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The First Financial Storm- The scandal of the 10th Credit Cooperation of Taipei



“ The history of the 10th Credit Cooperation



The Credit Association of Taipei was founded in September 1911 by then Japanese colonial government. After World War II, the Taiwan government took over the institute and renamed it as the 10th Credit Cooperation of Taipei (臺北第十信用合作社, hereinafter, the Credit).

The Credit had 18 branches (including head-quarter), 100 thousand members, and up to 17 billion NT dollars in savings (i.e. 60 million US dollars). The amount of savings accounted for 6% of total savings of 75 credit cooper-

ation institutes nationwide. The Credit was the largest credit cooperation in Taiwan in 1980s. The money pile was definitely an attraction to anyone who was fascinated in money game.

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（2 億 823 萬美元）。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。本案偵查檢察官為陳聰明。

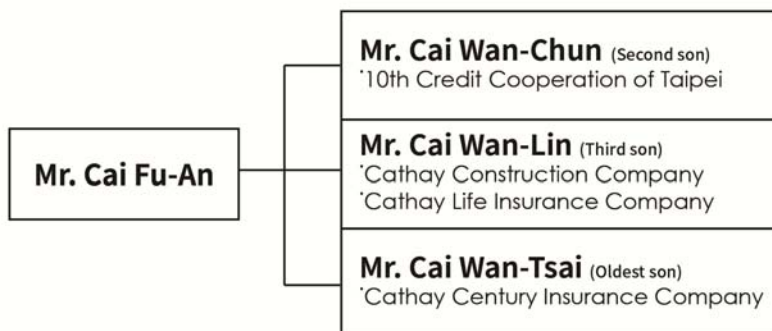


Photo from editors

“ The background of the Credit Cooperation

The credit cooperation institutes were ruled by the Cooperation Law promulgated on February 16, whereas enacted on September 1, 1934. Pursuant to the Cooperation Law, the Credit was a legal person with members. By depositing membership fees, a person could join the Credit and enjoy the right to vote for representatives and to take out loan. In addition, the purpose of founding credit cooperation was to provide mutual aid to members as to improve their lives. The fund of the Credit was like relieve money

for members in times of predicament. However, in practice, since the Credit accepted loan applications, it worked as a bank. A de-facto bank which was possessed by minority of members but not professional managers, not regulated by bank laws, and had loads of fund open to loans, was later proven to be a clocked bomb.



Photo from Apple daily

“ The Rise of The Cathay Conglomerate

Mr. Cai Wan-Chun(蔡 萬 春), son of farmer Cai Fu-An(蔡 福 安), was the founder of The Cathay Conglomerate (國泰集團), which included 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 Transpor-

tation 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

Mr. Cai Wan-Chun (蔡 萬 春) was appointed as the deputy president of central city area of Taipei City after World War II. He was also elected as the Chairman of the board of directors of the Credit in 1957. He took advantage of fund of the Credit and invested in real estate to accumulate family wealth. To replenish the fund, he initiated a one-dollar-to-open-account activity in the Credit in 1960. This activity made the deposit of the Credit reach 100 million NT dollars within months and made the Credit the largest of all 75 Credit Cooperation nationwide.

His younger brother, Mr. Cai Wan-lin (蔡 萬 霖), took over to chair the Credit later until 1979. In 1979, Mr. Cai Wan-Chun had a stroke and divided up the Cathay Conglomerate with his broth-

ers. His son, Mr. Cai Chen-Zhou (蔡 辰 洲), allotted the Credit and chaired the Credit since 1979. To this point, the Cai family had controlled the Credit for over 20 years and obviously benefited from the Credit to expand Cathay Conglomerate. The fact above also demonstrated that a member-based and cooperative fund had been abused as personal pocket money by the Cai family.

“ Chairman Cai Chen-Zhou and his “13-brother Group”



Legislative Yuan

As a merchant, Mr. Cai Chen-Zhou was also interested in politics. To win an entrance ticket to join the political game, he was introduced to General Wang-Sheng by Mr. Xiao Zheng-Zhi, a Lieutenant General, to honor General Wang as his godfather. With the support of the most powerful general in Taiwan, Mr. Cai Chen-Zhou was then introduced by Wang-Sheng to join the then ruling party, the KMT (國民黨); and soon was nominated as candidate of the KMT to campaign in the supplementary legislators' election in 1982. Mr. Cai Chen-Zhou later won the election and formed a 13-brother group in the Legislative Yuan.

