

CONSULTATION PAPER

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Review of the Deposit Insurance Scheme in Singapore

MAS

Monetary Authority of Singapore

PREFACE

The deposit insurance scheme (“DI Scheme”) in Singapore was implemented in 2006 with the primary objective of protecting small depositors. The design of the DI Scheme in Singapore was guided by several considerations which included the need to provide adequate protection for the majority of small depositors while limiting the cost of DI to Scheme members and depositors and preserving the incentives for large depositors to exercise market discipline.

2 Since its incorporation, the Singapore Deposit Insurance Corporation (“SDIC”) which administers the DI Scheme, has established systems and processes to ensure depositors who are insured under the Scheme would be compensated quickly in the event of a DI payout.

3 As part of its regular review, MAS together with SDIC, has reviewed the DI Scheme to ensure that it continues to provide adequate protection to small depositors. This consultation paper makes recommendations to amend and enhance various features of the DI Scheme.

4 MAS invites interested parties to forward their views and comments on the proposals made in this paper. We will assess and consider all comments received before finalising the proposals and commencing the legislative process, with a view to implementing the amendments to the DI Scheme in 2011. Electronic submission is encouraged. Please submit your written comments by 26 March 2010 to:

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5 Please note that all submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

PROPOSED CHANGES TO THE DEPOSIT INSURANCE (DI) SCHEME

1 SCOPE OF APPLICATION

1.1 Currently, participation in the DI Scheme is mandatory for all retail deposit-taking institutions, i.e. full banks and finance companies in Singapore. Given the primary focus of the Scheme on protecting small and individual depositors, we assess it would still be appropriate to keep DI membership to the full banks and finance companies in Singapore, which have access to retail deposits. There will therefore be no change in membership of the DI Scheme.

1.2 The DI Scheme currently covers Singapore dollar deposits in standard current, savings and fixed deposit accounts up to the DI coverage limit. The DI Scheme will continue to cover only these Singapore dollar deposits, and will continue to exclude foreign currency deposits and structured deposits. Although we had considered whether foreign currency deposits should be covered, as the bulk of deposits held by individuals are denominated in Singapore dollar, there is no need to extend DI coverage to include foreign currency deposits.

1.3 Monies placed with a Scheme member under the CPF Investment Scheme, CPF Minimum Sum Scheme, and Supplementary Retirement Scheme will continue to be covered under the DI Scheme up to the DI coverage limit (see Section 2 for details on how these accounts will be aggregated).

EXPANDING THE SCOPE OF COVERAGE

1.4 The DI Scheme currently only insures Singapore dollar deposits of individuals and charities held with Scheme members. All deposits placed with Scheme members by companies and partnerships are excluded from coverage. We have reviewed this and considered that other depositors including small businesses, like individual depositors, may also benefit from some deposit protection to mitigate potential cash flow problems in the event

of bank failure. We therefore propose to expand the scope of the DI Scheme to insure the deposits of all non-bank depositors.

1.5 With this expansion, coverage will be expanded beyond deposits of individuals and charities, and will now include other non-bank entities such as sole proprietorships, partnerships, companies, and unincorporated entities such as societies and associations. We will set out specific classes of non-bank entities that continue to be excluded from DI coverage.¹

Proposal 1: To expand the scope of the DI Scheme to insure the deposits of individuals and other non-bank depositors.

1.6 Currently, the DI Scheme insures Islamic deposits that are principal-guaranteed such as *Wadiah*. We propose to insure *Murabaha* which has been prescribed as a deposit under the Banking Act. To provide for any products that may be prescribed as deposits in future, we also propose to amend the DI Act to allow MAS to prescribe products as insured deposits under DI.

Proposal 2: To amend the DI Act to allow MAS to prescribe products as insured deposits, and to prescribe *Murabaha* as an insured deposit under DI.

RAISING THE COVERAGE LIMIT

1.7 Currently, the DI Scheme insures Singapore dollar deposits that an individual or charity maintains with a DI Scheme member (full bank or finance company in Singapore), up to an aggregate of S\$20,000 per depositor per Scheme member. Today, this fully insures 83% of depositors covered under the Scheme, lower than the 86% coverage when the Scheme was first designed.

¹ The excluded non-bank entities are merchant banks and finance companies in Singapore, the equivalent of merchant banks and finance companies licensed in another jurisdiction, as well as foreign central banks and monetary authorities, and foreign governments.

