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South African Reserve Bank
CODI
Corporation for Deposit Insurance

Consultation paper

Draft strategy and timelines for reducing the Corporation for Deposit Insurance's dependency on loan funding

Contents

1. Introduction

The Corporation for Deposit Insurance (CODI) proposes a phased increase in deposit insurance premiums as part of its strategy to strengthen the Deposit Insurance Fund (DIF) and reduce its reliance on bank-provided liquidity tier contributions. This initiative forms a key component of CODI's operationalisation and supports its 2030 strategy to build a resilient and self-sustaining DIF.

The proposed premium adjustments will enable CODI to gradually shift from loan-based funding to a model primarily supported by its own funds. This transition is expected to enhance financial stability, reduce systemic risk and lower the South African Reserve Bank's (SARB) guarantee exposure.

This paper outlines the strategic rationale for the premium increases, presents a proposed implementation timeline, and invites feedback from banks to inform the finalisation of the strategy.

Request for comments

Comments are invited on the proposals in this paper. Comments received will be used to finalise the proposals.

All comments should be sent to CODI@resbank.co.za for the attention of the Chief Executive Officer: Corporation for Deposit Insurance. The closing date for comments is 24 October 2025.

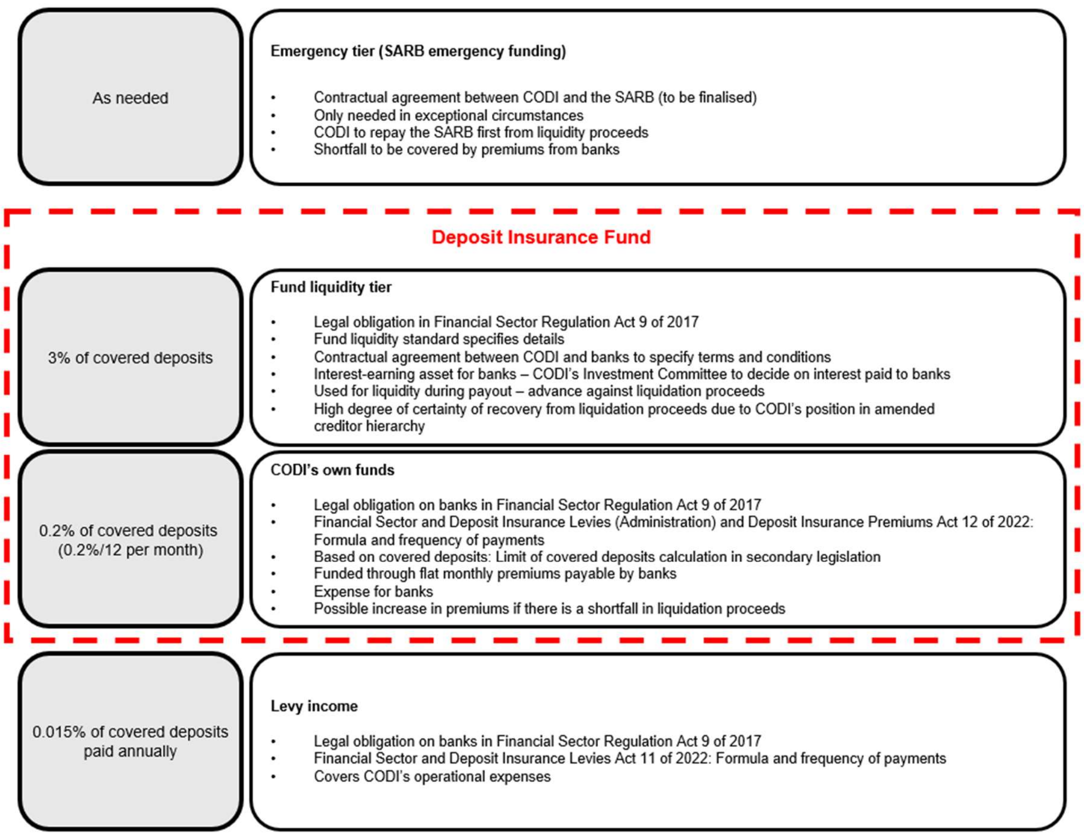
2. Strategic rationale for changing the composition of the DIF

