

Premium Rate Patterns of Deposit Insurance System: Foreign Practice and Implications for China

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Abstract: Since the United States at first established Deposit Insurance System (DIS) in 1934, over 100 countries have already built up the system so far according to their own national conditions. Although China didn't implement DIS yet, preparation works have been in progress. In the 'China Financial Stability Report 2012', China has claimed that launch timing of DIS was basically mature and relative departments would actively enact "Deposit Insurance Act". In 2013, DIS turned to be one of the key points in fiscal reform and priority among priorities in the government works. Premium rate patterns consist of single rate system and differential rate system. Most of countries and regions select single rate system in the beginning and gradually transit to differential rate system. This paper analyses two different rate patterns in each typical countries and puts forward suitable rate pattern for China after fully considering current state of China's banking industry.

Keywords: Single rate system; Differential rate system; Listed banks; Premium rate; China; Risk-adjusted differential rate

JEL classifications: G22

INTRODUCTION

In January 2013, China has announced that Deposit Insurance System (DIS) would be one of the key notes in fiscal reform. By July, the President of the People's Bank issued a signed paper, which indicated that launch timing of DIS was already mature enough.

In recent years, the researchers have proven that implicit DIS guaranteed by national credit no longer met the requirements of China's financial development and therefore the construction of explicit DIS has become obviously necessary and urgent. Rate patterns are the core of entire system and a reasonable one could efficiently reduce moral hazard and adverse selection.

Compared with single rate system, differential rate system requires continual collection, analysis, supervision of financial data from each organization which lead to much more labor input. More and more scholars agree that differential rate system is more appropriate for long-term financial development. Differential rate system encourages banks to improve stability for lower premiums. Benefited from this, the supervision of capital adequacy and other internal conditions would consequently be strengthened. Takahiro Hosojima [1] once indicated that under single rate system steady banks would often complain that they had to pay the same premiums as risky banks. As a result, DIS turns to be a subsidy tool for risky banks and banking environment becomes unfair to steady banks. After researching the development experience of the

U.S., Michael Zamorski [2] concluded that single rate system was unfair to low-risk institutions. In addition, high-risk behaviors wouldn't be charged extra premiums under single rate system. Ultimately, moral hazard and adverse selection would aggravate.

The majority of Chinese scholars have reached a consensus that risk-adjusted differential rate is the ultimate goal of DIS in China. Their controversy mainly focuses on rate pattern in initial and transitional period.

Since single rate system may exacerbate moral hazard or adverse selection, different financial organizations should be imposed differential premiums which were ascertained by estimating credit degree of each deposit organization. Preferential rate is the privilege of high-credit organizations and low-credit organizations should be charged relatively higher premiums. Haibo Yan [3] further pointed out that in the beginning of DIS, simple differential rate system should be introduced that only takes asset size and capital adequacy of commercial banks into account. If financial conditions permit in the future, other factors such as possible loss of deposit insurance fund would become new criteria to confirm premium rates of each bank.

Years of preparation work still doesn't seem to be enough to introduce DIS in China, so in-depth understanding of rate patterns in each representative country gets quite significant and imperative.

SINGLE RATE SYSTEM

Single rate system suggests that all deposit financial institutions adopt the same premium rate. Under this system, premiums are generally imposed a fixed proportion on total deposits or only insured deposits balance. India and Japan are two typical single-rate countries.

India

In establishment of DIS, India was ahead of most developing countries and years of successful operation experience offered a good reference pattern. In December 1961, India passed “Deposit Insurance Corporation Act” and accordingly founded Deposit Insurance Corporation in January 1962 which acted as affiliated organization of the Reserve Bank of India, taking charge of specializing the implementation of DIS. Until July 1978, Deposit Insurance Corporation was merged with Credit Guarantee Corporation and took over all businesses. Thus, Deposit Insurance and Credit Guarantee Corporation (DICGC) was finally established and has kept a good momentum of development so far [4].

