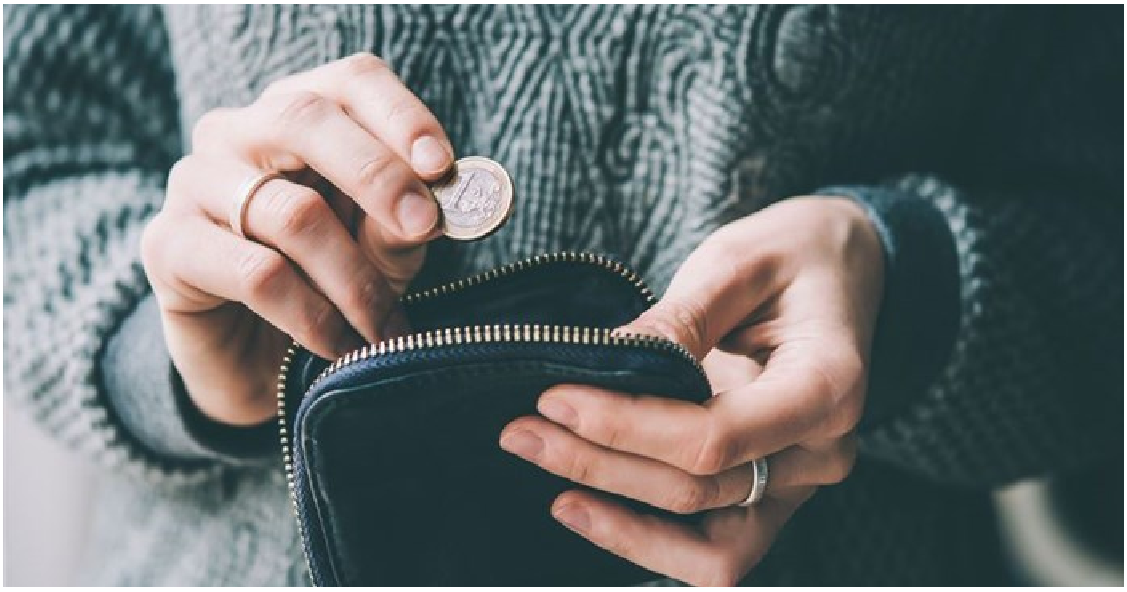
Reserve Bank considers insuring people's savings

By Robert Laing

31 May 2017

SA is considering insuring people's savings in the event of a bank failure. But in contrast to the US where a government agency, the Federal Deposit Insurance Corporation, was created after the Great Depression, SA should use a privately funded system.



Because SA does not have explicit and privately funded deposit insurance, pay-outs to depositors in the event of a failed bank have, in the past, been funded by government on a case-by-case basis. No arrangements are in place to recover such compensation to depositors from the private sector, resulting in taxpayers ultimately funding the costs of bank failures," a Reserve Bank discussion document said.

Until the 2008 financial crisis - which prompted the US to update its 1933 deposit insurance laws with the Dodd Frank Act which, among other things, raised the amount insured from $2,500 to $250,000 - deposit insurance tended to be viewed as academic. There were no examples where countries with deposit insurance had used it. Instead, central banks organised fire sales of failed banks to strong banks to assure savers their money was safe, just as they did in countries without deposit insurance.

The discussion document said among the reasons SA needed to introduce deposit insurance was to keep the country in line with international best practice and other G20 countries. "The deposit insurance scheme can also contribute to the development of a less-concentrated banking sector, supporting financial inclusion and transformation of the sector."

Source: *BDpro*