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ADMINISTRATION OF DEPOSIT PROTECTION IN GHANA'S BANKING SECTOR: DOES THE GHANA DEPOSIT PROTECTION SCHEME (GDPS) ADEQUATELY PROTECT DEPOSITORS?

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Abstract

This paper examines the administration of deposit protection in Ghana's banking sector, specifically assessing whether the Ghana Deposit Protection Scheme (GDPS) adequately safeguards depositors' interests. Following the 2017-2019 banking crisis that exposed critical gaps in Ghana's financial safety net, the Ghana Deposit Protection Act 2016 (Act 931) was implemented in September 2019 to establish the GDPS. Using a comparative analysis with the United Kingdom's Financial Services Compensation Scheme (FSCS) and the United States' Federal Deposit Insurance Corporation (FDIC), alongside the International Association of Deposit Insurers' Core Principles, this research evaluates the GDPS architecture across key dimensions: organizational structure, mandate and powers, coverage scope and levels, funding mechanisms, reimbursement procedures, and public awareness. The study employs desktop-based legal doctrinal research methodology, analyzing primary legislation, reports, and scholarly literature. Findings reveal that while the GDPS represents a significant advancement in depositor protection, several structural deficiencies limit its effectiveness. The coverage limits of GH¢6,250 for banks and GH¢1,250 for specialized deposit-taking institutions are substantially below the IMF recommendation of

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twice per capita income, potentially insufficient to restore depositor confidence during crises. The paybox mandate restricts the GDPC's role to fund management and reimbursement, limiting crisis prevention capabilities. Additionally, the three-year delay in implementing risk-based premium assessments may perpetuate moral hazard. The study recommends increasing coverage limits, clarifying the definition of "small depositor," accelerating risk-based assessment implementation, expanding the GDPC's mandate toward a risk-minimizer model, and strengthening public awareness campaigns. These reforms are essential to ensure the GDPS can effectively protect depositors and maintain financial stability in Ghana's evolving banking sector.

INTRODUCTION

Ghana's banking sector has experienced rapid growth and was until recently acclaimed the second largest in the West African Monetary Zone (Frankfurt School FS-UNEP Collaborating Centre, 2015). While savings and loans, microfinance and other financial intermediaries have advanced significantly, commercial banks continue to dominate the sector, accounting for approximately 75% of the assets (International Monetary Fund [IMF], 2011). Although this growth has presented many opportunities, it has also been accompanied by numerous risks including non-performing loans and undercapitalization of banks, scarcity of long-term finance, resulting in increased fragility in the sector (IMF, 2011). This, combined with the effects of the 2008 Global Financial Crisis (GFC), caused Ghana to capitalize on the reinforcement of regulation and supervision of financial establishments to safeguard the financial sector (Abdallah, 2015; IMF, 2011).

Despite heavy regulation, the legislative and regulatory framework was fraught with several lacunae (IMF, 2011). The IMF Financial System Stability Assessment of Ghana highlighted that one of the key components for financial safety net preparedness that Ghana needed was a deposit protection scheme (DPS) (IMF, 2011). As plans were underway to implement the IMF's recommendation, Ghana experienced a banking crisis in 2017 (the "Banking Crisis"), which further exposed the cracks in the regulation of the banking sector. To salvage the situation, the Government of Ghana (GoG) enacted the Ghana Deposit Protection Act 2016 (Act 931) (GDPA).

The GDPA set up the Ghana Deposit Protection Scheme (GDPS) in 2016 to safeguard depositors' interests and promote a more stable financial system

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(GDPA, 2016, s. 3). However, it was not implemented until September 2019, about two years after the Banking Crisis, on the basis that it was undergoing amendments to ensure adequate protection of depositors (Addison, 2019).

Research Objectives and Methodology

The objective of this study is to examine the administration of deposit protection in Ghana. The study specifically assesses the GDPS' architecture to determine if it adequately fulfils its intended objective of safeguarding depositors' interests following the Banking Crisis. This is achieved by juxtaposing the GDPS with sound practice principles endorsed by the International Association of Deposit Insurers (IADI) under its Core Principles for Effective Deposit Insurance Systems in the context of two jurisdictions' DPSs—the United States' Federal Deposit Insurance Corporation (FDIC) and United Kingdom's Financial Services Compensation Scheme (FSCS).

This study adopts desktop-based research, employing primary and secondary data sources from various reports and online research sites. It adopts a legal doctrinal approach, relying on statutes, reports, legal history, and analyses of legal propositions and concepts. The study draws on thoughts expressed from various articles, reports, and statutes, employing evaluative tools of personal and comparative analysis to contribute to literature on deposit protection in Ghana's banking sector.

LITERATURE REVIEW

THE CONCEPT OF DEPOSIT PROTECTION

The concept of "deposit protection" forms part of a larger framework geared towards promoting financial stability—the financial safety net (Bernet & Walter, 2009). As with banking sector regulation generally, debate remains about whether DPSs are necessary in the modern financial safety net. This section explores the concept, commencing with discussion of the financial safety net and deposit protection as an element thereof, adding to the debate on the need for DPSs, then discussing key architectural features.

The Financial Safety Net and Deposit Protection

Banks and specialized deposit-taking institutions (SDIs) play a central role in most countries' economies (Cranston et al., 2017). Among other things, they mobilize savings, transform maturities, manage liquidity risks (Cranston et al., 2017), lend

to the corporate sector, individuals and government (Jackson & Symons, 1999), act as intermediaries in various transactions, and offer myriad services (Payne, 2014). In most countries, governments channel monetary policies and interact with the financial sector through banks and SDIs (Spong, 2000). In developing countries particularly, they support development of small and medium scale enterprises and agriculture (Olumide, 2008). The nature of banks' and SDIs' operations makes them susceptible to runs which could develop into systemic risk or full-blown crisis (Olumide, 2008). Given their central feature in economic life, such crises could have devastating consequences. Accordingly, governments put in place financial safety nets to safeguard their economies.

The term 'financial safety net' refers to varied mechanisms or institutions employed to maintain safety and unassailability of the financial system (Monkiewicz, 2014). It describes the group of measures put in place by governments for banks and SDIs to ensure financial stability and combat financial crisis (Schih, 2008). Basic elements include lender of last resort, prudential regulation and supervision, bank resolution law and resolution processes, and deposit protection (Bernet & Walter, 2009). All these elements, though different, perform complementary functions and together aim to control systemic risk, increase financial efficiency, and protect depositors or consumers to boost their confidence in the financial system's viability (Amer, 2007).

Deposit protection is the process of preserving depositors' funds so that, should a bank failure occur, these funds are protected either partly or wholly (European Central Bank [ECB], 2018). It has also been explained as protection guaranteeing that "all or a limited amount of the principal and interest accrued on insured accounts will be paid" if bank or SDI failure occurs (Garcia, 1996). Simply put, deposit protection acts as insurance for depositors against bank or SDI failure. It is deemed a key component in the financial safety net, intended to support financial stability through specific functions they perform (Financial Stability Board [FSB], 2012). A myriad of means can ensure deposit protection, including a general statement of intent to protect depositors, a formal government guarantee of depositors, or a deposit insurance system or scheme (Reserve Bank of Australia [RBA], 1997). The latter is most common.

