



SOUTH AFRICAN RESERVE BANK



A purposeful journey

Corporation for Deposit Insurance

Discussion paper

**Establishment of the Corporation for Deposit Insurance:
using the deposit insurance fund to reimburse covered depositors**

May 2021

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1. Executive summary

The Financial Sector Laws Amendment Bill (FSLAB) contains high-level provisions for the Corporation for Deposit Insurance (CoDI) to establish and build a deposit insurance fund (DIF) to protect the covered depositors of a failed bank. In support of these high-level provisions, detailed rules are being developed as part of secondary legislation to ensure that all stakeholders, especially member banks and their covered depositors, have clarity about CoDI's use of the DIF.

The discussion paper titled 'Coverage and reporting rules for deposit insurance in South Africa' (coverage paper), published in April 2020, provides the details of the information CoDI will need from banks to fulfil its mandated functions. The discussion paper titled 'The deposit insurance funding model and the implications for banks', published in September 2020, explains how CoDI's operational costs will be covered and provides details on how the DIF will be built over time.

This paper focuses on how CoDI will use the information submitted by banks on a monthly basis to prepare for its role in the resolution of a failing bank, either by financially supporting a resolution strategy other than liquidation or by paying out depositors in the event that a bank is closed, regardless of the resolution strategy followed. CoDI's main responsibility in the resolution of a failing bank is to ensure access to the covered deposits of the depositors of the distressed bank, either by supporting the strategies of the Resolution Authority to keep the bank open for business or by paying out covered deposits to depositors.

The policy proposals contained in this paper consider country-specific characteristics as well as applicable international standards, such as the Core Principles for Effective Deposit Insurance Systems (Core Principles) and other guidance issued by the International Association for Deposit Insurers (IADI).

The policy proposals have also been reviewed by a group of consultants, appointed by the World Bank, to provide guidance and input on the establishment of CoDI.

As is the case with all elements of the deposit insurance framework, the proposals will be subject to review at maximum intervals of five years to ensure the latest technological developments, developments of the banking industry, the changing environment and best practices have been considered and incorporated into CoDI's payout processes, if found to be suitable.

1.1 Policy Objective

CoDI's objective is to support the South African Reserve Bank (SARB) in fulfilling its objective of, and responsibility for, protecting and enhancing financial stability. To fulfil this policy objective, CoDI will use the DIF to protect the covered depositors of a failed bank from losses, up to a coverage level of R100 000.

1.2 Policy rationale

After the promulgation of the FSLAB, the SARB will become the Resolution Authority (RA) and will be responsible for resolving designated institutions that are failing or likely to fail, as defined in the FSLAB. These designated institutions include the banks that will be members of CoDI. To meet its resolution mandate, the RA will develop a resolution strategy for each bank. This strategy will determine the role CoDI will play when a bank has been placed in resolution within the limits of the law and in line with CoDI's main function to protect covered depositors.

This discussion paper considers the role CoDI can play in both open and closed resolution strategies to fulfil its mandated function of protecting the covered depositors of a bank in resolution. It also examines the governance processes to be followed in CoDI's role in both an open and closed resolution, specifically relating to the use of the DIF in support of the resolution strategy. The paper further details the preparations and processes to be followed for the reimbursement of the covered depositors of a failed bank.

The paper also discusses other reimbursement considerations, such as the currency of reimbursement, the thresholds for reimbursements and the simultaneous failure of multiple banks. The paper ends with post-reimbursement considerations, such as claims and disputes.

1.3 Structure of the paper

The paper is structured as follows:

- Section 2 provides details of CoDI's mandate.
- Section 3 discusses CoDI's role in the preparation for the resolution of a bank.
- Section 4 covers the governance arrangements for the use of CoDI's funds in resolution.
- Section 5 explains the processes for the utilisation of the DIF.
- Section 6 sets out the reimbursement methods.
- Section 7 explains the reimbursement process for qualifying depositors.
- Section 8 provides further details of the reimbursement process.

- Section 9 explains post-reimbursement considerations.
- Section 10 provides details of supporting mechanisms.
- Section 11 sets out the way forward and planned timelines.

1.4 Request for comments

Comments are invited on the proposals in this paper. Once the FSLAB has been promulgated, the provisions of the FSLAB, together with the finalised discussion paper, will form the basis of secondary legislation.

All comments should be sent to CoDI@resbank.co.za for the attention of the Interim Chief Executive Officer of CoDI. The closing date for comments is 23 June 2021.

2. CoDI's mandate

As per the discussion paper published in May 2017 titled 'Designing a deposit insurance scheme for South Africa – a discussion paper', CoDI will have a paybox-plus mandate, meaning CoDI could use the DIF in one of the following ways to give covered depositors reasonable access to their funds:

- reimburse¹ the depositors of the bank in resolution for their covered deposit balance; or
- make payments under an agreement relating to a resolution action for a bank in resolution, subject to conditions to protect the DIF.

3. CoDI's role in the preparation for the resolution of a bank

CoDI and the Resolution Planning Division (RPD) of the SARB's Financial Stability Department will have a close working relationship, during business as usual times and when a bank's condition is deteriorating. This will allow frequent interaction between the two teams on the resolution and/or payout plans for all banks.

The SARB has started establishing committees to focus on the different aspects of the resolution of designated institutions (including banks), including early warning mechanisms and resolution preparations. CoDI will form part of these committees.

During business as usual times, the RPD will engage with CoDI on the resolution plans. Where the resolution strategy requires the use of the DIF, the RA will officially make a funding request to CoDI, and CoDI's Board of Directors (Board) will determine the need to protect the covered depositors, whether it will support the resolution strategy with funding, and determine the conditions and maximum funding amount (within the limits prescribed by the law). The CoDI Board will make an in-principle decision about supporting the resolution strategy with funding to allow the RA to update its resolution plan. It will also inform the RA about possible conditions the CoDI Board may have in providing funding in support of a resolution strategy.

CoDI's involvement in the resolution planning process and governance structures will ensure CoDI remains updated about the status of deteriorating banks to allow CoDI to prepare for different scenarios, develop its own early warning system and build internal capacity to react within a short period of time, and to perform its role in resolution in the best interest of

¹ 'Reimbursement' and 'payout' are used interchangeably throughout this paper.

depositors and financial stability.

As a bank's distress intensifies, the RA will make a recommendation to the Minister of Finance to place the bank in resolution.

The RA will divide its resolutions strategies for banks into two broad categories, namely open bank resolution and closed bank resolution. The following paragraphs provide an overview of these resolution strategies and the role CoDI can play in each of the two categories².

3.1 Open bank resolution

For banks that have been designated as systemically important financial institutions (SIFIs), an open bank resolution strategy will be followed. This means that these banks, which are typically too large, complex and interconnected to simply liquidate when they fail, will remain open for business, with resolution interventions aimed at restoring their viability by addressing the causes for failure.

In an open bank resolution, covered depositors of banks will not be paid out. Unless the RA requests CoDI to provide financial support to a chosen resolution strategy or action, CoDI will have a very limited role to play.

Examples of CoDI's possible contribution³ towards an open bank resolution would be to contribute towards the cost of transferring the covered deposit book of a failing bank under section 166AA(1) c of the FSLAB.

3.2 Closed bank resolution

The default strategy for banks that are not designated as SIFIs will be liquidation (closed bank resolution strategy), unless a purchase and assumption transaction can be negotiated. The bank will cease to exist in its current form under its own banking licence.

Depending on the chosen resolution strategy, the RA can request CoDI to provide funding in support of the resolution strategy or action⁴, or CoDI can reimburse the covered depositors of the bank in resolution if the bank will be liquidated.

² The following SARB discussion paper contains more information on the categories of resolution strategies: [Ending too big to fail: South Africa's intended approach to bank resolution](#)

³ More details about CoDI's support of non-payout resolution strategies will be published in a future discussion paper.

⁴ More details about CoDI's support of non-payout resolution strategies will be published in a future discussion paper.

4. Governance for the use of the DIF in resolution

CoDI's Board will control the DIF. The DIF will be used to ensure continued access for depositors to their covered deposits at the failed bank in one of the following ways:

- a. **Payout:** In case the RA's chosen resolution strategy for a bank is liquidation, CoDI will reimburse the covered depositors of the bank⁵ within the time frame specified in section 7.3.
- b. **Support resolution**⁶: When the RA decides on a resolution strategy other than liquidation and the payout of covered deposits, the DIF could be used to support resolution in line with the provisions of the FSLAB and CoDI's mandate. The decision of the RA on the specific resolution strategy will be aligned with the CoDI Board's decision to support resolution and the format, limits and conditions of such support, or to reject financial support if it is considered that, in objective terms, this would not be in the best interest of the covered depositors of the failing bank.

Once the CoDI Board has been officially constituted, CoDI will develop appropriate systems and procedures for selecting, executing and monitoring the risks relating to its financial support of resolution actions and strategies. The CoDI Board will consider the RA's requests for funding support by considering the conditions and safeguards prescribed in the FSLAB to protect the DIF⁷. These include:

- The Board must believe that the resolution strategy will contribute to the orderly resolution of the bank in resolution. To give effect to this requirement, the Board may in time develop criteria to guide its decisions, for example, that the RA should not undertake a resolution action for the same bank in a pre-determined number of years (e.g. three years).
- The maximum funding CoDI can provide in support of the resolution of a failed bank can never exceed the covered deposit balance of the failing bank. The Board can develop additional safety mechanisms, for example, limiting CoDI's contribution towards a resolution strategy or action to an amount below this legally allowed maximum, based on its assessment of the bank's ability to repay the funds.

⁵ This timeline applies to RFP simple, formal and informal beneficiary accounts.

⁶ See clause 166S(1) of the FSLAB: Resolution action (including restructuring and bail in).

⁷ See clauses 166AA(1) – (3) of the FSLAB: Corporation to ensure bank depositors have reasonable access to their covered deposits.

Although the FSLAB specifies these conditions to protect the DIF⁸, the Board can consider additional safeguards to protect the DIF when giving funding support under different resolution scenarios. The criteria for the assessment of the feasibility of a resolution strategy will be elaborated on by the CoDI Board and consulted with the RA and the PA, and may, inter alia, be based on:

- the amount of losses that the troubled bank has suffered;
- the overall economic and market conditions; and
- the interconnectedness of the bank with other market players and the risk of contagion.

A discussion paper focusing on CoDI's support of resolution will be published in future. It will focus on the funding support for resolution and the safeguards that could apply in the different scenarios.

