CONSULTATION PAPER

P005 - 2004
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Second Consultation on Deposit Insurance

Monetary Authority of Singapore

PREFACE

On 6 August 2002, the Monetary Authority of Singapore ("MAS") published the first consultation paper[1] on the establishment of a deposit insurance scheme ("DI scheme") in Singapore. The consultation paper set out the rationale and objectives of the DI scheme and made proposals on scheme membership, coverage and funding. There was general support for the paper's recommendation for the establishment of a DI scheme and its proposed features.

2 MAS has completed the second phase of the deposit insurance study on implementation issues relating to the establishment and administration of a DI scheme in Singapore. Our study draws upon the literature on deposit insurance published by various major international organisations such as the International Monetary Fund and the Financial Stability Forum. The MAS is also grateful to the Canada Deposit Insurance Corporation, De Nederlandsche Bank, the Federal Deposit Insurance Corporation (US), the Financial Services Compensation Scheme (UK) and the International Association of Deposit Insurers for sharing with us their experiences in the administration of deposit insurance.

3 This consultation paper makes recommendations on the mandate and establishment of the deposit insurance agency ("DI agency"), types of deposits to be covered by the DI scheme, rules for determining the amount of payout to be made to a depositor in the event of a failure of an insured institution, as well as the mechanism for premium collection, management of the deposit insurance fund ("DI fund") and procedures for depositor payouts. The consultation paper also recapitulates the key proposals introduced in the first consultation paper to provide a complete description of the key features of the Singapore DI scheme.

4 We invite comments from the industry and interested parties on the proposals made in this paper. We will assess and consider all comments received before finalising the proposals and commencing the legislative process to establish the DI scheme. Please submit your written comments by 4 June 2004 to:

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[1] A copy of the consultation paper as well as MAS' response to feedback received can be found at http://www.mas.gov.sg/masmcm/bin/pt1ConsultationPapers_Archive.htm.

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CHAPTER 1: INTRODUCTION

Explicit and limited DI schemes have been set up in about 80 countries around the world. While the features of each DI scheme vary according to the public policy objectives and banking structure in different countries, DI schemes typically provide an explicit but limited guarantee to depositors that they will be compensated up to a specified amount of their deposits in the event that the bank they placed their deposits with fails. Amounts above the deposit insurance coverage limit are not guaranteed and their recovery will depend principally on the amount of the failed bank's assets available to meet its deposit liabilities.

2 In June 2002, the MAS announced that it would be establishing a DI scheme to provide an additional layer of protection to small depositors. In August 2002, MAS published the first consultation paper on deposit insurance. The consultation paper discussed the rationale and objectives of a DI scheme in Singapore and made recommendations on a number of structural features including membership, coverage limit and funding. These are outlined in Table 1 below.

Table 1: Summary of Recommendations in Consultation Paper on DI scheme (August 2002)

Key Issues	**Recommendations**
Objectives	▪ Protect small depositors; ▪ Dispel the mistaken perception of a government guarantee on deposits.
Membership	▪ Mandatory membership for all Full banks and finance companies; ▪ Wholesale and Offshore banks excluded from deposit insurance.
Deposit Insurance Coverage	▪ Coverage limit of $20,000 per depositor per institution; ▪ Coverage for personal deposits only; ▪ Coverage for Singapore dollar deposits only; ▪ Coverage for both resident and non-resident depositors.

Key Issues	Recommendations
Deposit Insurance Fund	▪ Private ex-ante funding from participating institutions; ▪ Insured deposits given priority ahead of other deposits; ▪ Asset maintenance requirement for foreign bank branches in proportion to the size of their insured deposits; ▪ Target fund size equivalent to 30 basis points of total insured deposits; ▪ Fund to be built up over 10-11 years.
Premium Contributions	▪ Risk-based premiums based on supervisory ratings and asset maintenance ratios (for foreign bank branches); ▪ Premium assessment base will be total insured deposits.

3 MAS has completed the second phase of its deposit insurance study. The second phase covers implementation issues related to the establishment of a DI scheme in Singapore. These include the appropriate agency for the administration of deposit insurance and its mandate, the specific deposit products that will be covered under the scheme, the rules for computing eligible coverage, mechanisms for premium collection and depositor payout, and the management of the DI fund.

CHAPTER 2: DEPOSIT INSURANCE AGENCY: MANDATE AND ADMINISTRATION

Summary of proposals:

2.1 The Singapore DI scheme will be administered by a public agency.

2.2 A new public agency will be established to administer deposit insurance.

2.3 The principal functions of the Singapore DI agency will be premium collection, management of the DI fund, depositor payout and consumer education.

2.4 MAS will make the decision whether to make depositor payouts (elaborated in Chapter 6).

2.5 The DI agency will verify that MAS has adhered to established procedures in triggering payouts and the agency's concurrence will have to be obtained for changes to the funding rules.

2.6 The DI agency will be incorporated as a company limited by guarantee, and be accountable to the Minister through the Minister's power to appoint its directors and approve the appointment of its chief executive and its budget. The DI agency will be required to submit its annual report and audited financial statements to the Minister.

2.7 The staffing of the DI agency will be kept lean and functions that could be more readily performed by MAS will be carried out by MAS to avoid duplication and minimise cost.

PUBLIC OR PRIVATE ADMINISTRATION

4 Deposit insurance is generally funded by contributions from participating institutions but could be administered by a public or private entity. In some countries, a private DI scheme is administered by an association of banks and funded by its members. A public DI scheme may be administered by the central bank, financial supervisory authority or a DI agency set up by the government. An IMF survey of DI schemes around the world has found that the majority of countries provide deposit insurance through public agencies. In our study, the decision on whether deposit insurance should be provided by a public or private entity is guided by two main considerations: public confidence and minimisation of moral hazard.

