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Taiwan's First Financial Storm- The 10th Credit Cooperative of Taipei Scandal¹



“ The history of the 10th Credit Cooperative



The Credit Association of Taipei was founded by Taiwan's Japanese colonial government in September 1911. After World War Two, the Taiwan government took over the institute and renamed it the 10th Credit Cooperative of Taipei (10th CCT, 臺北第十信用合作社). At its height, the institution had 18 service locations, 100,000 members, and NT\$17 billion in savings (US\$60 million), an amount equivalent at that time to around 6% of the total amount deposited in Taiwan's 75 credit cooperatives. The reserves of the 10th

CCT, Taiwan's largest credit cooperative in the 1980s, were an irresistible honeypot to insiders with big schemes.

¹ 民國 74 年 6 月 17 日，臺北地檢署 74 年度偵字第 3386 等案件，以背信、業務侵占、偽造文書等罪起訴被告蔡辰洲等 74 人，因其等利用人頭加入台北第十信用合作社（下稱十信），並利用人頭及蔡辰洲國泰集團公司名義向十信貸款，惟提供之擔保品價值不足卻以高估百倍至千倍之方式提高貸款額度。4 年間共違法貸得新台幣 62 億 4705 萬元。財政部因此令合庫接管十信，這是史上第一家被接管的金融機構。臺北地方法院後以 74 年度訴字第 1290 號判決主嫌蔡辰洲有期徒刑 12 年。本件偵查檢察官為陳聰明。

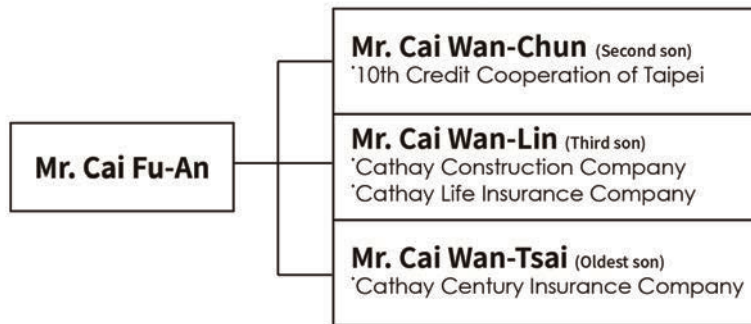


Photo from editors

“ The Background of the Credit Cooperative

Taiwan's credit cooperatives are governed under the 1934 Cooperative Law, which defines cooperatives as a multi-member legal person. Members join a credit cooperative by depositing membership fees and then enjoy the right to vote for representatives and to take out loans. Credit cooperatives were envisioned as mutual aid networks that would improve the lives of all members, with credit reserves made available to

members in order to provide relief during periods of short-term financial difficulty. However, in practice, credit cooperatives have operated little differently from traditional banking institutions. Thus, these de-facto banks, controlled by a minority of their membership instead of professional managers, unregulated by bank laws, and sitting on large cash reserves have occasionally devolved into ticking financial time bombs.



Photo from Apple daily

“ The Rise of Cathay Conglomerate

Mr. Cai Wan-Chun (蔡萬春), son of Cai Fu-An (蔡福安), a lifelong farmer, founded Cathay Conglomerate (國泰集團), a business organization with a diverse portfolio including Cathay Century Insurance Company (國泰產物保險公司), Cathay Life Insurance Company (國泰人壽保險公司), Cathay Construction Company (國泰建設公司), International Marine Transportation Corporation (國際海運公司), Cathay Plastic

Company (國泰塑膠公司), Cathay Securities Investment Trust Company (國泰信託公司), Cathay Advertisement Company (國泰建業廣告), and Cathay Petroleum Company (國泰石油化學公司).

Mr. Cai Chen-Zhou



Photo from 國家文化資料庫

Wan-Chun was appointed deputy chief of Taipei City's central district after World War Two and then, in 1957, was elected Board Chairman of the 10th CCT. He built up a personal fortune by using the cooperative's funds to invest in real estate. Looking to replenish the 10th CCT's reserves, he launched the "open an account with a dollar" campaign in 1960. This campaign was so successful that deposits topped NT\$100 million within a few months, making the 10th CCT the largest of Taiwan's 75 credit cooperatives.

Wan-Chun's younger brother, Cai Wan-lin (蔡萬霖), took over as Board Chair, serving until 1979. When Wan-Chun died in 1979, Cathay Conglomerate was split among his brothers, and Wan-Chun's son, Cai Chen-Zhou (蔡辰洲) was appointed 10th CCT Board Chairman that same year. At this point, the Cai family had controlled the credit cooperative for over 20 years. During that time, the Cai clan had used credit funds not only to fund Cathay Conglomerate's expansion but also to fund other Cai family projects and needs.

