Top News

ROC guarantees bank deposits

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The government's decision to temporarily guarantee all bank deposits has bolstered consumer confidence and stemmed the shift of money from private banks to state-run institutions, Cabinet-level Financial Supervisory Commission Deputy Minister Li Jih-chu said Oct. 9.
In response to the worldwide financial crisis, and after consulting with the FSC, Ministry of Finance and Taiwan's Central Bank, Premier Liu Chao-shiuan announced Oct. 7 that the government would temporarily bump up the limit on deposit insurance coverage from around US$46,200 to a full guarantee. The initiative went into effect immediately after the announcement, with coverage also extended to previously uninsured items such as deposits in foreign currencies, interbank lending and negotiable certificates of deposits issued by the Central Bank. The duration of the guarantee has yet to be decided.

"It is important we should be confident in the economy," Liu said. "Domestic bank depositors need not be scared. The government will protect savings, ask banks to increase their deposit-reserve rate, and ask the FSC and the Central Bank to stabilize the market," he added.

Due to the recent financial turmoil in the United States and Europe, many people in Taiwan have withdrawn deposits from private banks and put them in the state-controlled institutions, such as the Bank of Taiwan and the postal savings system maintained by the post office. According to Chunghwa Post Co. Ltd., its total value of certificate of deposits for September increased by more than US$1.85 billion, with its total value of savings reaching a historical high of US$133 billion.

The FSC's Li explained that providing a full guarantee for all savings accounts is a preventive measure to maintain confidence and head off potential depositor concerns. Should any bank fail during the guarantee period, the Central Deposit Insurance Corp. will step in to insure all savings, she said.

On Oct. 9, just two days after the initiative, Li said that the flow of funds from smaller private banks to state-controlled ones had fallen by more than 65 percent, some private institutions had even started regaining deposits.

The Deposit Insurance System was launched in Taiwan in September 1985, with a coverage limit of about US$30,800. With the rise in Taiwan's gross domestic product, the cap was first lifted to US$46,200 in July 2007. Taiwan was the first Asian country to raise its bank deposit coverage limit in the wake of the ongoing global financial crisis.

Raising the limit of deposit insurance coverage is increasingly being adopted by governments around the world in order to stabilize local markets.

The United States increased the limit to US$250,000 from US$100,000, starting Oct. 3 through Dec. 31, 2009. The 27-member European Union also raised the minimum guarantee to around US$68,160 from the previous range of US$27,000 to US$34,000 for 12 months, though member states are allowed to set higher minimums. So far, apart from the ROC, Ireland, Germany and Denmark have promised bank savers 100 percent guarantees on their money.

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