

The new deposit insurance system



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Thailand has recently adopted new deposit insurance measures aimed at gradually scaling down the blanket guarantees the Government presently provides to all depositors who have placed their hard-earned money with Thai commercial banks and branches of foreign banks operating in Thailand, according to the provisions of the newly legislated Act on the Institute for Deposit Protection. The legislation became law on 11 August 2008.

Financial institutions that come under the Act comprise 34 local banks and foreign bank branches, five finance companies and three credit foncier companies. At present, state banks established by special laws do not come under the purview of the Act. In effect, this means depositors at these state banks will continue to enjoy the government protections accorded to their deposits.

However, in an effort to calm down complaints by other commercial banks of the unfair practices and discrimination adopted by the Government through the enforcement of the Act, the Government has given assurances that these state banks will gradually be brought under the gamut of the Act.

Protection of the depositor extends to all types of domestic money deposits that are denominated in Thai Baht and interest amounts accruing on the deposits calculable until the date of the revocation of an affected financial institution's licence. However, protection under the Act does not cover non-resident Baht accounts as these accounts are defined under the Thai exchange control law.

Effectively, the 1st year unlimited guarantee by the Government over the deposit of each person at each financial institution will end on 10 August 2009, which is for a period of one year after the effective date of the Act. In the 2nd year, the amount guaranteed will be reduced to 100 million baht. This Government-underwritten, 100-million-baht amount will run until 10 August 2010. A 50 million baht protection for the 3rd year will run from

11 August 2010 to 10 August 2011, and a maximum 10 million baht from 11 August 2011 to 10 August 2012 in the 4th year. The final amount of minimum protection the Government will accord each depositor at each financial institution is set at 1 million baht, and will commence from 11 August 2012, the 5th year of the effective date of the Act.

The blanket guarantee was first adopted to pacify public confidence and concerns in the Thai financial system following the onslaught of the 1997's economic crisis. After the Financial Institution Development Fund (FIDF) was set up to shore up confidence, the public gradually turned to invest their money in the form of deposits with financial institutions.

However, it is believed by the Government and the financial community that the concept of full guarantee on deposits does little to ensure stability and security of the financial institutions. Nor does it increase or encourage these institutions to implement strict financial discipline. The practice, it is believed, is one of the main motivations driving depositors to invest their money based more on profit maximising than the careful calculation of risks associated with their investments.

According to the Act, if a financial institution's license was revoked, the Deposit Protection Institute would make compensation to the depositors even before the liquidation process of the ill-fated financial institution was completed. According to Bank of Thailand figures, 98.7 percent of Thailand's 79 million deposit accounts have balances of less than 1 million baht. Hence, the 1 million baht guarantee was adopted.

The compensation will be paid out of the Deposit Protection Fund to which all member banks and financial institutes contribute at the rate of not more than 1 per cent of each member's total deposit accounts.

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