“ Cai Chen-Zhou and the “13-Brother Group”



Legislative Yuan

C hen-Zhou was a businessman with an interest in politics. In pursuit of the latter, he struck up a friendship, via Lieutenant General Xiao Zheng-Zhi (蕭政之), with General Wang-Sheng (王昇), one of Taiwan’s most powerful generals at the time. Wang-Sheng arranged Chen-Zhou’s admission to the then-ruling party, the KMT (國民黨), after which he ran as a candidate in the supplementary Legislative election in 1982. Chen-Zhou won the election and formed the “13-Brother Group” in the Legislative Yuan (LY).

Mr. Cai Chen-Zhou (1985)



Photo from 2016.16.15 EBC

Members of this group included the so-called four “King Kongs”, Liu Song-Fan, Wang Jin-Pin, Xie Sheng-Fu, and Xiao Rui-Zheng, who together wielded definitive influence at the time over Taiwan’s highest legislative body. Chen-Zhou and his group cultivated close and mutually beneficial ties with government officials. Two key issues pushed by this group were the lifting of term restrictions on credit cooperative directors and the allowing of trust companies to run banks. Their ultimate aim was

to gain broader control over financial resources for personal benefit. Meanwhile, Chen-Zhou continued to take advantage of his board chairmanship at the 10th CCT, loaning credit funds for his personal real estate investments.



1985: The Financial Scandal Breaks

As a membership-based cooperative, only members of the 10th CCT could be approved for loans. Chen-Zhou thus arranged friends and Cathay Conglomerate employees to sign up as members and then took out loans in their names. Moreover, he used worthless properties as collateral to take out high-value personal loans from the 10th CCT. By the end of 1982, the value of outstanding 10th CCT loans had climbed to NT\$23.2 billion (US\$77 million).

In 1983, the Ministry of Finance (MOF) uncovered unusual loans made by the 10th CCT during a regular financial audit. The ministry issued a warning and assigned MOF officials to monitor the cooperative from the inside. In 1984, these officials discovered that reserve cash levels were below the required minimum and the MOF ordered the 10th CCT to take

corrective action. However, the order was ignored. In January 1985, the discovery of illegal loan activities at the cooperative led the Central Bank to announce that it would soon launch a formal investigation. Chen-Zhou, with his government insider status, was leaked information about the coming investigation. In response, he accelerated the process of loaning 10th CCT funds to Cathay Plastic Company, emptying the cooperative's coffers within a month through loans totaling NT\$3.8 billion (US\$130 million).

Cathay

Plastic Company (1986)



Photo from January 28, 1986 National Central Library

On February 9th, 1985, the MOF discovered that the cooperative had loaned out 102% of its deposits -- NT\$15.4 billion (US\$513 million) lent with only NT\$15.1 billion (US\$503 million) in total deposit value. With no hope of ever balancing its books, the MOF ordered the 10th CCT closed for three business days and asked the Taiwan Cooperative Bank (合作金庫) to take temporary control.

When news broke of the MOF' s findings, 10th CCT depositors rushed to withdraw

their savings. On February 10th, depositors withdrew NT\$31.5 billion (US\$105 million), decimating the cooperative' s cash reserves. This is when checks issued by Cathay Conglomerate subsidiaries (mostly Cathay Plastic and Ideal Industry) began bouncing as well. As of February 12th, NT\$61.8 billion (US\$206 million) had been withdrawn from the cooperative, triggering MOF' s decision to announce that the Taiwan Cooperative Bank (合作金庫) would run the 10th CCT indefinitely.



Photo from February 28, 1985 民主政治週刊

Mr. Cai Chen-Zhou

THE INVESTIGATION

On February 10th, 1985, MOF' s Investigation Bureau (MJIB) began its investigation into the credit scandal and other illegalities. On February 21st, MJIB initiated the first arrests, including those of 10th CCT General Manager Chen Ze-Sheng (陳澤生) and Supervisors Lin Yan-Huo (林炎火) and Li Chao-Lun (李超倫). Other interrogations of 10th CCT directors, supervisors, managers, and assistant managers were conducted in the days that followed. All were intensively interrogated and some of were detained. Prosecutor Chen

Cong-Ming (陳聰明) then set his sights on arresting Chen-Zhou, the main defendant and still a sitting LY Legislator. Chief Prosecutor Chen Han (陳涵) negotiated for the arrest of Chen-Zhou with Legislative Yuan President Ni Wen-Ya (倪文亞) and the members of the 13-Brother Group. The LY passed a resolution that agreed to the arrest on March 1st, 1985, making Cai Chen-Zhou the first incumbent Legislator in Taiwan history to be arrested.