1.8 Based on our study of the depositor profile of Scheme members, we propose raising the coverage limit from S\$20,000 to S\$50,000 per depositor per Scheme member. This represents an increase in the coverage limit of 2.5 times, and would fully insure 91% of individual and non-bank depositors.

1.9 In addition, an individual's monies placed with a Scheme member under the CPF Investment Scheme ("CPFIS") will continue to enjoy separate and additional DI coverage from his standard savings, current or fixed deposits maintained with the Scheme member. The coverage limit for CPF monies will also be raised from the current S\$20,000 to S\$50,000. (See Section 2 on the aggregation of CPF-related accounts under a common limit.)

1.10 Beyond S\$50,000 coverage, the incremental benefit of DI is small and may not justify the cost. As our objective remains that of small and individual depositor protection, a coverage limit of S\$50,000 would balance the objective of depositor protection, with other objectives of limiting the cost of DI to Scheme members and depositors and preserving the incentives for large depositors to exercise market discipline.

<p>Proposal 3: To enhance depositor protection by raising DI coverage limit from S\$20,000 to S\$50,000 per depositor per institution.</p>

2 AGGREGATION ISSUES AND PAYOUT APPROACH

AGGREGATION OF MONIES UNDER SOLE PROPRIETORSHIPS AND PARTNERSHIPS

2.1 For the purpose of determining DI compensation in the case of an individual who is also a sole proprietor, deposits of the individual in his own name would be aggregated with his business deposits with the same Scheme member, since operationally, he may commingle these deposits.² However, for a partnership, it could be difficult to separately identify an individual's share of deposits as partner, especially in the case of larger partnerships, and to aggregate them with his personal deposits. Hence, we propose to treat a partnership as a single entity for the purpose of DI compensation.³

AGGREGATION OF CPF MONIES UNDER COMMON DI COVERAGE LIMIT

2.2 An individual's monies placed with a Scheme member under the CPF Investment Scheme ("CPFIS") enjoys a separate DI coverage limit (proposed to be raised to S\$50,000) from his standard savings, current or fixed deposits maintained with the Scheme member. His deposits under the CPF Minimum Sum Scheme ("CPFMS") is currently aggregated with his other standard savings, current or fixed deposit accounts with the Scheme member.

2.3 To streamline the DI coverage for CPF-related accounts, we propose to aggregate an individual's CPFMS deposits with his monies in the CPFIS, under a common S\$50,000 limit.⁴ The individual's deposits in standard

² For instance, an individual with S\$30,000 in his personal savings account and another S\$40,000 in his sole proprietorship account with the same Scheme member, would be insured up to an aggregate of S\$50,000 with that Scheme member.

³ For instance, assume a partnership of three partners (A, B, and C) with a deposit of S\$60,000 with a Scheme member. "A" also maintains S\$30,000 with the same Scheme member in a personal savings account. In the event of DI payout, the partnership will be entitled to compensation of S\$50,000 (as a single entity), and "A" will receive S\$30,000 in his own personal capacity. The deposit of S\$60,000 placed by the partnership will not be split such that Partner B and C each receives S\$20,000 (assume equal allocation among the three partners) and Partner A S\$50,000 (comprising S\$20,000 and S\$30,000).

⁴ For instance, assume an individual has S\$20,000 with a Scheme member under

savings, current or fixed deposit accounts with the Scheme member will be aggregated under a separate S\$50,000 limit. There is no significant impact on DI coverage of CPF accounts arising from this change.

SRS MONIES

2.4 Currently, deposits placed with a Scheme member under the Supplementary Retirement Scheme (“SRS”) are insured, as with other deposits that a depositor may maintain in a normal standard savings, current or fixed deposit account with the Scheme member. We will amend the DI Act to clarify that monies held in a SRS account with the SRS operator that have not been utilised for investments would also be insured under the DI Scheme. This would be consistent with DI coverage of monies placed under the CPFIS which have not been invested. SRS monies not invested and remaining in an SRS account will be aggregated with the individual’s standard savings, current or fixed deposits under a common DI coverage limit.

Proposal 4: In computing coverage for a sole proprietor, to aggregate deposits in his own name and as sole proprietorship; and for partnerships, to treat the partnership as a single entity.

