THE PRESIDENCY

REPUBLIC OF SOUTH AFRICA

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

SOCIO-ECONOMIC IMPACT ASSESSMENT SYSTEM

(SEIAS) REVISED (2020): FINAL IMPACT ASSESSMENT

TEMPLATE –PHASE 2

NAME OF THE PROPOSAL: FINANCIAL SECTOR AND DEPOSIT INSURANCE LEVIES (ADMINISTRATION) AND DEPOSIT INUSRANCE PREMIUMS BILL

September 2021

1. Please DO NOT ALTER the template and questionnaire
2. Date must be clearly indicated

3. Draft SEIAS report should have a watermark word DRAFT indicating the version and should be accompanied by the supporting documents (draft proposal, M&E plan and pieces of research work)
4. FINAL report will be in PDF format and will be inclusive of the sign-off
5. FINAL report will have the approval stamp of the Presidency on the front cover and will include the signoff
6. Sign off forms are only valid for a period of six months.
7. Bills and Regulations that introduce permitting, licensing and registration system must be accompanied by a streamlined process map and indicate the proposed turnaround time for processing of such.

PART ONE: ANALYSIS FOR FINAL SEIAS REPORT

Please keep your answers as short as possible. Do not copy directly from any other document.

1. Conceptual Framework, Problem Statement, Aims and Theory of Change

1.1. What socio-economic problem does the proposal aim to resolve?

The main policy proposal that addresses a socio-economic problem in the Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Bill, 2021 (Financial Sector Levies (Administration) Bill) is the protection of financial customers that deposit (including those deposits that are worker savings) funds in banking intuitions (all member banks of the Corporation for Deposit Insurance - the “Corporation”).

The aim of the proposal is to ensure that in the event of a bank failure, depositors are able to have reasonable access to their deposits even if that bank enters into liquidation. This is achieved through the establishment of a deposit insurance fund (the Fund) through consequential amendments to the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act) via the Financial Sector Laws Amendment Bill, 2021[1] (the FSL Bill). The FSL Bill establishes the Fund and provides for the collection of mandatory deposit insurance premiums that will be paid by all banks. The exact funding mechanism is partly provided for via the Financial Sector Levies (Administration) Bill.

The 2007/2008 global financial crisis demonstrated the lack of tools at the disposal of financial sector regulatory authorities for maintaining financial stability and managing a financial crisis that is at the level of a systemic event. In the aftermath of the crisis, the G20 introduced standardised financial sector reforms for its member states which included South Africa. In 2011 National Treasury initiated a series of financial sector reforms (some in line with the recommendations of the G20 at the 2009 Pittsburgh Summit attended by South Africa) which included the publication of the 2011 policy paper **‘A safer financial sector to serve South Africa better**’[2] which sought to ensure that financial customers are protected. This policy paper was followed by another policy paper in 2015 which introduced the establishment of a deposit insurance fund to protect depositors and as a financial safety net that the South African Reserve Bank (“the Reserve Bank”) could use in maintaining financial stability which was ‘**Strengthening South Africa’s Resolution Framework for Financial Institutions’.**[3]

The promulgation of the FSR Act provided a framework in which the Reserve Bank was tasked with the responsibility of maintaining financial stability. The consequential amendments to the FSR Act through the Financial Sector Levies (Administration) Bill give effect to the financial stability tools required by the Reserve Bank. This is because it can use the Fund as a resolution tool when it resolves a financial institution such as a bank in distress and it is legally required to be cognisant of the interests of depositors when it does so.

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[1] The Bill is currently before Parliament and will be finalised before the end of the 4th Quarter in 2021.

[2] http://www.treasury.gov.za/twinpeaks/20131211%20-%20Item%202%20A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf

[3]http://www.treasury.gov.za/twinpeaks/Strengthening%20South%20Africa%E2%80%99s%20Resolution%20Framework%20for%20Financial%20Institutions.pdf

1.2. What are the main root causes of the problem identified above?

The main cause of the identified problem is that depositor funds are not safe in a bank failure and South Africa has had two in recent years[4]. Banks play a major role in the economy and use funds that belong to financial customers in the form of deposits to lend to other customers and charge interest to make a profit.

When a bank enters financial distress there is usually a run on the deposits that it holds which accelerates its demise. Depositors usually have to wait a long time to receive their funds during a run and when a bank enters liquidation they hardly receive any of their funds bank due to their concurrent ranking in terms of the creditor hierarchy in liquidation.

The Reserve Bank requires a vast array of tools to ensure that it is able to successfully resolve a failing bank when it enters resolution. When the Reserve Bank executes its resolution functions, it has to do so in the best interest of depositors, it is constrained in this task when there is a lack of a financial safety net that it can use such as a deposit insurance fund to ensure that depositors are protected and it can successfully resolve the failing bank.