Photo from February , 1986 大人物月刊

The investigation turned its focus toward the bounced checks issued by Cathay Plastic and Ideal Industry. Ideal Industry President Xiao Zheng-Zhi (蕭政之) was arrested, interrogated, and later indicted for violating the Negotiable Instrument Act. He was soon sentenced and served his time in jail.

There was a public outcry for a formal investigation into the connection between government officials and the illegal loans

made by the 10th CCT. However, an investigation would eventually single out only three employees in the legal affairs office of Taiwan Cooperative Bank as being responsible for leaking information to the 10th CCT prior to TCB's investigations.

“ THE INDICTMENT

After 4 months of investigation, Prosecutor Chen Cong-Ming indicted 84 defendants including 10th CCT President Cai Chen-Zhou, General Manager Chen Ze-Sheng, Loan Department Manager Yu Zhuang-Yong, Assistant Loan Department Manager Cai Pei-Yan (蔡培煙), Gao Kun-Yu (高崑玉), Secretary General Xu Zheng-Fu (徐政夫), and Supervisors Lin Yan-Huo (林炎火), Li Chao-Lun (李超倫) and Chen Ju-Wan (陳居萬) on June 17th, 1985. Employees at 16 10th CCT branches were also indicted for accepting loan applications from nominal members and for accepting insufficient loan guarantees, falsifying property assessments, and facilitating illegal loans. Cathay Plastic Company Deputy Managers Lin Zong-Yuan (林宗源) and Jiang Chi-Hong

(江啟宏) and Assistant Manager Zheng Wu-Xiong (鄭武雄) were found guilty of assisting in the scheme by encouraging employees to become 10th CCT members. A total of 234 nominal members were used to apply for illegal loans totaling NT\$6.76385 billion (US\$225.5 million). Defendants were charged under the Criminal Law for counterfeit, embezzlement, infidelity, and business document forgery.



Mr. Cai Chen-Zhou in the trial
Photo from July 25, 1985 CTS

“ THE TRIAL

Chen-Zhou pleaded not guilty to the charges, arguing that he did not provide false property assessments to the cooperative and was not involved in the loan process. He instead fingered others as the culprits. Lin Zong-Yuan denied being involved in false property assessments and illegal loans. Yu Zhuang-Yong and Chen Ze-Sheng both argued that they were simply following the instructions of Cai Chen-Zhou. Gao Kun-Yu argued that he had simply followed the instructions of Yu Zhuang-Yong. Other employees argued that they had either followed the orders of their supervisors or had followed proper loan protocols.

On December 19th, 1985, the Taipei District Court found 31 lower level employees not guilty and 53 other defendants guilty either as charged or as partially charged. Chen-Zhou received a sentence of 12 years' incarceration; Lin Zong-Yuan and Mr. Yu Zhuang-Yong were sentenced to 6 years; Gao Kun-Yu was sentenced to 4 years; and Jiang Chi-Hong received 3 years. Other defendants were sentenced to between 6 months and 2 years' incarceration.

Mr. Cai Chen-Zhou in the district court



Photo from
July 25, 1985 CTS



Photo from
December 19, 1985 ITV

Both the defendants and the prosecution appealed to the Taiwan High Court. After a 10-month trial, the High Court revised and overruled a number of the appeals, with their announcement made on October 3rd, 1986. Chen-Zhou was still sentenced to 12 years' incarceration, but was found not guilty of embezzlement. Lin Zong-Yuan was sentenced to 6 years, and Yu Zhuang-Yong was sentenced to 5 years. Other defendants were sentenced to prison terms between 6 months and 3 years and 6 months.

刑事判決
正本


右被告因背伺等案件，業經偵查終結，影廳提起公訴，茲敘述犯罪事實及證據並所犯法條如左：

二、**組織關係**：台北區國庫券十位用合作社（以下稱十位社）**董事長**，受託員代表大會及理年會之委任。處理事務，另委任國圖國庫券企業部國圖泰昌膠工股份有限公司（以下稱國圖泰昌膠）、台灣海運股份有限公司（以下稱國泰海運）、理想工業股份有限公司（以下稱理想工業）、台灣鞋業股份有限公司、華泰通運股份有限公司、國豐彩色印刷股份有限公司（以下稱國豐彩色印刷）、大華印刷股份有限公司（以下稱大華建設）、長洲工業股份有限公司等八家公司**董事長**，或副董事長，負責該廠執行業務，（以下生係十位社經理，余計別係受託員代表辦理，自負責放款及事務之審核，假收大為虧累暨主任，協助蔡英洲處理業務，**蔡英洲**、**高鳳主**為受託員事務經理，負責不動產據保品估價之審核，分別受委任處理事務，**朱本誠**為國庫券公司副總經理，掌握國圖國庫券金業資金之調度。民國廿八年初，即經該企業因經帳不善，管理欠週，以民間借款利息負擔極為沉重，致使實金國庫券調轉至為困難，蔡英洲乃意欲快圖國庫券全

