

Bank deposits get govt seal of guarantee

Singapore ensures level playing field for its institutions; M'sia gives similar assurance

By SLOW LI SEN

(SINGAPORE) The Singapore government will, with immediate effect, guarantee all Singapore dollar and foreign currency deposits of individual and non-bank customers in banks, finance companies and merchant banks.

The Monetary Authority of Singapore and the Finance Ministry said in a joint statement yesterday that the guarantee would be in place until Dec 31, 2010, and will be backed by \$150 billion of government reserves.

The statement noted that in the last week, 'several jurisdictions have taken extraordinary measures to stabilise financial markets and restart the flow of credit'. 'In particular, recent plans by the European and US governments to recapitalise their banking systems and guarantee bank borrowings in the wholesale markets have improved confidence.'

It added that while the Singapore banking system remains stable and is functioning well, the absence of such a guarantee may disadvantage financial institutions here. This was because a new dynamic has been introduced by regional jurisdictions issuing similar guarantees.

In the region, Hong Kong gave a similar assurance earlier this week to reassure jittery depositors there and shore up confidence in the banking system, while Malaysia did so last night. Australia, New Zealand and Indonesia have already guaranteed deposits.

MAS said that all this 'puts pressure on other jurisdictions to respond or else risk disadvantaging and potentially weakening their own financial institutions and financial sectors'. 'This is why although Singapore's banking system continues to be sound and resilient, the government has decided to take precautionary action to avoid an erosion of banks' deposit base and ensure a level international playing field for banks in Singapore.'

In Europe, when Ireland became the first country to guarantee bank deposits during the current crisis, other European countries had to follow suit on fears that money from all over Europe would otherwise flow to Ireland.

The government's guarantee will cover deposits in any currency held in savings accounts, fixed deposits, current accounts and under the Supplementary Retirement Scheme. But it does not include any structured deposit and any deposit which is pledged, charged or secured as collateral.

It will also be extended to deposits placed with credit cooperatives registered with the Registry of Cooperative Societies. Currently, there are 41 credit co-ops with more than 200,000 members.

Also covered are all depositors, big and small, corporate and individual, including those under the current Deposit Insurance Scheme administered by the Singapore Deposit Insurance Corporation, which will now enjoy protection on the full amount of their deposits.

Given that Singapore's financial sector is sound and robust, the government has assessed that a

guarantee of up to \$150 billion would be well in excess of possible liabilities arising from the failure of any financial institutions, it said.

Total deposits in the banking system are said to be about \$700 billion.

'The president has given his concurrence for the government to provide such a guarantee.'

Under the Constitution, the president's concurrence is required on matters concerning the reserves.

The MAS cautioned financial institutions not to misuse the guarantee to take on risky activities.

Analysts and bankers welcomed the move.

'It's a prudent and necessary move to assure all individuals and companies here that their deposits are safe,' said Chua Hak Bin, Citigroup analyst.

Alvin Liew, Standard Chartered Bank economist, said that it's unlikely the guarantees by Malaysia and Singapore will be used.

'The banking sector in South-east Asia is much more heavily regulated and in times like these, it serves to be heavily regulated,' said Mr Liew.

Copyright © 2007 Singapore Press Holdings Ltd. All rights reserved.