What socio-economic problem does the proposal aim to resolve	**What are the main roots or causes of the problem**
Lack of depositor protection in the event of a bank failure	South Africa does not have a dedicated and comprehensive deposit insurance scheme
Reserve Bank not having a deposit insurance scheme as a resolution tool to give better effect to its resolution function of acting in the interest of depositors when it resolves a bank in financial distress	South Africa does not have a dedicated and comprehensive deposit insurance scheme that can be used as resolution tool by the Reserve Bank as the Resolution Authority

[4] African Bank in 2015 and VBS Mutual Bank in 2018.

1.3. Summarise the **aims** of the proposal and **how** it will address the problem in no more than five sentences.

The Financial Sector Levies (Administration) Bill aims to provide an important feature of the funding required to establish a dedicated deposit insurance fund for the protection of bank depositors by the Reserve Bank through the collection of deposit insurance premiums by the Corporation of Deposit Insurance (the Corporation) (which will be a subsidiary of the Reserve Bank).

1.4. How is this proposal contributing to the following national priorities?

National Priority	Impact
1. Economic transformation and job creation	The proposal will ensure that the funds of financial customers such as deposits, in whichever form they take e.g. salaries, wages, savings deposited with a bank, will be protected should that bank fail. Should a bank fail, depositors will continue to have access to their deposits even if that bank enters into liquidation.
2. Education, skills and health	N/A
3. Consolidating the social wage through reliable and quality basic services	N/A
4. Spatial integration, human settlements and local government	N/A
5. Social cohesion and safe communities	N/A

National Priority	Impact
6. Building a capable, ethical and developmental state	N/A
7. A better Africa and world.	South Africa is a signatory to the G20 which is an international forum which introduced global financial sector reforms in the aftermath of the 2007/2008 global financial crisis. Part of the reforms that were introduced in 2009 as a response to the crisis was a harmonised approach to regulating systemically important financial institutions such as banks. Furthermore, the proposals sought to eradicate the culture of bail-outs for financial institutions when they fail. Cabinet has adopted the position of no longer bailing out financial institutions using tax payer funds[5] or to compensate their depositors and instead an industry funded deposit insurance scheme will be used for this purpose going forward.

[5] Through the approval of the policy paper '*Strengthening South Africa's Resolution Framework for Financial Institutions'* in 2015 and the Financial Sector Laws Amendment Bill, 2021.

National Priority	Impact
	South Africa is one of the few members of the G20 that does not have a dedicated deposit insurance scheme and once the scheme is established, it will also be a member of the International Association of Deposit Insurers (IADI).

1.5. Please describe how the problem identified could be addressed if this proposal is not adopted. At least one of the options should involve no legal or policy changes, but rather rely on changes in existing programmes or resource allocation.

Option 1.	The status quo remains and whenever a bank fails then government steps in and provides funding from the fiscus to compensate depositors
Option 2.	Depositors are not compensated at all by government and allowed to rank as concurrent creditors and wait for any pay-out they might receive in liquidation or they wait and risk not having access to their deposits

PART TWO: IMPACT ASSESSMENT

2. Policy/Legislative alignment with other departments, behaviours, consultations with stakeholders, social/economic groups affected, assessment of costs and benefits and monitoring and evaluation.

2.1. Are other government laws or regulations linked to this proposal? If so, who are the custodian departments? Add more rows if required.

Government legislative prescripts	Custodian Department	Areas of Linkages	Areas of contradiction and how will the contradictions be resolved
Financial Sector Regulation Act as amended by the Financial Sector Laws Amendment Bill, 2021	National Treasury	Establishment of deposit insurance fund. Imposition of deposit insurance premiums on banks	The FSR Act as currently amended provides for the imposition of deposit insurance premiums without a schedule in terms of which the premiums will be charged.
Banks Act	National Treasury	Status of depositors when a bank enters resolution/curatorship	Curatorship is replaced by resolution and the Reserve Bank is explicitly required to consider the interest of depositors when a bank enters resolution. The Reserve Bank together with the Corporation can use the fund as a financial safety net/resolution tool and to pay out depositors of a failing bank

South African Reserve Bank Act	National Treasury	Liquidity facility for bank recapitalisation	Whilst the South African Reserve Bank Act has enough provisions that allow the Reserve Bank enough powers to stabilise a bank in distress, the central bank lacks a facility that is comprehensively dedicated to compensating depositors
Public Finance Management Act and Appropriation Act	National Treasury	Use of public funds/guarantee issuance for emergency, unforeseen events	The PFMA will no longer be used to provide for bail-out failing banks nor will guarantees be issued for said purpose. The privately funded deposit insurance scheme will be used instead to compensate depositors
Insolvency Act	Department of Justice	Recognition of depositors in creditor hierarchy	Although the Insolvency Act itself has not been consequentially amended by the FSL Bill, alignment was achieved through non- consequential amendments to ensure that when a bank fails, a separate creditor hierarchy will be used as reflected in the amendments to the FSR Act to ensure that depositors are explicitly recognised and have a higher and favourable ranking.