- Public Confidence

A publicly administered DI scheme will reinforce the credibility of the DI scheme and provide assurance of fairness in such issues as premium assessment and depositor compensation.

A public agency is also better able to give assurance to member institutions of confidentiality of data provided to the DI agency.

- Moral Hazard

A potential drawback of public administration is that it could lead to a perception of government guarantee and increase the pressure on the government for more generous payout than is stipulated under the deposit insurance legislation. A private scheme has the advantage of reinforcing the public message that there is no government guarantee of deposits, which is one of the key objectives of deposit insurance.

5 We note that private schemes remain an exception in deposit insurance, and that their success appears to depend on a set of historical and structural factors unique to those countries, such as a legacy of mutual support among financial institutions, low foreign bank participation in retail banking, and a less concentrated domestic banking system.

6 We propose that deposit insurance be administered by a public agency for the reason of public confidence. As the DI scheme will be privately funded, albeit administered by a public agency, moral hazard will be reduced. In addition, the extent of protection that depositors can expect will be made explicit. This will dispel any mistaken impression that depositors may have, in the absence of an explicit DI

scheme, that the government guarantees deposits or will bail out troubled banks and their depositors.

2.1 We propose that the Singapore DI scheme be administered by a public agency.

MAS OR A NEW AGENCY TO ADMINISTER DEPOSIT INSURANCE?

7 The DI scheme can be administered by MAS or a separate body with its own governance structure. The principal advantage for MAS to administer the scheme is lower administrative cost, achieved through the sharing of resources and avoidance of unnecessary duplication of functions. However, the cost advantage from having MAS administer the scheme would depend more significantly on the mandate of the DI agency and the division of responsibilities between the DI agency and MAS, rather than who administers the scheme per se.

8 On the other hand, a separate agency can reinforce accountability and transparency in the administration of the DI scheme. A separate agency will also have greater flexibility in seeking supplementary funding sources such as borrowing from the private sector or bond issuance. For these reasons, we propose that a separate agency be established to administer deposit insurance.

2.2 We propose that a new public agency be established to administer deposit insurance.

MANDATE OF THE DEPOSIT INSURANCE AGENCY

9 The responsibilities of DI agencies vary across countries. In some countries, the responsibilities of the DI agencies are confined to core functions such as premium collection, making payouts to depositors and management of the DI fund. This is sometimes referred to as a “narrow mandate” in deposit insurance nomenclature. Other DI agencies have “broad mandates” with a major role in the supervision of member institutions and resolution of failed member institutions.

10 The principal advantage of a broad mandate is seen to lie in the DI agency’s ability to provide a check and balance system against any tendency by the regulator to delay the closure of troubled member institutions. However, a broad mandate for the Singapore DI agency is likely to lead to costly duplication of

responsibilities that are already performed by the MAS, thereby raising the cost of deposit insurance. Any potential conflict of interest between deposit insurer and bank supervisor is somewhat mitigated since both the MAS and the DI agency will be accountable to the Government, industry and the public for their actions.

11 In view of the consideration of minimising cost, we propose that the DI agency's core functions be limited to mainly administrative duties of premium collection, management of the investments of the DI fund, making payouts to depositors and consumer education. The Singapore DI agency will not have bank supervision or resolution powers and major policy decisions on the operation of the DI scheme will continue to reside with MAS.

12 The decision whether to make depositor payout will be made by MAS since it would be in possession of better information than the DI agency to make that assessment. This is also consistent with the proposal for MAS to remain the sole agency that is responsible for banking supervision and resolving troubled financial institutions.

13 In its role as the custodian and manager of the DI fund, the DI agency has an interest in how the fund is disbursed and how premiums are collected. We therefore propose that the DI agency verify that MAS has adhered to the established procedures in triggering payouts. The agency's concurrence will also be obtained for changes to the DI funding rules. The depositor payout process will be described in greater detail in Chapter 6.

2.3 We propose that the principal functions of the Singapore DI agency be premium collection, management of the DI fund, depositor payout and consumer education.

2.4 We propose that MAS makes the decision whether to trigger DI payout.

2.5 We propose that the DI agency verify that MAS has adhered to established procedures in triggering payouts and the agency's concurrence will have to be obtained for changes to the funding rules.

GOVERNANCE AND ADMINISTRATION OF THE DEPOSIT INSURANCE AGENCY

14 In view of the relatively modest functions of the DI agency, we propose that the agency be incorporated as a company limited by guarantee under the Companies Act, rather than a statutory body established under an Act of Parliament. As a company limited by guarantee, the DI agency will have no shareholders. Instead, the members of the company will be directors of the DI agency, who will each provide a guarantee of a nominal amount. The DI agency will hold the DI fund as a fund segregated from its own assets and liabilities.

15 The board of directors of the DI agency will comprise individuals from both the public and private sectors, appointed by the Minister.[2] To avoid potential conflict of interests, individuals who are currently directors of, employed by or otherwise connected to member institutions of the DI scheme will not be eligible for appointment to the board. The DI agency will be accountable to the Minister, who will approve the appointment of the chief executive and the budget of the agency. The agency will be required to submit its annual report and audited financial statements to the Minister. These will also be made publicly available.

2.6 We propose that the DI agency be incorporated as a company limited by guarantee, and be made accountable to the Minister through the Minister's power to appoint its directors, approve the appointment of its chief executive and its budget. The DI agency will be required to submit its annual report and audited financial statements to the Minister.

