

Local Insights

Deposit Guarantee Scheme



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Amidst the global financial crisis in 2008, the governments of various countries in Asia provided blanket guarantees on all bank deposits to maintain confidence in their financial systems. In order to remain financially competitive in the region, Singapore introduced a similar guarantee scheme.

The Ministry of Finance and Monetary Authority of Singapore (MAS) issued a joint statement on October 16 2008 announcing that the government will guarantee "all Singapore Dollar and foreign currency deposits of individual and non-bank customers in banks, finance companies and merchant banks licensed by the MAS". The joint statement stated that this guarantee is backed by S\$150 billion (\$103 billion) of the reserves of the government and will remain in effect until December 31 2010. The guarantee will cover the full amount of deposits by all non-bank depositors, both corporate and individuals, including those under the current Deposit Insurance Scheme administered by the Singapore Deposit Insurance Corporation.

According to the ministerial statement by the Minister for Trade & Industry and Deputy Chairman of the MAS dated October 22 2008, this move was made to pre-empt any loss of deposits in local financial institutions in view of the implementation of blanket government guarantees on deposits by various governments in the region. The guarantee can bolster confidence in the financial system and provide stability during such uncertain times.

After more than six months, apart from the joint statement and the ministerial statement, there is no official publication on the exact terms of the guarantee. It is thus difficult for depositors to determine whether they fall within the scope of coverage under the guarantee. Further, in the event claims should arise under the guarantee, the lack of rules can create unnecessary administrative problems and may even lead to arbitrary standards being imposed in assessing the amount of compensation.

In contrast, the Hong Kong Monetary Authority had in February 2009 announced the scope of coverage of a similar blanket guarantee by its government. The writers understand that the coverage of the Hong Kong government's guarantee is based on its deposit insurance scheme.

It remains to be confirmed officially by the Singapore government whether Singapore may adopt a similar approach as that of the Hong Kong government. If a similar approach is taken, it is likely that the coverage of the guarantee will be limited to deposits which are insured under the Singapore Deposit Insurance Scheme (and also extended to cover foreign currency deposits) and depositors in Singapore will do well to note that only current, savings and fixed deposits will be guaranteed. "Structured deposits" and deposits that are "pledged, charged or secured as collateral" and deposits that are set aside and subject to a contractual right of set-off are not guaranteed.

Pending any official clarification by the Singapore government on the terms of the guarantee or instructions from the MAS, it is the writers' view that the guarantee remains to be governed by official announcements and it is arguable that any restriction under the Singapore Deposit Insurance Scheme should not apply.

The guarantee scheme is initiated to boost the public's confidence in Singapore's financial system during this period of economic turmoil. It acts as a temporary measure to prevent an outflow of deposits to other countries and may have served its purpose thus far. However, with about one year before the expiry of the guarantee and no certainty that the world economy is on the mend, the Singapore government should perhaps clarify the terms of the guarantee in order to minimise uncertainty over its coverage.

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