CAU Asia Focus

COUNTRY ANALYSIS UNIT FEDERAL RESERVE BANK OF SAN FRANCISCO MARCH 14, 2005

DEPOSIT INSURANCE PROGRAMS IN ASIA

There have been a number of changes to deposit insurance programs in Asia over the past few years. Most significantly, as banking systems have largely overcome the effects of the Asian financial crisis, almost every country in the region that established blanket guarantees on deposits immediately after the crisis has now resorted to a limited deposit insurance system. In another development, countries that have historically not had any deposit insurance have either established or are in the process of establishing a limited system. The following describes the most recent developments in more detail.

THE CHANGE FROM BLANKET TO LIMITED GUARANTEES

While Japan had a limited deposit insurance system since 1971, the Deposit Insurance Corporation began to guarantee all bank deposits in 1996 due to the increasing instability of the banking sector. The country has since gradually returned to limited protection. In April 2002, the Japanese government re-instated limited deposit insurance for time deposits up to a maximum principal of ¥10 million ($94,400) per depositor per financial institution. However, due to concerns about market instability, the government retained blanket insurance guarantees for demand deposits for an additional three years. During this three year grace period, the Deposit Insurance Law was amended to provide for the creation of "deposits for settlement and payment purposes," provided certain conditions are met. The start date for demand deposits to come under limited guarantee up to a maximum of ¥10 million per depositor, per financial institution, is April 1, 2005. Unlike time and demand deposits, the new settlement deposits will retain full blanket insurance guarantee indefinitely.

Most Southeast Asian countries that established blanket guarantees on all deposits as a result of banking problems during the Asian financial crisis have either recently introduced or are in the process of developing an explicit insurance system. In Thailand, the Financial Institutions Development Fund was empowered in October 1997 to administer a general guarantee to depositors until such time as a limited deposit insurance scheme could be implemented. On December 1, 2004, the Thai cabinet approved a draft law to establish a new deposit insurance agency. For the first year after the law takes effect, insurance coverage will commence at a still high 50 million baht ($1.3 million). This is planned to be reduced to one million baht ($25,900) by the fourth year of operations. The law is awaiting parliamentary approval and may become effective as early as January 2006.

In Indonesia, the Indonesian Bank Restructuring Agency (IBRA) managed the government's blanket guarantee in addition to the restructuring of banks' problem assets. Following the closure of IBRA in 2004, Indonesia enacted a deposit insurance law in June of last year. The law provides for a risk-based premium structure, with premiums ranging from 0.1 to 0.6 percent. The program will cover depositors with deposits under Rp100 million ($11,200). The new system will replace the blanket guarantee system which is to be phased out beginning July 2005. Malaysia has recently announced that work on a limited deposit insurance system is at an advanced stage and the new system will be operational soon.

NEW SYSTEMS AND PROPOSALS

Hong Kong's Deposit Protection Scheme (DPS) Ordinance was passed by the Legislative Council on May 5, 2004. The DPS will be administered by an independent Deposit Protection Board which will perform its functions through the Hong Kong Monetary Authority. The coverage limit is HK$100,000 ($12,800) per depositor. The amount of the contribution by banks will be risk-based, with contributions ranging from 0.05 percent for low-risk banks to 0.14 percent for banks considered the highest risk. Participation by Hong Kong banks is mandatory but overseas-incorporated banks may apply for an exemption if they are covered by a similar system in their home jurisdiction. The DPS is expected to start offering deposit protection in 2006.

Singapore similarly has proposed to establish a deposit protection system. The Monetary Authority of Singapore released a consultation paper on a draft Deposit Insurance Bill on January 28, 2005. The proposed deposit insurance system would provide a limited guarantee to depositors that they will be compensated S$20,000 ($12,100) if their bank fails. The system will cover all banks and finance companies and membership will be compulsory.

There has been no formal deposit insurance system in the People's Republic of China, primarily because it was assumed that the government would stand behind all deposits. However, in January 2005, the State Council approved "in principle" the establishment of a deposit insurance system, although it is not expected to be operational in the near future. The aim of offering limited insurance is to raise public confidence in the banking system while also reducing government spending on the bailout of failing banks and eliminating the moral hazard associated with (implicit) full deposit protection.