16 The administrative costs of deposit insurance can be minimised by leveraging on the existing resources in MAS. Thus the DI agency will have minimal full time staff, and functions that could be more readily performed by MAS will be carried out by MAS. Examples of such functions are the collection of premiums, investment of the DI fund and corporate services. In the event of a bank failure resulting in the need for depositor payout, additional officers can be seconded from MAS to the DI agency to deal with the increase in workload. The DI agency may also delegate some of the work to the staff of the failed institution or the liquidator, or hire temporary staff to deal with the situation.

2.7 We propose that the staffing of the DI agency be kept lean and functions that could be more readily performed by MAS be carried out by MAS.

[2] We envisage that the Minister for MAS would likely be responsible for the DI agency as well.

CHAPTER 3: COVERAGE

Summary of proposals:

3.1 The DI scheme will only cover deposits held by individuals in standard current, savings and fixed deposit accounts. The following will be excluded:
- structured deposits;
- money and capital market instruments, including bonds and other securities issued by banks and negotiable certificates of deposits;
- security deposits placed with the bank for specific purposes, e.g. payment of rent or safe deposit key;
- funds held in multi-purpose stored value cards.

3.2 The following deposits will also not be covered:
- deposits in overseas branches or affiliates of locally-incorporated banks;
- deposits placed as collateral for credit facilities extended by the bank.

3.3 Deposits held by sole proprietorships and partnerships will be aggregated with the personal deposits of the owners for computing the amount of deposits that are insured.

3.4 Deposits held by registered and exempt charities under the Singapore Charities Act will be insured.

3.5 Deposits held in joint accounts and trust accounts will be aggregated with deposits held in the personal accounts of the respective joint account holders and beneficiaries (in accordance with the rules in paragraphs 28-31).

3.6 Deposits placed under CPFIS will be insured up to $20,000, separately from the depositor's other personal deposits; deposits made under SRS will be aggregated with the individual's other deposits for computing the amount of deposits that are insured.

17 The objective of the Singapore DI scheme is to provide an adequate level of protection to small depositors. Consistent with this objective, Phase I of our study has concluded that:

- **Deposits in personal accounts** will be eligible for deposit insurance; deposits held by corporates will not be covered;
- **Deposits denominated in Singapore dollar** will be covered; foreign currency deposits are excluded;
- Deposits held by both **residents and non-residents** will be covered;
- Deposit insurance will be provided on a **per depositor, per institution** basis, i.e. all deposits held by a single individual will be aggregated and insured up to the coverage limit;
- Coverage limit of **S$20,000**.

COVERAGE OF SPECIFIC BANK PRODUCTS

18 In considering the types of products that should be covered by DI, we are guided by the objective of providing protection to small depositors and the key considerations of designing a low cost scheme and minimising moral hazard. Accordingly, we propose that only deposits kept in standard current, savings and fixed deposit accounts (including accrued interest up to the date that depositor payout is triggered) should be covered.

19 Deposit products with an investment and/or speculative element will not be insured, regardless of whether they are 'capital-guaranteed'. MAS has issued a consultation paper in September 2003[3] proposing that the sale of structured deposits be conducted through a process that is distinct from that for other deposit products, including disclosure guidelines on the sale of such products. In effect, structured deposits can be compared to capital-guaranteed unit trusts, which are investment products and not covered under deposit insurance. Furthermore, structured deposits do not form the core savings of small depositors.

20 Apart from structured deposits, Table 2 provides examples of financial products and funds which are also ineligible for deposit insurance coverage, along with the reasons for their exclusion.

[3] "Policy Consultation on Amendments to the SFA and FAA"

Table 2: Other Financial Products Ineligible for DI coverage

Financial Products	Rationale
Money and capital market instruments, including bonds and other securities issued by banks and negotiable certificates of deposits	▪ More akin to investment products, rather than deposits.
Security deposits placed with the bank for specific purposes, e.g. payment of rent or safe deposit key	▪ Do not fall within the definition of deposits and are not commonly regarded as such.
Funds held in multi-purpose stored value cards	▪ Bearer instrument whose title cannot be proven; ▪ Regarded as payment instruments, rather than savings instruments.

21 The following deposits will not be covered under deposit insurance for the reasons below:

Table 3: Deposits ineligible for DI coverage

Deposits	Rationale
Deposits in overseas branches and affiliates of locally-incorporated banks	▪ Covered by host country DI schemes; ▪ DI is for the protection of small depositors with banks in Singapore.
Deposits placed as collateral for credit facilities extended by the bank	▪ Cannot be readily withdrawn when credit facility is outstanding, unlike other deposits.

3.1 We propose that only deposits in standard current, savings and fixed deposit accounts be covered by deposit insurance. Accordingly, the following items will be excluded from deposit insurance coverage:

- **structured deposits;**[4]
- **money and capital market instruments, including bonds and other securities issued by banks and negotiable certificates of deposit;**
- **security deposits placed with the bank for specific purposes, e.g.**

[4] As defined in MAS' consultation paper on Amendments to the SFA and FAA.

payment of rent or safe deposit key;
- **funds held in multi-purpose stored value cards.**

3.2 The following deposits will also not be covered:
- **deposits in overseas branches and affiliates of locally-incorporated banks;**
- **deposits placed as collateral for credit facilities extended by the bank.**

COVERAGE OF SPECIFIC DEPOSITORS

22 In Phase 1 of our study, we have concluded that deposits placed in personal accounts will be insured while deposits held by corporates will not be covered. We now make further proposals regarding deposits held by sole proprietors, partnerships and charities.

Deposits Held By Sole Proprietorships And Partnerships

23 In line with the objective of small depositor protection, only deposits held by individuals (including those held by another entity on trust for individuals) will be insured under the scheme. In principle, deposits held by businesses should be excluded from deposit insurance coverage. However, sole proprietorships and partnerships are not treated as entities distinct from their owners under the law.[5] It is also not uncommon for the personal funds of the owners to be commingled with funds used for business purposes.