The Need for a DPS

The origin of DPSs, also known as Deposit Insurance Schemes or Deposit Guarantee Schemes, is unknown (Olumide, 2008). Due to the spate of financial

crises worldwide, it has been adopted in many countries. Its usefulness has been questioned severally, yet it can be deemed necessary for several reasons, one being ensuring financial stability and protecting depositors (Cranston et al., 2017). A DPS assures depositors that their funds are secure and helps prevent the possibility of bank or SDI runs or chances of contagion, promoting financial stability (Campbell & Cartwright, 2002). Contagion arises because depositors' behavior (the "rational propensity" to run when a bank faces liquidity difficulties) results in panic withdrawals (Clarke, 2015). This causes financial difficulties to spill over to other banks, creating systemic crisis (Clarke, 2015). When a bank has liquidity or solvency issues, depositors tend to withdraw deposits simultaneously, hence a bank run (Bernet & Walter, 2009). Because of banks' and SDIs' interconnectedness, even depositors who ordinarily may not have given thought to the bank's financial soundness may begin withdrawing funds not only from the distressed bank but others that may be unaffected, hence contagion (Payne, 2014). A DPS's existence assures depositors of fund protection and thereby greatly diminishes chances of runs when a bank has solvency or liquidity issues. With depositors assured of protection, there would be natural confidence boost in the financial system and contagion risk is minimized (Campbell & Cartwright, 2002).

When a bank or SDI fails, a DPS indemnifies depositors (Kane, 1995). A DPS's existence helps minimize disruptive and costly effects of failure including limited access to funds for borrowers, loss of depositors' funds, and contagion risk; all of which if not managed can result in banking sector crisis and further extend globally (Olumide, 2008). Where a DPS prevents a bank run, it greatly reduces cost as it will avert claims on the bank's funds by depositors (Payne, 2014). A DPS is also less likely to meddle in a bank's transformation function as it reaffirms depositors' confidence and increases deposits (Morrison & White, 2011).

A DPS also enhances competition amongst banks and SDIs. Absent a DPS, depositors are more likely to prefer making deposits with larger banks as against smaller ones, because larger ones are considered less risky and safer (Garcia, 1996). A DPS's existence puts smaller banks at par with bigger ones in terms of safeguarding depositors' funds, giving smaller institutions opportunity to grow and creating healthy competition.

Additionally, a DPS's existence takes pressure off government to bail out banks and SDIs if they fail (Garcia, 1996). Where there is no DPS, to safeguard the economy and depositors' interests, governments would directly or indirectly bear reimbursement cost. A DPS's existence, particularly an explicit one, minimizes

government obligation as it reduces cost government would bear during a run or crisis (Garcia, 1996).

Nonetheless, as with everything, a DPS's existence has pitfalls. It has been argued that having a DPS can destabilize the financial system because it promotes moral hazard (Demirgüç-Kunt & Detragiache, 2002). Depositors may fail to conduct due diligence on banks and SDIs they use or simply be enticed by high interest rates offered by these institutions with no thought about such unusually higher rates coming at extremely high risk, relying instead on promised deposit insurance (Bernet & Walter, 2009). These institutions, aware that regardless of default depositors will be reimbursed, would undertake risky transactions (Payne, 2014), thereby making the banking system more vulnerable.

There are also subvention issues that can occur if the scheme protects short-term lenders or banks and SDIs. Banks and SDIs will receive loans from lenders at lower interest rates which may result in these cheap funds being invested in high-risk ventures (Payne, 2014). Additionally, running a DPS comes at high cost and is an expensive venture for most stakeholders.

Notwithstanding these shortfalls, it is clearly more advantageous to set up a DPS because its pros far outweigh cons. Moreover, DPS shortfalls can be counteracted by good DPS architecture and interaction with other financial safety net participants (Clarke, 2015).

DPS Architecture

The design or architecture of a DPS plays a vital role in its effectiveness. The IADI together with the Basel Committee on Banking Supervision issued Core Principles in 2009 (IADI, 2014). These were revised in 2014 and are recognized as sound practice principles serving as a guide for most countries' DPS design and assessment (IADI, 2014). There are currently 14 Core Principles (IADI, 2014); while it would be ideal to discuss all, this study focuses on only a few peculiar to Ghana's financial setup and thus sine qua non in its DPS setup.

Governance/Administration

DPS governance deals with whether the DPS is to be administered within an existing institution or regulatory body or by a separate autonomous body (Shull, 1993). Usually, legislation setting up the DPS clearly spells out its administration mode. While incorporating the DPS into a pre-existing body reduces administrative costs and ensures deposit insurer policies align with the bigger

body, it has the disadvantage of creating conflict of interest, as separating duties and interests of the pre-existing body from the deposit insurer may prove complicated (Financial Stability Forum [FSF], 2001). Generally, an autonomous deposit insurer is preferred to ensure independence, minimize political influence, and promote effective DPS management (MacDonald, 1996). Even in this case, for the DPS to be truly effective, policies must be in place to ensure smooth marriage with other financial safety net participants.

Membership

Membership of a DPS may be compulsory or voluntary (Payne, 2014). Compulsory DPSs require all eligible financial institutions to become members as a legal requirement (Garcia, 1999), while voluntary DPSs make membership optional for banks and SDIs. Voluntary DPS tend to be privately run or funded by insured financial institutions (Garcia, 1999). It has been argued that a voluntary DPS could be unstable where big member banks choose to exit when failure cost is high (Garcia, 1999). Constant shifts by banks and SDIs depending on economy state and depositors' confidence would not only make the DPS weak but would lead to situations where depositors may not receive adequate protection during bank or SDI failure, reducing depositors' confidence in the scheme (Wheelock & Kumbhakar, 1995; Garcia, 1999). A voluntary DPS also tends to cause liquidity crisis. With depositors swaying between protected member banks and SDIs and unprotected non-member ones, taking advantage of offered protection and high-interest rates respectively, there would likely be liquidity issues and pressure on the central bank.

Compulsory DPSs may be more difficult to enforce due to required structures to ensure all banks and SDIs are compelled to join the scheme and state banks are not more favored than others (Blair et al., 2006). Yet they have numerous advantages. First, they circumvent back and forth movement of depositors attached to voluntary DPS. Especially where payment into the fund by banks and SDIs is determined by risk level taken by the institution, it minimizes risk taken by banks and SDIs and moral hazard, providing better depositor protection. Additionally, compulsory DPS ensures higher numbers of member banks and SDIs, thus more funding and even spread of risk (Olumide, 2008).

Given compulsory DPS benefits, it is more popular among states than voluntary ones (Garcia, 1999). Some states like Germany employ a hybrid system whereby different types of financial institutions belong to corresponding statutory DPS but

voluntary schemes still exist to serve as additional insurance or protection for institutions and their depositors (Adema et al., 2019).

Mandate/Powers

Mandate in this context describes authority designated to the deposit insurer or instructions guiding its operation (Law & Martin, 2018). By virtue of this mandate, the deposit insurer possesses incidental powers enabling it to exercise authority and accomplish its mandate (Garner, 2019). The mandate and powers are usually laid out in legislation establishing the DPS. This mandate can be either broad or narrow.

In a narrow sense, the deposit insurer's role is limited to managing depositors' funds and reimbursing them during bank or SDI failure; hence a passive role (Olumide, 2008). This is usually referred to as the "paybox" model of deposit insurance (Olumide, 2008). It has been opined that a narrower or more restricted deposit insurer scope is more effective due to the DPS's focus on just one task—reimbursement of depositors' funds, hence faster payouts (Olumide, 2008). Additionally, it is cheaper to run than a broad-based DPS. However, it still requires adequate funding, sufficient deposit data, and access to appropriate authority to be truly effective.