The Board may decide against providing funding in support of a resolution strategy or action. Should the Board agree to provide funding to support the resolution of a failing bank, the support provided will be in accordance with the provisions of section 166AA of the FSLAB. CoDI can support resolution actions through an agreement to support transactions, including the transfers of assets and liabilities, as well as amalgamations and mergers. This agreement⁹ can be in respect of a secured loan to the bank in resolution, a loss-sharing agreement between CoDI and the bank in resolution or a person assuming liability for covered deposits of the bank in resolution, or a guarantee in favour of the bank in resolution. Any real or contingent financial support provided by CoDI will be contractually agreed and will include stringent risk monitoring and verification rights for CoDI. CoDI will consult with the RA and the PA, but the Board will retain the right and obligation to determine the contractual conditions when supporting a failing bank, to protect the DIF.

⁸ See clause 166AA(1) – (3) of the FSLAB: Corporation to ensure bank depositors have reasonable access to their covered deposits.

⁹ See clause 166AA(2) of the FSLAB: Corporation to ensure bank depositors have reasonable access to their covered deposits.

5. Processes for the utilisation of the DIF

When a bank's status has deteriorated¹⁰, the RA will make a recommendation to the Minister of Finance to place a bank in resolution and provide details of the resolution strategy that will be followed. Should the Minister place such bank in resolution, the RA will determine an effective resolution date and communicate this formally to CoDI. This effective resolution date will be the trigger for CoDI's payout processes in a closed resolution strategy.

Whether CoDI has been requested to provide funding for a resolution strategy or to reimburse the failing bank's covered depositors, CoDI will need an updated deposit insurance submission from the bank to calculate its total covered deposit balance. The total covered deposit balance is important for the following reasons:

- It is the maximum amount CoDI can use to reimburse the covered depositors of the bank and the maximum amount CoDI will be entitled to recover from the failed bank's estate.
- It represents the maximum amount¹¹ of financial support that CoDI can provide in support of a resolution strategy¹².

5.1 Updated deposit insurance submission

As a bank's status deteriorates, CoDI will request the bank to make more frequent deposit insurance submissions to CoDI to mitigate the risk of low-quality submissions once the bank has been placed in resolution.

As soon as a bank has been placed in resolution, CoDI will request the bank to submit an updated deposit insurance submission within 48 hours (two calendar days) from the resolution date. All transactions up to and including the date of resolution must be included in the bank's submission to CoDI. As per the coverage paper, payments that had been made but not yet settled must be included in the account balances reported to CoDI. Any unsettled payments made to the qualifying depositor should be included in the relevant account balance. Likewise, any unsettled payments made by the qualifying depositor should be deducted from the depositor's relevant account.

¹⁰ Resolution triggers are determined by the RA.

¹¹ See clause 166AB of the FSLAB: Limit of cover for covered deposits.

¹² Further details about the Board's processes for providing funding in support of a resolution strategy will be decided by the Board upon its establishment and does not form part of the scope of this paper.

The payout commencement date will be the starting point for CoDI's payout or resolution funding processes. The first working day following the date a bank is placed in resolution will be the payout commencement date, that is, day one for CoDI's payout/resolution funding processes.

5.2 Calculating the covered deposit balance for the bank in resolution

Once the bank in resolution has submitted its deposit insurance submission, the CoDI Board will finalise its decision to either provide funding for resolution or to commence the reimbursement process¹³.

The total covered deposit balance of the bank will consist of the sum of the total covered deposits for simple accounts, as well as formal beneficiary accounts and informal beneficiary accounts. The following principles will be followed:

- **Simple accounts**¹⁴: The qualifying balance per qualifying depositor will be calculated by combining all the qualifying accounts held by the depositor and will include the total of the ready for payment (RFP) and not ready for payment (NRP) accounts¹⁵. Thereafter the maximum coverage limit of R100 000 will be applied for each qualifying depositor¹⁶. The total covered deposits of all qualifying depositors with simple accounts will be the total covered deposit for the bank in resolution's simple accounts.
- **Formal beneficiary accounts**¹⁷: As set out in the coverage paper, banks will be given three options for the reporting of the covered deposits for formal beneficiary accounts. The reporting method chosen by the bank for the specific account will determine the covered deposit for each formal beneficiary account and will be based on the information available to the bank about the beneficiaries of the formal beneficiary accounts. All formal beneficiary accounts, regardless of whether they were marked as RFP and NRP, will be included in the covered deposit calculation for the bank. The bank in resolution's total covered deposit for formal beneficiary accounts will be the sum of the covered deposits of all of the bank's formal beneficiary accounts. It is important to note that when a bank reports a formal beneficiary account using reporting option 3 (no details of the

¹³ This is done together with other conditions and safeguards the Board may feel is necessary.

¹⁴ Simple accounts are accounts in the name of the depositor where the depositor is the owner of the funds in the account.

¹⁵ More details on RFP and NRP accounts are provided in paragraph 7.1.2: Additional information required from formal beneficiary account holders for payout.

¹⁶ The maximum coverage limit is R100 000 per qualifying depositor and/or account. Balances below R100 000 will be fully covered, while balances above R100 000 will result in the maximum coverage of R100 000 for the depositor and/or account.

¹⁷ Formal beneficiary accounts are accounts where the account holder is an accountable institution holding funds for safe-keeping on behalf of beneficiaries.

beneficiaries available), the bank's covered deposit balance will be over-estimated.

- **Informal beneficiary accounts¹⁸:** If multiple accounts are held by the same informal beneficiary account holder, the accounts (both RFP and NRP accounts) will be totalled to get to the qualifying balance. The maximum coverage limit of R100 000 per informal beneficiary account holder will be included in the total covered deposit balance for the bank.

5.3 Calculating the covered deposit balance for qualifying depositors

The covered deposit balance per qualifying depositor will consist of the depositors' covered deposits for simple accounts and their balance in one or more formal beneficiary account.

Where the beneficiaries of a formal beneficiary account are known by the bank in resolution, the beneficiaries' deposit will be combined with their simple account balances to determine their final covered deposit for payout.

If the beneficiaries to the formal beneficiary account are not known, there may be a delay in calculating the final covered deposit for a qualifying depositor until the formal beneficiary account holder submits the required information to identify the beneficiaries and their balances in the account.

When a signatory to an informal beneficiary account also has simple accounts and/or is a beneficiary to a formal beneficiary account, the covered deposits for the informal beneficiary account and the individual will be calculated separately.

The remainder of this discussion paper focuses on the processes to be followed by CoDI to reimburse the covered depositors of a bank that will be liquidated.

5.3.1 Amendments to final deposit insurance submissions

After submitting the updated deposit insurance submission to CoDI, the bank in resolution may discover that it did not include all the qualifying depositors, that in-flight transactions have not been fully processed or that incorrect data were submitted.

There are circumstances where manual amendments to a bank's deposit insurance data may be needed. In such cases, the following conditions will apply:

¹⁸ Informal beneficiary accounts are group savings accounts in the name of a stokvel or savings club. Members appoint signatories to manage the accounts on their behalf.

- Amendments may only be submitted if signed by the resolution practitioner or liquidator. CoDI will not be held responsible for the correctness of the data.
- Any data amendments will be tracked in CoDI's system to identify the source and effect of the amendments on payout amounts.
- Where possible, all changes should be reviewed and approved manually by the appropriate CoDI staff members.

6. Reimbursement methods

One of the biggest challenges a deposit insurance scheme (DIS) has is ensuring that the covered depositors have access to their deposits quickly after the failure of their bank.

For banks with an open bank resolution strategy, access to deposits should continue without interruption, because under this strategy the bank continues with its critical functions, and the support that CoDI may provide will differ on a case-by-case basis.

Therefore, the development of payout plans will apply mostly to banks with a closed bank resolution strategy. During business-as-usual times, CoDI will develop a payout plan for each bank that is likely to have a closed bank resolution strategy. The development of a payout plan will be done in consultation with the Prudential Authority (PA) and the RA.

A payout plan will consider the composition and demographics of a bank's covered depositors, the types of products offered, the geographic spread, governance and internal controls, and the systems capabilities of the bank. Most banks will have a segmented payout strategy, meaning a variety of payout methods will be used to pay out the different categories of accounts based on the information available to CoDI. Each payout plan will be bank-specific and provide details of the payout methods to be used and the order of use, as well as an estimation of the percentage of covered depositors expected to be reimbursed using each payout method. A payout plan will include a funding portion to explain the sequencing of the use of CoDI's funding tiers based on the estimated covered deposits of each bank.

DISs across jurisdictions use various payout mechanisms, as set out in Table 1. The CoDI team has assessed the payout methods used by DISs worldwide and considered the suitability of the different payout methods for the South African environment in terms of their logistical challenges, cost, speed, safety, reliability and efficiency.

Table 1: Comparison of the most common reimbursement methods used by DISs globally

| Payout method | Advantages | Disadvantages |
|--|---|---|
| Cheques | Can be outsourced and is easier for the DIS | <ul style="list-style-type: none"> • Appointing a service provider that can print a large number of cheques with correct balances in a short time. • This approach has many challenges, namely: <ul style="list-style-type: none"> - logistical difficulties; - is expensive; - requires a reliable postal service; and - cheques have been phased out in South Africa. |
| Electronic payments (facilitated by sector-wide single customer view or depositor portal for providing alternative account details) | <ul style="list-style-type: none"> • Fast • Efficient • Cost-effective | <ul style="list-style-type: none"> • Requires appropriate security and depositor verification • Depositors must have an alternative account available to transfer to |
| Payout agent bank (PAB) | <ul style="list-style-type: none"> • A PAB takes over much of the administration from CoDI • Branch network makes nation-wide payout possible • Arrangements with the PAB can be made before the failed bank is placed in resolution | <ul style="list-style-type: none"> • Complex interface needed between the parties, which has to be developed in good times to be ready for action when a bank is placed in resolution • Items to be considered include: costs, timelines, protocol for transferring depositor information and regular updates between the PAB and CoDI on the status of payouts • Requires a willing PAB to perform this function • Prudent to have arrangements with more than one PAB |
| Cash payments (used by some DISs for small amounts below a specified threshold for safety reasons) | <ul style="list-style-type: none"> • Suitable for interim payments in small amounts • Feasible in countries where the payment system is not well developed • Cash delivered at hand is a depositor- | <ul style="list-style-type: none"> • Security concerns • Logistical challenges |

| | | |
|--|---|--|
| | friendly solution for small unsophisticated depositors | |
| Selling the deposit book to another bank, typically on a tender basis. Banks make a bid (at discount) to take over the covered deposit book of the failed bank and continue normal banking activities as soon as the transfer is done. | <ul style="list-style-type: none"> • Smooth transition for depositors – minimal disruption • Cost-effective for the DIS | <ul style="list-style-type: none"> • The takeover bank must have a sufficient presence in the same geographic areas as the failed bank, or another way to service depositors of the failed bank (e.g. through digital banking) • Potential banks may not be interested in the takeover due to a different target group of depositors |
| Other methods (e-money, mobile money) | Facilitate quick payment | <ul style="list-style-type: none"> • Depositor verification challenges • Security concerns |

Source: IADI, 2012: 21–22

Initially, the payout methods available to CoDI will include:

- an electronic funds transfer (EFT) into a bank account in the name of the covered depositor at another bank or into another account nominated by the covered depositor;
- using a PAB; or
- both methods.