India adopts compulsory insurance and different insurance coverage, aiming to diverse deposits. Taking effect in 1968, reimbursement limit was set at \$5000 and gradually increased to \$30000 in 1980. From 1993, reimbursement limit was kept at \$100000 (Data Resource: DICGC, 2011 Annual Report). At the earliest, only state-owned banks and branches of foreign banks had right to engage in DIS. Along with economic development and reform in India, some local banks and cooperative banks in rural areas could also participate. But at the same time, state-owned commercial banks still occupied dominant position.

Premium rate in India was initially fixed at 0.05 % and reduced to 0.04% with effect from 1971 and again raised to 0.05% in 1993. Since 2001, the Corporation

had to settle claims for large amounts due to the failure of banks, particularly after the cooperative sector caused a massive drain on the Deposit Insurance Fund (DIF). It is necessary to build up a sound DIF in the long term to protect the interests of banking system. With this objective, the Corporation decided to enhance deposit insurance premiums. In the first phase, the premium was raised to 8 paise per 100 of assessable deposits from financial year 2004-2005 and later to 10 paise per 100 of assessable deposits from financial year 2005-2006. The premiums paid by insured banks to the Corporation are required to be absorbed by the banks themselves. In other words, the financial burden on premiums should be borne by the banks themselves and should not be passed on to the depositors.

Japan

Japan established Deposit Insurance Corporation under the provisions of “Deposit Insurance Act” in July 1971 to avoid depositor runs caused by banking failures and to maintain financial stability [5]. Deposit Insurance Corporation is a special legal organization in Japan which actually was invested by the Bank of Japan and civil financial institutions [6]. Japan also adopts compulsory insurance like India. In particular, different reimbursement and insurance rates are applied for different deposits types.

In the early 1971, deposits in Japan fell into two kinds. The former contains demand deposits, general deposits and special deposits. The latter consists of time deposits and saving deposits. Until 1986, those deposits had all the same reimbursement limits and all adjusted to full reimbursement in 1996. From 2002, reimbursement limit of the latter kind fell down to 10 million Yen. At present, deposits for the purpose of payment and settlement are full-reimbursed. General deposits are fixed-reimbursed, maintaining at 10 million Yen. (see Table 1)

Table-1: Change of reimbursement limit in Japan (Unit: Yen)

	1971.8	1974.7	1986.8	1996.7	2002.4	2003.4	2005.4	
Demand Deposits	1 million	3 million	10 million	full-reimbursed			10 million	Deposits for payment and settlement
General Deposits								
Special Deposits								
Time Deposits				full-reimbursed	10 million			General Deposits etc
Saving Deposits								
Data Resource: Japan Deposit Insurance Corporation (DICJ) :2002-2005 Annual Report Retrieved from DICJ Website: http://www.dic.go.jp/english/index.html								

Single rate system is a consistent financial policy in Japan. Premium rate increased from 0.006% in 1971 to 0.048% in 1996. Taking effect in 2001, deposits were split into special deposits and other deposits. Their

premium rates kept the same until 2002. In 2003, deposits consisted of deposits for the purpose of settlement which had the highest rate, general deposits and other. At current, deposits classification keeps

unchanged like 2003. Compared with general deposits and other deposits whose premium rate fluctuates around 0.08%, rates of deposits for payment and settlement have a larger range scope. Dropping from over 0.115% in 2005, their rates in recent years keep at around 0.107%.

Disadvantage analysis

Although principal-agent problem is prevalent in DIS, single rate system might easily exacerbate moral hazard and adverse selection of banks.

Moral hazard

Moral hazard is mainly caused by asymmetric information, referring that individuals maximize their own utility in trading activities and therefore they might behave against others.

From the perspective of depositors, they will have no incentive to supervise saving banks for safety. Therefore, supervisory responsibility will be transited to deposit insurance organization. Depositors would only focus on deposit yield rather than banks' operational risk. Banks of high operational risk or poor performance could just increase yield rate to attract depositors. Under the circumstances, the survival of the fittest principle partly fails and constraint effect would gradually weaken.

