

TOP NEWS

Deposit insurance cover set for first review in 24 years

MONEY Stakeholders to agree on new figure above Sh100,000, says CBK chief

BY GEOFFREY IRUNGU

The insurance cover for bank deposits will be reviewed upwards for the first time in more than two decades to encourage savings.

Central Bank governor Njuguna Ndung'u said the amount would be raised from Sh100,000 to a level that stakeholders in the banking sector will agree.

"We will review the deposit insurance coverage which has remained constant since it was set in 1989. This coverage will be subjected to periodic reviews to ensure that it is credible enough to meet our public policy objective," said Prof Ndung'u.

The cover determines the amount of compensation in case of a bank collapsing.

Kept in the custody of the Deposit Protection Fund Board (DPPFB), banks have succeeded in resisting the increase which would force them to increase the premium paid. This would in turn be passed on to customers in the form of higher fees and commissions.

The CBK is also proposing to put aside more funds to ensure liquidity that would enable the DPPFB to pay depositors who are caught on the wrong side when a financial institution goes under.

Prof Ndung'u said the DPPFB, which is currently a division of the CBK, would become an independent unit with a broader mandate resolving problems in banks.

"We will set up a target fund and a means of obtaining supplement-

ary back-up funding to support emergency liquidity needs to ensure reimbursement of depositors' claims should it become necessary."

He said there would be regular updates to inform the public on the status of their deposits to prevent cases where the Board holds money without the beneficiaries being aware of its existence.

DPPFB legal counsel Jeremy Mutero said the board had an effective funding of 20 per cent of total deposits against a best practice of 40 per cent.

He said expanding the mandate would allow the board to be more proactive in addressing weaknesses in member institutions before they collapse.

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NJUGUNA NDUNG'U, CENTRAL BANK GOVERNOR

"DPPFB gets surprised like everyone else when a bank collapses and we have to move in and manage it. This is because we are not involved in the resolution of problems that come before the collapse," said Mr Mutero.

The Fund also has limited investment options as now it is only allowed to put money in the Treasury bills and bonds, to the exclusion of such alternatives as equities and property.

"This investment depends on the government appetite for funds. The Fund could take a loss in the event it is forced to fund the payment to depositors of a large bank that has collapsed," said Mr Mutero.

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CBK governor Njuguna Ndung'u (left) with Javier Bolzico of Fit & Proper Consulting of Argentina (centre), and director of Deposit Protection Fund Board Rose Detho during the Kenya Deposit Insurance workshop at the Kenya School of Management Studies yesterday. A CBK survey says inflation may rise as the year progresses. SALATON NJAU