In a broader sense, the deposit insurer plays a more active role beyond paybox function, being involved in supervision, intervention, and resolution processes during bank or SDI failure (Olumide, 2008). Involvement in supervision, intervention, and resolution processes has the advantage of enhancing banking system stability and protecting the deposit insurance fund (Beck & Laeven, 2006). Where the deposit insurer is involved in resolution processes, it is easier to control crisis/systemic risk as the combined deposit protection and bank resolution systems allow easy decision-making on appropriate resolution mechanism based on the situation (Cranston et al., 2017). Hence, the broad-based mandate is described as the "risk-minimiser" approach. Additionally, it can act as coordinator, particularly where cross-border institutions and multiple DPSs are involved, to promote speedier reimbursements (Payne, 2014).

Although generally, mandate and powers awarded the deposit insurer is largely influenced by each country's public policy considerations and banking sector framework, the writer takes the view that a broad-based mandate makes it easier to attain general DPS objectives and maintain healthy relationships between other financial safety net elements.

Coverage

Coverage level and scope are also key in DPS architecture. Both must align with DPS objectives and be capable of being supported by available funding (Hoelscher et al., 2006). Coverage level concerns monetary limits the scheme will protect. Where the scheme focuses on protecting small scale depositors, coverage level is usually low (Hoelscher et al., 2006). Conversely, where the scheme focuses on promoting financial stability, coverage levels are higher (Hoelscher et al., 2006). It is generally advised that the limit be high enough to boost depositors' confidence yet low enough to discourage moral hazard among banks, SDIs, and depositors (Payne, 2014). The writer believes that setting coverage limits to a reasonable percentage of deposit value and number held by a depositor is a workable suggestion. This would however require periodic review and collation of data on deposit nature and size to ascertain suitable percentages (Hoelscher et al., 2006). Coverage limits can also be determined per individual or per account (Clarke, 2015). Where it is per individual, irrespective of account number the individual has with a particular bank or SDI, reimbursement is oblivious to account numbers possessed. Conversely, where the limit is per account, reimbursement is per account number held. Thus, an individual can be reimbursed five times if they have five accounts within a bank or SDI.

Coverage scope refers to types of depositors covered, currency denomination of covered deposits, types of institutions covered, and whether coverage is limited to 'insiders' within protected institutions (Hoelscher et al., 2006). Coverage scope could be restricted to households and natural persons, where the focus is small-scale depositors, or be extended to include businesses and companies, where overall financial stability is the government's focus (Hoelscher et al., 2006). While limiting scope to natural persons and households is less burdensome for government and the fund and limits moral hazard, extending scope to businesses and companies has the disadvantage of minimizing market discipline (Hoelscher et al., 2006). The trend has been for most countries to limit scope to small-scale depositors and corporations while excluding big companies (Hoelscher et al., 2006). However, another trend has emerged which includes private companies and legal entities (Hoelscher et al., 2006).

Regarding inclusion of foreign currency deposits as part of coverage scope, this is largely country-dependent (Hoelscher et al., 2006). Where majority of transactions in the country are in local currency and foreign currency does not form a large part of retail deposits, DPS scope may be limited to local currency

(Hoelscher et al., 2006). However, where foreign currency accounts for a large portion of retail deposits, it would be necessary to extend scope to minimize risk small-scale depositors may be exposed to (Hoelscher et al., 2006).

Deposits by government and 'insiders' (officers of the bank or SDI closely involved in its running) are usually exempt from coverage scope (Hoelscher et al., 2006). The rationale for exemption is that government deposits usually exceed coverage limit and it minimizes occurrence of conflict among insiders and limits moral hazard as they would be less likely to partake in risky ventures putting themselves and the bank or SDI at risk (Hoelscher et al., 2006).

Funding

Funding can be considered from two angles: the model and the source. Sources could include general taxation, levies or premiums paid by member banks or SDIs, government bursaries, borrowing from the market, or a combination of these (FSF, 2001). The source chosen per country is usually peculiar to what each country considers capable of adequately supporting the fund. It has been argued that banks and SDIs should not bear responsibility of funding DPSs because when they do, it reduces available capital within institutions, which would encourage them to engage in risky ventures to raise more capital and in turn put depositors at risk (Morrison & White, 2004). Morrison and White further opine that, since in the long run, it is depositors who benefit from the DPS, they should be made to fund it through general taxation (Morrison & White, 2004). The writer, however, holds the opinion that if banks and SDIs are made to contribute to the DPS fund, especially when funding contribution is risk-based, banks and SDIs would be cautious about risks they take as same would affect their contributions.

Funding models for DPS include ex-ante, ex-post, or a hybrid of both (Payne, 2014). The ex-ante funding model involves creating a reserve in advance of bank or SDI failure (FSF, 2001). Here, banks and SDIs pay levies or premiums periodically (Adema et al., 2019). Contributions can either be made on a flat rate or risk-based basis. With the flat rate, all banks and SDIs contribute based on size or total covered deposits on their balance sheet, whereas with risk-based, contributions are made based on risk-based factors including capitalization, asset quality, and liquidity among others (Adema et al., 2019). Risk-based systems tend to be more equitable and control moral hazard, yet it can be cumbersome determining appropriate risk-based levies and aptness of data used to compute levies (Craine, 1995). It has been opined that having a reserve in advance could heighten moral

hazard as banks and SDIs know depositors would be protected irrespective of their activities. However, moral hazard can rather be minimized especially where contributions are risk-based. Additionally, the ex-ante model makes funds readily available during failure (Payne, 2014).

Under the ex-post model, financial institutions are levied after a member bank or SDI fails (FSF, 2001). It operates as a loss-sharing arrangement between members. This model ensures institutions act as each other's keeper as they will all bear burden if one should fail (FSF, 2001). It however does not offer certainty the ex-ante model provides and could lead to reimbursement delays. There is also the option of combining features of both models to get the best of both systems on board.

Public Awareness

Public awareness is one element for DPS effectiveness that tends to be overlooked. Per the Core Principles, in structuring a DPS, it is essential to put in place a public awareness program to ensure depositors are aware of the DPS's existence, benefits, and limitations (IADI, 2014). The program must spell out coverage scope and limits, mandate and membership, as well as other key information for understanding and appreciation of not only depositors but also staff of member banks and SDIs (IADI, 2014). The deposit insurer must employ various communication tools including websites, press releases, and media outlets to ensure a comprehensive public awareness program (IADI, 2014). Additionally, such program should bear in mind different categories of depositors in the country and be structured to ensure all these categories have their information needs met (IADI, 2014). The deposit insurer must also work hand-in-hand with other safety net participants to ensure accuracy and consistency of information being placed in the public domain (IADI, 2014).

Concluding Remarks

This section has explained the concept of deposit protection as one of the financial safety net elements. Although some argue that establishing a DPS is needless as it causes havoc to the financial system, the discussion has sought to establish that a DPS is a necessity for financial stability and safeguarding depositors' interests. The section has also considered several sound practice principles required in DPS setup, which have received IADI endorsement. The analysis shows that a DPS's design is usually a trade-off between positives that can be attained with the DPS's

existence and negative side effects of having it (Payne, 2014). Though there is no one-size-fits-all structure for a DPS due to influence by contracting, informational, and cultural peculiarities amongst countries (Kane, 2000), certain principles are indispensable in DPS design. For a DPS to be truly effective, it must be designed bearing in mind these principles and other financial safety net participants, as well as be tailor-made according to objectives and cultural peculiarities of each country.