From the perspective of banks, runs threat would greatly reduce after insuring which would push banks to engage in high-risk operations and decrease capital ratios as well as liquidity reserves. Resulting from pursuit of high profits and less risk born by banks under single rate system, low-risk banks would increase operational risks and high-risk ones would invest capital in more risky activities. Ultimately, the overall risk of banking system will totally rise [7].

Adverse selection

Adverse selection also caused by asymmetric information refers that persons who know inside information would sign the contract in favor of themselves. As a result, poor-qualified products are more competitive than good-qualified ones which disobeys survival of the fittest principle in market competition. Under the voluntary insurance and compulsory insurance, performance of adverse selection is barely same.

Under voluntary insurance, single rate system might cause abnormal competition in banking system and lead to "bad money drives out good" effect. For banks of weak competitiveness, high-risk operations are powerful tools to attract deposits and pursuit more profits. These banks usually are eager to insure and their risks will be naturally transferred to deposit insurance organization. But for banks of adequate capital and sound operations, their internal risk-control mechanism works smoothly and they could attract

deposits autonomously. So, they are unwilling to increase their insurance costs and share risks from risky banks. Finally, the market would occur the situation that only risky banks want to insure and DIS will failed eventually.

The essence of compulsory deposit system is to subsidize risky banks through premiums charging from steady banks and the main protection objective of DIS would change from entire insured banks to problematic ones. In that case, it would greatly aggravate vicious competition between banks and increase whole financial risks. As a result, speculative behaviors in capital market may escalate financial threats which is definitely opposite to the original intention of DIS.

Principal-agent problem

Principle-agent problem in DIS means that there exists principle-agent relationship between depositors, government departments and deposit insurance organization. This relationship could easily influence the implement of DIS.

Deposit insurance organization could be set up by only government or co-founded by the government and civil financial organizations. Normally, member banks will pay running expenses and government departments will offer credit guarantee. But based on some political purposes, the government may make some administrative interference against system target and DIS finally becomes a political tool. In that situation, DIS loses its original significance and fails to maintain financial stability.

In addition, regulatory authorities in deposit insurance organization might give priority to profits of entire banking system rather than interests of depositors and taxpayers. Because depositors can't supervise works of the departments, they are likely to blindly tolerate or delay treatment of problematic banks in order to reduce insurance compensation expenses.

DIFFERENTIAL RATE SYSTEM

Differential rate system suggests that rate estimation is based on a comprehensive assessment of assets size, risk structure and other factors of banks. Risk-adjusted differential rate could more accurately reflect the bank's risk situation and match profits with corresponding risks. Besides, it helps to efficiently prevent moral hazard and constrain risk behaviors of banks. For this reason, most of countries and regions are considering to transit from single rate system to risk-adjusted differential rate system to improve incentive compatibility of DIS.

Canada

In 1967, the Canadian Parliament passed the 'Canada Deposit Insurance Corporation Act' and the federal government accordingly established the Canadian Deposit Insurance Corporation (CDIC) in the same year. Until 1998, premium rate in Canada was still relatively fixed. From the financial year 1998-1999, premium rate remained at 0.1667 %. In March 1999, CDIC adopted differential insurance rate. "Risk Assessment Rating Standards" was subsequently issued in July 2002 and thus Canada finally established financial regulatory system in the core of risk assessment mechanism [8]. Current calculation criteria of rate assessment mainly consists of quantitative and

qualitative aspects. Quantitative standards include asset adequacy, risk-weighted assets, efficiency ratio and so on, which account for 60 scores. In contrast, qualitative part doesn't fix standards and are scored directly by assessment panel.

CDIC charges differential premiums according to different risk conditions of financial organizations to alleviate moral hazard and adverse selection in DIS. According to current criteria, insured banks would be scored by CDIC. Based on those scores, insured banks are divided into four types, imposing different premium rate.

