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PRESS RELEASE

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The Bermuda Monetary Authority Consults on Introducing Deposit Insurance Scheme for Banking Sector

Proposals provide precautionary additional safety net for small retail depositors.

The Bermuda Monetary Authority today published its Consultation Paper “*Securing Enhanced Protection for Depositors. Proposals for Introducing Deposit Insurance in Bermuda*”. The Paper outlines key recommendations for establishing a Deposit Insurance Scheme (DIS) for Bermuda’s banking sector particularly designed to protect small depositors. A DIS provides enhanced protection to depositors in a bank by guaranteeing that they will be compensated up to a maximum specified amount of their deposits upon failure of that institution.

The issue of depositor protection has received heightened attention internationally due to the significant losses some banks incurred during the global financial crisis. As a result, regulatory authorities around the world have been examining their standards with a view to strengthening their banking sectors. While Bermuda’s banking sector remained resilient overall during the crisis, and continues to be stable, introducing a DIS is a precautionary measure to provide an additional safeguard particularly for small depositors.

Jeremy Cox, CEO of the Authority said, “As Bermuda’s financial services regulator, one of our most important responsibilities is deposit-holder protection. Traditionally, we have relied on prudent and effective supervision of the banking sector, ensuring that Bermuda banks operate within strict levels of solvency and liquidity. This approach has served Bermuda well, however the challenges presented by the global financial crisis highlighted the potential enhanced protection offered by a DIS, and the benefits of having such a facility in place. The addition of a DIS in Bermuda will further strengthen the financial safety net for retail depositors in our market.”

The Consultation Paper sets out the objectives, rationale and proposed features of the DIS. The objectives of the DIS are to protect small depositors, to promote stability in Bermuda’s financial system and economy, and to promote competition within the banking sector. The Consultation Paper presents proposals for, among other matters, the structure and administration of the DIS, the scope and amount of its coverage and funding of the Scheme.

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Graeme Dargie, Director, Banking, Trust and Investment at the Authority, said, “The Authority conducted extensive research to develop a DIS that would be both practical for the Bermuda market, and consistent with international best practice. The Paper outlines twelve recommendations regarding the structure and key features of a DIS in Bermuda, which are designed to ensure it is prudently implemented.”

One of the features proposed in the Paper is a maximum coverage amount of \$25,000 per depositor, per institution. This means that in the event of a local bank failure, individuals with bank accounts with that institution would be reimbursed for all their deposits combined up to a maximum of \$25,000.

Mr. Dargie added, “In developing the maximum coverage amount, the Authority had to balance the issues of enhancing financial stability in the marketplace with the need to keep the funding costs of the scheme within reasonable levels. The cost of the scheme and how it will be funded remains a key discussion point within our consultation with the market. The formula proposed by the Authority to determine the coverage amount was based on a recommendation by the International Monetary Fund and is consistent with international best practice. In addition, it would meet one of the objectives of the DIS by covering the vast majority of small depositors on the island.”

“It is important to note as well that the Authority’s recommendation to set the maximum coverage amount at \$25,000 is a starting point to establish the scheme. This amount can and should be reviewed periodically to ensure it remains appropriate.”

Additional highlights of the proposed DIS include:

- Mandatory contributions (premiums) into the Scheme by all banks and deposit companies licensed under the Banks and Deposit Companies Act 1999. Compulsory participation is an internationally-adopted practice that promotes comprehensive protection for depositors.
- Coverage for “retail deposits” only. This is in line with the objective to protect small depositors and would include deposits owned by individuals, trusts, small businesses and charitable organisations.
- Establishing a separate statutory body, the Bermuda Deposit Insurance Corporation (BDIC), to institute and manage the Scheme. The BDIC would not duplicate the supervisory role of the Authority. Its main responsibilities would involve such functions as premium collection, assessing claims and compensation payouts. The BDIC would also be responsible for reviewing the maximum coverage amount of the scheme in consultation with the market, if deemed necessary.



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The Authority developed the DIS proposals after extensive consultation with representatives from the Ministry and Finance and local banks. In addition, the Authority received technical assistance from the International Monetary Fund (IMF).

Mr. Cox said, “We are very grateful to the representatives of Bermuda’s banks and our colleagues at the Ministry of Finance for their input into our proposals, and also to the IMF for their assistance. I would also like to thank Graeme Dargie, Courtney Christie-Veitch, Assistant Director of Banking, Trust and Investment, and the Authority’s Deposit Insurance Working Group, for their hard work in drafting the proposals. We look forward to receiving feedback from interested stakeholders during this stage of consultation and to guiding the implementation of a DIS for Bermuda in due course.”

A copy of the Consultation Paper is available on the Authority’s website at www.bma.bm. Interested parties are invited to send their comments via email to policy@bma.bm by 31st October 2010.

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