Each of these payout methods is discussed in detail below. In general, each bank’s payout plan will involve both EFT and the use of a PAB, as CoDI will treat these payout methods as complimentary to each other and not as substitutes.

CoDI’s payout mechanisms will be assessed at maximum intervals of five years to determine if better mechanisms have become feasible due to technological and legislative developments.

6.1 EFT

During 2019, CoDI embarked on a research project on public awareness considerations for a new DIS. The research project revealed that between 50% and 70% of South Africans have bank accounts at multiple banks. Since all banks will submit details of their depositors to CoDI monthly, CoDI will use the information to build a sector view of all the covered depositors in South Africa. A sector view will enable CoDI to determine which depositors have accounts at alternative banks. Based on these submissions, CoDI will, inter alia, have the following details for each covered depositor and qualifying account:

- the depositor's bank accounts at every bank;
- the type of accounts (savings, fixed, notice deposit, credit card account, etc.);
- the balance in each account; and
- the last transaction date for each account.

When CoDI has to pay out the covered depositors of a bank in resolution, CoDI could pay their covered deposit into one of their bank accounts at another bank via EFT. Since most depositors have bank accounts at multiple banks, CoDI's order of preference for paying out to other accounts will be based on the following order (ranging from the most to the least accessible by the depositor):

- transactional accounts;
- savings accounts or accounts where funds are available on demand;
- notice deposits;
- term deposits; and
- credit card accounts.

The account into which payment will be made will be influenced by the last transaction date for an account. For example, if a transactional account has not been used in six months, but a savings account is available and has been used more recently, the savings account will be used by CoDI.

When a qualifying depositor does not have other transactional or savings accounts at another bank for CoDI to transfer funds to, but does have a term deposit account at another bank, this account would be used. In most cases, banks allow the early withdrawal of funds from such longer-term accounts at a small penalty, should the depositor need the funds urgently.

CoDI will, through its public awareness initiatives, encourage depositors to have bank accounts at more than one bank and to manage these accounts actively to facilitate EFT payouts when a bank has failed, since this will result in quicker access to their funds when a bank has been placed in resolution.

Feedback item 1: Use of credit cards for payout

In the coverage paper, banks were asked about CoDI using credit cards for payout purposes. Most banks were not in favour of this as (i) credit cards are not seen as a savings mechanism, (ii) some banks do not offer credit cards, and (iii) paying into a credit card has complexities since it may take longer for the transfer to be processed and, if the depositor is behind on his/her credit card payments, the funds paid into the account may be used for the outstanding credit card payments instead of being available for the depositor's use. One bank was in favour of the use of credit cards as a last option. Some banks did not understand that paying into a credit card account would be done by CoDI and not by the bank. The CoDI team took note of these comments.

In terms of the requirements set out in the coverage paper, banks will have to report all credit card accounts held by qualifying depositors to CoDI on a monthly basis¹⁹. This means that CoDI will have the details of the credit card accounts held by each qualifying depositor across all banks, and paying out into credit cards can be facilitated.

Bearing this in mind, CoDI will prefer having the option available to pay into credit cards when using EFT payments for accounts that qualify for automatic payment. In line with the order specified in section 6.1, payment into a credit card will not be CoDI's first choice of an account to pay in to, but the last choice and will only be used if the specific qualifying depositor has no other accounts at another bank.

Question:

1. Given the above context, please provide your view of the proposal to use credit cards for payout.

¹⁹ If there is a credit balance, the balance would have to be reported, but if there is a debit balance, Rnil would be reported.

When a bank has been placed in resolution, CoDI will message²⁰ the qualifying depositors without alternative accounts²¹ at other banks to use CoDI's online portal²² to nominate another account into which CoDI can pay their covered deposit using EFT. CoDI's online portal will be opened when the bank has been placed in resolution. This portal will allow these depositors to register on the portal using their personal details (as recorded in the failed bank's systems).

Once registered, the qualifying depositors will be able to use the online portal to nominate an alternative bank account for CoDI to pay them out, using EFT. The alternative bank account can be any account, such as their spouse, family member or friend's account at another bank. The depositors will have to electronically verify and agree that if CoDI uses the information provided by them for payout, CoDI will not be held liable for mistakes made when it uses the information submitted by the depositors. As an additional security measure, CoDI's system will check the details provided to ensure that the account number and account holder specified by the depositors corresponds with its records. If not, the depositors will receive a message to correct the details submitted. If the depositors do not correct the details, they will need to gain access to their deposits through another payout mechanism.

Under certain conditions, CoDI will use the failed bank's systems and branch infrastructure to collect nominated accounts for depositors without alternative bank accounts. To do this, the support and cooperation from the bank's staff and systems service providers will be crucial. However, there are potential risks associated with using the failing bank's staff as they may, for example, not be willing to cooperate and there may be incidents of unethical behaviour.

If qualifying depositors do not have qualifying bank accounts at other banks and do not nominate another bank account, one of the other payout mechanisms discussed below will be used to compensate them.

CoDI's use of EFT as the preferred payout mechanism will promote quick and efficient payout. It will reduce the cost of payout for CoDI and allow CoDI to meet the international standard of a seven-day payout period, albeit only for a portion of the covered depositors of a failed bank.

²⁰ This will be done via short message service (SMS) or email to the depositors' contact details from the records of the bank in resolution.

²¹ Depositors with alternative bank accounts will not have access to the portal to nominate an alternative bank account.

²² CoDI will communicate the process and requirements for the use of the online portal using public awareness initiatives. Details will also be available on CoDI's website.

Feedback item 2: EFT to an alternative bank account in the name of the depositor at another bank versus a nominated account

CoDI will have a record of all qualifying accounts in the name of a qualifying depositor. Using one of the accounts in the name of the depositor at a bank other than the bank in resolution will be the quickest possible means for payout after a bank has been placed in resolution. Although there are risks associated with this approach, mitigating measures can be implemented to enhance the safety and security of automatic EFTs to an alternative account in the depositor's name.

Having a depositor nominate or select an account on the CoDI portal will slow down the payout process but may have benefits in that the depositor chooses where the covered deposit is paid to.

Questions:

1. Given the above context, would depositors be comfortable with EFTs to a bank account in their name at another bank? Please provide reasons for the answer provided.
2. Between nominating an account for payout and the use of an account in the name of the depositor at another bank, which option would depositors prefer? Please provide reasons for the answer provided.

6.2 Payout agent bank

One or more PABs can be used to facilitate access to the funds for the covered depositors of the bank in resolution. Nedbank Limited acted as a PAB when VBS Mutual Bank failed. CoDI will enter into an agreement with the identified PAB(s) to allow the covered depositors to either withdraw or transfer their full covered deposit to an account at another bank, or to leave it in a new bank account at a PAB. CoDI will refund the PAB(s) for amounts reimbursed to covered depositors, regardless of the mechanisms chosen by the depositor.

The preparations for using a PAB are complex and will take time. However, preparatory work will take place during business-as-usual times to speed up the payout process, for example, by having depositor data available by CoDI, by drafting pro forma legal agreements, and by opening bank accounts for CoDI with potential PABs in advance to ensure transfers to the PAB take place quickly once payout has commenced. Data exchange protocols and interfaces between information technology (IT) systems must also

be implemented and tested regularly in advance.

There are a significant number of issues to consider for the use of a PAB, which are discussed in the following paragraphs.

6.2.1 Identification of the payout agent bank

To identify one or more suitable PABs, the following factors may be considered:

- a. **Geographic spread of the PAB:** To be accessible to the covered depositors of the bank in resolution, it is important for the PAB to have branches in the same, or nearby, towns and cities as those of the bank in resolution.
- b. **Systems capability:** The PAB should have the systems capability and capacity to on-board those depositors who choose to move their accounts to the PAB and to facilitate the payout of the depositors of the failing bank who choose to bank elsewhere.
- c. **Other:** There may be unique situation-specific considerations that could influence payout, such as the timing of the bank failure, the size of the failed bank, the depositor base and the prevailing economic or environmental circumstances (such as a pandemic) at the time of the failure. Where multiple PABs are used to assist with a payout, CoDI will have to consider the spread of the depositors between the PABs.

With the exception of the systems capability assessment, the above factors can be assessed by CoDI without the involvement of the identified PABs as the information is available publicly or with the PA. While drafting payout plans, CoDI will complete an assessment to identify possible PABs for each bank. CoDI will enter into discussions with these potential PABs to determine their willingness and ability to assist with a payout by becoming a PAB. These banks need to consider the costs and requirements involved when they engage with CoDI. To become a PAB, a bank would have to assess the capability and capacity of their systems. When a bank nears resolution, CoDI will finalise the legal agreement with the PAB. The legal agreement should set out the rights and obligations between the parties.

6.2.2 Compliance issues

There are significant compliance factors to consider when using a PAB for payout. During business-as-usual times, CoDI will engage with the Competition Commission to ensure that the selection of the PAB follows a due process, does not result in non-compliance with the Competition Act, (Act No. 89 of 1998) (Competition Act) or trigger other requirements of the Competition Act.

If the failing bank had significant compliance issues, specifically with regard to anti-money laundering legislation, the PAB should not be penalised for the non-compliant accounts from the bank in resolution. CoDI will liaise with the PA and the Financial Intelligence Centre (FIC) to ensure there is sufficient time for the PAB to address any issues of non-compliance with the accounts that remain with the PAB after a predetermined period (e.g. one year).

There may be other legislative and compliance issues to consider when using a PAB to facilitate payout. CoDI will assess such requirements as part of the development of the payout plans for banks and will engage with the relevant regulators.

Feedback item 3: Other considerations when using a PAB for payout

Question:

Are there other pieces of legislation that would have an impact on the use of a PAB for payout that has not been mentioned in this document? Please provide details of the relevant Act, together with details of the possible impact it could have.

6.2.3 Data and other preparations required

Cooperation and collaboration between CoDI, the bank in resolution and the PAB's staff will be critical for finalising the preparations for payout quickly and efficiently.