2.2. Proposals inevitably seek to change behaviour in order to achieve a desired outcome. Describe (a) the behaviour that must be changed, and
(b) the main mechanisms to bring about those changes. These mechanisms may include modifications in decision-making systems; changes in procedures; educational work; sanctions; and/or incentives.

a) What and whose behaviour does the proposal seek to change? How does the behaviour contribute to the socio-economic problem addressed?

The behaviour that the bank seeks to change is the culture of bail-outs when a bank fails through the use of public funds. The proposal also seeks to abolish the current approach to using public funds to rescue failing banks as it encourages moral hazard, is inconsistently applied on a case by case basis and not consolidated into a clear framework with clear criteria for application. The proposal also seeks to reduce the moral hazard that comes with bailing out banks as it encourages a culture of reckless banking practices. The proposal seeks to change the behaviour of government in its usage of a bail-out approach for banks in distress and reduce moral hazard with banking institutions as well.

When public funds are used to fund bank bail-outs there is no incentive to establish a privately/industry funded deposit insurance scheme. Reckless and in some instances fraudulent banking practices are more common when there is a public backstop in the form of bail-outs. The effect of this is that the Reserve Bank is required to resolve a failing bank without a deposit insurance fund as an important tool in its arsenal of resolution powers.

b) How does the proposal aim to bring about the desired behavioural change?

The effect of a comprehensive industry funded deposit insurance scheme is that it eliminates the option of government funding to bail out failing banks and ensures that depositors have protection. A privately funded deposit insurance fund also ensures that banks, essentially bail themselves out using their own funds. This will reduce reckless banking practices and encourage banks to be more financially sound and prudentially managed.

2.3. Consultations

a) Who has been consulted inside of government and outside of it? Please identify major functional groups (e.g. business; labour; specific government departments or provinces; etc.); you can provide a list of individual entities and individuals as an annexure if you want.

Consulted Government Departments, Agencies and Other Organs of State

Department's name	What do they see as main benefits, Implementation/ Compliance costs and risks?	Do they support or oppose the proposal?	What amendments do they propose?	Have these amendments been incorporated in your proposal? If yes, under which section?
Department of Justice	The Department of Justice was concerned about the wider implications of	Oppose	The Department of Justice proposed that the creditor hierarchy in the Insolvency Act itself should not be	The Insolvency Act was not amended and instead the FSR Act was amended to reflect a creditor hierarchy

	amending the creditor hierarchy in the Insolvency Act to accommodate depositors (explicitly) even though there was sympathy and agreement on the benefits.		amended.	where depositors are recognised for financial institutions such as banks.
Cabinet Committee on Economic Sectors, Employment and Infrastructure Development	The ESEID Cluster was of the view that the funding model would be too expensive on industry and requested that the Minister of Finance submit a report on a reduced industry cost scale	Support	The ESEID cluster did not proposed specific amendments other than that the cost burden to industry should be reduced.	Yes, Schedule 5 provides the new revised premiums model that reduced the cost of the original proposal by R990 million p.a

CONSULTED STAKEHOLDERS OUTSIDE OF GOVERNMENT				
Name of Stakeholder	**What do they see as main benefits, Implementation/ Compliance costs and risks?**	**Do they support or oppose the proposal?**	**What amendments do they propose?**	**Have these amendments been incorporated in your proposal?**
Banking Association of South Africa	BASA were concerned about the cost to the banking industry and the total amount p.a that would have to be paid by industry particularly	Support	Revision to the formula and overall cost reduction of the deposit insurance scheme	Yes, Schedule 5. Furthermore, negotiations are ongoing with the tax unit at National Treasury to allow bank to deduct the premium contributions as an expense. This would reduce the cost
Prudential Authority	PA agreed to doing away of the annual licence fees once the PA is in a position to charge levies on the industry. From a timing perspective, it will be good that these changes are also effected with the Levies Bill for ease of administration of the levies. If these provisions are not repealed, what it means is that financial institutions will need to have their annual licence fee set off with the levies or refunded etc.	Support	Amendments to section 5 of the Banks Act	Insertion of new clause 14

b) Summarise and evaluate the main disagreements about the proposal arising out of discussions with stakeholders and experts inside and outside of government. Do not give details on each input, but rather group them into key points, indicating the main areas of contestation and the strength of support or opposition for each position

The main issues raised by key stakeholders was on the original costing model of the deposit insurance scheme more than the policy and schematic design. Stakeholders were content with the scheme residing with the Reserve Bank. The Department of Justice was specifically concerned with proposed amendment to the creditor hierarchy and National Treasury agreed to not consequentially amend the Insolvency Act for this purpose. The design features of the administration and management of the fund was designed largely by the Corporation in conjunction with the National Treasury however the Corporation wanted to retain the power to exempt entities on application from payment of the deposit insurance premiums.