Mr. Cai Chen-Zhou (1985)



Photo from 2016.16.15 EBC

The 13-brother group included Mr. Liu Song-Fan, Mr. Xiao Rui-Zheng , Mr. Li Zong-Ren, Mr. Li Lian-Hui, Mr. Chen XiQi, Mr. Guo Rong-Zong , Mr. Shen ShiXiong , Mr. Wu Zi, and so on. Mr. Cai Chen-Zhou (蔡辰洲) and his group purposefully maintained a close relationship with government officials to form a mutual-interest tie; and lobbied for unlimited term of directors of the Credit and permission for trust companies to run bank business. Their aim was to control the money resource for personal disposal. Meanwhile, Mr. Cai Chen-

Zhou took advantage of chairing the Credit and utilized Credit fund to invest in real estate to expand personal investment.

“ The first financial scandal in 1985

Since the Credit is a membership-based cooperation, only members have the right to take out loan from the Credit. Mr. Cai Chen-Zhou therefore instigated friends and employees of the Cathay Conglomerate to join the Credit as his nominal members.

Mr. Cai Chen-Zhou then used these nominal members to take out loan from the Credit. Moreover, Mr. Cai Chen-Zhou mortgaged worthless properties and applied for relatively unreasonable high loans from the Credit. At the end of 1982, the total amount of loans of the Credit had reached 23.2 billion NT dollars (i.e. 77 million US dollars).

In 1983, the Ministry of Finance discovered unusual loans in the Credit during a regular financial examination. The Ministry of Finance gave the Credit warning and designated government officials to

long stay in the Credit for further guidance. In 1984, the long-stayed government officials discovered that reserve cash in the Credit was insufficient. The Ministry of Finance then urged the Credit to improve it.

However, the situation did not change. In January 1985, the Central Bank discovered illegal loans in the Credit and intended to launch examination actions to the Credit. Nevertheless, Mr. Cai Chen-Zhou had good government connection and the information was leaked to him; he then accelerated to take out loan from the Credit to Cathay Plastic Company (國泰塑膠公司). Within one month, Mr. Cai Chen-Zhou emptied the Credit by loaning 3.8 billion NT dollars (i.e. 130 million US dollars).

Cathay

Plastic Company (1986)



Photo from January 28, 1986 National Central Library

On February 9, 1985, the Ministry of Finance realized the total loan volume had reached 15.4 billion NT dollars (i.e. 513 million US dollars); on the contrary, the total deposit volume was only 15.1 billion NT dollars (i.e. 503 million US dollars). That is to say, the loan ratio was as high as 102%. The Credit had completely lost its ability to pay. The Ministry of Finance requested the Credit to cease business for the following three business days and asked Taiwan Cooperative Bank (合作金庫) to take over temporarily.

The news burst out and crashed confidence of members of the Credit. A bank run inevitably happened on February 10;

and the Credit was withdrawn for 31.5 billion NT dollars (i.e. 105 million US dollars). Within an hour that day, cash in the Credit was emptied. At the same time, checks issued by the Cathay Conglomerate (國泰集團) bounced; mostly from Cathay Plastic Company (國泰塑膠公司) and Ideal Industry Company (理想工業公司). Up until February 12, the Credit had been withdrawn for 61.8 billion NT. Dollars (i.e. 206 million US dollars). The Ministry of Finance announced that Taiwan Cooperative Bank took over the Credit indefinitely.

錯認不告被個個·過指彈錢金滾滾
數個湊天聊茶喝？麼什做員委款放
組小人三看全稱們員委·式形具徒核審說洲辰蔡

【台北訊】放款委員及他都不到信用調查表。

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人頭案開庭十五人應訊

[illegible][illegible]

【本報記者林建豪攝】

十位鄉親在基隆族聚十五人，昨天出庭應訊，蔡民洲認錯

路。

[illegible]

量」。

十信總經理陳澤生在一一般人眼光是一「位高權重」，但

他說，他擔任總經理，只負責領導人事和秘書工作而已。十信原籍省長王任徐放天說，他幹得真棒、準得很。總行大拿錢的是經理，十信理事會放款的具體建議請聽他，他在加爾各答的大理、金寶隆、倫敦約具三章，證明自己是負責任設計。建築改良和開辦的事，有鐵實金寶隆完全是他負責。

