



SOUTH AFRICAN RESERVE BANK

CODI

Corporation for Deposit Insurance

Development of a deposit insurance scheme for South Africa

April 2023

From the CEO's desk

This newsletter marks a momentous occasion and time in the establishment of the Corporation for Deposit Insurance (CODI) and the development of a deposit insurance scheme (DIS) for South Africa. CODI became a legal entity on 24 March 2023, and during the coming year it will focus on putting in place certain governance structures, finalising the legislation empowering it and developing a technology solution to automate the collection of depositor data.

CODI is expected to be fully operational by April 2024, and aims to support the South African Reserve Bank (SARB) in fulfilling its financial stability mandate. It also aims to protect depositors from losing money when their banks fail, especially the smaller more vulnerable depositors. CODI's main functions will be to (i) build up and manage a fund, called the Deposit Insurance Fund (DIF), from which depositors will be paid out in the event of their bank failing and its subsequent closure; and (ii) promote awareness among the public, specifically depositors of banks, of the protection provided to them by the DIS.

This newsletter provides more detail on these and other issues on deposit insurance. If you have any questions or want to engage with the team at CODI, please email us at CODI@resbank.co.za.

Hendrik Nel
CODI Interim CEO



What is a financial safety net?

A financial safety net protects the soundness of and confidence in the financial sector. It includes the functions of prudential regulation and supervision of financial institutions and financial market infrastructure. It also provides an effective resolution of financial institutions; is a lender of last resort that offers loans to banks that are experiencing financial difficulty; and puts forward a DIS that protects the most vulnerable customers of financial institutions by providing depositors with access to their covered deposits if a bank should fail.

The lessons learned from the 2008-09 global financial crisis and local experiences led to South Africa introducing the 'Twin Peaks' regulatory model to reform the regulatory and supervisory system for financial institutions and financial market infrastructure to enhance South Africa's financial safety net.

The model contained in the Financial Sector Regulation Act 9 of 2017 (FSR Act) gave the SARB an explicit mandate to maintain and enhance financial stability. It established the Prudential Authority (PA), which regulates financial institutions and financial market infrastructure to promote and improve their safety and soundness, and the Financial Sector Conduct Authority (FSCA), which ensures that customers are informed and treated fairly by financial institutions.

To further enhance South Africa's financial safety net, the FSR Act was later amended to provide for the orderly resolution of designated institutions by the SARB, as the Resolution Authority (RA), and to establish CODI as South Africa's DIS. Both the RA and CODI form part of the financial safety net.



Do you have any questions? Email: CODI@resbank.co.za.



What is CODI?

CODI is a statutory body established by law (the FSR Act) and the newest subsidiary of the SARB. It is an independent legal entity with its own Chief Executive Officer, Board of Directors (Board) and Management team. Because CODI is part of the broader SARB Group, it has governance and reporting obligations to the SARB. CODI's Board is responsible for overseeing its operations.

CODI is South Africa's DIS and manages the DIF. In the event of a bank collapsing, CODI will use the DIF to give qualifying depositors access to their deposits, up to the maximum coverage limit. CODI is also responsible for ensuring that depositors know about the protection it offers and the benefits and limitations thereof. The banks will assist CODI in making depositors aware of the deposit insurance protection.

Why is CODI established but not yet operational?

Although CODI was established on 24 March 2023, it will only become fully operational by April 2024. During the next year CODI will work closely with National Treasury to take the deposit insurance secondary legislation through Parliament for sign-off by the President. While the FSR Act contains high-level rules for the establishment of CODI, the secondary legislation will contain detailed rules explaining the procedural and/or administrative matters relating to the operations of CODI and the DIF.

CODI is also developing technology systems to automate the collection of information from banks to calculate their financial contributions to CODI. CODI will finalise its governance and administrative processes to collect from the banks levies for its operational costs and premiums to build the DIF. From 1 April 2024, CODI will be operationally ready to protect depositors should their bank fail.



What will change when CODI becomes operational?

Before CODI's establishment, there were no clear arrangements in place to protect depositors in the event of a bank failure. Decisions on depositor protection were made at the time of a bank collapsing, with the government using taxpayers' money to compensate depositors for their losses on a case-by-case basis, as was the case with the failure of VBS Mutual Bank.

Subject to the approval of the deposit insurance secondary legislation, CODI will become operational in April 2024. Qualifying depositors will then be covered up to a maximum amount of R100 000 per bank. The rules about the protection provided and the processes of paying out depositors in the event their bank failing, will be communicated to all depositors.



Do you have any questions? Email: CODI@resbank.co.za.

Why is the coverage limit R100 000?

A DIS usually has a limited coverage limit per qualifying depositor per bank. Unlimited coverage is expensive and more likely to cause undue risk-taking by banks and depositors. The coverage limit should provide adequate protection to vulnerable depositors, while ensuring that it is not too costly for the system. International best practice is that the level and scope of coverage must be set so that most depositors across banks are fully covered while leaving a substantial proportion of the value of deposits partially covered.

Figure 1: Comparison of the percentage of fully covered vs partially covered depositors

Fully vs Partially covered depositors



Of the total number of depositors in the banking sector, 97% qualify for deposit insurance protection. The 3% non-qualifying depositors consist of financial corporate and government depositors. Qualifying depositors consist of individuals and non-financial corporate depositors. CODI conducted a deposit insurance survey in 2021 to test the adequacy of the proposed R100 000 coverage limit. When a qualifying depositor is fully covered, their total qualifying balances at a bank are less than or equal to R100 000.

A partially covered depositor's qualifying balance at a bank exceeds R100 000, but CODI protects them up to R100 000. The survey found that most (95%) qualifying depositors will be fully covered at a R100 000 coverage level, while only 5% of qualifying depositors with deposits above R100 000 will be partially covered in the event of their bank failing.

What are the responsibilities of depositors?



Banks will be obliged by law to submit information on their qualifying depositors to CODI. At a minimum, this includes information to identify the qualifying depositors, their qualifying products, account details with balances and their contact details. Depositors must ensure that all their details with their bank are up to date.

Webpage with deposit insurance information for depositors



Depositors can access CODI's webpage at [https://www.resbank.co.za/en/home/what-we-do/Deposit insurance](https://www.resbank.co.za/en/home/what-we-do/Deposit%20insurance). CODI publishes the latest information on deposit insurance, including frequently asked questions (FAQs), newsletters, discussion papers and the deposit insurance legislation on this webpage. CODI welcomes any questions on deposit insurance from the public at CODI@resbank.co.za.



Do you have any questions? Email: CODI@resbank.co.za.