Table- 2: Categories and insurance rates in Canada

Scores	Premium grade	Insurance rates			
		2005-2008	2009	2010	2011-2013
≥ 80	1	1.389	1.852	2.315	2.778
≥ 65 and <80	2	2.778	3.704	4.630	5.556
≥ 50 and <65	3	5.556	7.408	9.259	11.111
<50	4	11.111	14.815	18.519	22.222

Data Source: Canada Deposit Insurance Corporation (CDIC) Annual Report 2012

Premium rate presents an ascending trend. Banks with the score over than 80 is well capitalized and would be levied the least premiums. Banks with the score under 50 have the worst assets conditions and highest operational risks, which could easily bring damage to deposit insurance organization. Banks in middle level are separated by score 65, charging corresponding premiums. From the view of relative value of growth rates, lower scores bring quicker growth speed. Consistent growth of premium rates would promote banks to quickly adjust assets structure, lower their operational risks and increase overall industry security eventually (see Table 2).

The United States

In 1933, the United States established the Federal Deposit Insurance Corporation (FDIC) which directly provided depositors with insurance protection. FDIC is an independent federal government organization and is directly responsible to the Congress. From 1994, FDIC started to implement DIS and consistently adjusted the

system according to the change of financial environment [9].

Since 1920, failed banks and saving institutions in the U.S gradually increased and the number was even over 4000 in 1933. After the launch of DIS, the number dropped instantly and greatly. From 1960, closing institutions rose once again and FDIC decided to improve insurance reimbursement maximum to \$20,000. Reimbursement limit faced two up-regulation, respectively \$40,000 in 1974 and \$100,000 in 1980. After loosening financial regulation in 1980, number of bankrupt banks rebounded a little bit. Until 1991, in order to supplement inadequate funds, FDIC decided to increase premiums and established risk-adjusted differential rate system. But aiming to vast capital runoff in 2008, DIS couldn't undertake risks from tremendous financial derivatives and eventually failed to protect banks from bankruptcy which led to soaring number of failed banks.

Table-3: Premium rate of the U.S. in 2006

Capital Group	A	B	C
Well capitalized			
Insurance rates	0	3	17
Number of institutions	8324 (95.1%)	345 (4.0%)	38 (0.4%)
Adequately capitalized			
Insurance rates	3	10	24
Number of institutions	39 (0.5%)	3 (0.0%)	1 (0.0%)
Undercapitalized			
Insurance rates	10	24	27
Number of institutions	2 (0.0%)	0 (0.0%)	3 (0.0%)

Data Resource: FDIC Annual Report 2006

Capital adequacy and CAMEL grades are main classification standards of saving institutions in the U.S. and it was obvious to find that the majority in possession of 95.1% were well capitalized. 2006 was the last year that FDIC divided bank capitals into three categories, covering Well Capitalized, Adequately Capitalized and Undercapitalized. Category groups are classified according to CAMEL grades, which are definitely the foundation of differential rate system.

Group A refers to class 1 and class 2 in CAMEL, which means that financial organizations have a sound financial structure. Group B refers to institutions with some deficiencies which could increase risks of deposit insurance organization, belonging to class 3 in CAMEL. Group C covers class 4 and class 5 in CAMEL, referring to financial institutions of serious problems which might easily cause serious damage without deep-going reform (see Table 3).

Table-4: Premium rate of the U.S.2007-2012

	I				II	III	IV	Large & complex financial institutions
	Least	Medium ₁	Medium ₂	Max	-	-	-	-
2007	5	5.01-6.00	6.01-6.99	7	10	28	43	-
2008	5	5.01-6.00	6.01-6.99	7	10	28	43	-
2009	IBAR	12-16			22	32	45	-
	UDA	-5-0			-5-0	-5-0	-5-0	-
	SDA	0-8			0-11	0-16	0-22.5	-
	BDA	-			0-10	0-10	0-10	-
	TBAR	7 - 24			17-43	27-58	40-77.5	-
2010	IBAR	5-9			14	23	35	5-35
	UDA	-4.5-0			-5-0	-5-0	-5-0	-5-0
	BDA	-			0-10	0-10	0-10	0-10
	TBAR	2.5-9			9-24	18-33	30-45	2.5-45
2011	IBAR	5-9			14	23	35	5-35
	UDA	-4.5-0			-5-0	-5-0	-5-0	-5-0
	BDA	-			0-10	0-10	0-10	0-10
	TBAR	2.5-9			9-24	18-33	30-45	2.5-45
2012	IBAR	5-9			14	23	35	5-35
	UDA	-4.5-0			-5-0	-5-0	-5-0	-5-0
	BDA	-			0-10	0-10	0-10	0-10
	TBAR	2.5-9			9-24	18-33	30-45	2.5-45

