Asia Focus
COUNTRY ANALYSIS UNIT FEDERAL RESERVE BANK OF SAN FRANCISCO OCTOBER 2008

Recent Developments in Asian Deposit Guarantee Programs

In response to recent global financial turmoil, governments around the world have adopted various policy measures to support their respective financial systems. A number of countries in Asia have changed the terms of their deposit insurance programs to provide expanded coverage. Four economies—Taiwan, Hong Kong, Singapore, and Malaysia—have recently announced that they will provide an unlimited guarantee of all deposits on a temporary basis. The guarantees, aimed at bolstering confidence in local financial markets and ensuring that banks continue to operate normally, were announced in rapid succession. The close timing of these actions reflects the nature of relations between banking markets in the region, which are both interconnected and competitive.

Taiwan

On October 6, Taiwan announced that it would increase the amount of insurance it offers on bank deposits to NT$3 million (US$90,846) from NT$1.5 million (US$45,423), before offering a full guarantee a day later.[i] These measures are scheduled to expire at the end of 2009. Other regional governments took similar steps soon after, with Australia and New Zealand announcing coordinated action the following weekend to guarantee all deposits. Taiwan's new blanket guarantee extends coverage to previously uninsured items such as deposits in foreign currencies, inter-bank lending and negotiable certificates of deposits issued by the central bank. The expansion of deposit coverage follows the takeover of Chinfon Commercial Bank by Taiwan's Central Deposit Insurance Corporation in late September 2008. Officials have stated that providing a full guarantee for all deposit accounts is a preventive measure to maintain confidence, ease potential depositor concern, and reduce capital flight from smaller, private banks. Concerns about Taiwan's banking sector had led some depositors to begin transferring funds from private banks to state-controlled institutions such as the Bank of Taiwan and the postal savings system. On October 9, just two days after the announcement of blanket deposit coverage, media sources reported that the flow of funds from smaller private banks to state-controlled ones had fallen by more than 65%, with some private institutions starting to regain deposits.[ii]

Hong Kong

On October 14, the Hong Kong Monetary Authority announced that it would guarantee through year-end 2010 the repayment of all customer deposits held in all Authorized Institutions in Hong Kong. The guarantee, which is backed by the government's Exchange Fund, applies to both Hong Kong-dollar and foreign-currency deposits, including those held in Hong Kong branches of overseas institutions. It will cover the amount of deposits in excess of that protected under the local deposit protection scheme, which is currently HK$100,000 ($12,898) per depositor per banking institution. Government officials have stated that these arrangements are precautionary and that the Hong Kong banking system is sound. In September 2008, a rumor spread by text message triggered a brief run on Bank of East Asia as depositors feared that the bank had large exposures to Lehman Brothers and AIG.

Singapore

With Hong Kong and Singapore competing as financial centers, Hong Kong's blanket deposit guarantee put pressure on Singapore to develop a similar policy. On October 16, the Singapore government announced a similar guarantee on deposits of individuals and non-bank customers in banks, finance companies and merchant banks in Singapore until year-end 2010. The guarantee will be backed by S$150 billion (US$100 billion) of Singapore government reserves. Officials commented that the move was intended to avoid an erosion of bank deposit bases and to ensure a level international playing field for banks in Singapore. A ministerial statement posted on the website of the Monetary Authority of Singapore adds that "The recent announcements in the region of blanket government guarantees on deposits set off a dynamic that puts pressure on other jurisdictions to respond or else risk disadvantaging and potentially weakening their own financial institutions and financial sectors. If Singapore had not introduced a similar guarantee, there was a real risk that depositors would have shifted some of their deposits out of Singapore banks, to banks in other jurisdictions which guarantee deposits."[iii] At the same time, government officials continue to emphasize that the financial system in Singapore remains stable and robust. Market analysts expect the guarantee will restore depositor confidence in the region's smaller banks, which will ultimately enable them to reduce their deposit rates.

Malaysia

Given the strong ties between the banking sectors of Singapore and Malaysia, the Malaysian banking authorities announced an expansion of their national deposit scheme on the same day as Singapore. On October 16, the government announced that all Ringgit and foreign currency deposits with commercial, Islamic and investment banks regulated by Bank Negara Malaysia will be fully guaranteed through the Malaysia Deposit Insurance Corporation (PIDM) until December 2010. The guarantee extends to all domestic and locally incorporated foreign banking institutions. Officials called the move consistent with regional initiatives to preserve confidence in respective financial systems, and reiterated the soundness and strong capitalization of Malaysian banking institutions. Looking ahead, Fitch Ratings has stated that financial system stability in Singapore and Malaysia is likely to be ensured at least until the expiration of the deposit guarantee, thus enabling banks to focus their resources more on navigating the weaker economic environment.[iv]

Other Economies

In order to address current market conditions and revive investor confidence in banks, on October 13 the Indonesian government increased the deposit guarantee 20-fold to 2 billion rupiah (US$200,151) per individual. The government had previously introduced a blanket guarantee for all bank deposits during the Asian financial crisis a decade ago. However, the government gradually removed its guarantees on bank liabilities. The Indonesia Deposit Insurance Corporation (LPS), which began operating in 2005, assumed coverage of bank deposits, and from March to September 2006 it covered up to Rp5 billion (US$500,377) in deposits per individual. The maximum coverage amount was further reduced in stages; in March 2007, the coverage ceiling was lowered to Rp100 million (US$10,007).

In the Philippines, officials of the Philippine Deposit Insurance Corporation have stated that they support pending legislative proposals to double the maximum deposit insurance coverage from P250,000 (US$5,132) to P500,000 (US$10,265). Officials of other Asian countries have stated that they will also consider extending or expanding deposit insurance coverage, depending on market conditions.