Once CoDI has been established, banks should have the covered depositors' information available in a standardised format. When using a PAB for payout, CoDI will provide the information of the failed bank's covered depositors to the PAB in a data format that will suit both CoDI's and the PAB's systems. The PAB will not be held responsible for the accuracy of the data and CoDI will provide the PAB with a disclaimer in this regard²³. Further adjustments to the depositor data may be required if the PAB's categorisation of accounts and depositors differs from that of the failed bank. The policies of the bank in resolution may also be different from that of the PAB in terms of specific types of accounts and account holders, such as accounts held by foreign nationals. The terms and conditions of accounts may be different between the two institutions and would need to be communicated to the affected depositors by the PAB to manage the affected depositors' expectations.

²³ This will be included in the contractual agreement between CoDI and the PAB.

6.2.4 Claims and disputes

The agreement between CoDI and the PAB will cover how claims and disputes, directed at the PAB, will be handled. The nature of the claims and disputes will determine whether CoDI, the PAB, administrator or liquidator will handle them. The agreement will also cover the responsibilities relating to the handling of queries from depositors and other stakeholders.

7. The reimbursement process for qualifying depositors

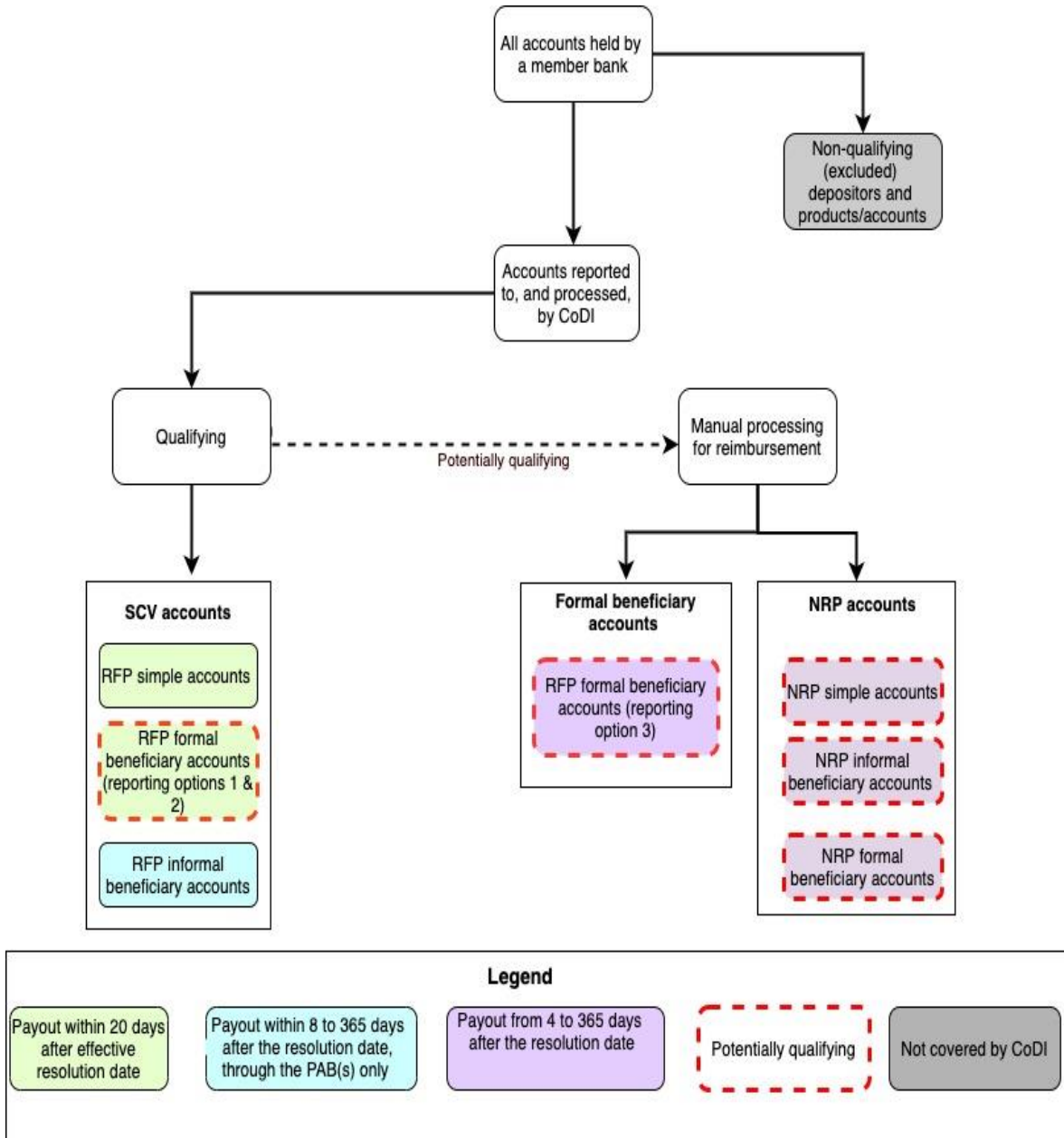
The covered depositors of a bank in resolution will not need to submit a claim for reimbursement to CoDI after the failure of a bank. CoDI will use the records of the failed bank, submitted to CoDI, together with supplementary information provided by the formal beneficiary account holders, to determine the covered deposit per depositor. This section covers the factors that will influence CoDI's payout processes and timelines, the reimbursement objectives and timelines, and reimbursement processing and execution.

7.1 Factors influencing payout processes and timelines

Error! Reference source not found. depicts the account categories for payout, the payout timelines and payout channels to be used for the different categories of accounts.

The factors that will influence CoDI's payout processes and timelines are discussed in the paragraphs below. The section starts with an explanation of the payout methods to be used for the different categories of accounts, how beneficiaries' information will be obtained after a bank has been placed in resolution, and how the depositor and/or account indicators will influence CoDI's payout processes. The section also contains information on the payout timelines and channels.

Figure 1: Payout classification of accounts, payout timelines and channels



Source: CoDI team, 2021

7.1.1 Payout sequencing based on account classification

Different processes will be followed to reimburse the different categories of accounts in CoDI’s system:

- Simple accounts:** Simple accounts, marked as RFP, will be reimbursed first using one of the payout methods available to CoDI.
- Formal beneficiary accounts:** The beneficiaries who have placed funds in an account for safe-keeping will be entitled to their balance in the account. The account holder will

not be entitled to the funds in the account. CoDI will in most cases²⁴ not have the details of the beneficiaries when the bank is placed in resolution as most banks do not record these details. In these cases, CoDI will require the relevant formal beneficiary account holders to submit the details of the beneficiaries and their deposits to CoDI once payout has commenced. (The next paragraph explains the process to be followed). When CoDI has received the required information to identify the beneficiaries and their deposits, the formal beneficiary accounts marked as RFP will be reimbursed before the NRP formal beneficiary accounts using any of the compensation methods available to CoDI.

- c. **Informal beneficiary accounts:** The contributing members to these accounts are the beneficiaries to the funds in the account, up to R100 000 per account. Since banks do not keep copies of the constitution of the account holder of these accounts and the members thereof, reimbursements will be done to the signatories appointed by the members and specified in the records of the failed bank. The signatories will then distribute the funds between members based on the constitution of the stokvel or club. Based on the discussions held with the banks, most informal beneficiary accounts have three to four signatories who manage the account collectively. **All the signatories, as recorded by the bank, will have to be physically present at the same time** for reimbursement of the account balance²⁵. These accounts can only be paid out through a PAB or using the failed bank's infrastructure (only applicable where this is used as a payout method). Payout in this instance can be done in cash, by transfer to another account to which all signatories agree, or the funds can be left in a bank account at the PAB with the same signatories as with the original account(s).

7.1.2 Additional information required from formal beneficiary account holders for payout

Single customer view (SCV) reporting banks that have details of the beneficiaries to formal beneficiary accounts will be able to report the formal beneficiary accounts using reporting option 1 or 2, as specified in the coverage paper. In these cases, the level of manual processing, by CoDI, for payout would be significantly reduced. These banks would report a more accurate covered deposit balance to CoDI compared to banks that have to report estimates, since they do not have the details of the beneficiaries.

²⁴ Most banks indicated that they do not have beneficiaries' details and will most likely use reporting option 3 when submitting formal beneficiary accounts' details to CoDI.

²⁵ Because the signatories do not act in their own capacity for an informal beneficiary account, CoDI cannot pay out to them individually using any of the payout methods.

However, during the pooled account survey conducted by the CoDI team in 2019 and in the comments on the coverage paper, most banks indicated that they do not record the details of the beneficiaries to formal beneficiary accounts. If a bank with formal beneficiary accounts fails, the details of the beneficiaries to these accounts will not be known by the bank or CoDI.

CoDI will use the media and messaging²⁶ to reach the formal beneficiary account holders to request them to submit the required information to CoDI based on the balances as at the date of resolution. These account holders would then download the required document from CoDI's website, and upload the completed document together with other supporting documentation to CoDI's portal for processing.

Feedback item 4: Processing of formal beneficiary accounts

Globally, DISs have different processes with regard to the collection of the beneficiaries' information from formal beneficiary accounts. One approach requires formal beneficiary account holders to submit the details of the beneficiaries to the bank at least once a year. When the bank fails, the formal beneficiary account holders would need to submit the updated details to the bank for inclusion in the final deposit insurance submission. Submitting the information annually to the bank makes the formal account beneficiaries used to providing this information in a specific format. This method is beneficial for the deposit insurer since it obtains one set of final information from the bank that includes details of the beneficiaries for all accounts. This facilitates quicker and accurate payout.

Another approach is for the formal beneficiary account holders to submit the details of the beneficiaries to the DIS once a year and when a bank fails. The benefit of this method is that the formal beneficiary account holders become familiar with the information requirements and format for providing it to the DIS, but it is cumbersome for both the formal beneficiary account holders and the DIS.

In the current framework, CoDI will only receive information from formal beneficiary account holders once a bank has been placed in resolution and a payout strategy is followed. The account holders of the formal beneficiary accounts would not be familiar with CoDI's information requirements and it may take some time to get the required information from the account holders for payout processing.

²⁶ This will be done by via short message service (SMS) or email using the contact details provided by the failed bank.

As such, CoDI will consider alternative approaches in the future. It will engage with banks and relevant regulators on the different methods available to discuss the feasibility of the various approaches. It will continually monitor the implementations done by other DISs to ensure it remains updated on the latest approaches.

Questions:

1. Are there any categories of formal beneficiary accounts where details about the beneficiaries are readily available, such as trust accounts?
2. Are there any other approaches that CoDI could consider in obtaining the details of the beneficiaries to the formal beneficiary accounts more regularly during business-as-usual times or quicker when a bank has failed?