2.4. Describe the groups that will benefit from the proposal, and the groups that will face a cost. These groups could be described by their role in the economy or in society. Note: NO law or regulation will benefit everyone equally so do not claim that it will. Rather indicate which groups will be expected to bear some cost as well as which will benefit. Please be as precise as possible in identifying who will win and who will lose from your proposal. Think of the vulnerable groups (disabled, youth women, SMME), but not limited to other groups.

List of beneficiaries (groups that will benefit)	**How will they benefit?**
Depositors	Depositors will be the biggest beneficiaries from the creation of the deposit insurance fund e.g. households which receive any funds such as grants into their bank accounts will have the confidence of their funds being safe regardless of the performance of that particular bank. Another category of depositors that will benefit from the Fund is workers who have their salaries and wages deposited into their bank accounts. Given that the pay-out will be limited to R100 000 per depositor, there is reasonable protection for those that have savings such as stokvels

Government	In the past government has always stepped in to bail-out failing banks in order to ensure that depositors are protected and have access to their funds or to ensure that there is minimal disruption to the economy. This was evident during the failures of African Bank and VBS Mutual Bank. In both instances, government provided sizeable guarantees for the recapitalisation of African Bank and the protection of depositors of VBS Mutual Bank. Given the dire economic situation in South Africa and the fiscal pressure that government is under, government will no longer be able to provide bail-outs to failing banks using funds from the fiscus.
Smaller Banks	Smaller banks tend to struggle for market share in terms of securing depositors. The problem is also exacerbated by the fact that any rumours of the failure of a small bank and there is an inevitable run on that bank which accelerates its demise. However, the creation of a deposit insurance fund is a game changer as it ensures that there is confidence in smaller banks as depositors are protected regardless of the performance of that bank.
Reserve Bank	The promulgation of the FSR Act conferred the Reserve Bank with the financial stability mandate and responsibility for monitoring threats to the financial system from a systemic risk perspective. In order for the Reserve Bank to adequately fulfil its legislative mandate efficiently, it requires a full array of regulatory powers in its tool kit. The consequential amendments to the FSR Act via the FSL Bill will ensure that the creation of the deposit insurance fund and establishment of the Corporation to manage the fund provides a financial safety net that can be used for financial stability and/or recapitalising a failing bank.

	The Financial Sector Levies (Administration) Bill provides part of the funding required for capitalising the deposit insurance fund which can be used by the Reserve Bank for the above mentioned purposes.

List of cost bearers (groups that will bear the cost)	**How will they incur / bear the cost**
Banking industry	The Banking industry will be the main cost bearers of the creation of the deposit insurance scheme. The funding scheme for capitalising the deposit insurance scheme comprises three separate structures however only one is pertinent for purposes of the Financial Sector Levies (Administration) Bill. Banks will be levied in order to provide funding to cover the operational costs of the Corporation for deposit Insurance which will be responsible to administer and manage the Fund for the benefit of financial customers/depositors. The Corporation will also be responsible for raising customer awareness and running marketing campaigns so that depositors will be aware of the new benefit they will have vis a vie the safety of their deposits. The levy will be 0.015% of covered deposits per bank p.a. but paid monthly by the bank to the Corporation as collected by the Reserve Bank. The second mechanism for funding the deposit insurance fund is the proposal for all registered banks to pay deposit insurance premiums via collection by the Reserve Bank, paid to the Corporation and deposited into the Fund. The rate of payment of the deposit insurance premiums will be 0.2% of covered deposits p.a. also paid monthly. This proposal is contained in the Financial Sector Levies (Administration) Bill which is the subject of this SEAIS.

	The final funding mechanism is not contained in statute as it will be via contractual agreements on a bilateral basis between the Corporation and each individual licensed bank. These deposits will be used as liquidity for the fund when there is a pay-out. The funds will also be subject to recovery should a bank enter into liquidation. The funds will be adjusted monthly in line with the covered deposit balance of each bank but to offset the costs to banks they will be subject to interest that will be payable to each bank.
Reserve Bank	*In terms of clause 166AY of the FSL Bill, the Reserve Bank must provide the Corporation with the personnel, accommodation, facilities, use of assets, resources and other services as may be required to ensure that the Corporation is able to function efficiently.* *This process has already begun with Reserve Bank personnel seconded to the Corporation and others transferring permanently. An Acting CEO has been appointed during the transition phase of the Corporation pending finalisation of the FSL Bill.* *The Reserve Bank and Corporation will also have to ensure that there are systems in place to ensure that there is monitoring, data collection and reporting requirements are properly implemented. The Reserve Bank will continue to support the Corporation in the short term until it is able to cover its costs completely from the levy from industry*

2.5. Describe the costs and benefits of implementing the proposal to each of the groups identified above, using the following chart. Please do not leave out any of the groups mentioned, but you may add more groups if desirable. Quantify the costs and benefits as far as possible and appropriate. Add more lines to the chart if required.