As depicted in Figure 1, the DIF consists of the DIF's own funds, collected through premiums, and the liquidity tier. Currently, the DIF is primarily composed of liquidity tier contributions from banks, which are structured as loans. CODI pays interest on these contributions at the repurchase (repo) rate but earns no margin, as the funds are currently invested in SARB call accounts that also earn interest at the repo rate. This investment structure limits the growth of the DIF's own funds and increases reliance on bank loans. With the anticipated appointment of external fund managers, the DIF is expected to be invested more strategically. This should enable CODI to earn a modest margin of interest on the liquidity tier, after fulfilling interest obligations to contributing banks on their liquidity tier contributions. In addition to premiums, interest and other amounts earned from the investments of the DIF, the DIF's own funds consists of[1]:

- the amount of any surplus funds (levies) after deducting CODI's costs and making appropriate provisions at the end of each financial year[2]; and
- amounts recovered by CODI attributable to amounts paid out of the DIF.

These amounts constitute only a minor portion of the DIF and are insufficient to support its sustainable growth.

Figure 1: DIF composition



Although CODI is not legally required to repay the liquidity tier contributions (except if a bank ceases to be registered as a bank or CODI uses the loan granted by a bank for resolution support when such bank is in resolution), CODI intends to change the composition of the DIF over time by gradually reducing the size of the liquidity tier as the DIF's own funds grow.

[1] According to section 166BD(4) of the Financial Sector Regulation Act 9 of 2017 (FSR Act).
[2] Section 166AT of the FSR Act.

Changing the composition of the DIF (i.e. progressively decreasing the liquidity tier's size as the DIF's own funds increase) aligns with the provisions of Prudential Standard CODI 1: Fund Liquidity (Fund Liquidity Standard), which states that CODI will repay the loans granted by banks for their liquidity tier contributions as the DIF is built up. This approach has already been communicated to banks as part of the consultation process on the funding proposals.

In addition, the SARB has provided guarantees to the banks that make liquidity tier contributions to CODI. These guarantees reduce the risk weighting these banks are required to assign to their liquidity tier contributions, and as such, the amount of regulatory capital they are required to hold against the contributions. More importantly, the SARB guarantee offers protection to the banks if CODI is unable to meet its repayment obligations on the loans from the banks.

Because the DIF is mainly composed of liquidity tier contributions, using the DIF to support a resolution − depending on the size of the failed bank − could impair CODI’s ability to meet its interest obligations to the remaining banks, especially when the balance of the DIF’s own funds is limited. It is therefore crucial to reduce the dependency on bank loan funding in the future.

In terms of CODI’s 2030 strategy, CODI aims to ensure that 50% of the target size of the DIF is comprised of its own funds by 2030.

To ensure the sustainable growth of the DIF in accordance with the Fund Liquidity Standard, and to address the challenges with the use of the DIF during a resolution, CODI explored options to shorten the duration of the liquidity tier contributions, as this directly impacts the duration of the SARB guarantee and the associated exposure for the SARB. This led to the development of a plan aimed at changing the composition of the DIF by rebalancing the premiums and liquidity tier requirements for the DIF over a 10-year period from the date of CODI becoming operational in 2024. It is important to note that this goal is predicated, among other things, on there being no significant demand for resolution support (i.e. no major financial assistance for a resolution) during the 10-year period. Should a resolution take place, the plan may need to be adjusted, depending on the size, timing and impact of the resolution support required on the DIF.

The plan to manage the change in the composition of the DIF proposes a phased increase in deposit insurance premiums to facilitate growth in the DIF’s own funds, while gradually reducing the liquidity tier requirement to achieve the target fund size. Through this approach, CODI aims to:

i. Strengthen the DIF’s own funds

By increasing premiums, CODI can accelerate the accumulation of the DIF’s own funds, reduce its dependency on liquidity tier contributions, and invest more strategically. This aligns with the provisions of the Fund Liquidity Standard, which supports the gradual repayment of bank loans as the DIF grows.

ii. Reduce the SARB’s guarantee exposure

The SARB has provided guarantees to banks to reduce the risk weighting applied to their liquidity tier contributions. By increasing premiums and gradually reducing the liquidity tier, CODI will be able to shorten the duration of the SARB’s guarantee exposure. This will help mitigate systemic risk in the event of a bank resolution and ensure alignment with regulatory expectations.

iii. Enhancing financial stability and regulatory efficiency

A well-capitalised DIF improves CODI’s ability to support bank resolutions without impairing its interest obligations to other banks. This aligns with CODI’s 2030 strategy to achieve 50% of the DIF’s target size comprised of its own funds. Addtionally, it enhances the resilience of the financial system and reduces the risk of contagion during periods of financial stress.