Data Source: FDIC Annual Report 2009-2011 Retrieved from FDIC website: www.fdic.gov
 Note: IBAR—Initial Base Assessment Rate, UDA—Unsecured Debt Adjustment, SDA—Secured Debt Adjustment, BDA—Brokered Deposit Adjustment, TBAR—Total Base Assessment Rate

Rate categories and value in the U.S. kept the same in 2007 and 2008 which banks were divided into 4 types according to their risks degrees. In 2008, the U.S. experienced fierce strike from financial crisis and undertook serious economic losses. Owing to increasing number of failed banks, DIF greatly shrank and then FDIC consistently reduced reserve ratio of deposit funds down to 0.36% until November. In October, the President signed the 'Federal Deposit Insurance Reform Act' and required the borders of FDIC to promote reserve plan and promise that the ratio would be over 1.15% within the following 5 years. In 2009, rates were subdivided into initial rate, unsecured rate, secured rate, brokered rate and total rate. In 2010, secured rate was canceled and the new group of Large & Highly Complex Institutions was added. Because assets

conditions are complex in those institutions, initial rate and total rate fluctuate in a large scale. Differential premiums are imposed according to their different assets conditions.

Disadvantage analysis

Differential rate system has higher requirements on financial environment and demands legislative support as well as a solid risk rating system, which are definitely big challenges for developing countries.

First problem is the legislative protection. Since the FDIC was established, every adjustment was guaranteed by issued laws. In 1993, FDIC was built up according to "Glass-Steagall Act" with detailed settings on functions and structures. As the rapid development

of financial industry, ‘The Federal Deposit Insurance Act’ endowed FDIC broader rights. Likewise, Ministry of Finance in Canada issued a new ‘Financial Regulatory Framework’ and then ‘Rating Standards on Risk Assessment’ was launched in July 2002. Eventually, Canada established financial regulation mechanism based on risk assessment system. Practice from both countries showed that legislative support is the key to a smooth DIS. For developing countries without a sound legislative system, the launch of DIS would need a longer preparation time to establish risk rating mechanism which is also the partial reason that China couldn’t implement DIS for several years [10].

The second problem comes from the increase of banks’ costs. Before-middle institutions are majorly at the high level of risks. They would bear higher premiums and are incentive to engage in high-risk activities to make two ends meet. In the preparation period for differential rate system, it is significant to rectify institutions of bad assets conditions and leaky risk-control mechanism. To reduce the strike to before-middle saving institutions, refund system like the US could be introduced in China. When deposit insurance fund reaches the upper limit, deposit insurance organization will refund premiums to saving institutions of relatively higher competition and better performance. Aiming at banks of long payment period whose premiums even don’t conform to risk conditions, the organization would refund less. Otherwise, once the fund hits the low limit, every member should be charges extra premiums.

Last but not least, bank risks cover a wide range of types and new kind of risk is always emerging as the development of financial market. Like assets quality, market share and expectation of future risk is unlikely to be precisely calculated by quantitative methods. In addition, differential rate system would have much stronger impact on before-middle banks. Large banks have generally a integrated internal structure and public information might be inclined to them which would directly influence deposits of before-middle banks. As a result, before-middle banks have no choice but modify their risk-control mechanism. And some of them might go broken due to the great slump of business.

SUITABLE PREMIUM RATE PATTERN FOR CHINA

Since the reform and opening up, China’s banking industry has grown fast and gradually formed a multiple-level banking system with various financial institutions whose main body is still state-owned commercial banks [11].

