RESPONSE TO FEEDBACK RECEIVED -
CONSULTATION ON DRAFT DEPOSIT INSURANCE REGULATIONS

On 27 October 2005, MAS released a consultation paper inviting comments on the draft Deposit Insurance Regulations and Deposit Insurance (Composition of Offences) Regulations.

The consultation period closed on 24 November 2005. MAS thanks all respondents for their comments. This document sets out MAS' responses to these comments. MAS will proceed to issue the Regulations shortly.

Payment of Compensation

A respondent sought clarification on the intention of Regulation 10(1). Regulation 10 (1) provides:

10-(1) Where an insured depositor is entitled to compensation in respect of moneys placed with a failed Scheme member under the CPFIS, the Agency may pay such compensation to the Central Provident Fund Board for the benefit of the insured depositor or into an equivalent account with another Scheme member in which the compensation is to be held in a manner equivalent to the manner of holding the original moneys.

MAS' Response

The effect of Regulation 10(1) is that if an insured depositor has insured deposits under the CPFIS with a failed Scheme member, the DI agency may pay compensation in respect of these insured deposits by either:

a) paying compensation into the insured depositor's CPF Ordinary Account or Special Account; or

b) paying compensation into a CPFIS account or similar account opened in the insured depositor's name with another Scheme member.

Premium Rates

A respondent suggested that premium rates in the initial years of the deposit insurance scheme be moderated to allow Scheme members to adjust to the cost structure. Clarification was also sought on the setting of premium rates for the different categories of Scheme members. A respondent commented that the differential in premium rates for Scheme members with an asset maintenance ratio of between 2-5 and Scheme members with asset maintenance ratio of less than 2 is wide. Another queried if the quality of liquidity management of a Scheme member will be taken into account.

MAS' Response

In designing the scheme, we were guided by the need to provide adequate protection for small depositors as well as the need to limit costs. Premium rates under the scheme are among the lowest in the world. The Technical Addendum to the first Consultation on Deposit Insurance (August 2002) contains details on how premium rates are determined. This is available on the MAS website.

The suggestion to lower premium rates in the initial years would mean that premium rates have to be increased in future to build up the fund to its target size of 0.3% of total insured deposit base in 10-11 years. This would not be desirable.

The premium rates are based on the risk profiles of Scheme members. Compared to a uniform premium rate, a risk-based premium structure is equitable and provides incentives for institutions to improve their risk management. The premium rate for each category of Scheme member reflects the relative differences in the risk contribution to the deposit insurance fund by Scheme members in the different categories. The risk of loss to the fund arising from the failure of a Scheme member incorporated outside Singapore but with assets in Singapore of between twice to five times its insured deposit base (after haircuts) is significantly lower than the risk posed where the asset maintenance ratio is between 1 (the minimum allowed) and 2.

At the onset, premium rates for foreign bank branches are based on the bank's AM ratio. After the DI scheme has been in place for a few years, MAS intends to move towards a premium schedule that differentiates Scheme members based on 2 factors - supervisory ratings and the AM ratio (for foreign bank branches). Further details on this can be found in the first Consultation Paper.

Asset Maintenance Requirement

A respondent asked for further clarification on the rationale for the asset maintenance requirement under the DI scheme. It was also suggested that insured deposits should be exempted from MLA and MCB requirements in view of the asset maintenance requirement.

MAS' Response

The asset maintenance requirement for deposit insurance strengthens the recovery of assets by the DI fund from the assets of the failed bank should a foreign bank fail. This lowers the risk to the DI fund, makes it possible for the DI fund to be kept small and hence keep premium rates low. Currently, the deposit insurance asset maintenance requirement only applies to foreign banks operating as branches in Singapore.

MCB and MLA requirements serve a different purpose of ensuring that institutions maintain sufficient liquidity on an ongoing basis. Hence, these requirements will still apply to insured deposits, notwithstanding that a DI scheme is in place.

Eligible Assets and Eligible Pledged Assets

Some respondents asked for the basis for the determination of asset haircuts for Singapore Government Securities and cash. Clarification was also sought on the valuation of eligible assets and eligible pledged assets, as well as the definition of "resident of Singapore".

Clarifications were sought on whether MAS will allow non-bank financial institution loans, and interbank placements to be classified as eligible assets for the purposes of meeting the asset maintenance requirement.

MAS' Response

The haircuts reflect the risk of diminution in value of these assets when the bank fails, as well as the risk that the assets will be removed from Singapore's jurisdiction before they can be used to meet the banks' liabilities to Singapore depositors ("flight risk").

In the case of SGS and cash which are not pledged to the DI fund, the haircuts are primarily to account for flight risk as these are highly liquid assets that can be easily sold and the proceeds used to pay other creditors or repatriated prior to default.

All eligible assets are to be valued at carrying value. However, eligible pledged assets should be valued at market value since the market value for these assets, which include debt securities and listed equities, should be readily available.

The definition of "resident of Singapore" is set out in the draft MAS Notice on Deposit Insurance Returns sent to all full banks and finance companies on 9 Dec 05.

We confirm that under the Deposit Insurance Regulations, non-classified Singapore dollar loans to non-bank financial institutions which are residents of Singapore (except financial institutions related to the Scheme member and merchant banks) will be considered eligible assets.

However, interbank placements will not qualify as eligible assets as these are highly liquid assets and there is also a high risk that these will be netted off against liabilities of the failed Scheme member in the event of insolvency.

Target Fund Size

A respondent asked whether the target fund size will be reviewed in future and the processes, including consultation, for doing so.

MAS' Response

The first Consultation on Deposit Insurance, Technical Addendum (August 2002) contains further details on the determination of the target fund size. As the risk profiles of institutions and their asset and liability structures may change over time, the target fund size will be reviewed from time to time. MAS expects to do so, in conjunction with the Deposit Insurance Agency, after the scheme has been in place for a few years. Scheme members will be consulted on any proposed changes.