Proposal 5: To streamline the DI coverage for CPF-related accounts, by aggregating an individual’s CPFMS deposits with his monies in the CPFIS under a common S\$50,000 limit.

Proposal 6: To amend the DI Act to clarify that SRS monies not invested and remaining in SRS accounts are insured under DI.

PAYOUT APPROACH

2.5 Currently, in determining the compensation payable to an insured

CPFMS, S\$20,000 under CPFIS and S\$50,000 in a savings account with the same Scheme member. He will be entitled to DI coverage of S\$50,000 in his savings account and S\$40,000 for his CPF monies, which comprises amounts under the CPFMS and CPFIS. Previously, his savings deposit and CPFMS deposit would be aggregated, while his CPFIS monies are separately covered.

depositor, liabilities of the depositor to the Scheme member would be offset against his deposits with the Scheme member. Such an offsetting approach is consistent with Singapore insolvency law where mutual claims are offset and settled on a net basis.

2.6 We considered an alternative where an insured depositor is paid the gross amount of his deposits up to the DI coverage limit, without first netting off his liabilities to the Scheme member. This “gross payout approach” has several advantages. It could achieve a faster payout for depositors compared to the current approach, as there will be no need to determine the amount of the depositor’s liabilities to the Scheme member to be offset against their deposits to that Scheme member. Furthermore, a gross payout is more easily understood and provides depositors with maximum liquidity compared to an approach with netting. We propose to adopt a gross payout approach to provide greater certainty and clarity in depositor compensation at the time of a DI payout.

2.7 The gross payout approach for DI does not mean the depositor’s liabilities to the Scheme member are written off as the depositor remains responsible for any liabilities owed to the Scheme member. The liquidator would be empowered to recover this amount from the depositor. As this proposal involves a departure from general insolvency law, MAS is also seeking the views of other Government agencies with responsibilities for corporate law and the legal framework.

Proposal 7: To adopt a gross payout approach for the purpose of DI payout, such that an insured depositor is paid the gross amount of his deposits up to the DI coverage limit, without first netting off his liabilities to the Scheme member.

PLEGGED DEPOSITS

2.8 Depositors may pledge their deposits to a Scheme member as collateral to secure other facilities provided by the Scheme member such as a loan. Currently, once the deposit is pledged, the full amount of the deposits would not be insured under DI. This is regardless of whether the depositor has drawn down fully on the facility for which he has pledged his deposit.

2.9 We propose to amend this to insure the amount of a pledged deposit

that (i) is not set aside by the Scheme member in respect of debt owed by the depositor or loan/margin facility granted to depositors; and (ii) may be withdrawn by the depositor. With this proposed change, pledged deposits in excess of a depositor's drawn-down facility with a Scheme member would still be insured under DI.⁵ This proposed approach of insuring the free monies in pledged deposit accounts would be consistent with existing DI treatment for deposits that are subject to specific set-off agreements.

2.10 We expect Scheme members to disclose upfront and clearly to customers, the implications on coverage under DI from pledging their deposits, as well as the insured status of their deposits (including the status of facilities they are pledged against) from time to time. Such disclosure could be done, for example, in periodic account statements sent to their customers.

Proposal 8: To insure the amount of a pledged deposit that is not set aside by the Scheme member in respect of debt owing by the depositor, and that may be withdrawn by the depositor.

We invite comments and feedback on how the proposed approach could be implemented with regard to specific forms of pledged deposits, set-off agreements and other terms and conditions of such deposits that Scheme members may have.

ACCRUED INTEREST

2.11 The DI Scheme currently insures accrued interest. In practice, Scheme members may not post interest that is due to depositors on a daily basis and so we propose to clarify that DI coverage will include interest that has been posted to the accounts of depositors.

⁵ For example, a depositor may have pledged a deposit of S\$50,000 to the Scheme member for a credit facility of S\$60,000. Currently, the whole deposit of S\$50,000 will not be insured under DI. With the proposed changes, if the credit facility is not drawn upon and the depositor may withdraw money from his deposit account freely, his deposit of S\$50,000 remains insured under DI. If he has drawn down a loan amount of S\$20,000 and can withdraw the excess of his deposit freely, S\$30,000 (i.e. S\$50,000 minus S\$20,000) will remain insured under DI.

Proposal 9: To clarify that accrued interests that have been posted to the accounts of depositors are insured under DI.