十信保險總經理兼倫敦分社現身的董事是德魯管理。他是賣金礦產、補給船隻的董事，也是他管。德魯被說是文士，是下屬。

據陳文福先生說，他是要當董事財務部長，但四年紀大，常被罵老頭子，一般辦事只是去友人的工廠有關的事，他只拿沙馬馬。

十信保險部不結帳，他相信家中有十信保險部信件，因為他不懂英語，不對付他的妻子夏慈，就搬一冷浴，到社員俱樂部社。

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「這樣就好」？

被問作標本的「哈二」：昨天壯勇在法堂與
判官安畢，余壯勇特別要求向標本問講一句話，他說：「
標本，希望早日施藥，體恤」他。

經原問：「
漲紅臉，沈
默許久，向余
壯勇作了一個
「這樣就好」
的姿勢，說：「
這樣就好，謝
謝，謝謝。」
時，余壯

[illegible][illegible][illegible]

十位投信部經理余社禮不久出了車禍，昨天他與余社勇與林振洲關係非常相見，雙方都顯得非常坑過林振洲一毛錢，也沒

起將這義明他名版則國、澄見。

**父保均未獲
兄家人禁令**

官場東貨客眾多位在押被
未獲准；不過他們原被禁止
起可以在看守所會見前去
辯護律師代他提出要求求
到了監獄重節，很可庭商
到地開關工作進行到一半
受了嚴重傷害，希望法庭准許
親友來探視，以免發生災
難時以身體不適為由，
陳澤生之子崔惠忠
被告，也分別以身體健康

[illegible]



Photo from February 28, 1985 民主政治週刊

Mr. Cai Chen-Zhou

THE INVESTIGATION

On February 10 1985, the Investigation Bureau of the Ministry of Justice (hereinafter, the MJIB) started to investigate into the Credit scandal and illegality. On February 21, MJIB initiated the first arrests, including that of the general manager Mr. Chen Ze-Sheng (陳澤生), the supervisors Mr. Lin Yan-Huo (林炎火) and Li Chao-Lun (李超倫). After interrogated by prosecutor Chen Cong-Ming (陳聰明), they were all detained in the Taipei Detention Center.

In the following days, directors, supervisors, managers, and assistant managers of the Credit were intensively interrogated and some of them detained. The Legislative Yuan

agreed the arrest of Mr. Cai Chen-Zhou (蔡辰洲), the main defendant but also the then legislator. Chief Prosecutor Chen Han (陳涵) negotiated the arrest of Mr. Cai Chen-Zhou with President Ni Wen-Ya (倪文亞) of the Legislative Yuan and the members of the 13-brother group. After passing a resolution by the committee of the Legislative Yuan, the Legislative Yuan agreed to arrest Mr. Cai Chen-Zhou on March 1, 1985. Mr. Cai Chen-Zhou was the first incumbent legislator to be arrested in the history.



Photo from February , 1986 大人物月刊

Investigation then proceeded to focus on the bounced checks issued by Cathay Plastic Company (國泰塑膠公司) and Ideal Color Industry Company (理想工業公司). Mr. Xiao Zheng-Zhi (蕭政之), president of Ideal Color Industry Company, was arrested and interrogated. Later, he was indicted for violation of the Negotiable Instrument Act.

He was soon sentenced and served his time in jail until the abolishment of criminal responsibility of the Negotiable Instrument Act.

In this devastation, the public voice asked to investigate into the connection between government officials and the illegal loan of the Credit. After thorough investigation, only three employees in the legal affairs office of Taiwan Cooperative Bank (合作金庫) were found responsible for leaking information to the Credit before Taiwan Cooperative Bank intended to conduct examinations targeted at the Credit.

“ THE INDICTMENT

After 4 months of investigation, prosecutor Chen Cong-Ming (陳聰明) indicted 84 defendants including president Mr. Cai Chen-Zhou (蔡辰洲), General Manager Mr. Chen Ze-Sheng (陳澤生), manager of Loan Department Mr. Yu Zhuang-Yong (余壯勇), assistant manager of Loan Department Mr. Cai Pei-Yan (蔡培煙), Mr. Gao Kun-Yu (高崑玉), Secretary General Mr. Xu Zheng-Fu (徐政夫), supervisors Mr. Lin Yan-Huo (林炎火), Li Chao-Lun (李超倫) and Mr. Chen Ju-Wan (陳居萬) of the Credit on June 17, 1985. Staffs in 16 branches of the Credit were also indicted for accepting nominal members' loan application and insufficient mortgage, forging false property assessment, and facilitating illegal loans.