DISCUSSION: DEPOSIT PROTECTION IN GHANA

The previous section explored the concept of deposit protection generally, as well as DPS structure, concluding that though numerous factors influence a DPS's effectiveness, its structure is largely country dependent. Against that background, this section focuses on deposit protection in Ghana. It starts with the state of deposit protection in Ghana before GDPS implementation, then discusses the GDPS under the GDPA and lays out the GDPS architecture and mode of operation.

Deposit Protection Before 2019

Since regulation of Ghana's banking sector began as far back as the 1970s, deposit protection has, till recently, been submerged in general banking sector legislations. There have been an array of legislations including the now-repealed Banking Law 1989 (PNDCL 255); Bank of Ghana Act 2002 (Act 612); the Banking Act 2004 (Act 673); the Banking (Amendment) Act 2007 (Act 738); and the Borrowers and Lenders Act, 2008 (Act 773) (Osakunor, 2009). With the exception of PNDCL 255 and Act 673 as amended by Act 738 which seemed to take some active steps towards depositor protection, all other legislations seemed more focused on achieving financial stability and efficiency in the sector by enhancing other financial safety net elements (Adjei-Frimpong et al., 2016).

PNDCL 255 stipulated that when a bank failed to meet its obligations, including suspension of payment of funds to depositors, the said bank was to notify the BoG (PNDCL 255, 1989, s. 16). Such bank would be precluded from operating and the BoG would take over the bank's business (PNDCL 255, 1989, ss. 23, 24). There was, however, no mention of the manner in which depositors who could not access their funds would be dealt with. Act 673 as amended by Act 738 precluded voluntary winding up of banks and SDIs without certification from BoG to depositors' detriment (Banking Act, 2004, s. 62). It also required banks and SDIs to maintain confidentiality of depositors' information (Banking Act, 2004, s. 84)

and to display their financial statements at branches and publish same annually in newspapers to ensure the general public was aware of its operations and financial position (Banking Act, 2004, s. 81). It further provided that where a bank or SDI cannot meet its obligations to depositors or became insolvent, the assets of the bank were to be used in reimbursing secured depositors (Banking Act, 2004, ss. 69A and B). Here, even though the law allowed for the bank's assets to be liquidated to generate funds to reimburse depositors, it failed to envisage a situation where liquidated bank assets would be insufficient for reimbursement or consider that liquidation process would take a while and depositors would have to suffer the brunt. Undoubtedly, though some strides were taken by the GoG and BoG to safeguard depositors, important gaps still existed (Abdallah, 2015). One major gap was lack of a deposit protection system as part of Ghana's financial safety net.

The focus remained the reinforcement of regulation and supervision of financial institutions to safeguard the financial environment (Abdallah, 2015; IMF, 2011). The wakeup call for the need to put in place a deposit protection system began in 2011, following the IMF Financial System Stability Assessment of Ghana mentioned earlier (IMF, 2011). This Assessment highlighted the need to put in place a DPS as part of Ghana's financial safety net preparedness and crisis management (IMF, 2011). Subsequently, in 2012, feasibility studies were conducted by the BoG in collaboration with the GoG and the German Government, leading to the enactment of the GDPA and establishment of the GDPS in 2016 (Ghana Deposit Protection Corporation [GDPC], 2020). Around the same time, the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) which was supposed to operate alongside the GDPA was also passed.

The passing of the GDPA was followed by a major banking crisis in Ghana between 2017 and 2019. In August 2017, the BoG announced the revocation of licences of two Ghanaian banks, namely UT Bank and Capital Bank, on the basis of insolvency (Adu, 2017). Subsequently, barely a year later, five other banks were dissolved to form the Consolidated Bank Ghana for the same reason of insolvency (Darfah, 2018). The dissolution of these seven key banks led to panic withdrawals and contagion (Nyalatorgbi, 2019). Prior to these banks' dissolution, microfinance institutions (MFIs) were also under crisis, such that between 2011 and 2019, over 347 MFIs in Ghana had either had their licenses revoked or had collapsed on their own (Peacefmonline, 2019). The combination of the banks' dissolution and the

ongoing crisis in the microfinance and savings and loans sub-sectors led to a rapid loss of depositors' confidence in the industry (Nyalatorgbi, 2019).

During the Banking Crisis, although the GDPA had been enacted, its implementation had not yet commenced and thus, the GDPS was not in force. Because depositors were put at risk, the GoG had to step in, despite its strained budgetary resources (Banda, 2018). Overall, the crisis in the sector resulted in GH¢21 billion of Ghanaian taxpayer's money being released to reimburse depositors and to revive insolvent banks and SDIs (Addison, 2020). Even then, to date, some depositors are still yet to be reimbursed. The GDPA finally began operation from September 2019, after the Ghana Deposit Protection (Amendment) Act 2018 (Act 968) was promulgated to increase the potency and effectiveness of the GDPS in the event of a future crisis (Addison, 2019). Subsequently in November 2019, Ghana attained IADI membership (Kyei, 2019).

The GDPS and its Architecture

The GDPA established the GDPS, referred to in the Act as the "Scheme" (GDPA, 2016, s. 2). The Act applies to banks and SDIs and its aim is to safeguard the interest of small depositors in the event of an insured event as well as promote a stable and efficient financial system in the country (GDPA, 2016, s. 3). The Act defines an "insured event" as one that results in the revocation of the licence of a bank or SDI or the appointment of receivers or liquidators to manage them (GDPA, 2016), while the definition of "small depositors" has been left to the Board of the scheme for determination (GDPA, 2016). The ensuing paragraphs layout the framework of the GDPS.

Organisational Structure

The GDPA provides for the establishment of the GDPC as a body corporate responsible for the efficient and effective management of the GDPS (GDPA, 2016, ss. 23, 25(6)). The GDPC is governed by a Board made up of a chairperson in the person of the Governor of the BoG or the Deputy Governor, a representative of the Ministry of Finance, the Chief Executive Officer (CEO) of the GDPC, a representative each from the group of banks and SDIs elected by their respective associations, a legal practitioner of not less than ten years at the bar, and a certified practising Accountant nominated by the Institute of Chartered Accountants Ghana (GDPA, 2016, s. 25(1)). A member of the GDPC Board should be ordinarily resident in Ghana and should not be an executive of a member of the

GDPS (GDPA, 2016, s. 25(3)). Board members are also required to fully disclose any interest they may have in matters before the board (GDPA, 2016, ss. 29(1) and (2)). Failure to do so could result in removal from the Board (GDPA, 2016, s. 29(3)).
The Board is responsible for establishing rules for effective management of the GDPC's affairs; approving investment, policies and guidelines, plans, budgets and financial statements of the GDPC; approving depositor reimbursement when an insured event occurs; proposing GDPA amendments; approving investment approval of emergency funding, managing the Protection Fund, approving international bodies the GDPC may join; recommending the GDPC CEO for appointment by the President in accordance with Article 70 of the 1992 Constitution of Ghana; and approving staff recommended by the CEO (GDPA, 2016, s. 26).