24 We recognise that extending deposit insurance coverage to sole proprietorships and partnerships will have the inadvertent result of providing coverage to some large businesses that are structured as such. One way to preserve the principle of small depositor protection is to limit deposit insurance coverage to “small” sole proprietorships and partnerships below a specific asset or revenue threshold. There is, however, no objective definition of a small sole proprietorship or partnership. Making such a fine distinction will increase the administrative cost of the DI scheme as well. A more effective measure will be to apply the coverage limit of $20,000 to the aggregate of the deposits held by sole proprietorships and partnerships and the personal deposits held by the individual

[5] An exception to this is limited liability partnerships (LLPs). In a consultation paper published by the Ministry of Finance (“Public Consultation on Limited Partnerships and Limited Liability Partnerships”, June 2003), it is proposed that LLPs be established as separate legal entities from their owners.

owners. In this way, the additional benefit to the sole proprietor and partners of insuring their business deposits will be marginal, if any.

3.3 We propose that deposits held by sole proprietorships and partnerships[6] be aggregated with the personal deposits of the owners and insured up to $20,000 per depositor per institution.

Deposits Held By Charities

25 In view of the public interest in insuring funds of entities set up for charitable purposes, deposit insurance coverage will be extended to deposits held by registered and exempt charities under the Singapore Charities Act, which include religious societies and houses of worship, educational institutions and charitable foundations. Such coverage will apply regardless of the legal form of the charity (i.e. charities established as companies will also be covered). These deposits will be insured separately from the personal deposits held by the management and trustees of the charities.

26 Deposits held by entities other than individuals, sole proprietorships, partnerships and registered and exempt charities will not be insured.

3.4 We propose that deposits held by registered and exempt charities under the Singapore Charities Act be insured up to the coverage limit.

AGGREGATION RULES FOR COVERAGE

27 Deposit insurance will cover a depositor for up to $20,000 in the event that a member institution fails, regardless of the number of accounts the depositor has with the member institution. In calculating the insured amounts payable to a depositor, all the deposits maintained in accounts held by the same individual in the same bank will be combined, with the exception of deposits placed under the CPF Investment Scheme (“CPFIS”) (see paragraph 32 below). Annex B illustrates with numerical examples how deposit insurance coverage will be computed.

[6] Excluding LLPs when introduced.

Joint Deposit Accounts

28 For deposits in accounts jointly held by two or more individuals ("joint account"), each individual's share of the deposits in the joint account will be combined with his other deposits held in his own name. The total amount of deposits is insured up to a maximum of $20,000.

29 Unless there is written documentation in the bank's records confirming the respective shares of the joint account deposit belonging to each joint account holder, the joint account deposits will be divided equally among the account holders for the purpose of calculating the amount of insured deposits payable to each individual. For example, suppose there is a deposit of $1,000 in an account jointly held by A and B. The deposit of $1,000, will be divided evenly between the joint account holders so that $500 will be added to the other deposits held by A and B in their own capacity in determining the insured deposit payable to each. This treatment will be strictly for purposes of computing the amount of deposit insurance to be paid out, and will not affect the rights of the joint account holders under any other law.

Trust Account

30 Trust accounts are held on trust by a trustee for the benefit of one or more beneficiaries. A common example of a trust account will be a savings account opened by a parent on trust for a child. For the purpose of calculating the amount of insured deposits, funds in a trust account will be aggregated with other deposits held by the *beneficiary* and the total amount of deposits insured up to the coverage limit.

31. In the case of trust accounts with more than one beneficiary, such as a client account opened by a lawyer, aggregation will be carried out using the rules applicable to joint accounts (paragraph 28-29). However, in the event that the beneficiaries are not disclosed to the banks, deposits in such trust accounts will not be covered by the DI scheme.[7]

3.5 We propose that deposits held in joint accounts and trust accounts be aggregated with deposits held in the personal accounts of the respective joint account holders and beneficiaries in accordance with the rules described in this section.

[7] MAS' "know your customer" rules require banks to obtain satisfactory evidence of the identity of their customers. However, there might be instances where the funds of beneficiaries in a trust account are commingled, for example in the case of an account opened by an intermediary such as a firm of solicitors. In such cases, both the intermediary and the account continue to be subject to the anti-money laundering regime in all other respects even though the intermediary's professional code of conduct may preclude it from disclosing to the bank certain information relating to its clients.

CPFIS Deposits And SRS Deposits

32 Under the CPFIS, CPF members may elect to place part of their CPF savings in a range of investment and savings products, including fixed deposits at CPFIS deposit banks. In general, all deposits held by an individual with the same institution will be aggregated for the purpose of deposit insurance. An exception will be made for CPFIS fixed deposits, which will be insured up to a maximum of S$20,000, separately from the individual's other deposits with the bank. This is in recognition of the important social role of CPF funds as core retirement savings.

33 Under the voluntary Supplementary Retirement Scheme ("SRS"), CPF members can place additional funds in prescribed products and enjoy tax concessions on the monies set aside. Whereas CPF contributions are mandatory and constitute the core retirement savings of the member, SRS is a voluntary supplement. While deposits made under SRS will still be covered under deposit insurance, they will not enjoy separate coverage and will be aggregated with the individual's other deposits for computing insured deposits.

3.6 We propose that deposits placed under CPFIS be insured up to $20,000, separately from the depositor's other personal deposits; deposits made under SRS will be aggregated with the individual's other deposits for computing insured deposits.

CHAPTER 4: PREMIUM COLLECTION

Summary of proposals:

4.1 The premium assessment for a particular year will be based on insured deposit balances as at 31 December of the preceding year.