As can be seen the data in 2012, assets of state-owned commercial banks still dominate in China’s banking industry. The growth rate of stock-jointed commercial banks, dominated by CMSB and BONB is apparently higher than large commercial banks. Their growth rate respectively were 44.1% and 43.39%, ranking the top two in China’s listed banks. ICBC, CCB and ABC grew nearly, maintaining slightly over 13%. BOC and CITIC grew slowest, only about 7% which were at the lowest level and indicated that their capital expansion has slowed down and operations were inclined to steady(see Fig 1).

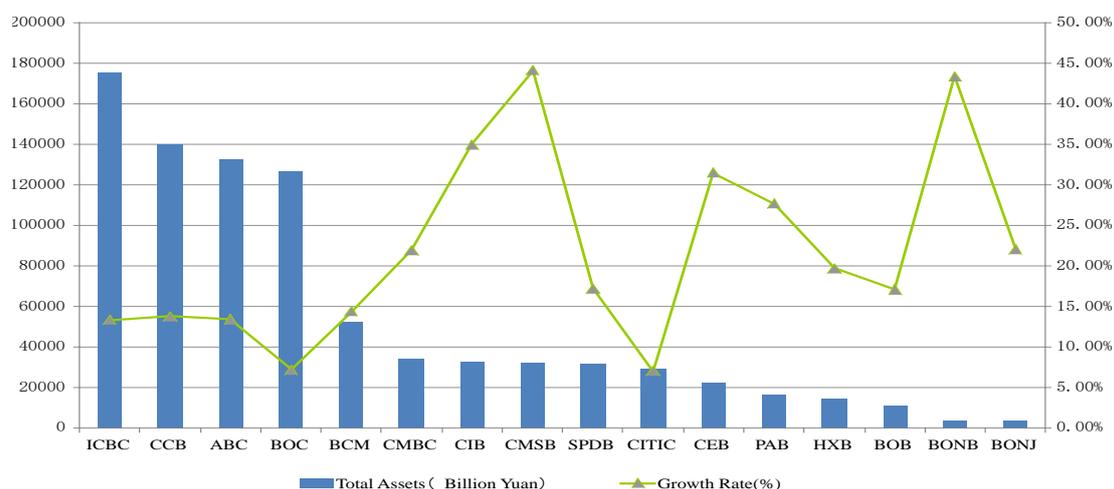


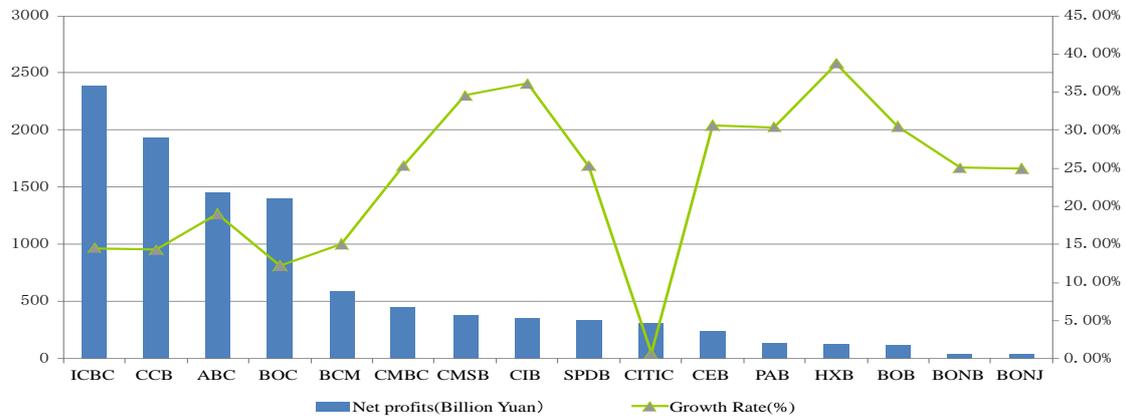
Fig-1: Assets size of China’s 16 listed banks in 2012

Data resource: Retrieved from Hexun Website : <http://bank.hexun.com/2013/2012bankyj/>

Note: ABC -The Argicultural Bank of China, CITIC -China Citic Bank, BOB -Bank Of Beijing, CMBC -China Merchant Bank, BOC -Bank of China, CMSB -China Minsheng Banking, BONJ -Bank of Nanjing, HXB -Huaxia Bank, BONB -Bank Of Ningbo, ICBC -Industrial and Commercial Bank of China, BCM -Bank of Communications, SPDB -Shanghai Pudong Development Bank, CEB -China Everbright bank, PAB -Pingan Bank, and CIB -China Industrial Bank.