LITTLE CHANGE IN ESTABLISHED SYSTEMS

Korea's Depositor Protection Act was promulgated in 1995 and the Korea Deposit Insurance Corporation established to provide deposit insurance of up to 20 million won per depositor. During the Asian crisis, financial institutions other than banks were added, including securities companies, insurance companies, merchant banks, mutual savings and finance companies, and credit unions. The other major change during the crisis was the temporary suspension of the 20 million won limit on pay-outs to depositors, in effect offering a blanket guarantee for all deposits and liabilities until December 31, 2000. Starting in January 2001, the government reestablished the partial deposit insurance system, but raised the coverage limit to 50 million won ($48,000). In 2000, the government also doubled deposit insurance premiums. Rates were raised from 0.05 percent to 0.1 percent for banks, from 0.1 percent to 0.2 percent for brokerages, and from 0.15 percent to 0.3 percent for insurance companies, merchant banks and other financial institutions.

Taiwan has long maintained an explicit deposit insurance system. The Central Deposit Insurance Corporation (CDIC) was established in 1985 to insure deposits and trust funds. The system was initially administered on a voluntary basis, but became compulsory in 1999. The maximum insurance coverage that the CDIC extends to each individual depositor has been set at NT$1 million ($31,300) since 1987. Since 1999, the CDIC has instituted a risk-based premium system, based on a financial institution's capital adequacy ratio and its current examination rating. Banks are placed in nine different risk groups and assigned three different rates. Effective from January 1, 2000, these rates are 0.05 percent, 0.055 percent and 0.06 percent of deposits, respectively.

India has the oldest deposit insurance system in Asia. Deposit insurance was introduced on January 1, 1962 with the creation of the Deposit Insurance Corporation (DIC). In 1978, the DIC was renamed the Deposit Insurance and Credit Guarantee Corporation (DICGC). The DICGC is a wholly-owned subsidiary of the Reserve Bank of India, the country's central bank. The deposit insurance system extends to the whole of India, and covers the deposits of all commercial banks, regional rural banks, and cooperative banks. The DICGC provides insurance protection to small depositors up to an amount of Rs100,000 ($2,300). Insurance premiums are levied at a fixed rate on the total assessable deposits of an insured bank. The current premium rate is Rs0.05 for every Rs100 deposited with an insured bank.

The Philippines also has an explicit deposit insurance system. The Philippine Deposit Insurance Corporation (PDIC) was established in 1963. Membership in the insurance system is compulsory in the Philippines and the PDIC insures universal banks, commercial banks, thrift banks, rural banks, and specialized government banks. The PDIC provides insurance protection up to an amount of P250,000 ($4,600), an increase from the original P100,000. The assessment rate is determined by the PDIC board of directors but may not exceed one-fifth of one percent yearly.

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	HONG KONG	INDIA	JAPAN	KOREA	PHILIPPINES	TAIWAN
Name of Agency	Deposit Protection Board	Deposit Insurance and Credit Guarantee Corp	Deposit Insurance Corporation	Korea Deposit Insurance Corporation	Philippine Deposit Insurance Corporation	Central Deposit Insurance Corporation
Date Established	2006	1962	1971	1995	1963	1985
Compulsory	Yes	Yes	Yes	Yes	Yes	Yes
Funded	Yes	Yes	Yes	Yes	Yes	Yes
Public/Private	Public	Public	Public	Public	Public	Public
Sources of deposit	Insurance premiums	Insurance premiums, Reserve Bank advances	Insurance premiums, government loans	Insurance premiums, issuance of securities	Insurance premiums, bank borrowings, issuance of securities	Insurance premiums, advances from Central Bank of China
Supervisory function	No	No	No	No	Yes	Yes
Institutions covered by insurance	Licensed banks	Commercial banks regional rural banks cooperative banks	Commercial banks,credit cooperatives, labor and credit associations	Banks, securities companies, insurance companies, merchant banking corps., mutual savings and finance cos., credit unions	Universal & commercial banks, thrift banks, rural banks, specialized government banks	Domestic banks, investment and trust cos., credit co-op. And fishermen's assoc., local branches of foreign banks
Annual premium rate	risk-based	0.05	0.084	0.1 to 0.3	0.2	risk-based: 0.015 to 0.02
Coverage amount* (per depositor per bank)	HK$100,000 ($12,800)	Rs100,000 ($2,300)	10 million yen ($95,700)	50 million won ($49,000)	P250,000 ($4,600)	NT$1 million ($32,200)
Coverage X GDP/capita**	0.4	0.8	3.4	2.7	1.0	1.3

** Exchange rates as of 3/02/05*
*** By comparison, the U.S. ratio is 3.2. In general, wealthier countries have a higher ratio due to the existence of larger deposit balances. While poorer countries have a lower ratio, a relatively large amount of depositors are covered.*