

## REGULATION UPDATE

### MAS HOLDS CONSULTATION ON DEPOSIT INSURANCE SCHEME

The Monetary Authority of Singapore (the “**MAS**”) has issued a consultation paper (the “**Consultation Paper**”) which proposes to revise and enhance the Deposit Insurance Scheme (the “**Scheme**”). The Scheme protects the savings of retail depositors in the event that a Singapore full bank or finance company fails.

The proposed changes to the Scheme comprise the following:

- widened scope of application;
- increased coverage limit from \$20,000 to \$50,000;
- fine-tuning of aggregation issues and payout approach;
- application of the Scheme to pledged deposits and accrued interest;
- transition Scheme coverage for mergers or acquisitions of Scheme members; and
- changes to premiums.

The consultation is open for public feedback until **26 March 2010**.

#### Background

The Scheme was started in 2006 to protect retail customers’ deposits with Singapore full banks and finance companies (collectively known as “**Scheme members**”). The Scheme currently applies only to individuals and charities, who receive coverage of up to a maximum of \$20,000. The Scheme covers Singapore Dollar savings accounts, current accounts and fixed deposit accounts. Deposits in the CPF Investment Scheme accounts are also covered up to a separate maximum limit of \$20,000.

#### Consultation Proposals

##### *Widened scope of application*

Currently, the Scheme insures individual depositors and charities only. The MAS proposes to widen the scope of application to cover non-bank depositors. This will include sole proprietorships, partnerships, companies and unincorporated entities. Certain classes of non-bank entities continue to be excluded from cover.\*

\* Non-bank entities which will be excluded are: merchant banks and finance companies in Singapore, the equivalent of merchant banks and finance companies licensed in another jurisdiction, foreign central banks and monetary authorities, and foreign governments.

The Consultation Paper also proposes to amend the Deposit Insurance Act (the “**Act**”) to enable the MAS to prescribe products as “insured deposits” under the Act. One such product which the MAS intends to prescribe is the *Murabaha* Islamic deposit.

#### *Increase in coverage limit*

The current Scheme coverage limit of \$20,000 is proposed to be raised to \$50,000. The separate coverage limit for deposits under the CPF Investment Scheme is also proposed to be raised to \$50,000.

#### *Aggregation issues and payout approach*

In relation to the deposits covered by the Scheme, it is proposed that for sole proprietorships, the person’s individual account and business account deposits will be aggregated. For partnerships, the partnership account will be considered separately from its partners’ individual accounts.

In relation to payout, the MAS has proposed a new gross payout approach, where an insured depositor would be paid the gross amount of his deposits up to the coverage limit, without netting off the depositor’s liabilities (which is the current practice).

#### *Pledged deposits and accrued interest*

It is proposed that the Scheme be extended to cover the amount of a pledged deposit that is not earmarked by the Scheme member in respect of debt owing by a depositor, and that may be withdrawn by the depositor.

The Scheme currently applies to accrued interest. However, it is proposed that the Act be clarified to state that accrued interest which has been posted to the accounts of depositors is insured under the Scheme.

#### *Scheme coverage for mergers/ acquisitions*

In the event that a Scheme member undergoes a merger or acquisition, it is proposed that customers’ deposits which were insured prior to the merger or acquisition should remain separately insured until a year after the transaction.

#### *Changes to premiums*

In keeping the target fund size the same at 30 basis points (“bps”) of the aggregate insured deposit base of Scheme members, the MAS anticipates that gross premiums will become higher as the amount of insured deposits increases. It therefore proposes to moderate the rise in premiums by: (i) lowering the premium rates for Scheme members from the current range of 3 bps to 8 bps down to 2 bps to 7 bps; and (ii) increasing the fund build-up period from the current 10 years (ending in the year 2016) to 14 years (ending in the year 2020).

## References

Please click on the links below to refer to the relevant documents:

1. [MAS Press Release dated 26 February 2010](#); and
2. [Full text of Consultation Paper](#).