TRANSITION DI COVERAGE FOR MERGERS/ACQUISITIONS

2.12 A Scheme member may on occasion be merged with or acquired by another Scheme member. In order to provide greater certainty as to the coverage of deposits maintained with each of the merging Scheme members, we propose that deposits that are insured before a merger/acquisition remain insured for one year after the transaction and for extensions to be given by the Minister under exceptional circumstances. This means that deposits previously insured separately in each of the merging Scheme members, will remain separately insured up to the coverage limit, and will not need to be aggregated for a period of one year from the date of the merger.

Proposal 10: To amend the DI Act such that deposits that are insured before a merger/acquisition of a Scheme member remain separately insured for one year after the transaction.

3 DI FUND AND DI PREMIUMS

TARGET FUND SIZE AND PREMIUMS

3.1 The DI Scheme is currently pre-funded by annual premium contributions from Scheme members. The target fund size is 30 basis points (or 0.30%) of the aggregate insured deposit base of Scheme members.⁶ This took into account loss estimates derived from the model of the DI Scheme which incorporated estimates of the probability of default and loss given default of each Scheme member, and their default correlations.⁷

3.2 Based on a re-run of the model and the current profile of Scheme members, we assess that a target fund size of 30 basis points (or about S\$270 million based on proposed coverage) remains appropriate. In the event that the DI Fund is insufficient for payout, the SDIC may collect additional premiums or borrow.

3.3 Currently, the premium rates are based on the incorporation status of Scheme members and the level of assets that they maintain in Singapore to back up their insured deposits.⁸ Each Scheme member pays annual premiums of 3bps (0.03%) to 8bps (0.08%) of their insured deposit base, with the DI Fund expected to be built up over 10 years (i.e. by 2016) with an average pricing of 3bps per year.

3.4 Based on our estimates, the proposed increase in scope of DI coverage should not have a significant impact on Scheme members as a whole, in terms of costs. Nevertheless, gross premiums are likely to be higher with the proposed changes as the amount of insured deposits has increased significantly. We therefore propose to extend the build-up period of the DI Fund by another four years, from the original target date of 2016 to 2020 so

⁶ This amounted to S\$120 million then.

⁷ Details of the model are in the Technical Addendum to the Consultation Paper on the Deposit Insurance Scheme, 6 Aug 2002.

⁸ At a minimum, Scheme members incorporated outside Singapore are required to hold eligible assets in Singapore against each dollar of insured deposit. Such asset maintenance requirements, together with priority order of claim accorded to insured deposits, make it possible to keep the DI Fund modest.

that the annual premium rates applicable to Scheme members can be lowered (see table below) and the overall increase in gross premiums will be moderate. This extension in build-up period will moderate the annual gross premiums payable by Scheme members and limit the cost impact on Scheme members and depositors.

Table: Revised Annual Premium Rates

	Locally-incorporated / High AM branch ⁹	Medium AM branch	Low AM branch
Existing rates	3bps	4bps	8bps
Proposed rates	2bps	3bps	7bps

Proposal 11: To revise the rates for annual premium contributions to between 2bps (0.02%) and 7bps (0.07%) of insured deposit base and extend the fund build-up period by 4 years.

⁹ High AM refers to asset maintenance ratio of more than 5. Medium AM refers to ratio of more than 2 but not more than 5. Low AM refers to AM ratio of 2 or less.

SUMMARY OF PROPOSALS

Proposal 1: To expand the scope of the DI Scheme to insure the deposits of individuals and other non-bank depositors.

Proposal 2: To amend the DI Act to allow MAS to prescribe products as insured deposits, and to prescribe *Murabaha* as an insured deposit under DI.

Proposal 3: To enhance depositor protection by raising the DI coverage limit from S\$20,000 to S\$50,000 per depositor per institution.

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Proposal 6: To amend the DI Act to clarify that SRS monies not invested and remaining in SRS accounts are insured under DI.

Proposal 7: To adopt a gross payout approach for the purpose of DI payout, such that an insured depositor is paid the gross amount of his deposits up to the DI coverage limit, without first netting off his liabilities to the Scheme member.

Proposal 8: To insure the amount of a pledged deposit that is not set aside by the Scheme member in respect of debt owing by the depositor, and that may be withdrawn by the depositor.

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Proposal 10: To amend the DI Act such that deposits that are insured before

a merger/acquisition of a Scheme member remain separately insured for one year after the transaction.

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