[illegible]

主、
列決國於蘇俄、李烈鈞、陳肇濤、林耀堂、蘇金榮、許金龍、劉明生、陳國良、許正安、章永和、方鏡銘、蘇嘉慶、黃川、蕭志明、吳永春、陳國良、周敏捷、張召明、郭永祥、高永福、吳松仁、吳嘉松、陳國良、邱錦博、葉惠澤、林國雄、余伯仁、吳錦健、蔡炎微、蘇振雄、林茂、邱錦博、葉惠澤、分發執行兩地捕、監、施厚、鄭慶雲、張育松、辛仁松及林茂輝曾信分發執行兩地捕、

刑未入

奉獻則共同頒行使爲惡私文書，足以生損害於他人，或有期徒刑案者，被罰公權限年，又復損益歸爲自己不決之所有，而侵佔對於禁獄上所持有之物， 有期徒刑案者，設等公權限年，應執行有期徒刑案者，設等公權限年。

林宗泰、徐壯勇共同連頒行使爲惡私文書，足以生損害於他人，各處有期徒刑案者，均減等公權限年。

高麗王、江啓宏、吳昭陽、鄭文良、方鏡樓、章永和、張召春、張清萬、趙敏雄、許正宏、翁嘉松、蘇嘉榮、許金龍、陳國興、鄭吉明、林茂松、鄭武雄、郭兆祥、王永福、黃川、連志明、蘇延、蔡炎欽、蘇福源、邱時博、林茂、曾世榮、廖忠評、余鼎、陳國華、陳慶晴、歐居萬、李昭倫、陳輝生、林廣茂、吳兩助均共同連頒行爲他人處置事務，章程屬第三人財產，高麗王處有期徒刑案者，由該處自行任務之行爲，發生損害於本人之財產，高麗王處有期徒刑案者，江啓宏、吳昭陽各處有期徒刑案者，陳文良、方鏡樓、鄭武雄、各處有期徒刑案者，吳永壽成院生刑罰壹年拾月，章永和成有期徒明壹

年四月，張樹萬、趙俊隆各處有期徒刑壹年叁月，張澤生、許正宏、章寶松、林茂松各處有期徒刑壹年叁月，蘇嘉榮、許金龍、劉嗣男各處有期徒刑壹年，鄭召明、林兆祥、莊有慶、葉思明、林國華、張殿晴、陳有期徒刑貳年，高永燦、黃川、邱錦坤、林茂、余銀仁、吳南福各處有期徒刑柒月，陳召明、郭兆祥、蘇健、蔡國雄、葉惠祥、林國華、張志明、蘇炎歡、曾世榮、吳南福、鄭召明、高永燦、黃川、邱錦坤、林茂、余銀仁、吳南福各處有期徒刑貳年。

林仁郎、張富山、辛仁松、張金榮、張孝雄、張茂男、周文瑞、施模厚、張哲雄、鄭榮平、張仁松、林俊榮、李思宗、陳東裕共明爲他人藏匿事務，意圖爲第三人不法之利益，而協助其任務之行為，故生損害於本人之公益，林仁郎、張孝雄、林俊榮、李思宗、陳東裕各處有期徒刑貳月，張仁松各處有期徒刑柒月，鄭榮平、張哲雄各處有期徒刑捌月。林仁郎、張孝雄、張金榮、林俊榮、李思宗、陳東裕、周文瑞、張富山、張其景、張茂男、張其景、張



Mr. Xu Li-De



Mr. Guan Zhong



Mr. Lu Run-Kang



Mr. Jiang Ten-Shi

Photo from

The upper right : CNA

The lower left : The History of Ministry of Finance

The upper left : China Times

The lower right : Government Information Office, Executive Yuan

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THE CONSEQUENCES

This financial scandal caused Minister of Finance Lu Run-Kang, Minister of Economic Affairs Xu Li-De, KMT Secretary General Jiang Ten-Shi, and KMT Taipei Branch Chairman Guan Zhong to resign soon afterward.