Table 1: Recent Changes in Deposit Protection in Major/Emerging Asian Economies **(continued on next page)**

Last updated: October 23, 2008

	USA	China	Hong Kong	India	Indonesia	Japan
Name of agency	Federal Deposit Insurance Corporation	People's Bank of China has been researching and discussing the idea of a deposit insurance system for several years. No formal program has been implemented to date.	Hong Kong Deposit Protection Board	Deposit Insurance and Credit Guarantee Corporation	Indonesia Deposit Insurance Corporation	Deposit Insurance Corporation of Japan
Date established	June 1933	N.A.	September 2006	January 1962	September 2005	1971
Premium rate (%)	0.05 - 0.43	N.A.	0.05 - 0.14	0.1	0.2	0.083 - 0.115
Coverage amount (per depositor per banking institution)	$100,000	None, but implicit government guarantee due to ownership structure of China's banks	HK$100,000 ($12,898); both HKD and foreign currency deposits are protected	Rs 100,000 ($2,034)	Government backed all deposits in full during Asian financial crisis, but gradually lowered coverage amounts. Coverage ceiling was set at Rp100 million ($10,007) in March 2007.	JPY 10,000,000 ($102,320) for ordinary and timed deposits. Full protection for payment and settlement deposits.
New [or proposed] coverage amount	$250,000 (until year-end 2009)	N.A.	N.A.	N.A.	Rp 2 billion ($200,151)	N.A.
Additional measures	Temporary Liquidity Guarantee Program guarantees newly issued senior unsecured debt and provides full coverage of non-interest bearing deposits	N.A.	Full guarantee of all deposits via the Exchange Fund through year-end 2010	N.A.	N.A.	N.A.
Exchange rate	-----	US$1 = RMB6.854	US$1 = HK$7.753	US$1=Rs49.166	US$1 = Rp9,992.45	US$1 = JPY97.733

Looking Ahead

In the short term, actions taken by Asian governments to provide expanded coverage of deposits should strengthen confidence in local and regional banking markets. However, in the medium to long term, expanded deposit guarantees could lead to additional costs for banks, depending on how governments intend to pay for such programs. Blanket guarantees, combined with other recent government actions, could also create moral hazard issues within the banking industry. Nonetheless, most of the recent changes made to deposit coverage terms are temporary, and policy makers have given themselves room to reverse expanded coverage in the future.

Table 1 summarizes recent changes in deposit insurance protection in Asian economies. Further changes are likely given the evolving nature of global credit markets.

- - - - - - - - - - - - - - -

[i]Huang, Joyce and Shih Hsiu-Chuan. "Bank savings given blanket guarantee." Taipei Times. October 8, 2008.
[ii]Ko, Ellen. "ROC guarantees bank deposits." Taiwan Journal, Vol. XXV, No. 41. October 17, 2008. Published by the Government Information Office of the Republic of China (Taiwan).
[iii]"Ministerial Statement by Mr Lim Hng Kiang Minister for Trade & Industry and Deputy Chairman, Monetary Authority of Singapore on Government Guarantee on Deposits Singapore Remains Stable and Sound." Monetary Authority of Singapore website. October 20, 2008.
[iv]"Fitch: Government Guarantees Reinforce Market Confidence in Singapore and Malaysia." Fitch Ratings. October 17, 2008.

Table 1 (Cont'd): Recent Changes in Deposit Protection in Major/Emerging Asian Economies

Last updated: October 23, 2008

	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Vietnam
Name of agency	Korea Deposit Insurance Corporation	Malaysian Deposit Insurance Corporation	Philippine Deposit Insurance Corporation	Singapore Deposit Insurance Corporation	Central Deposit Insurance Corporation	Thailand Deposit Insurance Agency	Deposit Insurance of Vietnam
Date established	June 1996	August 2005	June 1963	January 2006	September 1985	mid-2008	July 2000
Premium rate (%)	0.1 - 0.3	max of 0.5% till 2008; after which risk based scale ranging from 0.3%-0.26% will be used	0.2	0.03 - 0.08	0.02 - 0.07	not finalized but 0.4% is likely initially	0.15
Coverage amount (per depositor per banking institution)	KRW50,000,000 ($35,045)	RM60,000 ($16,839); excludes foreign currency deposits; separate coverage for Islamic deposit accounts	P250,000 ($5,132)	S20,000 ($13,342); excludes foreign currency deposits	NT$ 1,500,000 ($45,423)	2008 -- blanket guarantee; 2009 -- THB100 mil ($2.9 mil); 2010 -- THB50 mil ($1.5 mil); 2011 -- THB10 mil ($289,931); 2012 THB1 mil ($28,993)	VND 30,000,000 ($1,779)
New [or proposed] coverage amount	N.A.	N.A.	[PDIC requests congress to amend its charter to increase coverage to P500,000 ($10,265)]	N.A.	NT$ 3,000,000 ($90,846) until year-end 2009	N.A.	N.A.
Additional measures	N.A.	Full guarantee of all deposits (including foreign currency) until year-end 2010	N.A.	Full guarantee of all deposits (including foreign currency) until year-end 2010	Full guarantee of all deposits until year-end 2009	N.A.	N.A.
Exchange rate	US$1=KRW1,426.84	US$1=RM3.563	US$1 = P48.709	US$1=S1.499	US$1=NT$33.023	US$1=THB34.491	US$1=VND16,862.50

Contacts: Walter Yao (walter.yao@sf.frb.org) and Nkechi Carroll (nkechi.carroll@sf.frb.org)
Written by: Cindy Marks and Walter Yao