Note: "Implementation costs" refer to the burden of setting up new systems or other actions to comply with new legal requirements, for instance new registration or reporting requirements or by initiating changed behaviour. "Compliance costs" refers to on-going costs that may arise thereafter, for instance providing annual reports or other administrative actions. The costs and benefits from achieving the desired outcomes relate to whether the particular group is expected to gain or lose from the solution of the problem.

For instance, when the UIF was extended to domestic workers:

- *The implementation costs were that employers and the UIF had to set up new systems to register domestic workers.*
- *The compliance costs were that employers had to pay regularly through the defined systems, and the UIF had to register the payments.*
- *To understand the inherent costs requires understanding the problem being resolved. In the case of UIF for domestic workers, the main problem is that retrenchment by employers imposes costs on domestic workers and their families and on the state. The costs and benefits from the desired outcome are therefore: (a) domestic workers benefit from payments if they are retrenched, but pay part of the cost through levies; (b) employers pay for levies but benefit from greater social cohesion and reduced resistance to retrenchment since workers have a cushion; and (c) the state benefits because it does not have to pay itself for a safety net for retrenched workers and their families.*

Group	Implementation costs	Compliance costs	Costs/benefits from achieving desired outcome	Comments
Banking Industry	The outcome of the research and consultation with banks was a change in the funding model. The Reserve Bank's internal analyses focused on estimating the required funding needs for the Corporation under various scenarios and the amounts that could be recovered from a liquidation process if a failed bank is liquidated. The new funding approach comprises a tiered funding structure that can achieve the objectives of the Fund at a much lower cost. In terms of the revised funding structure, there are three layers of funding. The new funding model reduces funding	National Treasury and the Reserve Bank note that banks will incur costs in relation to funding of the Fund. Costs are likely to be incurred by banks in submitting data and undertaking testing for viability assessments. Some institutions might incur costs involved in modifying their structural and operational arrangements. An accurately aggregated compliance cost figure for banks is indeterminate at this stage as the	The benefit to industry is that in terms of the revised funding model significant savings will be made. The banks will be allowed time to ensure that they comply with the reporting and data submission requirements. To do this they will have to set up systems. The benefit of this is that when a pay-out is made by the Corporation, it will be within a reasonable time which will	Banking Industry

	costs for the fund significantly. Under the previous model that was based on the 2013 survey data, banks would have had to pay more than R1.5 billion p.a. in terms of the initial proposals. In terms of the new funding model, the total premium and levies amount to R587 million per year, this is a R990 million reduction p.a. In addition, the funding for the Fund keeps pace automatically with the nominal growth in banks' covered deposits	framework has not been implemented and the deposit insurance premiums and levies will only be payable from proposed date of 1 April 2022. Furthermore, the Act will come into operation on a date determined by the Minister and not upon promulgation and I is likely that a phased in approach of certain sections will be undertaken to ensure that banks are able to fully comply in a streamlined and smooth manner.	allow an open bank resolution where critical functions can continue to operate, in other words, setting up the necessary systems increases the chances of a failing bank being resuscitated by the Reserve Bank where funds from the Fund are also used. It should also be noted that the Corporation will make interest payments to banks for contractual payments that each bank will make to the Corporation for purposes of the liquidity injection into the Fund and National Treasury is engaging with banks for these amounts to be tax deductible as expenses for the banks. A	
Reserve Bank	The SARB will incur costs in connection with providing the initial set up cost to the deposit insurance fund, including staff and administrative resources, office space and IT systems, to the Corporation enabling it to perform all of the deposit insurance functions. This initial cost is estimated at R15 000 000.00 as at an estimation from the 2019 revised Bill. Adjusted for inflation, this figure is currently R16.7 million estimated.	N/A	The Corporation will benefit from the provision of funds, resources, personnel and systems from the Reserve Bank and this will include the banking industry as this cost will not come out of the payments made from the deposit insurance levy It should also be noted that the Corporation will make	N/A

			interest payments to banks for contractual payments that each bank will make to the Corporation for purposes of the liquidity injection into the Fund and National Treasury is engaging with banks for these amounts to be tax deductible as expenses for the banks. A final decision has not been made on this as yet.	

2.6 Cost to government: Describe changes that the proposal will require and identify where the affected agencies will need additional resources

a) Budgets, has it been included in the relevant Medium Term Expenditure Framework (MTEF) and

b) Staffing and organisation in the government agencies that have to implement it (including the courts and police, where relevant). Has it been included in the relevant Human Resource Plan (HRP)

There is no direct or indirect cost to government from the implementation of the Bill. The Reserve Bank will bear the majority of the costs from a public perspective as outlined above. The Reserve Bank is not part of government (although it is part of the state) and it does not nor has it ever received any appropriated budgetary allocations from the National Treasury for its operational requirements and funding etc.

Note: You MUST provide some estimate of the immediate fiscal and personnel implications of the proposal, although you can note where it might be offset by reduced costs in other areas or absorbed by existing budgets. It is assumed that existing staff are fully employed and cannot simply absorb extra work without relinquishing other tasks.