4.2 For foreign bank branches, the level of asset maintenance used for premium assessment will be the average of asset maintenance levels over the last three months of the preceding year.

4.3 The contribution for each assessment year will be made in full in a single payment, due on 1 April of that year.

4.4 Insured deposit data should be filed with the DI agency by 15 January of the assessment year. The DI agency will then send an invoice to the member institution, indicating the relevant premium rate and premium payable, one month before the payment due date.

4.5 Premiums will be deducted from member institutions' current accounts with MAS and credited into the DI agency's account maintained with MAS.

4.6 New member institutions with existing deposits will be charged premiums on a pro rata basis. Premiums will be payable 1 month from commencement of operation. Newly licensed institutions without existing deposits will be charged the pro rata minimum premium.

4.7 Member institutions will be charged premiums as a percentage of the amount of insured deposits they hold subject to a minimum premium of $2,500 per year.

34 Member institutions of the DI scheme will contribute annual premiums to build up a DI fund. The target fund size will be equivalent to 30 basis points (0.3%) of total insured deposits and will be built up over a period of about 10 years. The premium contribution by each institution will be determined as a percentage of the size of the institution's insured deposit base. The premium contribution rate will be determined based on the supervisory ratings and level of asset maintenance (foreign bank branches only) of the member institution. Details on the asset maintenance

ratios and the premium rate schedule can be found in the first consultation paper. This chapter makes proposals on the computation and payment of premiums to the DI agency.

DATA USED IN PREMIUM ASSESSMENT

Insured Deposits

35 Member institutions will be required to have the necessary systems for the computation of insured deposits according to the prescribed aggregation rules for deposit insurance coverage. The premium assessment for a particular year will be based on insured deposit figures as at 31 December of the preceding year.

Asset Maintenance Ratios

36 For foreign bank branches, the level of a bank's ratio of eligible assets to insured deposits will have a bearing on the bank's premium rate. For the purpose of premium assessment, the level of asset maintenance will be the average of asset maintenance levels over the last three months of the preceding year.

4.1 We propose that premium assessment for a particular year be based on insured deposit figures as at 31 December of the preceding year.

4.2 For foreign bank branches, we propose that the level of asset maintenance used for premium assessment be the average of asset maintenance levels over the last three months of the preceding year.

PREMIUM COLLECTION

Frequency of Premium Assessment

37 On account of administrative efficiency and the relatively low premium contributions, we propose that member institutions be assessed only once a year for premium contributions. The contribution for each assessment year will be made in full in a single payment, due on 1 April of that year.

Date of Premium Assessment Filing and Collection

38 Premium assessment and collection will be made on a calendar year basis, using relevant data from the preceding year. Assessment of the bank's level of asset maintenance will leverage on data currently submitted in the bank's statutory monthly returns to MAS. We propose that insured deposit data be filed with the DI agency by 15 January of the assessment year. The DI agency will then send an invoice to the member institution, indicating the relevant premium rate and premium payable, based on data submitted by the member institutions. The invoice will be sent one month before the payment due date.

4.3 We propose that the contribution for each assessment year be made in full in a single payment, due on 1 April of that year.

4.4 We propose that insured deposit data be filed with the DI agency by 15 January of the assessment year. The DI agency will then send an invoice to the member institution one month before the payment due date.

Premium Collection Mechanism

39 We propose that the DI agency should leverage on existing infrastructure for the collection of deposit insurance premium. Premiums will be deducted from member institutions' current accounts with MAS on 1 April of each year. Contributions will be credited into the DI agency's account maintained with MAS.

40 Finance companies may make alternative arrangements with the DI agency for the payment of DI premium.

4.5 We propose that premiums be deducted from member institutions' current accounts with MAS and credited into the DI agency's account maintained with MAS.

Premium Assessment for New Member Institutions

41 A new Full-licensed bank will be required to be a member of the DI scheme and contribute towards the DI fund in the year that it commences operations as a Full bank.

42 In the case of an existing financial institution that becomes a member institution, MAS would already have the data for determining the premium rate for the institution. Where an institution becomes a member institution during the course of a calendar year, premiums will be levied for that year on a pro rata basis according to the number of months, remaining for the year. The premium will be payable 1 month after its admission as a member institution.

43 New member institutions that have not operated in Singapore previously would probably not have any insured deposits at the commencement of its business in Singapore. Its membership in the DI scheme however is likely to confer benefit in attracting depositors, for which it should pay a nominal contribution. We propose that newly licensed institutions for which there is no data for premium assessment be charged the pro rata minimum premium discussed in paragraph 44. The minimum premium will be pro-rated according to the number of months remaining for the year and will be payable 1 month from the commencement of operation.

4.6 We propose that new member institutions be charged premiums on a pro rata basis according to the number of months remaining for the year. Premiums will be payable 1 month from commencement of operation. Newly licensed institutions will be charged the pro rata minimum premium.

Minimum Premium

44 In cases where member institutions only have a small insured deposit base, the premium charge would be minimal. We are of the view that all member institutions should make a reasonable contribution towards the administration costs of the DI scheme, although member institutions with small insured deposit base would bear a smaller portion of the administration costs. We propose that member institutions be charged a minimum premium of $2,500 per year to contribute towards the administration costs of the DI scheme.

4.7 We propose that member institutions contribute a minimum annual premium of $2,500.

CHAPTER 5: MANAGEMENT OF THE DEPOSIT INSURANCE FUND

Summary of proposals:

5.1 The DI fund will be invested in safe and liquid assets such as Singapore Government Securities and Singapore-dollar deposits with MAS.