Formal beneficiary accounts will be processed for payout as soon as the formal beneficiary account holders have submitted the required information about the beneficiaries to CoDI, and CoDI has processed the information. The formal beneficiary account holders will have 180 days after a bank has been placed in resolution to provide the details of the beneficiaries and their covered deposit balances to CoDI. Depending on the progress with the payout of simple and informal beneficiary accounts, CoDI will commence with the processing and reimbursement of the formal beneficiary accounts within 20 days after the date of resolution, if the required documentation has been received and applicable indicators have been resolved.

Feedback item 5: Processing of formal beneficiary accounts

When a bank is placed in resolution and a payout strategy is followed, the quicker the details of the beneficiaries to the formal beneficiary accounts are submitted, the quicker they can be paid out. Although 180 days will initially be given to the formal beneficiary account holders to submit the details of the beneficiaries' details to CoDI, the CoDI team would like to reduce this to a shorter period over time.

Question:

1. What period would formal beneficiary account holders consider as reasonable to submit the details of the beneficiaries/contributors (identification details and associated balance) to the accounts to CoDI?

7.1.3 Depositor/account holder and account indicators

Each depositor, account holder and/or account, from all three categories of accounts (simple accounts, and formal or informal beneficiary accounts) can be marked as RFP or NRP. An RFP indicator means that the depositor, account holder and account has been reliably identified using the minimum identifiers specified by CoDI and there are no concerns attached to the account. Reimbursement can take place without any manual intervention.

An NRP indicator means that there are complexities or concerns with an account that necessitate additional information and manual processing before reimbursement can be done. Examples of such concerns²⁷ can include:

- the depositor or account holder could not be reliably identified using the minimum identifiers;
- the depositor or account holder is a minor or legally incapacitated;
- there are money laundering concerns with the account;
- there is a legal dispute against the depositor and/or account;
- the account may be pledged as collateral on a loan at the same bank, for the same or a different depositor, or at another bank for the same or another depositor;
- the depositor and account have been blocked due to local or foreign sanctions;
- there are suspicions of fraud; and
- the account represents voluntary shares of a cooperative bank which requires verification by CoDI.

In the coverage paper, it was specified that deposits held by executive management, directors and external auditors of a failing bank will not be covered by CoDI if they are found guilty of contributing to the failure of a bank. CoDI will obtain the details of the executive management, directors and external auditors of the bank from the PA and their accounts will be shown as NRP. This means that these individuals will not receive payout until there is certainty that they did not contribute to the failure of the bank.

In most cases, an NRP indicator requires further information (such as information to identify the depositor, or documentation to verify the nature of the voluntary shares of a cooperative bank) before CoDI can process the account and finalise the covered balance for the specific depositor.

²⁷ Based on the comments received on the depositor and account tags proposed in the coverage paper, further work on these tags will take place between CoDI and the banks.

Other NRP indicators may require more extensive work by CoDI or may require engagement with institutions such as the FIC, attorneys, the RA or the resolution practitioner. In some cases, CoDI may await the outcome of a court case or investigation. These accounts will only be processed for payout when the underlying processes have been concluded, as the outcome may result in an account or account holder no longer qualifying for deposit insurance coverage.

7.2 Prioritisation in processing

CoDI will follow a prioritisation process when processing the deposit insurance submission of the bank in resolution, as described in the following paragraphs.

7.2.1 Simple accounts, formal and informal beneficiary accounts

The first priority for processing will be simple accounts as well as formal²⁸ and informal beneficiary accounts.

When a covered depositor's total qualifying covered deposit balances (i.e. the sum of all qualifying accounts) are less than R100 000, all the accounts will be included in the calculation of the covered deposit balance for the depositor. All the accounts will be processed to ensure the qualifying recipients are reimbursed for their full covered deposit balance.

When a covered depositor has multiple qualifying accounts with a total qualifying covered deposit balance exceeding the maximum coverage level of R100 000, CoDI will consider the following:

- a. the total RFP balance of simple, and formal²⁹ or informal beneficiary accounts;
- b. the total NRP balance of simple or informal beneficiary accounts; and
- c. if the bank in resolution used reporting option 1 or 2 for the reporting of formal beneficiary accounts, the total formal beneficiary account balance due to each qualifying depositor will be added to their other simple account balances. If the beneficiary of a formal beneficiary account qualifies for deposit insurance but has no other simple accounts with the bank in resolution, its portion of the formal beneficiary account would be the beneficiary's covered deposit balance.

²⁸ These are formal beneficiary accounts using reporting option 1 or 2.

²⁹ Reported to CoDI using reporting options 1 or 2.

CoDI will first consider the total balance of all RFP accounts for a specific depositor as these accounts qualify for automatic reimbursement. If the total balance of all the RFP accounts exceeds the maximum coverage limit of R100 000, CoDI's processing of the remaining accounts will be deprioritised until such time that the RFP balances have been paid out.

If the total balance of the RFP accounts is less than R100 000, CoDI will reimburse the covered depositors their RFP balance to allow them to continue with their daily transactions. CoDI will process the NRP accounts with balances due to the depositor, but this will take longer. Once the NRP accounts for a covered depositor have been processed, further amounts will be paid out to the depositor based on the outcome of CoDI's processing of the NRP accounts.

This prioritisation will allow CoDI to reimburse RFP simple accounts as well as formal³⁰ and informal beneficiary accounts quickly. It will also help CoDI to prioritise NRP accounts of covered depositors who have not yet been reimbursed up to the maximum R100 000 coverage level.

Example 1: Processing prioritisation of simple accounts

Mr Ndlovu is a depositor who has been reliably identified by Bank A and no depositor indicators apply to him. Mr Ndlovu has simple accounts in his name, one of which has been pledged as collateral against a loan at the failed bank.

Mr Ndlovu has the following covered deposit balances due to him:

- Cheque account (RFP): R20 000
- Savings account (RFP): R50 000
- Pledged savings account (NRP): R70 000

Mr Ndlovu's total qualifying covered deposit balance is R140 000. When Bank A is placed in resolution, CoDI will first calculate the total RFP balances due to Mr Ndlovu. These balances are R20 000 + R50 000 = R70 000. The total amount can be transferred to Mr Ndlovu's alternative bank account at Bank B or, if he has no alternative bank accounts, he can go to Bank C, the PAB, to access his funds.

When CoDI starts processing NRP accounts and it is found that the loan has been paid in full, the full balance of the pledged account can be paid to Mr Ndlovu. CoDI can pay out the remaining amount via EFT (R100 000 maximum cover – R70 000 =

³⁰ Reported to CoDI using reporting options 1 or 2.

R30 000) to Mr Ndlovu using his bank account with Bank B or Mr Ndlovu will receive a notification from CoDI (using his contact details on the records of the failed bank) that he can access his funds at Bank C. Mr Ndlovu's total covered balance will be R100 000.

Where a covered depositor has received the maximum amount of R100 000, but still has remaining accounts, these accounts will remain on the balance sheet of the bank in resolution as they no longer qualify for reimbursement.

Example 2: Processing prioritisation of simple accounts

Ms Ngema is a depositor who has been reliably identified by Bank A and no depositor indicators apply to her. Ms Ngema has simple accounts in her name, one of which has been pledged as collateral against a loan at the failed bank.

Ms Ngema has the following covered deposit balances due to her:

- Cheque account (RFP): R50 000
- Savings account (RFP): R50 000
- Pledged savings account (NRP): R70 000

Ms Ngema's total qualifying balance is R170 000. When Bank A is placed in resolution, CoDI will first calculate the total RFP balances due to Ms Ngema. This is $R50\,000 + R50\,000 = R100\,000$. This amount can be transferred to Ms Ngema's alternative bank account at Bank D or, if she has no alternative bank accounts, she can go to Bank C, the PAB, to access her funds.

Since Ms Ngema has received the maximum covered deposit balance of R100 000, CoDI does not need to process the NRP account in her name and it will remain in the estate of Bank A.

7.2.2 Formal beneficiary accounts

Once the reimbursement of the RFP simple accounts as well as the formal³¹ and informal beneficiary accounts is underway, CoDI will start with the processing of the formal beneficiary accounts³² by dividing the formal beneficiary accounts into NRP and RFP accounts.

Similar to NRP simple accounts, manual processing by CoDI will be required for NRP formal beneficiary accounts before payout can commence.

As CoDI receives the details of the beneficiaries of the RFP formal beneficiary accounts, the details will be uploaded on CoDI's system.

Banks will have to report all formal beneficiary accounts to CoDI in their monthly deposit insurance submission³³. CoDI will first consider the processing of RFP formal beneficiary accounts, which will require the identification of the qualifying versus non-qualifying beneficiaries. No further processing of the non-qualifying beneficiaries will be required.

CoDI's system will then combine the covered deposit balances of the qualifying beneficiaries with the qualifying covered deposit balances of their simple accounts. For depositors who had received the maximum coverage of R100 000 for their simple accounts' balances, no further action will be taken by CoDI.

For depositors who had received less than the maximum coverage of R100 000, the total qualifying covered deposit balances for a depositor will be compared to the simple account payout made to the depositor. The difference will be made available to the depositor using any of the reimbursement methods.

Once the RFP formal beneficiary accounts have been processed and their reimbursement started, CoDI will start to process the remaining accounts³⁴.

7.2.3 NRP accounts

The NRP accounts will be processed using processes that CoDI will develop during business-as-usual times. There is no timeline attached to the processing and reimbursement of these accounts as the timeliness will depend on the reason for the NRP classification and

³¹ Reported to CoDI using reporting options 1 or 2.

³² This will be mostly formal beneficiary accounts reported by the failed bank using reporting options 2 and 3, but the formal account beneficiary will not know this.

³³ The only exception to this will be when all the beneficiaries to the account are known to the bank and are non-qualifying depositors or account holders. In such cases, CoDI may require external and internal auditors to verify a bank's reporting in this regard.

³⁴ The remaining accounts are all NRP accounts.

the speed at which account holders and other stakeholders react to CoDI’s request for additional required information, where applicable.

7.3 Reimbursement objectives and timelines

The effective resolution date determined by the RA will trigger CoDI’s payout processes when the RA has decided on a closed resolution with liquidation strategy. To balance speed and accuracy for reimbursement, CoDI will first pay out the covered deposit balances for RFP simple accounts as well as formal (reported to CoDI with reporting options 1 and 2) and informal beneficiary accounts, quickly and accurately, within a maximum of 20 working days after the bank has been placed in resolution. For formal beneficiary accounts reported to CoDI using reporting option 3 and for NRP accounts, the objective is to pay out as accurately as possible, even if the manual processing of these accounts takes longer due to the outstanding information on the beneficiaries of the formal beneficiary accounts or due to the NRP classification of the NRP accounts. All accounts will be paid out over a maximum reimbursement period of 365 days, provided that the outstanding information is submitted on time.