Bank of Communications (交通銀行) Managing Director and former Vice Premier of the Executive Yuan Yu Jing-Tang suffered a stroke while deriding the 10th CC^T at a managing directors' meeting and passed away soon after².

² See <http://old.itn.com.tw/2003/new/aug/13/today-o1.htm>



Cathay Hospital

Photo from July 23, 2016 Solomon203 , Wiki

Cathay Plastic, Cathay Construction, and Cathay Life Insurance were swept up in the the scandal and were the subjects of citizen-led boycotts and protests for many years afterward. Cathay Construction later filed for bankruptcy and was put up for auction. Cathay Conglomerate financially suffered in the scandal and sold off important properties to raise needed cash.

Cai Chen-Zhou was diagnosed with cancer during detention and died on May 14th, 1987 before finishing his jail term. He passed away in Cathay Hospital (國泰醫院), a Cathay Conglomerate subsidiary, leading to rumors that he

had faked his death in order to escape justice.

In April 1985, The MOF promulgated the Deposit Insurance Act and, in September 1985, the MOF and the Central Bank funded and founded the Central Deposit Insurance Corporation (中央存款保險公司).

	Taiwan Cooperative Bank	The Central Deposit Insurance Corporation	The Central Bank
Credit Cooperation	47	26	1
Farmers Associations	248	35	2
Fishermen Associations	18	7	0
Local bank	0	3	13
Commercial bank	0	3	5
Trust investment company	0	6	2
Foreign banks	0	0	36
Bills Finance Corporation	0	0	2

Chart by editors

After this scandal, the MOF proposed a new financial monitoring system, adding deposit insurance, and separating financial oversight work among four groups. Taiwan Cooperative Bank took charge of overseeing 47 credit cooperatives and the loan departments of 248 Farmers Associations and 18 Fishermen Associations. The Central Deposit Insurance Corporation (中央存款保險公司) took charge of overseeing 3 local banks, 3 commercial banks, 6 trust investment companies, 26 credit cooperatives, and the loan departments of 35 Farmers Associations and 7 Fishermen Associations. The Central Bank (中央銀行), under MOF authorization, took charge of overseeing 13 local banks,

5 commercial banks, 36 foreign banks, 2 trust investment companies, 2 bills finance corporations, 1 credit cooperative, and the loan departments of 2 Farmers Associations.

The 10th Credit Cooperative scandal was Taiwan's first financial storm and the first domino to fall in the series of financial scandals that erupted over the subsequent three decades.

QUOTE FROM PROSECUTOR

Chen Cong-Min

At the beginning of the investigation, our office had targeted potential defendants to deputy managers and their superintendents of the 10th Credit Cooperation. To my recollection, Defendant Cai was a legislator at the time and many other legislators obtained fund from the 10th Credit through Cai's help. In time, he formed a "13-Brother Group" in the Legislative Yuan. Pursuant to the Cooperation Law, the credit needs to prepare a certain percentage fund as reserve fund to stabilize the bank. However, Defendant Cai used the reserve fund as his pocket money. The way he avoided financial examination was to bribe the examination personnel as to put the money back before examination. Those who received bribes were indicted later.

sought help from Minister Lu Run-Kang of the Ministry of Finance and General Manager Chen of the Cooperative Bank. Minister Lu therefore called out to Mr. Cai WanLin, Defendant Cai's relative, for help. Unfortunately, under Lu's warning, Mr. Cai WanLin refused to help for

the reason that the Cai family has spitted up the family properties and Defendant Cai had had his share. As a consequence, Cathy Construction Company and Cathy Life Insurance Company, which not belonged to Defendant Cai, were also protested by raged people. Cathy Construction was influenced and went bankrupt later.

On February 17, 1985, Chief Prosecutor Chen Han directed me to check out situations in Cathy Plastic Company. When I arrived at the company, I was accommodated by its general manager. I asked him if the company can solve the problem of checks bouncing, he replied that Defendant Cai was working on it.

On February 21, the first groups of defendants were sent in the Prosecutors Office by MJIB. After interrogating those defendants, I decided to detain them. Later on February 26, I decided to push the investigation further and to arrest the main defendant, Cai. Later on March 1, the Legislative Yuan had a meeting and agreed on arresting Cai. For he was a sensitive political figure, I decided to interrogate him in secret. I arrested him in his residence and took him to the then dormitory of the office (now the kindergarten of MOJ). After Cai was detained, the news was then disclosed to the press.





A.D. 1935 Taipei
Photo from Taipei City Archives