If you have any queries on this update, or wish to discuss how it may potentially affect you or your business, please feel free to contact the corporate and finance lawyers in Drew & Napier LLC (please refer to the Directors' Profiles on our [website](#)), or any of the following lawyers:

### Gary Pryke

Director (Corporate & Finance)  
T: +65 6531 4104  
E: [gary.pryke@drewnapier.com](mailto:gary.pryke@drewnapier.com)

### Valerie Kwok

Director (Corporate & Finance)  
T: +65 6531 2222  
E: [valerie.kwok@drewnapier.com](mailto:valerie.kwok@drewnapier.com)

### Sin Boon Ann

Director (Corporate & Finance)  
T: +65 6531 2206  
E: [boonann.sin@drewnapier.com](mailto:boonann.sin@drewnapier.com)

### Ralph Lim

Director (Corporate & Finance)  
T: +65 6531 2362  
E: [ralph.lim@drewnapier.com](mailto:ralph.lim@drewnapier.com)

### Petrus Huang

Director (Corporate & Finance)  
T: +65 6531 2208  
E: [petrus.huang@drewnapier.com](mailto:petrus.huang@drewnapier.com)

### Sandy Foo

Director (Corporate & Finance)  
T: +65 6531 4118  
E: [sandy.foo@drewnapier.com](mailto:sandy.foo@drewnapier.com)

### Yeo Wee Kiong

Director (Corporate & Finance)  
T: +65 6531 2500  
E: [weekiong.yeo@drewnapier.com](mailto:weekiong.yeo@drewnapier.com)

### Eric Chan

Director (Corporate & Finance)  
T: +65 6531 2784  
E: [eric.chan@drewnapier.com](mailto:eric.chan@drewnapier.com)

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## OUR BUSINESS GROUPS AND PRACTICE AREAS

**BANKING/GENERAL FINANCE**

**David Ang**  
T +65 6531 2236  
F +65 6535 4864  
E david.ang@drewnapier.com

**Valerie Kwok**

T +65 6531 2222  
F +65 6535 4864  
E valerie.kwok@drewnapier.com

**Sandy Foo**

T +65 6531 4118  
F +65 6535 4864  
E sandy.foo@drewnapier.com

**BIOMEDICAL SCIENCES**

**Tony Yeo**  
T +65 6531 2512  
F +65 6220 0324  
E tony.yeo@drewnapier.com

**BUILDING & CONSTRUCTION**

**Tan Liam Beng**  
T +65 6531 4139  
F +65 6533 3591  
E liambeng.tan@drewnapier.com

**CAPITAL MARKETS**

**Sin Boon Ann**  
T +65 6531 2206  
F +65 6535 4906  
E boonann.sin@drewnapier.com

**Petrus Huang**

T +65 6531 2208  
F +65 6535 4906  
E petrus.huang@drewnapier.com

**CHINA BUSINESS GROUP**

**David Chin**  
T +65 6531 2304  
F +65 6535 1952  
E david.chin@drewnapier.com

**COMPETITION LAW**

**Cavinder Bull, SC (contentious)**  
T +65 6531 2416  
F +65 6533 3591  
E cavinder.bull@drewnapier.com

**Lim Chong Kin (non-contentious)**

T +65 6531 4110  
F +65 6535 4864  
E chongkin.lim@drewnapier.com

**CORPORATE**

**David Ang**  
T +65 6531 2236  
F +65 6535 4864  
E david.ang@drewnapier.com

**Gary Pryke**

T +65 6531 4104  
F +65 6535 4864  
E gary.pryke@drewnapier.com

**OTHER OFFICES****Drewmarks Patents & Designs (Malaysia) Sdn Bhd**

9th floor  
Bangunan Getah Asli (Menara)  
148 Jalan Ampang  
50450 Kuala Lumpur, Malaysia  
T +603 2162 2522/2162 2529  
F +603 2162 2804  
E drewmark@tm.net.my