Mandate and Powers

The primary goal of the GDPC is to manage the GDPS effectively to ensure its objectives are made a reality (GDPA, 2016, s. 11). As already stated, the GDPS objectives are to maintain financial stability and to protect small depositors in the event of a bank or SDI failure (GDPA, 2016, s. 3). The functions and powers of the GDPC are set out in section 24 of the GDPA. It stipulates that the GDPC:

i. is to receive data related to members' operations as well as determine the nature and format of data to be submitted by members (GDPA, 2016, s. 24(1)(a)(b)).
ii. has the power to determine insurance premiums members are to pay and collect said premiums (GDPA, 2016, s. 24(1)(c)).
iii. is responsible for setting coverage limits and paying off insured depositors during bank or SDI failure (GDPA, 2016, s. 24(1)(d)(f)).
iv. is authorized to work in tandem with international deposit protection bodies (GDPA, 2016, s. 24(1)(h)).
v. is to borrow money if there are insufficient funds to reimburse depositors during an insured occurrence or ensure any other GDPS objects are achieved. GDPC may however not borrow from Scheme members in such situations (GDPA, 2016, s. 24(1)(j)(l)).
vi. has the authority to determine administrative sanctions to be imposed on GDPS members in cases of default, in the manner specified by the Act (GDPA, 2016, s. 24(1)(k)).

vii. is to invest funds in the Protection Fund in GoG securities or in such other securities that have been approved by the Board in accordance with Section 41 of the GDPA (GDPA, 2016, s. 24(1)(i)).
viii. has the authority to invest the GDPS assets "directly or indirectly through an external asset manager" (GDPA, 2016, s. 24(1)(e)).
ix. is required to work hand in hand with the BoG in the exchange of information towards the attainment of the GDPS objects (GDPA, 2016, s. 24(1)(g)).

Additionally, the GDPC is permitted to engage in other ventures that are supplementary to the performance of any of its functions outlined above. This includes the authority to acquire or dispose of property for the performance of its functions (GDPA, 2016, s. 22). The GDPC is also permitted to establish technical committees consisting of board and non-board members (GDPA, 2016, s. 30) as well as appoint consultants for the effective performance of its functions (GDPA, 2016, s. 31). From the above, it is evident that the GDPC's mandate is a narrow one and this is corroborated by the GDPC website, which describes the GDPC as a paybox (GDPC, 2020).

Membership

Membership of the GDPS is compulsory. Section 4 of the GDPA provides that every bank or SDI that has been licensed by the BoG to commence operations is required to be a member of the scheme. The GDPC issues members with certificates which are to be placed in a conspicuous place at the main bank or SDI. This helps to notify the general public that their funds are insured and so they can be at ease doing business with the bank or SDI (GDPA, 2016, s. 5). The compulsory nature of membership also takes off the duty of depositors having to decipher which banks and SDIs are insured and which are not.

A bank or SDI ceases to be a member of the GDPS if its deposit liabilities in the country are transferred to another bank, it becomes a member of another arrangement, "it compounds with the creditors of the bank or SDI", it is acquired by another bank or SDI, it is reconstructed by a competent authority and this reconstruction does not allow for new deposits, or there is an amalgamation that results in the change of name and identity of the bank or SDI (GDPA, 2016, s. 6(4)). Also, if it is discovered by the GDPC that the bank's or SDI's operations are being conducted in a manner that is to the bank's or SDI's own detriment, that bank or SDI with the BoG's approval ceases to be a GDPS member (GDPA, 2016, s. 6(4)(e)).

In the event of an insured circumstance, the bank's or SDI's license would be revoked and its license surrendered to the BoG (GDPA, 2016, s. 6(1)(a)). The GDPC shall then be notified and a receiver or liquidator shall be appointed for the bank or SDI (GDPA, 2016, s. 6(1)(b)). The GDPC shall then commence payouts to insured depositors as soon as possible (GDPA, 2016, s. 6(1)(c)). Where the bank or SDI is involuntarily liquidated, its obligation to pay insurance premiums to the GDPS ends on the date the insured event occurs and the bank or SDI ceases to be a GDPS member after payouts to insured depositors of that bank or SDI have been completed (GDPA, 2016, s. 6(2)). Where the bank's or SDI's liquidation is voluntary, it stops paying insurance premiums and ceases to be a GDPS member on the date that the GDPC has made the final payment to all insured depositors of that bank or SDI (GDPA, 2016, s. 6(3)).

Once membership cessation occurs in accordance with section 6 of the Act, the affected bank or SDI is still required to perform any obligations accrued before cessation (GDPA, 2016, s. 7(1)). Aside from surrendering its license to the BoG, a member whose membership has ceased must surrender its certificate to the GDPC, indemnify the GDPC, notify its depositors as well as the general public of the cessation of its membership (GDPA, 2016, s. 7(2)), and cease to accept deposits from depositors (GDPA, 2016, s. 7(3)). All contributions made by the member before membership cessation shall however not be refunded. Failure to comply with the above would result in a summary conviction or a fine of five thousand penalty units or ten years imprisonment or both (GDPA, 2016, s. 7(4); Judicial Training Institute [JTI], 2011).

Coverage

Although all banks and DSIs licensed by the BoG are GDPS members, not all types of deposits are covered by deposit insurance. Section 13 of the GDPA exempts accounts that do not have identifiable depositors and frozen accounts from being covered. Accounts owned by a corporate body or a member of a corporate body with 25% or more majority votes in the bank or SDI; individuals with direct or indirect participation in the capital voting rights of a bank or SDI due to ownership of a minimum of five percent shares in that bank or SDI or their family members; insiders or persons with related interest and external auditors of the bank or SDI, at least three years before the initiation of liquidation proceedings are also not covered by the scheme. The Act also excludes foreign currency deposits and

deposits in a foreign branch of the Bank or SDI or its subsidiary in a foreign country (GDPA, 2016, s. 13(e)(f)).

The coverage limit under the GDPA has been pegged at GH¢6,250 (approximately £820) for insured bank depositors and GH¢1,250 (approximately £164) for insured SDI depositors (GDPA, 2016, s. 20(3)). The Act further provides that coverage limits are to be reviewed not earlier than three years after the Act's commencement depending on Ghana's economic state (GDPA, 2016, s. 20(8)). Where the compensation paid to the insured depositor does not suffice, the depositor is to recover the balance from the liquidator or receiver of the bank or SDI (GDPA, 2016, s. 20(9)).

Funding

The GDPS is made up of the Protection Fund and the Reserve Fund which provide the financial resources for running the Scheme (GDPA, 2016, ss. 8 and 12). The "Protection Fund" is split into "Fund A" for banks and "Fund B" for SDIs (GDPA, 2016, s. 8). The Protection Fund is financed by premiums paid in by member banks and SDIs into the appropriate funds, returns on investment from the funds, and revenue from the GDPC's claims in the liquidation proceedings of a GDPS member (GDPA, 2016, s. 10). Banks and SDIs are to pay an initial one-off premium of 0.1% of their required minimum paid-up capital within 30 days of being issued a demand letter (GDPA, 2016, s. 14), following which they are to pay an annual premium, to be pro-rated quarterly, ranging between 0.3% and 1.5% of the average deposits insured by the scheme at the end of the preceding year (GDPA, 2016, s. 15). The premiums paid by banks and SDIs are dependent on their profile and level of risk (GDPA, 2016, s. 16).

From the above, it is evident that the GDPS runs an ex-ante model of funding, which allows it to collate funds in advance of the insured event. Where a bank or SDI defaults in premium payment, it is to pay an administrative penalty not exceeding five thousand penalty units, whereas, if it delays in premium payment, the bank or SDI is charged interest on the accrued premium to the GDPC at "the rate assigned to a 91-day treasury bill plus 2%" (GDPA, 2016, s. 51(2)).