2.7 Describe how the proposal minimises implementation and compliance costs for the affected groups both inside and outside of government.

For groups outside of government (add more lines if required)

Group	**Nature of cost (from question 2.6)**	**What has been done to minimise the cost?**
Banking Industry	Deposit insurance premium payments	The new funding model reduces funding costs for the fund significantly. Under the previous model that was based on the 2013 survey data, banks would have had to pay more than R1.5 billion p.a. in terms of the initial proposals. In terms of the new funding model, the total premium and levies amount to R587 million per year, this is a R990 million reduction p.a. In addition, the funding for the Fund keeps pace automatically with the nominal growth in banks' covered deposits

		The Corporation will make interest payments to banks for contractual payments that each bank will make to the Corporation for purposes of the liquidity injection into the Fund and National Treasury is engaging with banks for these amounts to be tax deductible as expenses for the banks. A final decision has not been made on this as yet.
Corporation	Operational Costs	The Reserve Bank will incur costs in connection with providing the initial set up cost to the deposit insurance fund, including staff and administrative resources, office space and IT systems, to the Corporation enabling it to perform all of the deposit insurance functions. This initial cost is estimated at R15 000 000.00 as at an estimation from the 2019 revised Bill. Adjusted for inflation, this figure is currently R16.7 million estimated.

For government agencies and institutions:

Agency/institution	Nature of cost (from question 2.6)	What has been done to minimise the cost?
N/A	N/A	N/A

2.8 Managing Risk and Potential Dispute

a) Describe the main risks to the achievement of the desired outcomes of the proposal and/or to national aims that could arise from implementation of the proposal. Add more lines if required.

Note: It is inevitable that change will always come with risks. Risks may arise from (a) unanticipated costs; (b) opposition from stakeholders; and/or (c) ineffective implementation co-ordination between state agencies. Please consider each area of risk to identify potential challenges.

b) Describe measures taken to manage the identified risks. Add more rows if necessary.

Mitigation measures means interventions designed to reduce the likelihood that the risk actually takes place.

Identified risk	**Mitigation measures**
Current state of the economy	Bank profit margins have been negatively impacted by the effects of lockdown as a result of the Covid19 pandemic. National Treasury has taken measures to provide a harmonised and streamlined approach to introducing multiple frameworks that add regulatory and compliance cost burdens. This has been achieved by combining the levies and deposit insurance premiums in one Bill.
Affordability of deposit insurance premiums	Clause 13 of the Bill provides for the exemption from payment of the deposit insurance premiums for a period or part of a period against a set of very specific criteria including: - to alleviate undue financial or other hardship or prejudice to the member, or financial customers due to circumstances outside the control of that member;

	- if it is not contrary to the public interest; - or the exemption is necessary for developmental, financial inclusion and transformation objectives to facilitate progressive or incremental compliance with the Financial Sector Regulation Act or a financial sector law.

c) What kinds of dispute might arise in the course of implementing the proposal, whether (a) between government departments and government agencies/parastatals, (b) between government agencies/parastatals and non-state actors, or (c) between non-state actors? Please provide as complete a list as possible. What dispute-resolution mechanisms are expected to resolve the disputes? Please include all of the possible areas of dispute identified above. Add more lines if required.

Note: Disputes arising from regulations and legislation represent a risk to both government and non-state actors in terms of delays, capacity requirements and expenses. It is therefore important to anticipate the nature of disputes and, where possible, identify fast and low-cost mechanisms to address them.

Nature of possible dispute (from sub-section above)	Stakeholders involved	Proposed Dispute-resolution mechanism
Disputes on the deposit insurance premium amount to be charged by the Corporation	Banks	Clause 6 of the Bill amends section 239 of the FSR Act. Clause 6 subjects the imposition of the deposit insurance premium to the consultative process outlined therein. To ensure that the manner of calculation of the deposit insurance premium is transparent, the Corporation will be required to publish the proposed deposit insurance levy. Clause 7 amends section 240 of the FSR Act and requires the Corporation to hold public consultations on proposals to the deposit insurance premium amount. The

Nature of possible dispute (from sub-section above)	Stakeholders involved	Proposed Dispute-resolution mechanism
		public will be afforded the opportunity to make comments and submissions to the Corporation for consideration. The Corporation will be required to submit the proposed deposit insurance premium to the Minister for approval. The Minister will be required to publish the new proposals and solicit public comments and consider all submissions including any disputes on the proposed amounts.
Disputes on manner of payment of the deposit insurance premium	Banks	Clause 10 amends section 243 of the FSR Bill to allow a bank that is required to pay deposit insurance premiums to apply to make payments in terms of specified instalments. The Corporation is required to consider the application.
Dispute taken by a financial sector regulator as directed by the Corporation	Banks	Section 219 of the FSR Act provides for the establishment of the Financial Services Tribunal (the Tribunal) which, in terms of section 218(a) read with 219(a), is responsible for considering appeals to decisions made by financial sector regulators.

