

RESPONSE TO FEEDBACK RECEIVED - CONSULTATION ON A DEPOSIT INSURANCE SCHEME IN SINGAPORE

On 6 August 2002, MAS released a Consultation Paper inviting comments from the industry and other interested parties on a proposed deposit insurance scheme in Singapore. The paper set out the objectives, key considerations and structural features of the scheme that were the subject of Phase 1 of the deposit insurance study. In the coming months, the MAS will study the implementation details of deposit insurance in the second phase of the exercise.

The consultation period closed on 5 September 2002. Both the recommendation for the establishment of a deposit insurance scheme and its proposed features received support. In particular, the proposals for a low-cost scheme and risk-based premiums were well-received. Many respondents also sought clarification on Phase 2 implementation issues such as the types of deposits to be covered under the scheme and the methodology for computation of the insured deposit base.

The MAS thanks all respondents for their comments. Some of the comments of wider interest and our responses are highlighted below.

1. Funding for Deposit Insurance

The Consultation Paper proposed private funding of deposit insurance. Some respondents requested clarification on funding arrangements in the event that the fund was insufficient to meet payouts to depositors.

MAS' Response: The proposed deposit insurance fund will have access to temporary liquidity facilities where the payout to depositors exceeds the size of the fund. In the second phase of the study, the MAS will explore both private and public options for the provision of liquidity and backstop facilities to the fund.

Upon payout to depositors, the fund will assume the right of the depositors to claim against the assets of the failed institution. In the unlikely event that the assets realised are insufficient and the deposit insurance fund suffers a loss, premiums will be charged at build-up levels until the target fund size is reached. In the remote event that the loss is greater than the size of the fund, ex-post premiums will be charged to recapitalise the fund. These premiums will be subject to the same cap of 30 basis points that applies during the build-up phase.

2. Asset Maintenance

Clarification was sought by some respondents on the eligibility of certain assets for asset maintenance, including foreign currency loans to residents, securities issued by Singapore companies and assets held for liquidity needs.

MAS' Response: The purpose of asset maintenance is to ensure that sufficient assets will be available to meet insured deposit claims in the unlikely event of a bank failure. A key criterion for eligibility of an asset under asset maintenance is the degree of certainty of its availability to insured depositors. Securities other than Singapore Government Securities are excluded, unless they are pledged, because their liquidity gives rise to significant risk of asset flight. Foreign currency loans are excluded due to substantial legal uncertainty over their availability to insured depositors. Since assets held for liquidity needs may be drawn down prior to insolvency, they cannot be admitted for purposes of asset maintenance.

3. Impact of Deposit Insurance on Consumer Behaviour

A few respondents thought that deposit insurance might encourage depositors to "split" their deposits into multiple smaller accounts across several banks to increase their insurance coverage. This would result in increased deposit insurance costs.

MAS' Response: There is no evidence internationally that deposit insurance has led to substantial splitting of accounts. While some depositors may split their accounts, account splitting is likely to be limited for a number of reasons:

- Trust in the bank's financial strength and the bank's reputation for safety and soundness help reduce the need to split accounts to enjoy higher coverage.

- Higher returns on large deposits than small deposits as well as better service standards associated with large deposits encourage depositors to consolidate their accounts.
- Multiple small accounts reduce the convenience associated with a single banking relationship.

4. Depositor and Deposit Coverage

A number of respondents sought clarification on the coverage of certain types of deposits or deposit-like products. The issue of treatment of joint and trust accounts was also raised. Of the respondents who expressed views on the desired coverage of the scheme, a majority expressed their preference for excluding deposits with an investment element and which were provided as collateral for credit facilities.

MAS' Response: Basic deposit products such as savings, current and fixed deposit accounts held by individuals will be insured. Details on the eligibility of other deposit products for coverage and the treatment of joint deposit accounts and trust accounts will be determined in the second phase of MAS' deposit insurance study.

5. Administration of Deposit Insurance

Interest was expressed on who would administer the deposit insurance scheme and how the operational cost of the scheme could be kept low.

MAS' Response: The question of who will manage the deposit insurance scheme will be determined in Phase 2 of the study. There are two broad options for managing deposit insurance. One option is to have the responsibility reside within MAS, recognising the substantial overlap in the interests and responsibilities of a bank supervisor and a deposit insurer. Another option is to set up a separate organisation with its own governance structure. MAS will assess the relative merits of the two options, and study the practices in other countries, before proposing an organisational structure most suitable for the Singapore deposit insurance scheme.

MONETARY AUTHORITY OF SINGAPORE
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