The GDPA also provides for a "Reserve Fund" where the GDPC is to transfer its operational results (GDPA, 2016, s. 12(1)). The GDPC Board can withdraw funds from the Reserve fund where there is insufficient money in the Protection Fund (GDPA, 2016, s. 12(2)). The Reserve Fund thus serves as a backup fund and is necessary if depositor confidence is to be maintained. Additionally, the GDPC

Board is mandated to approve means of emergency funding where necessary (GDPA, 2016, s. 46). It can charge an additional extraordinary premium on a temporary basis, issue bonds, or borrow funds from international DPS in accordance with section 24 (GDPA, 2016, s. 46).

Reimbursements

Per the GDPA, reimbursements commence with notifying insured depositors of the processes involved. This is done by a publication on the GDPC website, at least two daily national newspapers, and on television and radio (GDPA, 2016, s. 17). To receive their reimbursements, depositors must submit a claim for compensation personally to the GDPC and collect the same or have an authorized person collect the amount on their behalf (GDPA, 2016, s. 18(1)). Depositors' claims must be corroborated by evidence of ownership of the insured account (GDPA, 2016, s. 18(2)) which would be verified by data received from the liquidator or receiver of the affected bank or SDI (GDPA, 2016, ss. 19(4) and (5)).

The GDPC commences payment of compensation/reimbursement from the date of publication of the processes involved but not before the sixth day after the insured event has occurred (GDPA, 2016, s. 19(1)), and the process of compensation is to last 30 days (GDPA, 2016, s. 19(2)). The GDPC may pay the compensations itself or employ a payout agent, bank, or SDI to do so (GDPA, 2016, ss. 19(3) and (6)). Claimants must however make their claims within five years of the insured event's occurrence (GDPA, 2016, s. 19(2)). If the claimant fails to do so, they can make an application to the GDPC's registered office within five years after the expiry of the initial five years, failing which they waive their right to claim reimbursement (GDPA, 2016, ss. 18(3) and (4)).

Public Awareness

The GDPA requires that banks and SDIs put in place measures to ensure that the public is aware of the GDPS's existence. The Act provides that banks and SDIs are to "openly display and make available brochures, leaflets and other educational materials to explain the Scheme and its operations" (GDPA, 2016, s. 50(1)). Banks and SDIs are to ensure that such information is devoid of falsities and failure to comply with the provision will result in the bank or SDI facing administrative sanctions (GDPA, 2016, ss. 50(2) and (3)).

EVALUATION

The previous section discussed deposit protection in Ghana with particular focus on the GDPS's structural features. This section analyses the DPS of two key jurisdictions, the UK and the USA vis-à-vis the GDPS. The UK's FSCS and the USA's FDIC were chosen not only because of the Core Principles' influence discussed in Section 2 on their DPSs' evolution but also because their DPS structures have served as a yardstick for many countries, particularly in Africa (World Bank Group, 2019). This section's objective is to critically evaluate the FSCS and FDIC with the aim of highlighting key points that can be adopted by the GDPS, bearing in mind the sound practice principles discussed in Section 2. The section begins with the current introduction, followed by a brief overview of deposit protection in both the UK and USA. The architecture of both the FSCS and FDIC would be looked at, following which these two systems would then be critically discussed vis-à-vis that of the GDPS.

Deposit Protection in the UK

The UK's first-ever explicit DPS was developed in 1982. Prior to this, only implicit and ad hoc systems existed for depositor protection (Campbell & Cartwright, 2002). As at 2001, the FSCS was the operating DPS (House of Commons Treasury Committee, 2007-2008). It has been referred to as "the UK's statutory compensation scheme for customers of authorised financial services firms" (Financial Services Compensation Scheme [FSCS], 2017). The FSCS which was instituted by the Financial Services and Markets Act 2000 (FSMA) displaced eight previous schemes (Practical Law Financial Services, 2015). Although the FSCS aimed at ensuring depositors were adequately protected (FSMA, 2000, s. 5) and the probability of systemic risk was minimized (House of Commons Treasury Committee, 2007-2008), the run on the Northern Rock Bank and the GFC exposed the scheme's inadequacies including the long payout periods, the coverage and voluntary membership, uniform pricing structure, public awareness, and ex-post funding model. This led to an overhaul of the financial sector regulatory framework which ousted the Financial Services Authority (FSMA, 2000, ch. 1) and introduced the twin peaks—the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) (FSMA, 2000, chs. 1 and 2). Under the Financial Services Act 2012, there were major reforms, most of which were as a result of UK's European Union (EU) membership, which required full compliance with the EU's regulations and directives. The Core Principles modeled the EU reforms and

directives on depositor protection which further resulted in the UK DPS's evolution. Although the UK is no longer an EU member, the reformed FSCS remains in force (FSCS, 2020).

Deposit Protection in the USA

Explicit deposit protection commenced in the USA with the FDIC's establishment under the Banking Act 1933. The FDIC was a temporary government corporation set up as a means of restoring public confidence in the banking system following the Great Depression. It was later made a permanent feature of the banking system by the Banking Act 1935. Several bank failures caused by an increase and subsequent collapse in some industries followed the FDIC's establishment (Federal Reserve, 2013). Additionally, there was a thrift industry breakdown and a savings and loans crisis (Federal Reserve, 2013). The compound of crises led to the passing of the Federal Deposit Insurance Corporation Improvement Act 1991 (FDICIA) to promote safety and soundness in the banking and thrift industries (Mishkin, 1997). Subsequently, in 2005, the Deposit Insurance Fund (DIF) was created under the Federal Deposit Insurance Act 2005 (Practical Law Finance, 2020). Thereafter, the 2008 GFC, which led to the loss of public confidence in the US financial sector, further exposed inadequacies in the FDIC (Edey, 2009). This led to the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2011 to provide a more effective scheme.

Comparative Evaluation

Having laid out the GDPS architecture in previous section as well as a brief overview of deposit protection in both the UK and USA in this section, the ensuing paragraphs present an assessment of the FSCS and FDIC structure vis-à-vis that of the GDPS.

Organisational Structure/Administration

The FSCS is an independent agency with a Board of Directors that guide its conduct (FSCS, 2020). The Board is responsible for directing the FSCS's business, making and executing strategy and approved budgetary proposals as well as overseeing the FSCS's day-to-day affairs (FSCS, 2020). It is, however, accountable to the PRA and ultimately to the Treasury (FSCS, 2020). The PRA oversees the FSCS and establishes the rules, policies, and guidelines for the FSCS's operation (Bank of England [BoE], 2020). The PRA and FCA are also responsible for appointing the

Board directors "on terms which ensure that they run FSCS independently of the UK regulators", while the Board Chairman's appointment requires Treasury's approval (FSMA, 2000, s. 212(4); FSCS, 2020).

Like the FSCS, the FDIC is also run as an independent agency with a board of directors that manage its operations (FDIC, 2020). The board consists of the Comptroller of the Currency, Director of Consumer Financial Protection Bureau, and three other members who are appointed by the USA President on the advice and consent of the Senate (Corporate Finance Institute [CFI], 2015-2020). The Board members are precluded from being personally involved with any insured institutions by way of employment or any other kind of interest and are expected to carry out tasks devoid of discrimination (12 USCA §1812, §1819, 2011). The corporation is to submit operational and financial reports annually to Congress and quarterly to the Treasury (12 USCA §1827, 2006). The annual reports must highlight its operations, including the DIF's financial state at the time of the report, the purpose, consequences, and approximate cost of resolution actions in respect of various insured institutions, and the DIF's liabilities in the face of changing economic conditions (12 USCA §1827, 2006).