2.9 Monitoring and Evaluation

The Financial Sector Levies (Administration) Bill provides for the administrative implementation of the taxes proposed in the Financial Sector Levies Bill. The date of implementation i.e. when the collection of the deposit insurance premiums will be due is 1 April 2022.

Once the Bill is promulgated the Corporation and the Banking sector will commence with a consumer education campaign drive to raise awareness on the introduction of the deposit insurance fund and the benefits thereof.

Once this stage is past and the Bill is operational, the Corporation will be responsible for publishing an annual budget and estimates of expenditure for the financial year in accordance with section 239 of the FSR Bill. The financial accounts and financial statements of the Corporation must also include the financial accounts and financial statements of the Fund. This will provide key information and provide data trends on the progress of the Corporation, the size, growth trajectory and viability of the Fund.

The systems development for data collection and reporting of for the Corporation and that of the banks as its members will ensure that the Corporation is able to monitor market trends and conduct research analysis for amending the proposed funding model in consultation with the Minister of Finance as required by clauses 6,7 (as amending section 239 and 240 of the FSR Act) of the Bill.

Note: Sound implementation of policy and legislation is due to seamless monitoring and evaluation integration during the policy development phase. Policies and legislation that are proficiently written yet unable to report on implementation outcomes are often a result of the absence of an M&E framework at the policy and legislative planning phase. It is therefore imperative to state what guides your policy or legislation implementation monitoring.

2.9.1 Develop a detailed Monitoring and Evaluation Plan, in collaboration with your departmental M&E unit which should include among others the following:

2.9.1.1 Provide clear and measurable policy or legislative objectives

2.9.1.2 Provide a Theory of Change clearly describing the following components:

- Impact: the organisational, community, social and systemic changes that result from the policy or legislation;
- Outcomes: the specific changes in participants (i.e. beneficiaries) behaviour, knowledge, skills, status and capacity;
- Outputs: the amount, type of degree of service(s) the policy or legislation provides to its beneficiaries;
- Activities: the identified actions to be implemented
- Input: departmental resources used in order to achieve policy or legislative goals i.e. personnel, time, funds, etc.
- External conditions: the current environment in which there’s an aspiration to achieve impact. This includes the factors beyond control of the policy or legislation (economic, political, social, cultural, etc.) that will influence results and outcomes.
- Assumptions: the facts, state of affairs and situations that are assumed and will be necessary considerations in achieving success

2.9.1.3 Provide a comprehensive Logical Framework (LogFrame) aligned to the policy or legislative objectives and the Theory of Change. The LogFrame should contain the following components:

- Results (Impact, Outcomes and Output)
- Activities and Input
- Indicators (A measure designed to assess the performance of an intervention. It is a quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor)
- Baseline (the situation before the policy or legislation is implemented)
- Targets (a specified objective that indicates the number, timing and location of that which is to be realised)

2.9.1.4 Provide an overview of the planned Evaluation, briefly describing the following:

- Timeframe: when it the evaluation be conducted
- Type: What type of evaluation is planned (formative, implementation or summative) – the selection of evaluation type is informed by the policy owners objective (what it is you want to know about your policy or legislation.

2.9.1.5 Provide a straightforward Communication Plan (Note: a common assumption is that the target group will be aware of, and understand how to comply with a policy or legislation come implementation. However, increases in the complexity and volume of new or amendment policy or legislation render this assumption false. Hence, the need for a communication plan to guide information and awareness campaigns to ensure that all stakeholders (including beneficiaries) are informed.

2.10 Please identify areas where additional research would improve understanding of then costs, benefit and/or of the legislation.

Further work is required on developing criteria for the determination of an equivalence framework for purposes of exemptions of foreign bank branches from the deposit insurance fund. More research is also required and will be undertaken by the Corporation and the tax unit in National Treasury on the tax treatment of the fund for the banks and the Corporation.

The scope of application of the deposit insurance fund will be extended under Phase II of the project which will include Co-operative Financial Institutions (CFIs). This will require extensive research which is the next step in the process.

The final phase of extending the scope of application of the deposit insurance fund will be Phase III which will entail extending the protection of the Fund to clients of insurance companies to ensure that if an insurer enters financial distress, its clients will still enjoy cover and not lose their insurance and the premiums they had been paying.

PART THREE: SUMMARY AND CONCLUSIONS

1. Briefly summarise the proposal in terms of (a) the problem being addressed and its main causes and (b) the measures proposed to resolve the problem.

The proposal seeks to introduce the implementation of a funding mechanism for the deposit insurance fund to ensure that financial customers vis a vie depositors are protected when a bank enters into financial distress.

The proposal also seeks to introduce the implementation of a funding mechanism for the deposit insurance fund to ensure that the Reserve Bank can utilise the Fund as a financial safety net tool regulatory tool during a resolution for a bank in financial distress.