5.2 In the event that depositor payouts exceed the size of the DI fund, the DI agency may borrow to finance the shortfall.

45 Member institutions of the DI scheme will make contributions into the DI fund. The DI agency will only be permitted to use the DI fund to make payouts to depositors, and to meet the expenses of administering the DI scheme, in accordance with its budget approved by the Minister.

INVESTMENT OF THE FUND

46 In order to facilitate speedy payouts to insured depositors, the DI agency should have ready access to liquid funds. Hence the DI fund should be invested in highly liquid assets with low credit risk, and avoid exposure to foreign exchange risks.

47 We therefore propose that the DI fund be invested in safe and liquid assets such as Singapore Government Securities and Singapore-dollar deposits with MAS. This is in line with the practices of many international DI agencies that invest only in government securities.

5.1 We propose that the DI fund be invested in safe and liquid assets such as Singapore Government Securities and Singapore-dollar deposits with MAS.

LIQUIDITY PROVISION

48 In the event that depositor payouts exceed the size of the DI fund, the DI agency may borrow to finance the difference, pending recovery of the payout amount from the disposal of assets of the failed institution.

5.2 We propose that in the event depositor payouts exceed the size of the DI fund, the DI agency may to borrow to finance the shortfall.

CHAPTER 6: DEPOSITOR PAYOUT

Summary of proposals:

6.1 The pre-conditions that must be met for triggering depositor payout are:
- the making of a court order to wind up a member institution; or
- MAS' determination that a member institution is unable or likely to become unable to meet its liabilities.

These are necessary but not sufficient conditions for depositor payout.

6.2 Deposit payout can be made through the transfer of insured deposits to an agent bank or by cheques issued by an agent bank to depositors on behalf of the DI agency.

6.3 Depositors need not file claims with the DI agency. The DI agency will compute the payout due to each depositor, based on the records maintained by the failed member institution.

6.4 The DI agency will be automatically subrogated to the rights of depositors for the amount of depositor payout.

6.5 Full netting will be adopted for determining the payout to depositors in line with Singapore insolvency law.

49 The primary objective of the DI scheme is to provide small depositor protection through payouts in the unlikely event of a bank failure. However, a troubled bank may be resolved in one of several ways (e.g. through a merger and acquisition, a purchase and assumption transaction where another bank takes over some or all of the bank's assets and liabilities, a bank restructuring exercise, or closure and liquidation), not all of which may require deposit payout to be made.

CONDITIONS FOR DEPOSITOR PAYOUT

50 We propose that the following pre-conditions must be met before depositor payout may be made:

- the making of a court order to wind up a member institution; or
- MAS' determination that a member institution is unable or likely to become unable to meet its liabilities.

51 These are necessary but not sufficient conditions for depositor payout. Depending on the circumstances of the bank and the method of bank resolution appropriate to the particular situation of the bank and public policy objectives, depositor payout may or may not be necessary. For example, if a troubled bank is merged with another bank that takes on all its assets and liabilities, then all deposits will be protected and there is no need for depositor payout. On the other hand, should it be deemed necessary to suspend the operations of a bank, depositor payout is likely to be needed to provide certainty and speed of compensation to depositors.

52 As the supervisor of the financial institutions, MAS will be responsible for deciding whether a payout is appropriate, when either of the above conditions have occurred. MAS will take account of the various resolution options available in determining whether depositor payout is necessary. MAS will notify the DI agency if it decides that a payout is to be made. The DI agency will then proceed to make the payout after verifying that MAS has adhered to established procedures in coming to that decision.

6.1 We propose that the following pre-conditions must be met before depositor payout may be made:

- **the making of a court order to wind up a member institution; or**
- **MAS' determination that a member institution is unable or likely to become unable to meet its liabilities.**

These are necessary but not sufficient conditions for depositor payout.

DEPOSITOR PAYOUT PROCESS

53 In the event that depositor payout is triggered, the DI agency will make an official announcement through publication in the Government Gazette, a media release to the news stations and daily newspapers, notices at the failed bank branches and letters to depositors. The DI agency will make arrangements for an

agent bank to pay out compensation to eligible depositors. Depositor payout can be made through the transfer of insured deposits to an agent bank. The agent bank will open an account for each depositor into which the payout is deposited. The depositor can choose to retain the account or withdraw the payout amount and close the account. Alternatively, the agent bank can issue cheques to depositors on behalf of the DI agency and depositors can collect the cheques from the bank branches.

54 The DI agency will compute the payout due to each depositor, based on the records maintained by the failed member institution. As the amount of insured deposits and details of insured depositors would be reflected in the member institution's records, it is not necessary for depositors to file claims with the DI agency. In practice, the DI agency may leverage on the existing resources of the failed member institution to undertake this task.

6.2 We propose that deposit payout be made through the transfer of insured deposits to an agent bank or by cheques issued by the agent bank on behalf of the DI agency.

6.3 We propose that depositors need not file claims with the DI agency as payouts can be computed based on the bank's records.

SUBROGATION TO DEPOSITOR RIGHTS

55 Having made payouts to the depositors, the DI agency will be subrogated to the rights of depositors to claim against the assets of the failed bank for the amount of depositor payout. For example, if the DI agency pays $20,000 to a depositor, it will be able to claim from the liquidator of the bank an equivalent amount that would have been payable to the depositor in the absence of deposit insurance. This does not affect the right of the depositor to file a separate claim for the difference between the amount of his deposits in the bank and the deposit insurance payout. He will, however, not be able to claim any amount that has already been paid to him by the DI agency.

56 To expedite the depositor payout process, we propose that the deposit insurance legislation provide for the DI agency to be automatically subrogated to the rights of depositors for the amount of deposit payouts made, without the need to obtain prior express consent of the depositors.