Feedback Item 1
i. Do you understand the rationale for reducing CODI’s reliance on loan funding by increasing premiums?

3. Proposed implementation timeline

The plan to manage the change in the composition of the DIF by rebalancing the premiums and liquidity tier requirements for the DIF over a 10-year period (from the date of CODI becoming operational in 2024) is depicted in Table 1 below. The structured timeline provides transparency and predictability, allowing banks to plan for premium adjustments.

Table 1: Plan to manage the change in the composition of the DIF

Year no.[3]	Period	Proposed premium (%)	Proposed liquidity tier contribution (%)
2	2025−2026	0.2	3
3	2026−2027	0.2	3
4	2027−2028	0.35	2.5
5	2028−2029	0.35	2.5
6	2029−2030	0.4	2
7	2030−2031	0.4	2
8	2031−2032	0.5	1
9	2032−2033	0.5	1
10	2033−2034	0.5	0

CODI proposes a phased increase in deposit insurance premiums over a 10-year period from the date of CODI becoming operational in 2024, with the first adjustment in the 2027/28 financial year. CODI will implement a phased increase in deposit insurance premiums while gradually reducing the liquidity tier requirement and working towards achieving the target fund size. The initial step involves increasing the premium rate from 0.2% to 0.35% and reducing the liquidity tier requirement from 3% to 2.5%. Subsequent adjustments will be made every two years, based on the performance of CODI's investment portfolio and any resolution activities. By the 2033/34 financial year, CODI aims to eliminate liquidity tier contributions entirely, with the DIF fully funded by own funds. Once the DIF is fully funded through own funds, CODI may evaluate the feasibility of reducing the premiums payable by banks. Annual assessments will be conducted in the fourth quarter of each calendar year to evaluate investment performance, resolution support activity and progress towards meeting the target fund size with own funds. Any necessary adjustments to the plan will be subject to approval by CODI's Board of Directors. Furthermore, in terms of section 239 of the Financial Sector Regulation Act 9 of 2017, CODI must submit its finalised budget, together with the proposed levies and premiums, to the Minister of Finance, who must table it in Parliament before any amendments take effect. This process must be followed for the 2027/28 and subsequent premium adjustments.

[3] After CODI's operationalisation.

Feedback Item 2

ii. Are there alternative approaches CODI should consider to strengthen the DIF's own funds?
iii. Are there any unintended consequences or risks that CODI should consider?
iv. Is the proposed 10-year phased timeline (with eight years remaining) reasonable and achievable from your institution's perspective?
v. Would a shorter or longer implementation period be more appropriate, and why?
vi. What impact do you foresee the premium increases having on your institution's financial position and balance sheet?
vii. How do you anticipate managing the additional costs associated with the premium increases alongside other regulatory requirements (e.g. FLAC instruments, countercyclical buffers)?
viii. To what extent do you anticipate passing on the cost of increased premiums to customers?
ix. What measures could be taken to mitigate the impact on depositors?
x. Are there any regulatory or operational challenges you foresee in implementing the proposed changes?

4. Conclusion

The proposed increase in deposit insurance premiums is a strategic initiative to ensure the long-term sustainability of the DIF, reduce reliance on bank loans, and align with regulatory standards. The phased approach is designed to balance CODI's funding requirements with the operational realities of the banking sector, offering tangible benefits to participating institutions. A well-funded DIF enhances confidence in the banking system and reduces systemic risk, and the structured timeline provides transparency and predictability, enabling banks to plan for premium adjustments with greater certainty. This initiative supports CODI's 2030 strategy and contributes to a more stable and resilient financial system. Banks are encouraged to provide feedback to support the finalisation of the proposed strategy.