Mr. Lin Zong-Yuan (林宗源) and Mr. Jiang Chi-Hong (江啟宏), deputy general managers, and Mr. Zheng Wu-Xiong (鄭武雄), the assistant manager of the Cathay Plastic Company (國泰塑膠公司), assisted in providing nominal members by soliciting employees to apply as members of the Credit. 234 nominal members were used to apply for loans and total illegal loans were up to 6.7 billion and 63.85 million NT dollars (i.e. 225.5 million US dollars). Defendants were charged with using counterfeit, embezzlement, infidelity, forging business documents of the Criminal Law.



“ THE TRIAL

Mr. Cai Chen-Zhou pleaded not guilty by arguing he did not provide false property assessment to the Credit, was not involving in the loan process, and sought to blame others for his charges. Mr. Lin Zong-Yuan denied involvement in false property assessments and illegal loans. Mr. Yu Zhuang-Yong and Mr. Chen Ze-Sheng argued that they were only following the instructions of Mr. Cai Chen-Zhou. Mr. Gao Kun-Yu too argued he was following the instruction of Mr. Yu Zhuang-Yong. Other staffs argued that they were either following the orders of supervising level or having examined formality of loans.

On December 19, 1985, the Taipei District Court found 31 low level staffs not

guilty and 53 other defendants guilty as charged or partially charged. Mr. Cai Chen-Zhou was sentenced to 12 years' incarceration. Mr. Lin Zong-Yuan and Mr. Yu Zhuang-Yong were sentenced to 6 years' incarceration. Mr. Gao Kun-Yu was sentenced to 4 years' incarceration; while Mr. Jiang Chi-Hong was sentenced to 3 years' incarceration. Other defendants were sentenced times between 6 months to 2 years' incarceration.

Mr. Cai Chen-Zhou in the district court



Both defendants and the prosecution appealed to Taiwan High Court. After 10 month of trial, Taiwan High Court revised some and overruled the other appeals, on October 3, 1986. Mr. Cai Chen-Zhou (蔡辰洲) was still sentenced to 12 years' incarceration, but was found not guilty of embezzlement. Mr. Lin Zong-Yuan (林宗源) was sentenced to 6 years' incarceration; while and Mr. Yu Zhuang-Yong (余壯勇) was sentenced to 5 years' incarceration. Other defendants were sentenced times between 6 months to 3 year and 6 months incarceration.

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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

“ THE CONSEQUENCES

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

The managing director of the Bank of Communications (交通銀行), Mr. Yu Jing-Tang, also the former vice premier of the Executive Yuan, while scolding the 10th Cooperation scandal with rage in the managing director meeting, suffered an acute stroke and passed away soon. see <http://old.ltn.com.tw/2003/new/aug/13/today-o1.htm>



Cathay Hospital
Photo from July 23, 2016 Solomon203 , Wiki

Cathay Plastic Company (國泰塑膠公司), Cathay Construction Company (國泰建設公司), and Cathay Life Insurance Company (國泰人壽公司) were embroiled by the scandal and were protested by citizens for a long period of time. Cathay Construction Company later filed for bankruptcy and was put up for auction. Cathay Conglomerate (國泰集團) was influenced and sold important properties for cash.

Mr. Cai Chen-Zhou (蔡 辰 洲) suffered from cancer during detention and died on May 14, 1987. He didn' t finish serving his time in jail. In addition, for he passed away in Cathay Hospi-

tal (國 泰 醫 院), which was part of the Cathay Conglomerate, rumors said he faked death to escape incarceration. In April 1985, The Ministry of Finance promulgated the Deposit Insurance Act. In September 1985, the Ministry of Finance 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 Ministry of Finance proposed a new financial monitoring system, adding deposit insurance and separating financial examination work to 4 groups. Taiwan Cooperative Bank (合作金庫) was responsible to examine 47 Credit Cooperation, 248 loan departments of the Farmers Associations and 18 of the Fishermen Associations. The Central Deposit Insurance Corporation (中央存款保險公司) was responsible to examine 3 local banks, 3 commercial banks, 6 trust investment companies, 26 Credit Cooperation, and 35 loan departments of the Farmers Associations and 7 of the Fishermen Associations. The Central Bank (中央銀行) was responsible for 13 local banks, 5 com-

mercial banks, 36 foreign banks, 2 trust investment companies, 2 Bills Finance Corporations, 1 Credit Cooperation, and 2 loan departments of the Farmers Associations. The Ministry of Finance authorized the Central Bank for the abovementioned examination.

The 10th Credit Cooperation scandal was the very first financial storm and the first domino of a series of financial scandals in the following 30 years. Financial monitoring system in Taiwan thereafter faces dire challenges in the following cases.

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.



