

Bank deposit insurance ruled out

BY GAVIN PATTERSON

THE Government has decided against introducing a Deposit Protection Scheme (DPS) but will propose legislation that will give priority to small investors in any future liquidations.

Secretary for Monetary Affairs David Nendick said yesterday it was clear that a sizeable body of the community was not in favour of a DPS.

"However, the Standing Committee on Law Reform felt legislative proposals were worth pursuing," he said.

The Government believed

there were valid arguments for providing measures which would give small depositors further protection, as long it could be done without jeopardising the integrity of the banking system.

Nendick said details still had to be "fleshed out" and that the proposals would not be put before the Legislative Council until the start of its next session in the autumn.

"There are already provisions that certain types of liabilities get priority," he said. "We are talking of introducing a new type of preferred creditor who will rank above the ordinary creditor in the case of a liqui-

dation." It appears probable the Legislative Council will introduce preferred status for depositors with less than \$100,000 in the banking system.

Nendick said the proportion of depositors covered would not be that much more if the ceiling was raised to \$200,000.

But he did not say whether the "preferred creditors" would be guaranteed the return of their entire deposits, or whether they would just get a higher proportion.

During a consultation period which ran from 18 February to 31 May 1992, the Government received a total of 53 submissions.

Of these, 27 came out against the proposal, three were neutral, while 23 were for the introduction of a DPS.

Seventeen institutions took part in the consultation, with 10 in favour of the scheme and seven against.

Contrary to a widespread assumption that small depositors would be in favour of a DPS, the majority of submissions from individuals came out against such a scheme.

Of 36 submissions from individuals, 13 were for a DPS, 20 were against and three were neutral.

"This is perhaps because

depositors of the largest banking groups saw little advantage in a proposal which would be of little direct benefit to them," Nendick said.

He said it was decided the cons of a DPS outweighed the pros and that any sort of deposit insurance would not stem a run on banks if depositors thought their savings were in danger.

In the meantime, Nendick said he was satisfied the territory's regulatory system could ensure there would not be a repeat of the 1991 Bank of Credit and Commerce fiasco.