6.4 We propose that the DI agency be automatically subrogated to the rights of depositors for the amount of depositor payout.

NETTING OF DEPOSITS AND LOANS

57 An individual may have an outstanding loan from the bank with which he has also placed a deposit. Singapore insolvency law provides for automatic set-off of mutual obligations in insolvency so that in event of a bank failure, the deposits of that individual will be set off against any outstanding loan he has with the bank. Both his deposit claim and outstanding loan will thus be reduced by netting. Assuming the loan is greater than the deposit, his outstanding obligation to the bank will be reduced by the amount of his deposit and his deposit will be reduced to zero. If deposit insurance payout is computed on the basis of the net deposit claim, he will not be entitled to any payout.

58 Netting of deposits and obligations for purposes of deposit insurance does not change the net financial position of the individual although it could affect his liquidity or cash position. For example, an individual has an outstanding loan of $10,000 from the bank but has $1,000 deposit with the same bank. In the event of a bank failure, automatic set-off will reduce his outstanding obligations to the bank by his deposit ($10,000 - $1,000 = $9,000) but he will no longer be entitled to a payout for his deposit if netting is applied to the computation of DI payout. If netting is not applied to DI payout computation, the individual will receive a payout of $1,000 for his deposit, but will continue to owe $10,000 in a repayable loan.[8]

59 Netting for purposes of computing depositor payout can be carried out using a full netting or partial netting approach. Under full netting, deposits are completely set off against all outstanding obligations of the depositor. A full netting approach for DI would be consistent with the automatic set-off of mutual obligations under Singapore insolvency law. Partial netting involves setting-off deposits against claims that have fallen due or are delinquent.

60 The choice between full netting and partial netting does not alter the net financial position of the depositor, only his cash flow position. Partial netting is less disruptive to the depositor’s cash flow as the deposits would not be netted against liabilities not yet due. However, the position taken on netting for the purposes of

[8] If netting is not applied to DI payout, an amendment to Singapore insolvency law would be necessary to override the automatic set-off provision in section 88 of the Bankruptcy Act, so that the depositor will not get a windfall (by being able to receive $1,000 in DI compensation as well as have his loan reduced by $1,000).

computing depositor payout should be consistent with the position under insolvency law so as to avoid losses by the DI agency. Hence it would be necessary to amend Singapore insolvency law if partial netting is adopted for computing depositor payout. Furthermore, computation of claims is administratively more cumbersome under partial than full netting and could lead to delays in payout. A credit worthy borrower could seek refinancing from another bank for his outstanding loans and this would mitigate the effect of full netting.

61 The objective of deposit insurance is to protect the deposits of small depositors. Since netting does not alter the net financial position of the depositor, we propose that netting of deposits and obligations take place *before* the computation of deposit payout. In addition, we propose that full netting shall be adopted in determining the amount of depositor payout. The DI agency will completely set off an individual's deposits against any outstanding loan he has with the member institution before making payout on the net deposit, if any, up to a maximum of $20,000. This is in line with the current insolvency regime under Singapore law. Annex B provides more examples on netting and illustrates how it works in deposit insurance.

6.5 We propose that full netting be adopted for determining the payout to depositors in line with the Singapore insolvency law. The DI agency will completely set off an individual's deposits against any outstanding loan he has with the member institution before making payout on the net deposit up to a maximum of $20,000.

ANNEX A: KEY RECOMMENDATIONS FOR SINGAPORE DI SCHEME

Summary of Proposals from First Consultation Paper (Aug 2002)

1. The Singapore DI scheme will cover all Full Banks and finance companies and membership will be compulsory.

2. The Singapore DI scheme will cover Singapore dollar deposits held by resident and non-resident individuals.

3. The Singapore DI scheme coverage will be S$20,000, on a per depositor, per institution basis.

4. A credible ex-ante DI fund should be established through premium contributions from participating institutions.

5. Insured deposit priority should be instituted to provide effective depositor protection with a modest fund and at low cost.

6. The Singapore DI fund will have a target fund size of 30 basis points of total insured deposits, beyond which premium contributions will be reviewed and reduced if appropriate.

7. Foreign bank branches should maintain sufficient eligible assets located in Singapore to meet its insured deposit liabilities (i.e. AM ratio of 1) at all times. MAS will monitor compliance through regular reports submitted by banks.

8. The premium assessment base for the Singapore DI scheme will be total insured deposits.

9. The Singapore DI scheme will levy risk-based premiums on member banks based on their supervisory ratings and AM ratios (in the case of foreign bank branches).

Summary of Proposals from Second Consultation Paper (Apr 2004)

Deposit Insurance Agency: Mandate and Administration

2.1 The Singapore DI scheme will be administered by a public agency.

2.2 A new public agency will be established to administer deposit insurance.

2.3 The principal functions of the Singapore DI agency will be premium collection, management of the DI fund, depositor payout and consumer education.

2.4 MAS will make the decision whether to make depositor payouts.

2.5 The DI agency will verify that MAS has adhered to established procedures in triggering payouts and the agency's concurrence will have to be obtained for changes to the funding rules.

2.6 The DI agency will be incorporated as a company limited by guarantee, and be accountable to the Minister through the Minister's power to appoint its directors and approve the appointment of its chief executive and its budget. The DI agency will be required to submit its annual report and audited financial statements to the Minister.

2.7 The staffing of the DI agency will be kept lean and functions that could be more readily performed by MAS will be carried out by MAS to avoid duplication and minimise cost.

Coverage

3.1 The DI scheme will only cover deposits held by individuals in standard current, savings and fixed deposits accounts. The following will be excluded:

- structured deposits;
- money and capital market instruments, including bonds and other securities issued by banks and negotiable certificates of deposits;
- security deposits placed with the bank for specific purposes, e.g. payment of rent or safe deposit key;
- multi-purpose stored value cards.

