

Box 6**Measures in response to the exit of the blanket deposit insurance scheme**

When the global financial crisis erupted in 2008, numerous countries expanded their deposit insurance coverage in order to diminish potential systemic risks. The Taiwanese government also announced a temporary measure of a blanket deposit guarantee in October 2008, which was effective until the end of 2009. This measure effectively restored the confidence of depositors and stabilized the local financial system. However, considering the prolonged instability of the global and local economies and financial systems in 2009 and the extensions of the blanket deposit guarantee schemes adopted by various neighboring Asian countries, the government announced in October 2009 an extension of the blanket deposit guarantee to the end of 2010.

To ensure the stability of the financial system when exiting from the blanket deposit guarantee scheme, the related authorities reached, after deliberate discussions, an agreement that the FSC was responsible for working out and implementing exit strategies, and that the CBC and the CDIC would take preventive measures to eliminate any potential emergent liquidity problems of financial institutions and to enhance public awareness of the exit of the blanket deposit guarantee.

1. Measures adopted by the FSC

The FSC devised and implemented the exit strategy of the blanket deposit guarantee scheme as follows:

- The FSC established a supervisory working group, with members from the FSC, the CBC, the MOF, the CDIC and related authorities, in July 2010 to periodically review the progress of the exit strategy implementation and to monitor the asset quality, liquidity and changes in the deposits and loans outstanding of individual banks.
- The CDIC proposed a package of measures to address the potential impacts of the exit of the blanket deposit insurance scheme in April 2010, which was reviewed by the related authorities and was approved by the Executive Yuan. Moreover, on 12 August 2010, the FSC, the MOF and the CBC jointly announced that the maximum deposit insurance coverage amount would be raised to NT\$3 million starting from 1 January 2011. This policy resulted in an increase in the ratio of deposit accounts fully covered by deposit insurance to 98.6%.
- The FSC approved the Revised Implementation Scheme for the Deposit Insurance Risk-based Premium System on 24 November 2010, which raised the deposit insurance premium rates for insured banks and credit cooperatives and modified the risk grades,

in order to accelerate the accumulation of deposit insurance funds and to enhance the risk bearing capability of the CDIC.

- After consulting with the CBC and related authorities, the FSC proposed the revision of the Deposit Insurance Act to cover the interest of domestic currency deposits as well as the principal and interest of foreign exchange deposits in the scope of the deposit insurance scheme. This proposal was finalized and became effective on 29 December 2010.

2. Measures adopted by the CBC

The CBC was mainly in charge of the emergency liquidity assistance program of the exit strategy and actively participated in the aforementioned supervisory working group. Key measures adopted by the CBC are summarized as follows:

- Closely monitored the potential deposit movements induced by the exit of the blanket deposit insurance scheme within the banking industry, as well as actively oversaw the liquidity of banks and bills finance companies and provided the banking industry with sufficient liquidity, according to the Central Bank of the Republic of China (Taiwan) Act, so as to maintain financial stability.
- Required banks to report the ratios of the sum of large-amount deposits to total deposits in May 2010 in order to analyze the potential impact of the prospective movements of large-amount deposits within the banking industry.

Furthermore, on 25 September 2008, the CBC announced expansion of the scope of Repo facility operations, which included the expansion of eligible counterparties to cover securities firms and insurance companies, the extension of the term of the facility to within 180 days from 30 days, and the allowance of financial institutions to apply for the CBC's approval for Repo facility operations if they have emergent funding demands, in addition to the operations announced by the CBC.

3. Measures adopted by the CDIC

To ensure the smooth transition from the blanket coverage to the new limited insurance scheme, the CDIC held several local and international seminars in 2010 to call public attention to the reform of the deposit insurance scheme and to remind insured banks to enhance liquidity management improve business risk control and hold adequate capital.

In addition, starting from August 2010, the CDIC strengthened public awareness through mass media, posters in banks' premises and seminars on the exit of the blanket deposit guarantee and the introduction of the new limited deposit insurance scheme.