Total net profits of top five commercial banks were over 770 billion Yuan. ABC reduced appropriations for expected loss and achieved the highest growth rate of 19%. That Followed was BCM with the rate of 15.1%. ICBC and CCB kept almost equivalent growth speed, respectively 14.5% and 14.3%. Overall, growth speed of state-owned commercial banks dropped behind joint-

stock banks, led by CIB and HXB. CITIC had the lowest growth rate in 16 listed banks, only 0.69% which was far behind average rate. This was because its clients of private banks has reduced nearly half. Besides, due to its cautious attitude to future financial market, CITIC increased appropriations for expected loss and prepare extra 12.8 billion loans(see Fig 2).

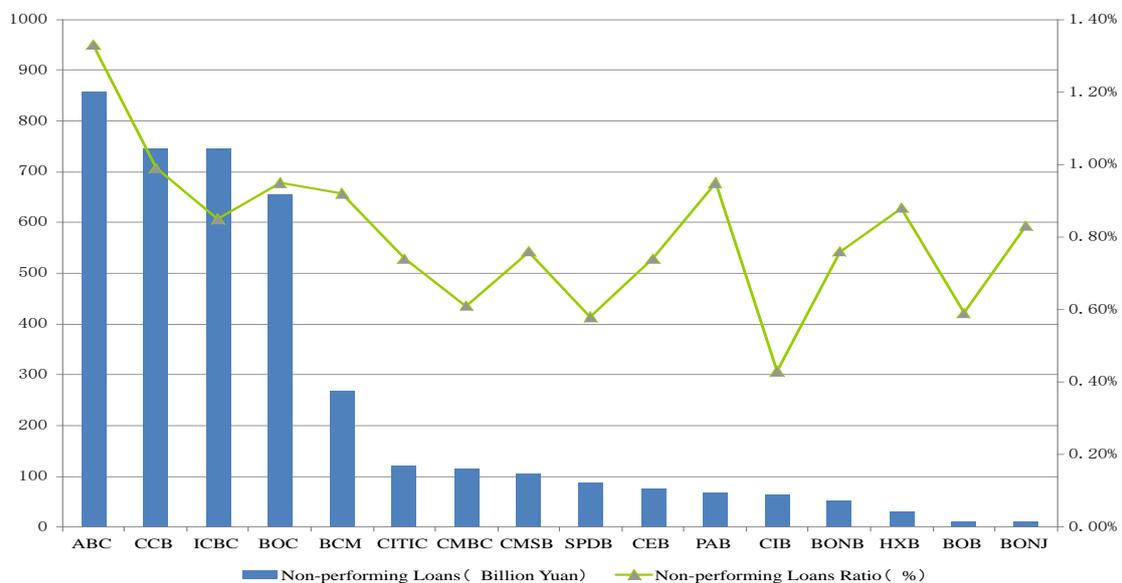


Data resource: Retrieved from Hexun Website: <http://bank.hexun.com/2013/2012bankyj/>

Fig-2: Net profits of China's 16 listed bank in 2012

Four state-owned commercial banks led by ABC took up the top four in non-performing loans and their corresponding ratio were normally higher than joint-stock banks whose ratio fluctuated up and down near the average value. Except ABC, loans of major listed banks in 2012 showed multiple-degree growth which reflected that debt ability of partial customers

and industries had dropped and default risk correspondingly increased. Non-performing loans presents lending capacity and internal-control ability of banks. Those loans have become a threat to depositors as well as the government, especially under implicit DIS. Once banks get broken, the government will undertake most of compensation(see Fig.3).