**CORPORATE (cont'd)**

**Sin Boon Ann**  
T +65 6531 2206  
F +65 6535 4906  
E boonann.sin@drewnapier.com

**Yeo Wee Kiong**

T +65 6531 2500  
F +65 6535 4864  
E weekiong.yeo@drewnapier.com

**CORPORATE INSOLVENCY & RESTRUCTURING**

**Sushil Nair**  
T +65 6531 2410  
F +65 6533 9029  
E sushil.nair@drewnapier.com

**Manoj Sandrasegara**

T +65 6531 4156  
F +65 6533 9029  
E manoj.sandra@drewnapier.com

**EMPLOYMENT & IMMIGRATION**

**Indranee Rajah, SC**  
T +65 6531 4100  
F +65 6532 7149  
E indranee.rajah@drewnapier.com

**FAMILY & MATRIMONIAL**

**Randolph Khoo**  
T +65 6531 2418  
F +65 6532 7149  
E randolph.khoo@drewnapier.com

**FUND MANAGEMENT, REIT & PRIVATE EQUITY**

**Petrus Huang**  
T +65 6531 2208  
F +65 6535 4906  
E petrus.huang@drewnapier.com

**INSURANCE & REINSURANCE**

**Gary Pryke**  
T +65 6531 4104  
F +65 6535 4864  
E gary.pryke@drewnapier.com

**INTELLECTUAL PROPERTY**

**Dedar Singh Gill**  
T +65 6531 2507  
F +65 6533 0694  
E dedar.singh@drewnapier.com

**Cecilia Girvin**

T +65 6531 2510  
F +65 6533 0694  
E cecilia.girvin@drewnapier.com

**INTERNATIONAL ARBITRATION**

**Davinder Singh, SC**  
T +65 6531 2403  
F +65 6532 7149  
E davinder.singh@drewnapier.com

**Jimmy Yim, SC**

T +65 6531 2504/2505  
F +65 6533 9029  
E jimmy.yim@drewnapier.com

**LITIGATION**

**Davinder Singh, SC**  
T +65 6531 2403  
F +65 6532 7149  
E davinder.singh@drewnapier.com

**Jimmy Yim, SC**

T +65 6531 2504/2505  
F +65 6533 9029  
E jimmy.yim@drewnapier.com

**Indranee Rajah, SC**

T +65 6531 4100  
F +65 6532 7149  
E indranee.rajah@drewnapier.com

**PROJECT FINANCE**

**Gary Pryke**  
T +65 6531 4104  
F +65 6535 4864  
E gary.pryke@drewnapier.com

**Valerie Kwok**

T +65 6531 2222  
F +65 6535 4864  
E valerie.kwok@drewnapier.com

**Sandy Foo**

T +65 6531 4118  
F +65 6535 4864  
E sandy.foo@drewnapier.com

**PROPERTY**

**Zennifa Rahim**  
T +65 6531 2392  
F +65 6535 1952  
E zennifa.rahim@drewnapier.com

**SHIPPING & INT'L TRADE**

**Ian Koh**  
T +65 6531 2436  
F +65 6533 3591  
E ian.koh@drewnapier.com

**TAX & PRIVATE CLIENT SERVICES**

**Ong Sim Ho**  
T +65 6531 2250  
F +65 6535 4864  
E simho.ong@drewnapier.com

**TMT**

**Lim Chong Kin**  
T +65 6531 4110  
F +65 6535 4864  
E chongkin.lim@drewnapier.com

**TRANSNATIONAL & CROSS-BORDER WORK**

**Julian Kwek**  
T +65 6531 2485  
F +65 6533 9029  
E julian.kwek@drewnapier.com

**PT Drewmarks Konsultama**

Correspondence address:  
20 Raffles Place  
#17-00 Ocean Towers  
Singapore 048620  
T +65 6531 2503/6531 2504  
F +65 6533 0694  
E ip@drewnapier.com

**DrewCorp Services Pte Ltd**

20 Raffles Place  
#09-01 Ocean Towers  
Singapore 048620  
ROC No. 200102492H  
T +65 6531 2266  
F +65 6533 1542 / 6533 7649  
E services@drewcorpservices.com