The reimbursement timelines³⁵ are depicted in the table below:

Table 2: Payout actions and initial payout timelines

| Action | Start date |
|---|------------|
| Bank placed in resolution and a payout strategy commences. CoDI initiates broader communication to the public about the payout strategy, including payout channels (EFT and name of PAB), the sequencing thereof, and also how communication with the covered depositors will take place (e.g. email and SMS) | Day 0 |
| CoDI requests an updated deposit insurance submission from the bank | Day 0 |
| Bank submits its updated deposit insurance submission to CoDI | Day 2 |
| CoDI informs covered depositors with alternative bank accounts that payout will be through EFT to their alternative account at another bank | Day 3 |
| CoDI performs data validation and checks | Day 2–3 |
| CoDI requests formal beneficiary account holders to start submitting beneficiary details | Day 4 |
| CoDI informs covered depositors without alternative bank accounts to nominate an | Day 4 |

³⁵ These timelines will become applicable once CoDI is fully operational.

| | |
|---|-----------|
| account, using CoDI's portal | |
| Covered depositors without alternative bank accounts can access CoDI's portal to nominate an account CoDI should pay into | Day 4–6 |
| CoDI starts reimbursing RFP simple accounts and formal beneficiary accounts (reported using options 1 and 2) through EFT | Day 4–6 |
| Formal beneficiary account holders submit beneficiary information to CoDI | Day 5–180 |
| Finalisation of PAB readiness | Day 7 |
| PAB makes funds available to RFP simple accounts as well as formal ³⁶ and informal beneficiary accounts | Day 8–360 |
| CoDI reimburses RFP formal beneficiary accounts ³⁷ using any of the payout methods | Day 5–215 |
| Remaining NRP accounts can be processed and paid out by CoDI or the PAB | Day 8–360 |

As can be determined from Table 2, CoDI will be processing NRP and formal beneficiary (reported using reporting option 3) accounts while the PAB starts paying out depositors who were not paid out via EFT. Although CoDI will make a payout file available to the PAB, real-time reconciliations reflecting payouts made by both CoDI and the PAB, together with updated information as CoDI processes outstanding accounts, will be required to avoid duplicate payouts. In addition, CoDI will continue paying out covered depositors with alternative bank accounts, whereas the PAB will pay out covered depositors without alternative bank accounts, together with all informal beneficiary accounts (including NRP informal beneficiary accounts as they are processed by CoDI).

7.4 Multiple payments to covered depositors

Since CoDI will process the bank in resolution's qualifying accounts in batches, the covered depositors may receive multiple reimbursements from CoDI after the bank has been placed in resolution and a payout strategy is followed.

³⁶ Reported to CoDI using reporting options 1 or 2.

³⁷ Reported to CoDI using reporting option 3.

Example 3: Multiple payments to a covered depositor

Ms Chetty is a depositor who has been reliably identified by Bank A and no depositor indicators apply to her. Ms Chetty has simple accounts in her name, and has contributed money to a formal beneficiary account.

Ms Chetty has the following covered deposit balances due to her:

- Cheque account (RFP): R10 000
- Savings account (RFP): R40 000
- House deposit in a formal beneficiary account held by Mr Smith, an Estate Agent (RFP): R50 000

When Bank A is placed in resolution, it will submit the simple account information for Ms Chetty to CoDI. Ms Chetty's total qualifying covered deposit balance for her simple accounts will be $R10\ 000 + R40\ 000 = R50\ 000$, and this will be paid out to her using one of the reimbursement methods.

When Mr Smith submits the details of the beneficiaries to the formal beneficiary account to CoDI, CoDI's system will update Ms Chetty's qualifying covered deposit balance to $R50\ 000 + R50\ 000 = R100\ 000$ before comparing the maximum coverage of R100 000 to what has already been paid out to Ms Chetty, that is, $R100\ 000 - R50\ 000 = R50\ 000$. The additional R50 000 from the formal beneficiary account that belongs to Ms Chetty will be made available to her using one of the reimbursement methods.

8. Further reimbursement considerations

This section focuses on additional reimbursement considerations.

8.1 Public awareness and communication

In addition to making sure the public is aware of the products covered by CoDI as well as the coverage limit during business-as-usual times, CoDI will develop a comprehensive communication and public awareness plan³⁸ to keep the covered depositors updated on the payout processes once a bank has been placed in resolution. This will include details about the reimbursement mechanism as well as the timing and conditions for reimbursement. CoDI will also have a call centre that depositors can call for further information during

³⁸ A discussion paper covering the public awareness responsibilities of CoDI and banks will be published in 2021.

business-as-usual and resolution times.

8.2 Restrictions on obligation to payout

CoDI will reimburse depositors for their covered deposits if the accounts were with a member bank which had been placed in resolution. CoDI will not reimburse depositors for their covered deposits if their accounts were with a member of a foreign DIS. When a bank has been granted exemption from being a member of CoDI because it is a member of a foreign DIS with a comparable scope and level of coverage, the member's depositors will be compensated by the foreign DIS in terms of its coverage rules and levels when the bank fails.

8.3 Currency of compensation

All funds paid out by CoDI for the covered deposits of depositors will be done in South African rand (ZAR). Where the qualifying account balance is held in a different currency, the balance will be converted to ZAR using the exchange rate as at the resolution date.

8.4 Threshold for payout

There will be a minimum threshold of R50 for payout to a covered depositor. Any covered deposit equal to R51 and above will be paid out to qualifying depositors.

8.5 Interim amounts for payout

CoDI will not consider applications for interim amounts to be paid out.

8.6 Statements to depositors

CoDI will make statements available to the covered depositors of the bank in resolution during the payout process. The statements will contain the following details:

- list of qualifying accounts and deposits held by the depositor;
- the covered deposit of the depositor; and
- the amount paid out to the depositor and the method(s) of payout used.

If the covered depositors have not received their coverage up to the maximum of R100 000, their statement will have a list of accounts still to be processed. The statement will also contain a note to inform the depositors that amounts due under formal beneficiary accounts will be paid out separately.

Emails or SMSs (to those qualifying recipients with cellphone numbers on record) will be sent to alert them to the availability of the statements. The statements will be available

through CoDI's online portal. CoDI may also use the media to alert depositors to the availability and access to the statements.

As outstanding accounts are processed, statements will be updated and made available on CoDI's online portal. Affected depositors will be notified by SMS.

8.7 Special reimbursement considerations

There are several types of depositors and account holders that would require special consideration during payout. Some of these are discussed in this section.

8.7.1 Deposits held by executive management, directors and external auditors of the bank in resolution

In the coverage paper, it was specified that deposits held by executive management, directors and external auditors of a failing bank would not be covered by CoDI if they are found guilty, through a court process, of contributing to the failure of a bank. CoDI will obtain the details of the executive management, directors and external auditors of the bank from the PA and their accounts will be shown as NRP. This means that these individuals will not receive payout until there is certainty that they did not contribute to the failure of the bank.

8.7.2 Overdue payments on loans

In engagements with the depositors of smaller banks, the depositors expressed their concern that CoDI would use their covered deposit balance after the failure of a bank to pay their outstanding or overdue loan commitments at the failed bank or at other banks.

As specified in the coverage paper, the netting of covered deposit balances against loans in the name of the depositor will not take place, that is, payout will be based on gross balances held by a qualifying depositor with the exception of pledged balances. Therefore, the covered deposits a depositor has at the failed bank will not be used to pay any loans that a depositor may have had at the bank.

There is one possible exception to this. When a depositor only has a credit card as an alternative account at a bank other than the bank in resolution, CoDI may pay out to this account using an EFT. If this credit card is overdue, then the payout to the credit card may be a payment on the overdue amount and, depending on the status of the account and overdue payments, the depositor may not be able to access their funds.

Furthermore, CoDI's mandate is to protect the covered depositors of a bank; not the depositors' creditors. CoDI will reimburse qualifying depositors directly using any of the payout methods identified. The covered deposits of depositors cannot be paid to another party apart from a situation where there are legally incapacitated depositors or minors and their representative acts on their behalf. In such cases, documentary evidence would need to be provided to justify paying out to the representative instead of the depositor.

8.7.3 Minors

When member banks submit information to CoDI about accounts where the depositors are minors or legally incapacitated depositors, the accounts held by these depositors will be shown as NRP accounts. Member banks will also be required to provide the details of a representative for these accounts.

If a bank fails, these depositors' accounts will be paid out as follows:

- CoDI will pay out using an EFT payment if another bank account in the name of the depositor with the same representative exists; or
- the representative will have to go to the PAB to access the depositor's funds; or
- if the representative recorded by the bank and reported to CoDI has become deceased or legally incapacitated, the new representative would have to provide proof to the PAB of the status of the original representative, together with proof of their status as the legal guardian or representative for the depositor.

The reason for the additional diligence on these accounts is to avoid possible litigation against CoDI for paying funds into an account where the appointed representative no longer has control over the account. An example would be the accounts of a child (minor) of divorced parents. If CoDI pays out from an account in the name of the minor with the mother as the representative, to an account in the name of the minor with the father as the representative, it may create issues if the divorced parents are not on friendly terms, and the one may withhold access to the funds from the minor and/or the original representative.

8.7.4 Qualifying foreign depositors

Qualifying foreign depositors are covered by CoDI. If foreign depositors have accounts at a bank that fails, it is possible that they may not have bank accounts at another South African

bank or may not be in South Africa to access their funds through a PAB. These depositors will need to use the online portal to nominate the (local) account for the funds to be paid into. This account can be under the name of another person. They would have to arrange with the account holder to transfer the funds to their foreign account. CoDI will not do payouts to a foreign bank account.

8.8 Maximum compensation and exceptions

The coverage level will be R100 000 per qualifying depositor per bank. The limit of R100 000 will be applied to the aggregated (total) qualifying deposits of a qualifying depositor of a failed bank that is a member of CoDI, regardless of the number of qualifying accounts, the currency or the location of the accounts.

In the following instances, it will be possible for an individual qualifying depositor to receive deposit insurance cover of more than the maximum coverage of R100 000:

- a. Sole proprietors will qualify for up to R100 000 for their individual accounts and R100 000 for their sole proprietor accounts, that is, a maximum of R200 000. However, each category of accounts held by them (personal versus sole proprietor) will be covered separately, that is, if the individual has R70 000 in personal accounts and R120 000 in a business account, they would be covered for the R70 000 in their personal account and R100 000 their business account.
- b. Informal beneficiary accounts, such as stokvels, will be covered up to a maximum of R100 000 per account, which will be paid out to the signatories to the account. CoDI will not know who the members of the account holder are, since their details would not have been captured by the bank. If the members of an informal beneficiary account have other simple accounts with the failed bank, their personal accounts would be covered up to R100 000. If they are a member of a stokvel, they may also receive funds from the signatories for their contribution to the stokvel account (if the signatories do not open an informal beneficiary account at another bank but pay the members out).
- c. Where an informal beneficiary account holder has multiple accounts, each with different signatories, the maximum coverage limit of R100 000 will apply to the account holder. The different accounts held by the account holder will be paid out on a pro rata basis. For each account held by the informal beneficiary account holder, the payout to the group of signatories will take place separately and only if all the signatories are physically present.