Data resource: Retrieved from Hexun Website : <http://bank.hexun.com/2013/2012bankyj/>

Fig-3: Non-performing loans and ratio of China's 16 listed banks in 2012

All in all, listed banks show a strong momentum with rising net profits and assets size. Growth rate of joint-stock banks with good performance of CMSB, CIB and HXB was obviously higher than state-owned

banks. Accompanying with the increasing assets size and net profits, non-performing loans and operational risks thereby presented corresponding growth. By contrast, State-owned banks face much higher risks

compared with joint-stock banks. With the guarantee of national credit, bankrupt probability of large commercial banks is relatively lower. For joint-stock banks, once they exposed the bankrupt probability under implicit DIS, the government is likely to assume massive economic burden owing to full reimbursement.

In order to protect depositors' interests and lower financial burden of the government, it is essential to build up explicit DIS and create a sophisticated financial environment to restrain high-risk operational behaviors of banks.

Table-5: Premium rate of China's 16 listed banks

BOP	0.776883	CCB	0.00376	SPDB	0.292098	CITIC	0.012958
ICBC	0.004802	BCM	0.002868	BONB	1.403501	CIB	0.007178
CEB	0.247633	BOMS	0.972478	ABC	0.003413	CMBC	0.153945
HXB	1.089442	BONJ	1.143102	PAB	1.558993	BOC	0.003331
Data Resource: Retrieved from Yaxi Zhang, Xiangsheng Dou [12] (2014)							

Associated with previous empirical results based on relative data of listed banks in 2012. From the chart above, premium rates of listed banks fluctuate in a large scale. premium rate of BCM is the lowest in all listed banks, which only hits 0.0029. Rate of PAB is up to 1.56, which is the highest without doubt. The highest rate and the lowest rate differ by hundreds of times, which reflects the huge differences of bank assets and risk profiles. In a word, rates substantially show ladder-like distribution. The rates of state-owned banks are lower than joint-stock banks that are lower than urban commercial banks(see Table 5). State-owned banks established early and their assets are commonly in good conditions. In addition, their internal mechanisms on risk control and management system are much better. It is easy to see, if single rate system comes into effect, different operating conditions couldn't be effectively reflected and this could become an obstacle for long-term development.

In order to precisely reflect different financial conditions of banks, differential rate system is much more suitable for China in a long run. The process of establishing differential system could be divided into three phrases. In the beginning, single rate system with relatively low premiums would be promoted all over the country. The main purpose is to absorb banks and saving institutions as many as possible and to build up a integrated DIS. Then, differential rate system would be implemented in some pilot banks, respectively representing banks of different rate level. After observing effects of each pilot bank and modifying corresponding criteria and regulations, differential rate system would be carried out throughout the country. As the development of pricing models, premium rate of each institution would be accurately estimated in the future and risk-adjusted differential rate system would be put into force eventually.

CONCLUSION

DIS is a critical link of China's financial system which is not only the premises of interest rate liberalization, but also the demand of a stable financial environment. DIS could efficiently reduce financial

risks which are caused by internal vulnerability of banks. At present, the government actually provides credit guarantee for whole financial industry and takes full responsibility of all financial behaviors. China has obvious economic, financial and legal characteristics which means more works during the process of establishing DIS. The transition from full reimbursement to fixed reimbursement might bring more risks compared with other countries. This might lead to run crisis caused by decrease of public confidence that will increase risks of individual banks. More seriously, it might lead to severe strike to entire banking system.

From the perspective of international experience, premium rate patterns are gradually evolving to risk-adjusted differential rate system. Several single-rate countries like Japan is considering the reform of premium rate. The financial market in China is complicated and banks' conditions are pretty uneven. Due to different factors such as asset size, internal mechanism and so on, rate disparity might be up to a hundred times or more. So in order to achieve long-term development, differential rate system is much appropriate compared with single rate system. Differential rate system is supposed to achieve in three steps in China, covering single rate system in all insured institutions, differential rate system in pilot banks and risk-adjusted differential rate system on a national scale. Without doubt, each adjustment couldn't work out without long and sufficient preparation works.

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