

Project for the establishment of the Corporation for Deposit Insurance



SOUTH AFRICAN RESERVE BANK

FROM THE CEO'S DESK

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The South African Reserve Bank (SARB), through its subsidiary the Corporation for Deposit Insurance (CODI), is making good progress in establishing a deposit insurance scheme (DIS) for South Africa. President Cyril Ramaphosa signed into law the Financial Sector Laws Amendment Act 23 of 2021 (FSLAA) and now CODI, with the assistance of National Treasury, is putting in place additional secondary legislation required for deposit insurance to become operational.

CODI will support the SARB in fulfilling its objective of, and responsibility to, protect and enhance financial stability. CODI will establish, maintain and administer the deposit insurance fund (DIF) and promote awareness among depositors. We expect the DIS to be fully functional during the first quarter of 2024.

In this newsletter we have information on how the DIS will protect depositors. If you have any further questions, please contact us at the email provided below.

Hendrik Nel

When will South Africa have a deposit insurance scheme?

In January 2022, the President signed the FSLAA into law, signifying a significant milestone for the establishment of CODI. In terms of the FSLAA, CODI will be established once the Minister of Finance publishes a commencement schedule in the *Government Gazette*. The first schedule will allow for CODI's establishment, the establishment of its Board of Directors (Board), the investment committee and the recruitment of its CEO. A subsequent schedule will provide for the implementation of CODI's functions.

Although CODI's establishment is imminent, it will take time to get fully operational. The following must be completed first before it can protect qualifying depositors:

- The FSLAA provides a high-level framework for the establishment of CODI. The details of how CODI will function will be covered in CODI's secondary legislation. CODI is drafting secondary legislation to go through the parliamentary process in 2023. The secondary legislation will detail the rules for CODI's functioning, including the depositor products CODI will protect, the maximum amount for which CODI can protect depositors when their bank fails, the process CODI will follow to reimburse qualifying depositors in the event of a bank failure and the information banks must submit to CODI.
- Parliament has approved the Deposit Insurance Levies and Administration bills. The President now has to assent to these bills for promulgation to take place. These bills will enable CODI to collect an annual levy from banks to fund its operations. The Administration Bill also allows CODI to collect monthly premiums from banks to build the DIF. Both bills are dependent on the promulgation of CODI's secondary legislation that will, among other things, specify the limit of cover for CODI's protection and the calculation of banks' covered deposits, which is the basis for the levy and premium calculations.

What is deposit insurance?

A DIS is part of a country's financial safety net. The other components of the safety net are the supervisory and regulatory framework, the lender of last resort and oversight of the national payments system.

A DIS protects qualifying depositors against the loss of their covered deposits with a bank when the bank fails.

It contributes to consumer protection. The role of a DIS is to ensure that the cost of a bank failure does not fall unreasonably on the most vulnerable consumers or those that are least able to protect themselves through sophisticated risk management methods, including diversification, hedging or financial structuring.

Depositors will in due course be informed which depositor products CODI will protect and the amount of protection with which they will be provided when a bank fails.

Which banks will be members of CODI?

Membership of CODI is automatic and compulsory for all registered banks. This includes all commercial banks, local branches of foreign banks, mutual banks and cooperative banks. Currently there are 17 commercial banks, three mutual banks, five cooperative banks and 13 local branches of foreign banks that will become members of CODI upon its establishment.

CODI welcomes questions from the public on deposit insurance. Please send questions to CODI@resbank.co.za.



Why does South Africa need a deposit insurance scheme?

South Africa is among the last G20 countries to implement an explicit DIS.

Not having an explicit DIS was a gap in the design of the South African financial safety net that had to be addressed to promote financial stability.

In the past, the government compensated depositors for their losses on a case-by-case basis, meaning taxpayers had to bear the cost of the failure of banks. When a bank failed, there was uncertainty about which depositors would be compensated, the amount of protection provided and where the funding would come from.

A DIS will provide a mechanism to ensure a pre-planned, orderly and efficient provision of protection to depositors, and more importantly, depositors will be informed exactly when and how much they will receive when their bank fails.

Who will CODI protect?

CODI's protection will be automatic. Depositors will not have to apply for this protection. CODI will protect deposits held by natural or non-financial persons. CODI's protection is R100 000 per qualifying depositor per bank. CODI will protect qualifying banking products where the nominal balance is guaranteed and repayable at par.

Qualifying accounts held by sole proprietors will be covered separately from the individuals' personal bank accounts. The coverage limit will be R100 000 if the bank can identify the accounts the individual uses for its sole proprietor business.

Qualifying deposits in foreign currencies are also covered up to the R100 000 limit. When a bank fails, foreign currency balances will be converted to South African rand before a depositor is paid.

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

Deposits not covered by the DIS

CODI will not cover:

- deposits by banks;
- deposits by the non-bank private financial sector, including money market unit trusts, non-money market unit trusts, insurers, pension funds, fund managers and other private financial corporate sector institutions;
- deposits by government, including local, provincial and national government, public financial sector entities, the Public Investment Corporation (PIC), the Corporation for Public Deposits (CPD), other public non-financial corporations and monetary authorities;
- bearer instruments;
- accounts where the capital amount is not guaranteed and not repayable at par;
- holdings of commodities; and
- electronic money products.



Under what conditions will the DIF be used?

The FSLAA specifies that CODI can only use the DIF to make payments of up to R100 000 to a qualifying depositor when their bank fails. CODI can also use the DIF to give depositors access to their funds when the SARB, in its capacity as the Resolution Authority (RA), decides on a non-payout resolution strategy.

When a bank fails and is liquidated, CODI will reimburse the qualifying depositors of the failed bank within 20 days from the date of liquidation.

Qualifying depositors do not have to make a claim to receive their reimbursements. CODI will calculate a depositor's covered balance based on the records of the failed bank. Depositors will be able to access their funds at a payout agent bank.

Qualifying depositors cannot buy extra deposit insurance cover when they have deposit balances of more than R100 000. A depositor can claim balances in excess of R100 000 from the estate of the failed bank, which will be handled by the liquidator.

Where will CODI get its money from to protect depositors?

Depositors will not make any payments to CODI. Once CODI becomes fully operational, it will establish and build the DIF from financial contributions from member banks. CODI will use the DIF to protect depositors when their bank fails to give them quick access to their money. The DIF will mainly consist of monthly premiums collected from banks, loans provided to CODI in the form of liquidity tier contributions, and investment income.

How will CODI treat joint accounts?

A joint account is an account with two or more account holders. In terms of CODI's protection, the balance in a joint account will be divided equally among the account holders, unless the account holders asked the bank to record a different sharing ratio in its records. CODI will protect the depositors' balance in this account by considering other accounts they may have at the same bank when the bank fails. For example, Zintle and Hangwani have a joint savings account at bank ABC with a balance of R180 000. They did not ask the bank to record a specific sharing ratio. Hangwani has a cheque account at Bank ABC with a balance of R20 000. CODI will protect qualifying depositors for up to R100 000 per depositor per bank, implying that, if bank ABC fails, Zintle and Hangwani will each be protected for 50% of the joint savings account balance (i.e. $R180\ 000/2 = R90\ 000$ each). Hangwani will be protected for another R10 000 for his cheque account balance, to get the maximum protection of R100 000 from CODI.