Example 4: Pro rata payments to informal beneficiary account holders with multiple accounts, each with different signatories

An informal beneficiary account holder has three savings accounts:

- Account A (R50 000);
- Account B (R20 000); and
- Account C (R70 000).

The total qualifying covered deposit balance for this informal beneficiary account holder is R140 000. Each account has their own set of signatories.

Account A represents 35,71% of the total qualifying covered deposit balance of the informal beneficiary account holder. This is calculated as follows:

Account A: $(\text{Account A balance} / \text{total qualifying balance}) \times 100 = \text{R50 000} / \text{R140 000} \times 100 = 35,71\%$.

Account B and Account C represent 14,28% and 50%, respectively. The calculations are:

Account B: $(\text{Account B balance} / \text{total qualifying balance}) \times 100 = ((\text{R20 000} / \text{R140 000}) \times 100 = 14,28\%$)

Account C: $(\text{Account C balance} / \text{total qualifying balance}) \times 100 = ((\text{R70 000} / \text{R140 000}) \times 100 = 50\%$)

The signatories of Account A will receive R35 714.23 (35,71% of the total qualifying balance of R140 000), the signatories of Account B will receive R14 285.71 (14,28% of the total qualifying balance of R140 000) and the signatories of Account C will receive R50 000 (50% of the total qualifying balance of R140 000).

- d. CoDI will do further research and engage with banks on a higher coverage for qualifying depositors with temporary high balances. If a decision is made to increase the coverage for these balances, the depositors or beneficiaries to these accounts will qualify for a higher coverage level as determined by CoDI.

The following is an extract from the coverage paper about temporary high balances:

There are certain life events that could result in temporary high balances for affected

qualifying depositors, such as:

- a) funds for the purchase or sale of private residential properties;
- b) social purpose funds linked to significant life events, including divorce settlements, retirement, dismissal or redundancy; and
- c) funds from the payment of insurance benefits, compensation for criminal injuries or wrongful conviction.

CoDI requested feedback from banks on whether banks could identify these types of temporary high balances as well as the reason for the temporary high balances.

Based on the comments received from banks on the coverage paper, banks can identify high balances, but not always the reason for them.

In other countries, providing higher deposit insurance coverage to qualifying depositors with temporary high balances is an advance deposit insurance feature that is introduced after the DIS has been in existence for several years. CoDI recognises that these life events could have a significant impact for affected depositors and, as such, this item will be prioritised for research to determine the feasibility of providing higher cover for these types of balances.

Once CoDI has paid depositors their covered deposits, no other depositor or person will be entitled to receive payout for the remaining covered deposit balances in these accounts.

8.9 Multiple simultaneous bank failures

If more than one bank is placed in resolution simultaneously with a payout strategy, CoDI will pay covered depositors with accounts at more than one bank in resolution using separate payout transactions for their covered products with each bank in resolution. This will be done to enable CoDI to track the progress and status of the payout process of each bank separately.

9. Post-reimbursement considerations

This section covers post-reimbursement considerations, such as recoveries, unclaimed covered deposits, disputes and claims, and recoveries of payments made in error or caused by fraud.

9.1 Recoveries

The total covered deposit balance for the failed bank can be used by CoDI to determine its maximum claim against the estate of the failed bank.

Clause 166AD of the FSLAB specifies that CoDI will assume the rights and remedies of a covered depositor of a bank in resolution once it has paid out funds to such a depositor. When CoDI assumes the rights and remedies of a covered depositor, any recoveries from the estate of the failed bank will be handled in terms of the creditor hierarchy.

9.2 Engagement between CoDI and the resolution practitioner

CoDI may require the resolution practitioner to provide CoDI with information and reasonable assistance in the following cases:

- a. to ensure that any depositor with a covered deposit balance receives payment within the reimbursement timelines specified by CoDI; and
- b. to enable CoDI to fulfil its mandate and objectives by discharging its functions under the FSLAB.

9.3 Unclaimed covered deposit balances

CoDI's public awareness responsibilities during business-as-usual times and in the event of a bank failure will be detailed in a future discussion paper. Throughout the payout event, CoDI will have a responsibility to communicate to the depositors of the bank in resolution to ensure that they are aware of the payout options available to them.

After the initial payout, there may still be unclaimed balances of covered deposits which CoDI could not pay out using EFT and that the depositors may not have accessed through the PAB. Although CoDI will continue with its public communication about the status of the reimbursement process, any accounts that have not been accessed by the depositors within six months of the resolution date will require CoDI to contact the covered depositors directly via phone calls, emails or registered letters using their contact details submitted to CoDI by member banks. CoDI may also use the media and CoDI's website to ensure that covered depositors are aware of the options available to them to access their funds.

Depositors will have a period of one year after a bank has been placed in resolution to claim

their covered deposits from CoDI or through the PAB. After that, the unclaimed balances of covered deposits will remain in the estate of the failed bank and will be handled in terms of the creditor hierarchy.

9.4 Disputes and claims

Depositors will have a period of six months after a payment has been made to raise a dispute or claim with CoDI about their reimbursement. Disputes could arise from errors identified by the depositor, which could include a missing qualifying account on their payout statement or an omission by a formal beneficiary account holder of a beneficiary's details to an account managed by them.

In these cases, the affected depositor should submit details of their dispute or claim on the online portal, with relevant supporting documents, for investigation by CoDI. Regardless of the outcome of the investigation, CoDI will communicate its decision, with justification, to the depositor. If the outcome is favourable to the depositor, CoDI will provide the (additional) compensation to the affected depositor using one of the specified payout methods.

Likewise, depositors who did not receive a payout due to the incorrect classification of their qualifying deposits can lodge a claim with CoDI to allow CoDI to investigate the claims and process payout to the depositors, once the claims have been investigated.

9.5 Recovery of payments made in error or caused by fraud

In terms of clause 166AC of the FSLAB, CoDI will be entitled to recover any excess amount from the bank in resolution when:

- a. CoDI paid in excess of what the depositor was entitled to in terms of CoDI's coverage rules;
- b. the excess paid was as a result of an error by CoDI or the failed bank or caused by fraud.

10. Supporting mechanisms

This section focuses on mechanisms to support CoDI's reimbursement processes and other processes, including simulations, reviews and audits.

10.1 Simulations

CoDI will use simulations to test and improve its payout processes and systems, from end

to end. These tests may involve the different participants of the financial safety net and members of CoDI. The objective of these tests would be to test the efficiency and effectiveness of CoDI's processes and systems during the different stages of the payout processes.

CoDI's payout processes will start with the submission of deposit insurance submissions by banks and end after the completion of the payout processes. The following could be tested:

- random requests for ad hoc deposit insurance submissions from one or many banks to test the robustness of CoDI's and the banks' systems to collect, report and process updated depositors' information in a short time frame;
- governance processes for CoDI to access its normal and/or emergency sources of funding for payout or to support a resolution strategy or activity;
- communication processes, including CoDI's call centre capabilities, for handling enquiries from depositors before, during and after the failure of a bank;
- an online portal that allows depositors to access a list of their accounts, nominate an alternative bank account for reimbursement, access their final deposit insurance statements and lodge a claim or dispute;
- an online portal that allows formal beneficiary account holders to lodge a list of the beneficiaries to the account, together with their identifying details and associated balances; and
- governance, processes, internal controls and validation processes of each payout method and payout plans, in general, to ensure they are effective and appropriate.

10.2 Reviews and audits

A review or audit will commence during the reimbursement process to determine whether the appropriate corporate governance, internal controls and policies developed by CoDI were followed to handle the reimbursement of the failed bank's depositors. The audit report will be finalised one year after the completion of the reimbursement process, and will be submitted to the CoDI Board. The findings will be used to strengthen CoDI's corporate governance, internal controls and policies for future bank failures. The CoDI Board may share the findings of the audit report with the PA and RA.

10.3 Cooperation with other regulators and authorities

Before, during and after a bank has been placed in resolution, CoDI will work with the PA and RA on a continual basis. CoDI will also work with other regulators and entities when a bank has been placed in resolution, including:

- the FIC on anti-money laundering issues relating to specific depositors or accounts of the bank in resolution;
- foreign deposit insurers based on the agreed-upon responsibilities for local branches of foreign banks and foreign branches of local banks;
- the Competition Commission on issues relating to the use of a PAB for reimbursement.

Clause 166BB of the FSLAB allows CoDI to enter into memorandums of understanding (MoUs) with the SARB, financial sector regulators such as the PA and Financial Sector Conduct Authority, as well as a foreign DISs. After its establishment, CoDI will identify the entities with which MoUs need to be entered into.

In general, most DISs only cover banks operating within the borders of their country of operation. If a local bank with foreign branches fails, its foreign branches will be included in the resolution strategy for the local bank, but the depositors of foreign branches will not be covered by CoDI. They will, however, be covered by the local DIS, if applicable.

11. The way forward

Comments on the proposals in this discussion paper should be received by Wednesday, 23 June 2021. All comments should be sent via email to CoDI@resbank.co.za, for the attention of the Interim Chief Executive Officer of CoDI. The proposals in this discussion paper will be finalised for inclusion in the secondary legislation for CoDI, to be issued after the promulgation of the FSLAB.