Comparing the FSCS and FDIC organizational structures to that of the GDPS, it is observed that all three schemes are run by separate entities independent of the regulators, yet with board supervision. This is in line with the IMF's position that a country's financial safety net agencies should have operational independence (Norton, 2005). Though independent, the schemes are all accountable to and required to make periodic reports to the sector regulators. This helps to promote efficiency in performing tasks with little undue influence and conflict of interest, yet at the same time, ensures a two-level supervision system. This is because there is first board supervision and then supervision from the regulators.

Additionally, all three schemes have disclosure requirements and modes of Board members' appointment that aim to preserve the scheme's independence. While the PRA and FCA appoint the FSCS Board directors and the Board Chairman's appointment requires Treasury's approval (FSMA, 2000, s. 212(4); FSCS, 2020), the USA President appoints the FDIC Board based on the Senate's advice and consent (CFI, 2015-2020). Similarly, with the GDPS, the GDPC CEO cannot be appointed by the President without prior Board approval (GDPA, 2016, s. 26). The requirement of approval reduces the tendency of having Board members who would simply be puppets in politicians' hands. With the GDPC, one may argue that the key Board members, namely the Governor of the Bank of Ghana and Deputy as well as the

Minister of Finance are all political appointees and thus, are more likely to be politically influenced in their approval. However, other neutral Board members' existence such as the representatives of banks and SDIs coupled with the fact that parliamentary approval and vetting must be complied with in accordance with Article 70 of the 1992 Constitution, serves as a check and thus, safeguards the GDPC's independence and transparency. Moreover, a failed DPS due to mismanagement would taint the ruling political party's image and thus, could serve as a deterrent to undue political influence of the GDPC and its board.

Mandate and Powers

The FSCS has been described as being responsible for: "the essentially social purpose of shielding retail customers who may be ill-placed to assess the financial soundness of particular intermediaries" (George, 1996). Its tasks include keeping depositors abreast with the procedures involved in claiming their reimbursements (PRA Rulebook, ch. 24.8), tracking recoveries (PRA Rulebook, ch. 29.1), conducting stress tests of its systems linked to the reimbursement of eligible depositors (PRA Rulebook, ch. 24.6), acting as coffers for funds for the scheme, and providing the PRA with information on banks that fail to perform their obligations (PRA Rulebook, ch. 24.9). The FSCS is a typical example of a paybox scheme with its role limited to payment of reimbursements and fund management (Demirgüç-Kunt et al., 2016).

The FDIC's mandate is to ensure that financial and public confidence is maintained in the USA's financial system (FDIC, 2020). The FDIC unlike the FSCS is an example of a risk-minimizer system. Its role extends beyond the collection and management of funds for depositor reimbursement. It is actively involved in supervision and resolution processes (Payne, 2014). The FDIC supervises and examines banks and savings associations for operational soundness as well as acts as a backup supervisor for insured banks and savings associations (Federal Deposit Insurance Corporation [FDIC], 2020). It is also permitted to approve conversions, mergers and acquisitions of insured institutions, approve insured banks' capitals, prohibit interest payment on demand deposits, and create bridge banks to perform failed banks' functions (12 USCA § 1828, 2018).

Juxtaposing the FDIC and FSCS with the GDPS, the GDPS fits into a paybox scheme (GDPC, 2020). The GDPC functions all gravitate towards the GDPS management, fund collection, and depositor reimbursement. Although it is required to exchange information with the sector regulator, the BoG (GDPA, 2016, s. 24(1)(g)), as well as

deal with international deposit protection institutions (GDPA, 2016, s. 24(1)(h)) towards the attainment of the GDPS's objectives, the GDPA does not spell out any active role(s) the GDPC plays in banks' and SDIs' resolution or supervision. Thus, the FSCS and GDPS run parallel in terms of their limited mandate. The FDIC's risk-minimizer approach is, however, the favored approach by the IMF and the IADI as it allows the deposit insurer to be more actively involved in crisis resolution and financial stability (Demirgüç-Kunt et al., 2016). As earlier discussed, the risk-minimizer system holds numerous advantages including the ability to ensure quick decision-making in terms of resolution. The paybox model on the other hand, aside from the simplicity and ease of administration it offers, tends to expose the deposit insurer to large scale losses that come with reimbursing depositors of multiple failed institutions (Demirgüç-Kunt et al., 2016). If the FDIC model was duplicated by both the UK and Ghana, it would ensure that bank and SDI runs are resolved speedily, as both schemes would be in a position to better manage a banking crisis. This is because they would have a structure that merges deposit protection with bank resolution such that the FDIC or GDPC speedily select a resolution mechanism internally, as against the current system where information must be passed on to the PRA (PRA Rulebook, ch. 24.9) and the BoG (GDPA, 2016, s. 24(1)(g)) respectively before action can be taken. Although the USA's complex banking and regulatory structure both at state and federal levels (Federal Reserve Bank of San Francisco, 2006) may have influenced its model choice, considering that the risk-minimizer model is more advantageous, the writer believes that both UK and Ghanaian depositors would feel more protected under this model than the paybox one.

Coverage Scope

The coverage scope is limited to a number of deposits for both the FSCS and FDIC. The FSCS excludes deposits by other credit, investment, insurance, reinsurance or financial institutions, deposits by pension funds and public authorities (unless it is a small local authority), funds connected to criminal activity, own funds, unidentifiable persons, or debt security issued by an FSCS member (PRA Rulebook, ch. 2.2.4).

Similarly, the FDIC insures deposits only, excluding securities, mutual funds, or any other forms of investment, even if bought from an insured financial institution (FDIC, 2020). It, however, covers accounts held by government depositors as well as foreign currency deposits (12 CFR s. 330.15, 2006). Such foreign currency

deposits are however reimbursed based on the dollar-equivalent on the date of the insured institution's default (12 CFR s. 330.3(c), 2013).

In the same vein, the GDPS also excludes insiders as they are deemed to be in a position to know the bank's or SDI's financial state. Additionally, exempting such persons limits the potential or conflict of interest and moral hazard as they would be less likely to partake in risky ventures that would put themselves and the bank or SDI at risk (Hoelscher et al., 2006). Both FSCS and FDIC cover foreign deposits. This is however not the case with the GDPS. Most businesses in Ghana engage in foreign currency transactions and may be put at risk if foreign deposits are not covered. The exemption is, however, needful not only to avoid overburdening the scheme but also to maintain the cedi as the main medium of exchange in the country and discourage 'dollarization' (Chappelow, 2019; Larnyoh, 2019) which exposes banks and SDIs more to runs and makes it difficult to manage such runs when they occur.

Moreover, deposits held by financial institutions, pension or retirement funds, local or central government, administrative authority, insurance firms, or collective investment undertaking are exempted under the GDPS as they usually far exceed the coverage limit and thus, providing insurance for such deposits could cripple the scheme.

Coverage Levels

The FSCS previously employed the co-insurance system in which the cost associated with bank failure was shared between depositors and the DPS. This system has however been scrapped and presently, all UK regulated banks are insured by the FSCS with a compensation limit of £85,000 (PRA Rulebook, ch. 4; European Union (Deposit Guarantee Schemes) Regulations 2015, reg. 7). In the case of accounts held by two or more persons, each person receives a maximum of £85,000 (PRA Rulebook, ch. 5.4).

