDIC reported that the first tier of premium rate applied to about 38.9% of all insured institutions, the second tier to 21.4%, the third tier to 22.2%, the fourth tier to 9.9%, and the fifth tier to 7.6% (CDIC 2008).

In 2011, the CDIC raised its premium rates to a range of 0.05%-0.15% for banks and 0.04%-0.14% for credit cooperatives; it also raised the flat premium rate for deposits exceeding the maximum insurance coverage to 0.005% (CDIC 2012).

In addition to the standard premiums, the CDIC, with FSC approval, could charge a special assessment fee—pursuant to Article 28 of the Deposit Insurance Act—if the deposit insurance special reserves were depleted in a situation that could “significantly endanger credit or financial stability” (ROC 1985).

There is no mention of a special assessment fee in the CDIC's annual reports. However, as noted above, legislation gave the CDIC exclusive access to a special business tax which it had originally created in 2001 for the Financial Restructuring Fund. The CDIC's income from the business tax exceeded insurance premiums from 2010 until 2014, according to its annual reports for those years (IADI 2012).

**12. Other Restrictions on Eligible Institutions/Accounts: Covered institutions faced heightened scrutiny throughout the implementation of the expanded guarantee program.**

The FSC would use its authority under the Banking Act and “other relevant regulations” to enforce action against financial institutions whose capital adequacy requirement (CAR) fell below 8% or who committed legal violations at any point during the unlimited deposit guarantee's implementation (CDIC 2009a). Additionally, covered institutions would have to adhere to guidelines regarding corporate governance and internal controls in order to avoid disciplinary action by the FSC (CDIC 2009a).

**13. Process for Exercising Guarantee: The CDIC followed the existing guidelines set forth in the *Deposit Insurance Act*, which allowed it to pay out principal and interest on insured accounts following an institution's closure.**

Article 28 of the Deposit Insurance Act outlined the basic procedures for the payout of deposits after an institution's closure by either the Financial Supervisory Commission or the relevant central authority of agricultural finance (i.e., the Agricultural Bank of Taiwan) (ROC 1985; ROC 2003). After taking over the failed institution, the CDIC would make payouts by "cash, remittance, transfer, or other payment methods" in accordance with the records of the institution and the certificates of outstanding amount submitted by depositors (ROC 1985). It would then transfer the covered deposits to other insured institutions and, finally, provide funds, loans, deposits, or guarantees to acquire and manage the assets and liabilities of the failed institution (ROC 1985).

Pursuant to Article 13 of the Deposit Insurance Act, maximum insurance coverage included both the deposit principal and interest accrued up to the final business day that the insured institution operated (ROC 1985).

**14. Duration: Although the expanded deposit insurance program was initially scheduled to end on December 31, 2009, the Taiwanese government announced a yearlong extension before transitioning back to a limited guarantee.**

The Taiwanese government announced the extension in October 2009, citing prolonged volatility in the domestic economy and the need for financial institutions to further improve their deposit systems (CDIC 2009b). Shiao Chang-ruey, Deputy Director-General of the FSC's Banking Bureau, also noted that Hong Kong and Singapore's expanded guarantee programs would last through the end of 2010 (HZW 2009). Ending Taiwan's policy prematurely might have led to unequal competition between neighboring jurisdictions such as Hong Kong and Singapore (HZW 2009; CDIC 2009b).

Taiwan's unlimited guarantee program ended on December 31, 2010, and was replaced by a limited guarantee with maximum coverage of TWD 3 million per depositor per insured institution, beginning January 1, 2011 (CDIC 2010; FSC 2010). The CDIC took active steps to communicate the change to the public well ahead of the transition, which it claimed "effectively increased the confidence of depositors in returning to a system of limited coverage" (CDIC 2010). It also reported that the new guarantee scheme would completely cover 98.6% of all eligible accounts (CDIC 2010).

In addition to announcing the termination of expanded coverage, the Taiwanese government amended Articles 12 and 13 of the Deposit Insurance Act on December 29, 2010, to broaden the scope of insurance to include both interest accrued from insured deposits and foreign currency deposits (FSC 2010; ROC n.d.). It also raised the risk-based premiums to shore up the Deposit Insurance Fund and established an interagency task force to coordinate banking supervision (FSC 2010).

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