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Definitions

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| Account holder | The individual or legal entity in whose name an account has been opened |
| Accountable institution | Institutions listed in Schedule 1 of the Financial Intelligence, 2007 (Act 38 of 2007). Accountable institutions include banks, accountants, attorneys, estate agents and financial service providers |
| Administrator | The individual or entity appointed to manage the affairs of an individual who is mentally or legally incapable of managing their own affairs |
| Bank(s) | Banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990), Mutual Banks Act, 1993 (Act No. 24 of 1993) and the Co-operative Banks Act, 2007 (Act No. 40 of 2007) (see also member(s)/member bank(s)) |
| Beneficial owner | 'Beneficial owner', in respect of a legal person, means a natural person who, independently or together with another person, directly or indirectly: <ul style="list-style-type: none"> a. owns the legal person; or b. exercises effective control over the legal person. |
| Beneficiary | The person/business who is legally entitled to funds in a complex account |
| Beneficiary account | An account where the funds of multiple individuals have been pooled together for a specific purpose, including for savings or for meeting loan conditions (such as a deposit for the purchase of a home) See also pooled account |
| Closed resolution | The failed bank is liquidated and CoDI pays out the covered depositors of the failed bank |
| Complex account | An account where the account holder is not the ultimate beneficiary of the account balance. The account holder is a representative handling the funds in the account on behalf of the ultimate beneficiary. |
| Coverage level | The maximum amount (R100 000) that can be paid out to a unique depositor as a simple account holder or the ultimate beneficiary of a formal beneficiary account |
| Covered deposit | The amount covered by CoDI for a unique depositor as a simple account holder and/or the ultimate beneficiary of a formal beneficiary account after applying the R100 000 coverage level |

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| <p>Covered deposits per bank</p> | <p>The total of all covered deposits for a specific bank, including the covered deposit for simple accounts and the covered deposit for all complex accounts. The covered deposits per bank will be used as the basis for the calculation of all the contributions the bank is required to make to CoDI.</p> |
| <p>Curator</p> | <p>An individual or entity appointed to manage the affairs of an individual who is mentally and legally incapable of managing their own affairs</p> |
| <p>Deposit (as per the Banks Act, 1990 (Act No. 94 of 1990))</p> | <p>An amount of money paid by one person to another person subject to an agreement in terms of which:</p> <ul style="list-style-type: none"> (a) an equal amount or any part thereof will be conditionally or unconditionally repaid, either by the person to whom the money has been so paid or by any other person, with or without a premium, on demand or at specified or unspecified dates or in circumstances agreed to by or on behalf of the person making the payment and the person receiving it; and (b) no interest will be payable on the amount so paid or interest will be payable thereon at specified intervals or otherwise, notwithstanding that such payment is limited to a fixed amount or that a transferable or non-transferable certificate or other instrument providing for the repayment of such amount mutatis mutandis as contemplated in paragraph (a) or for the payment of interest on such amount mutatis mutandis as contemplated in paragraph (b) is issued in respect of such amount, but does not include an amount of money: <ul style="list-style-type: none"> (i) paid as an advance, or as part payment, in terms of a contract for the sale, letting and hiring or other provisions of movable or immovable property or of services, and which is repayable only in the event of: <ul style="list-style-type: none"> (aa) that property or those services not in fact being sold, let and hired or otherwise provided; (bb) the fulfilment of a resolutive condition forming part of that contract; or (cc) the non-fulfilment of a suspensive condition forming part of that contract; (ii) paid as security for the performance of a contract or as security in respect of any loss which may result from the non-performance of a contract; |

- (iii) without derogating from the provisions of paragraph (ii), paid as security for the delivery or return of any movable or immovable property, whether in a particular state of repair or otherwise;
- (iv) paid by a holding company to its subsidiary, or by a subsidiary to its holding company, or by one subsidiary to another subsidiary of the same holding company;
- (v) paid by a person who, at the time of such payment:
 - (aa) is a close relative of the person to whom such money is paid;
 - (bb) is a director or executive officer of the person to whom such money is paid; or
 - (cc) is a close relative of a director or executive officer of the person to whom such money is paid;
- (vi) paid by any person to a registered long-term insurer as defined in section 1 of the Long-term Insurance Act, 1998 (Act No. 52 of 1998) (Long-term Insurance Act), as a premium in respect of any kind of policy defined or referred to in the Long-term Insurance Act and under which policy that long-term insurer assumes, in return for such premium, such obligation as is described in the Long-term Insurance Act;
- (vii) paid to a fund registered or provisionally registered under section 4 of the Pension Funds Act, 1956 (Act No. 24 of 1956), as a contribution, contemplated in section 13A of that Act, by or on behalf of a member of that fund;
- (viii) paid to a benefit fund, as defined in section 1 of the Income Tax Act, 1962 (Act No. 58 of 1962), as a contribution or a subscription by or on behalf of a member of that fund; or
- (ix) paid by any person to a registered short-term insurer as defined in section 1 of the Short-term Insurance Act, 1998 (Act No. 53 of 1998) (Short-term Insurance Act), as a premium in respect of any kind of policy defined or referred to in the Short-term Insurance Act and under which policy that short-term insurer assumes, in return for such premium, such obligation as is described in the Short-term Insurance Act.

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| Depositor | The person or business who is legally entitled to the funds in an account. For simple accounts, the depositor and account holder are the same. For complex accounts, the depositor is the ultimate beneficiary to the account. |
| Executive officer/manager | Any employee who is a director or who is in charge of a risk management function of the bank, including the chief executive officer, compliance officer, the secretary of the company or any manager of the bank who is responsible, or reports directly to the chief executive officer of the bank. |
| Gross coverage | The sum of all (positive) qualifying balances for a qualifying depositor without deducting any negative balances held by the qualifying depositor. |
| Informal beneficiary account | A beneficiary account where informal record-keeping of contributors and their associated balances takes place. See also informal pooled account |
| Informal pooled account | A beneficiary account where informal record-keeping of contributors and their associated balances takes place. See also informal beneficiary account |
| Members/member banks | Banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990), Mutual Banks Act, 1993 (Act No. 124 of 1993) and the Co-operative Banks Act, 2007 (Act No. 40 of 2007) |
| Minor | Individuals younger than 18 years of age |
| Netting | The result of a deduction between deposit (positive) balances and loan (negative) balances |
| Non-qualifying accounts | Funds evidenced by a bearer instrument, funds invested in equities or debt instruments, or funds in investments |
| Non-qualifying deposits | In terms of the FSLAB's definition of qualifying deposits, the deposits by the following types of depositors do not qualify for deposit insurance coverage: a) deposits by banks; b) deposits by the non-bank private financial sector, including money market unit trusts, non-money market unit trusts, insurers, pension funds, fund managers and other private financial corporate sector institutions; and c) deposits by government, including local, provincial and national government, public financial sector entities, the Public Investment Corporation, the Corporation for Public Deposits, |

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| | other public non-financial corporations and monetary authorities. |
| Not ready for payout | These are accounts where: a) the mandatory fields for the identification of the qualifying depositor are not completed or available; and b) depositor status indicators and account status indicators were applied to the depositor or the accounts held by the depositor. |
| Non-SCV (account-based) reporting of depositor information | A view of all the qualifying accounts held by a bank, without aggregation per qualifying depositor when reported to CoDI |
| Open bank resolution | The bank is not liquidated and depositors continue to have access to their deposits. CoDI will not pay out depositors, but can contribute funds to support the resolution strategy, subject to the conditions in the FSLAB. |
| Payout commencement date | The payout commencement date will be the starting point for CoDI's payout or resolution funding processes. The first working day following the date a bank is placed in resolution will be the payout commencement date, that is, day one for CoDI's payout processes. |
| Pay-out period | The period between the closure of the bank and qualifying depositors receiving compensation for their covered deposits |
| Pledged deposits | Deposits pledged as collateral for a loan – usually done as part of the loan conditions to reduce the risk for the lender |
| Pooled accounts | Accounts where the funds of multiple individuals have been pooled together for a specific purpose, such as savings, funerals or the deposit for the purchase of a home See also beneficiary account |
| Qualifying account | Accounts in qualifying products held by qualifying depositors |
| Qualifying balance | The total balance of all the qualifying accounts for an individual depositor or for an informal beneficiary account before the application of the coverage limit |
| Qualifying deposit | The FSLAB defines a 'qualifying deposit' as a deposit with a bank, other than: a) a deposit evidenced by a bearer deposit instrument; or b) a deposit where the depositor holds the deposit in the capacity of: |

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| | <ul style="list-style-type: none"> i. a financial institution, excluding a financial institution that is a co-operative financial institution as defined in section 1(1) of the Co-operative Banks, 2007 (Act 40 of 2007); ii. the national government, a provincial government, a local government or an organ of state; iii. an entity listed in Schedule 2 of the Public Finance Management Act, 1999 (Act No. 1 of 1999); iv. the Corporation for Public Deposits established by section 2 of the Corporation for Public Deposits Act 46 of 1984; or v. the Public Investment Corporation established by section 2 of the Public Investment Corporation Act, 2004 (Act No. 23 of 2004). |
| Qualifying depositor | A depositor that meets the requirements of a qualifying depositor (i.e. retail and non-financial corporate) |
| Qualifying product | Products where the capital amount is guaranteed and repayable at par to a qualifying depositor (i.e. savings accounts, current accounts, credit balances on loan accounts; and group savings accounts). |
| Ready for payout | <p>These are accounts where:</p> <ul style="list-style-type: none"> a) the qualifying depositor with all his/her qualifying accounts (and associated balances) has been identified using the minimum information required for the identification of the depositor; and b) no depositor status indicators or account status indicators were applied to the depositor or accounts held by the depositor. |
| Related parties | Any person (whether natural or juristic) over the business of which the director or executive officer can exercise a significant influence and which business undertakes business with the relevant bank or controlling company to an extent that could materially influence the asset base, profitability or risk profile of the said bank or controlling company |
| Resolution date | The date on which the SARB, as the Resolution Authority, notifies CoDI that it has decided on a closed resolution strategy for a failing bank and that it will require CoDI to pay out the bank's covered depositors |

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| Simple accounts | Accounts where the account holders are also the legal owners of the funds |
| Single customer view | An aggregated view of all the qualifying accounts for a single qualifying depositor |
| Temporary high balances | High account balances caused by certain life events, such as: <ul style="list-style-type: none">a) funds for the purchase or sale of private residential properties;b) social purpose deposits linked to significant life events, including divorce settlements, retirement, dismissal or redundancy; andc) deposits from the payment of insurance benefits, compensation for criminal injuries or wrongful conviction. |

Abbreviations

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| Board | Board of Directors |
| Competition Act | Competition Act, 1998 (Act No.89 of 1998) |
| CoDI | Corporation for Deposit Insurance |
| Core Principles | Core Principles for Effective Deposit Insurance Systems |
| coverage paper | Coverage and reporting rules for deposit insurance in South Africa |
| DIF | deposit insurance fund |
| DIS | deposit insurance scheme |
| EFT | electronic funds transfer |
| FIC | Financial Intelligence Centre |
| FSLAB | Financial Sector Laws Amendment Bill |
| IADI | International Association for Deposit Insurers |
| MoU | memorandum of understanding |
| NRP | not ready for payout |
| PA | Prudential Authority |
| PAB | payout agent bank |
| RA | Resolution Authority |
| RFP | ready for payout |
| RPD | Resolution Planning Division |
| SARB | South African Reserve Bank |
| SCV | single customer view |
| SIFI | systemically important financial institution |
| SMS | short message service |
| ZAR | South African rand |