2. Identify the social groups that would benefit and those that would bear a cost, and describe how they would be affected. Add rows if required.

Groups	How they would be affected
Beneficiaries	
1. Depositors	Depositors would have protection for their funds in the event of a bank failure
2. Government	Government no longer has to bail-out failing banks and provide compensation for their depositors using tax-payer funds
3. Reserve Bank	The Reserve Bank will have the Fund as a necessary tool that can be used during a resolution for a bank
Cost bearers	
1. Banks	Banks will have to fund the deposit insurance scheme

2. Reserve Bank	The Reserve Bank will provide start-up funding to the Corporation and continued support

3. What are the main risks from the proposal in terms of (a) undesired costs, (b) opposition by specified social groups, and (b) inadequate coordination between state agencies?

The cost of implementation has been budgeted for by the Reserve Bank and the Corporation has done extensive research and together with National Treasury consulted extensively (over the last 4 years) on the funding proposal and the banking industry is aware of the scheme and is in support of it and its associated the costs, therefore it is not envisaged that there would be opposition to the proposals. The Corporation will be a subsidiary of the Reserve Bank and the two entities have worked closely and it is unlikely that there would be inadequate coordination between the two entities.

4. Summarise the cost to government in terms of (a) budgetary outlays and (b) institutional capacity.

   There is no direct or indirect cost to government from the implementation of the Bill. The Reserve Bank will bear the majority of the costs from a public perspective as outlined above. The Reserve Bank is not part of government (although it is part of the state) and it does not nor has it ever received any appropriated budgetary allocations from the National Treasury for its operational requirements and funding etc.

5. Given the assessment of the costs, benefits and risks in the proposal, why should it be adopted? N/A

6. Please provide two other options for resolving the problems identified if this proposal were not adopted. N/A

Option 1.	
Option 2.	

7. What measures are proposed to reduce the costs, maximise the benefits, and mitigate the risks associated with the legislation?

The new funding model reduces funding costs for the fund significantly. Under the previous model that was based on the 2013 survey data, banks would have had to pay more than R1.5 billion p.a. in terms of the initial proposals. In terms of the new funding model, the total premium and levies amount to R587 million per year, this is a R990 million reduction p.a. In addition, the funding for the Fund keeps pace automatically with the nominal growth in banks' covered deposits

The Corporation will make interest payments to banks for contractual payments that each bank will make to the Corporation for purposes of the liquidity injection into the Fund and National Treasury is engaging with banks for these amounts to be tax deductible as expenses for the banks. A final decision has not been made on this as yet.

The Reserve Bank will incur costs in connection with providing the initial set up cost to the deposit insurance fund, including staff and administrative resources, office space and IT systems, to the Corporation enabling it to perform all of the deposit insurance functions. This initial cost is estimated at R15 000 000.00 as at an estimation from the 2019 revised Bill. Adjusted for inflation, this figure is currently R16.7 million estimated.

8. Is the proposal (mark one; answer all questions)

	Yes	No
a. Constitutional?	Yes	
b. Necessary to achieve the priorities of the state?	Yes	
c. As cost-effective as possible?	Yes	
d. Agreed and supported by the affected departments?	Yes	

9. What is the impact of the Proposal to the following National Priorities?

National Priority	Impact
1. Economic transformation and job creation	The proposal will ensure that the funds of financial customers such as deposits, in whichever form they take e.g. salaries, wages, savings deposited with a bank will be protected should that bank fail. Should a bank fail, depositors will continue to have access to their deposits even if that bank enters into liquidation.
2. Education, skills and health	N/A
3. Consolidating the social wage through reliable and quality basic services	N/A

National Priority	Impact
4. Spatial integration, human settlements and local government	N/A
5. Social cohesion and safe communities	N/A
6. Building a capable, ethical and developmental state	N/A
7. A better Africa and world.	South Africa is a signatory to the G20 which is an international forum which introduced global financial sector reforms in the aftermath of the 2007/2008 global financial crisis. Part of the reforms that were introduced in 2009 as a response to the crisis was a harmonised approach to regulating systemically important financial institutions such as banks. Furthermore, the proposals sought to eradicate the culture of bail-outs for financial institutions when they fail.

National Priority	Impact
	Cabinet has adopted the position of no longer bailing out financial institutions using tax payer funds[6] or to compensate their depositors and instead an industry funded deposit insurance scheme will be used for this purpose going forward. South Africa is one of the few members of the G20 that does not have a dedicated deposit insurance scheme and once the scheme is established, it will also be a member of the International Association of Deposit Insurers (IADI).

For the purpose of building a SEIAS body of knowledge please complete the following:

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[6] Through the approval of the policy paper '*Strengthening South Africa's Resolution Framework for Financial Institutions'* in 2015 and the Financial Sector Laws Amendment Bill, 2021.