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China's State Council introduced the deposit insurance plan With a coverage ceiling of RMB 500,000

On Mar 31 2015, China's State Council issued the long-awaited deposit insurance plan (hereinafter "the plan")¹ with a coverage ceiling of RMB 500,000 for mainland bank depositors. It will be the first deposit insurance plan in China to protect the legal rights of depositors, allow timely prevention and resolution of financial risk and preserve financial stability.

The draft plan was first released by PBOC on Nov 30 2014, and the final version of the plan was almost unchanged. The plan was effective starting from May 1 2015, covering both deposit in RMB and foreign currencies from individuals as well as companies.

I Definition of the deposit insurance scheme

The deposit insurance scheme will protect the interests and principal of depositors. Under this scheme, financial institutions will be required to contribute to a fund (hereinafter "the Deposit Insurance Fund") that will insure depositors against losses caused by a bank's inability to pay its debts. Deposit insurance scheme is in place in more than 110 countries and regions across the world. It was first adopted in the USA in the wake of the Depression, when nearly half the country's 24,000 banks failed. Similar scheme, which aims to deter runs by indemnifying savers from losses up to a certain level if their bank goes bust, spread through Europe in the wake of financial crises from the 1970s on.

Regarding the ceiling amount of insured deposit, China proposes to insure all accounts for up to RMB 500,000, which is well below the USD\$250,000² ceiling in the USA, but above Hong Kong's guarantee of HK\$500,000³ and Singapore's of SGD\$ 50,000⁴.

II Highlights of the plan

Please refer to below table for the major contents and highlights of the plan.

Participating institutions	<ul style="list-style-type: none"> • All deposit-taking banking financial institutions in mainland China, including commercial banks, rural cooperative banks and rural credit cooperatives; • Excluding foreign banks' branches and Chinese banks' branches overseas unless otherwise required by any applicable inter-governmental deposit insurance arrangement.
Deposits to be insured	<ul style="list-style-type: none"> • The plan will cover deposits denominated in both RMB and foreign currencies from individuals as well as companies; • Financial institutions' inter-bank deposits and deposits by senior

¹ http://www.gov.cn/zhengce/content/2015-03/31/content_9562.htm

² <https://www.fdic.gov/>

³ <http://www.dps.org.hk/en/main.html>

⁴ <https://www.sdic.org.sg/>

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	managers in their own institutions are not included. The Deposit Insurance Fund may also exclude certain other deposits from the scheme
Maximum compensation amount	<ul style="list-style-type: none"> • The maximum compensation amount under the plan has currently been set at RMB500, 000 (including principal and interest) • The ceiling can be further adjusted with the approval of the State Council in response to economic conditions, changes in the structure of deposits, financial risk and other factors. • In case of the total deposit amount exceeding the ceiling, the surpassed amount will be claimed from the liquidation assets of the deposit taking institution
Permitted usage of the Deposit Insurance Fund	<ul style="list-style-type: none"> • The Deposit Insurance fund shall be deposited at the PBOC ; • or being invested in government bonds, central bank bills, financial bonds with high credit ratings or other high credit rating bonds; • or other methods approved by the State Council.
Contributions and Deposit Insurance rate	<ul style="list-style-type: none"> • Contributions to the plan in the form of premiums will be paid by the deposit taking institutions to the Deposit Insurance Fund on a semi-annual basis; a late payment fee of 0.05 percent will be charged by the Deposit Insurance Fund under certain circumstances; • The rate will consist of the standard rate and risk rate; • The standard rate will be approved by the State Council, and the risk rate of each deposit taking institution will be set by the Deposit Insurance Fund.
Deposit Insurance Fund source	<ul style="list-style-type: none"> • Contributions from deposit taking institutions; • Liquidation assets of deposit taking Institutions; • Proceeds arising from the investment of the premiums by the Deposit Insurance Fund; • Other legitimate income.

III Comments

On Apr 1 2015 a press conference was held by heads of the PBOC and the Legislative Affairs Office of the State Council to explain the plan. According to the officials, the plan will cover 99.63 percent of mainland depositors. Also, the plan has long been considered a precondition for China to free up deposit rates -- the last step in interest rate liberalization. Now for China, the conditions are ripe to launch it as part of ongoing efforts to further reform the financial system as well as balancing the relationship between the government and the market.

However, more clarification from the State Council and the PBOC is awaited for a fully workable plan to be developed. More detail is needed on the specific types of deposits that qualify for protection; also, the detailed guideline of how banks would be charged to fund the plan shall be discussed further.

The interpretation and actual implementation of the plan should be worthy of attention. The up-to-date information will be provided continuously by our bank.

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