3.2 The following deposits will also not be covered:

- deposits in overseas branches or affiliates of locally-incorporated banks;
- deposits placed as collateral for credit facilities extended by the bank.

3.3 Deposits held by sole proprietorships and partnerships will be aggregated with the personal deposits of the owners and insured up to $20,000.

3.4 Deposits held by registered and exempt charities will be insured.

3.5 Deposits held in joint accounts and trust accounts will be aggregated with deposits held in the personal accounts of the respective joint account holders and beneficiaries.

3.6 Deposits placed under CPFIS will be insured up to $20,000, separately from the depositor's other personal deposits; deposits made under SRS will be aggregated with the individual's other deposits for computing the amount of deposits that are insured.

Premium Collection

4.1 The premium assessment for a particular year will be based on insured deposit figures as at 31 December of the preceding year.

4.2 For foreign bank branches, the level of asset maintenance used for premium assessment will be the average of asset maintenance levels over the last three months of the preceding year.

4.3 The contribution for each assessment year will be made in full in a single payment, due on 1 April of that year.

4.4 Insured deposit data will be filed with the DI agency by 15 January of the assessment year. The DI agency will then send an invoice to the member institution, indicating the relevant premium rate and premium payable, one month before the payment due date.

4.5 Premiums will be deducted from member institutions' current accounts with MAS and credited into the DI agency's account maintained with MAS.

4.6 New member institutions with existing deposits will be charged premiums on a pro rata basis. Premiums will be payable 1 month from commencement of operation. Newly licensed institutions without existing deposits will be charged the pro rata minimum premium.

4.7 Member institutions will be charged premiums as a percentage of the amount of insured deposits they hold subject to a minimum premium of $2,500 per year.

Management of the DI fund

5.1 The DI fund will be invested in safe and liquid assets such as Singapore Government Securities and Singapore-dollar deposits with MAS.

5.2 In the event that depositor payouts exceed the size of the DI fund, the DI agency may borrow to finance the shortfall.

Depositor Payout

6.1 The pre-conditions that must be met for triggering depositor payout are:

- the making of a court order to wind up a member institution; or
- MAS' determination that a member institution is unable or likely to become unable to meet its liabilities.

These are necessary but not sufficient conditions for depositor payout.

6.2 Deposit payout can be made through the transfer of insured deposits to an agent bank or by cheques issued by an agent bank to depositors on behalf of the DI agency.

6.3 Depositors need not file claims with the DI agency. The DI agency will compute the payout due to each depositor, based on the records maintained by the failed member institution.

6.4 The DI agency will be automatically subrogated to the rights of depositors for the amount of depositor payout.

6.5 Full netting will be adopted for determining the payout to depositors in line with Singapore insolvency law.

ANNEX B: ILLUSTRATION OF DEPOSIT INSURANCE COVERAGE

A's Deposits and Investments with Bank X			**Amounts eligible for deposit insurance coverage**
a	Fixed Deposit Account (S$)	$ 15,000	$ 15,000
b	Fixed Deposit Account (Foreign Currency)	$ 10,000	0
c	Savings Account	$ 5,000	$ 5,000
d	Current Account	$ 800	$ 800
e	Joint Savings Account with B	$ 3,000	$ 1,500
f	Unit Trusts	$ 8,000	0
g	Total S$ Deposits = a + c + d + ½ (e)		$ 22,300
	Insured Deposits = lesser of g or $20,000		**$ 20,000**

B's Deposits and Investments with Bank X			**Amounts eligible for deposit insurance coverage**
a	Fixed Deposit Account (S$)	$ 5,000	$ 5,000
b	Fixed Deposit Account (S$, CPFIS)	$ 8,300	$ 8,300 (Insured separately)
c	Savings Account	$ 6,000	$ 6,000
d	Current Account	$ 1,500	$ 1,500
e	Joint Savings Account with A	$ 3,000	$ 1,500
f	Unit Trusts	$ 1,000	0
g	Total non-CPFIS Deposits = a + c + d + ½ (e)		$ 14,000
	Insured Deposits = [lesser of g or $20,000] + [lesser of b or $20,000]		**$ 22,300**

ANNEX C: ILLUSTRATION OF NETTING

A's Deposits and Loans with Bank X			
		Deposits	**Loans**
a	Fixed Deposit Account (S$)	$ 20,000	
b	Savings Account	$ 15,000	
c	Current Account	$ 2,500	
d	**Total Deposits** = a + b + c	$ 37,500	
e	Housing Loan		$ 100,000
f	Car Loan		$ 30,000
g	Credit Card Debt		$ 500
h	**Total Loan** = e + f + g		$ 130,500
i	Net Financial Position = d – h	- $93,000	
	Insured Deposits = 0 (if i ≤ 0) or [lesser of i or $20,000] (if i>0)	**0**	
	Outstanding Loan = h - d		**$ 93,000**

B's Deposits and Loans with Bank X			
		Deposits	**Loans**
a	Fixed Deposit Account (S$)	$ 20,000	
b	Savings Account	$ 15,000	
c	Current Account	$ 2,500	
d	**Total Deposits** = a + b + c	$ 37,500	
e	Car Loan		$ 30,000
f	Credit Card Debt		$ 500
g	**Total Loan** = e + f		$ 30,500
h	Net Financial Position = d - g	$ 7,000	
	Insured Deposits = 0 (if h ≤ 0) or [lesser of h or $20,000] (if h>0)	**$ 7,000**	
	Outstanding Loan = g - d		**0**

Monetary Authority of Singapore