In the USA, coverage levels under the FDIC started at $2,500, with a long-term plan to generously compensate depositors after six months. This has been reviewed over time and is currently pegged at the standard amount of $250,000 per depositor per insured financial institution (FDIC, 2020). In the case of joint accounts, co-owners are insured to a limit of $250,000 each, thus, $500,000 where the account is owned by two persons. The FDIC is required to consider an increment of the coverage levels every five years, to account for inflation.

Compared to the FSCS and the FDIC, the coverage limits being offered under the GDPS are quite measly. Although the GDPA specifically stipulates that the objective of the GDPS is to protect "small depositors", because "small depositors" remains vague and no further directives have been given by the Board, what it truly constitutes is currently unknown. Moreover, the IMF recommends that countries fix their coverage limits at "twice per capita income" (Garcia, 1999). Ghana's per capita income in 2016 when the Act was passed was $1,931 (approximately GH¢11,139). The current coverage limits of GH¢6,250 for banks and GH¢1,250 for SDIs, are far below twice the per capita income. This will not do much to restore depositors' confidence as they will be receiving far less than saved with their banks and SDIs in the event of an insured event.

Furthermore, one may argue that the UK and USA are more developed than Ghana and so can afford higher limits or that the fact that the GDPS coverage limits are subject to review every three years following the Act's commencement should cater for this situation (GDPA, 2016, s. 20(8)). Nonetheless, if the experiences of FSCS and the FDIC limits when exposed to crises are anything to go by, the low coverage limits of both schemes resulted in runs and loss of depositors' confidence. Both schemes thus realized the need to increase coverage limits if depositors were going to be truly protected. This is corroborated by the fact that where the coverage limits are too low, it could serve as a disincentive to depositors. Hence the position that coverage limits should be high enough to boost depositors' confidence yet low enough to discourage moral hazard both amongst banks and SDIs and depositors (Payne, 2014).

Additionally, requiring depositors to retrieve the balance of their funds from the liquidated bank or SDI is not practical because the institution would most likely be in a state of crisis and the liquidation process takes time. This would result in depositors either not being reimbursed or receiving their reimbursements very late in time as is the current situation in Ghana. It is thus expedient for the coverage levels under the GDPS to be reviewed lest the country faces an encore of what happened between 2017-2019 in the event of another crisis.

Another shortfall with the coverage limit under the GDPS is that, although the GDPA states that unless otherwise agreed, reimbursement to joint depositors will be shared equally between the depositors, it fails to state what would happen if an individual has more than one account in the same bank or SDI (GDPA, 2016, s. 20(5)). In such a situation, would the reimbursement be paid per account or the individual will be entitled to just one reimbursement regardless of if they have

more than one account in the financial institution. Failure to address this could lead to confusion among depositors and make reimbursements cumbersome.

Source of Funding

The FSCS is funded by levies paid by member institutions. These levies are paid on a risk and non-risk-based basis, which comes to replace the previous uniform pricing system where all institutions paid the same amount (Payne, 2014). The risk element is grounded on the institution's risk profile, which covers its "capital adequacy, asset quality, profitability and liquidity"; while the non-risk element focuses on the amount of deposit available for insurance (Payne, 2014).

Likewise, the FDIC's DIF is currently maintained by contributions from insured financial institutions, earnings on investments in US Treasury securities, and a line of credit of $30 billion from the US Treasury, which can be withdrawn when necessary (12 USCA §1824, 2009). The contributions of the financial institutions have evolved from a simple system to a more complex risk-based assessment system set out by the FDICIA (12 USCA §1817, 2018). Under this system, insured institutions are categorized under two risk classifications based on their level of capital and supervisory ratings. These categories are further broken down into three subgroups each representing sound institutions with little or no weakness, institutions with weakness which if not corrected could threaten the scheme, and institutions that are likely to cause loss to the scheme (Olumide, 2008).

Like the FSCS and FDIC, the GDPS is also funded by levies paid by members on a risk-based basis. As noted already, a risk-based payment system helps to control moral hazard and discourage engagement in risky ventures. In running a sustainable risk-based system however, it is important to ensure that the risk assessment is based on available and verifiable information and that there is a balance between transparency and confidentiality (Olumide, 2008). While both the FSCS and FDIC spell out their risk profiling determinants, the GDPS states that risk assessment would only commence three years after the Act's commencement (GDPA, 2016, s. 16(3)). Considering the fact that the GDPA did not commence in 2016 when it was assented, it is the writer's opinion that between 2016 and 2019 when the Act originally commenced was enough time for the GDPC together with the BoG to develop a risk profiling system that would kickstart when the Act commenced. The further delay in the use of the risk-based system would mean a uniform pricing system would be utilized for the first three years. This would mean the issue of moral hazard would still be lurking and it may also prove more difficult

to transition to a full risk-based system when the banks and SDIs get comfortable with the uniform pricing system. It is the writer's view that if the risk-based system was started with the GDPA's commencement, banks and SDIs would immediately put themselves in check in the hopes of reducing their premiums rather than if it is delayed.

Funding Model

The FDIC operates an ex-ante funding model while the FSCS uses a combination of both ex-ante and ex-post funding. The FSCS cannot levy more than 0.5% of total covered deposits per calendar year (PRA Rulebook, ch. 33.4). It can, however, require member banks to contribute a maximum of 0.5% of eligible deposits in the event that the funds garnered ex-ante do not suffice (Payne, 2014). The GDPS also operates an ex-ante funding model. As discussed earlier, this reduces the occurrence of delays in reimbursements which tends to reduce depositors' confidence in the banking system (Ellis, 2013).

Reimbursements

Reimbursements are to be done by the FSCS in a manner that is considered appropriate, including making reimbursements directly to account or paying directly into their accounts (Financial Services Compensation Scheme [FSCS], 2020). Presently reimbursements are paid over 15 working days. This time frame is to reduce to 10 working days from January 2021 and 7 days from January 2024 (PRA Rulebook, ch. 16). Where the FSCS is unable to make reimbursements in the set time frame, it is supposed to ensure that individuals or businesses have access to the appropriate amount of their covered deposits to cover their living and operating costs respectively (PRA Rulebook, ch. 16).

The FDIC can reimburse depositors in a variety of ways including paying them up to the entitled coverage limit; transferring the insured part of the failed bank's liabilities to an open bank; or creating a bridge bank—the Deposit Insurance National Bank which would now hold the insured portion of the failed bank's deposit liabilities (12 USCA §1821(f)(m), 2013). Despite the plethora of options, the FDIC is expected to elect the most cost-effective mechanism which safeguards the interests of all stakeholders and ensures that reimbursements are done in the shortest possible time (12 USCA §1823(c)(4), 2011; 12 CFR s. 360.1(a), 2006).

When compared with the GDPS, it is evident that all three schemes are permitted to use the best means possible to ensure that depositors are reimbursed as quickly

as possible. The process of reimbursement under the GDPS appears to be thorough as the GDPA stipulates that depositors claiming reimbursements are to provide evidence which would be subject to verification processes (GDPA, 2016, ss. 18(2), 19(4) and (5)). Also, the announcement of reimbursement on various media platforms before the commencement of reimbursements is commendable as it allays depositors' fears and gives them firm assurance that they will be reimbursed. Additionally, commencing the reimbursement process six days after the occurrence of the insured event allows for information gathering by the GDPS as well as dissemination of information to depositors. The GDPA provides that reimbursements are to be completed within 30 days (GDPA, 2016, s. 19(2)). While this is a longer period compared to the current 15 days of the FSCS, it is a welcome start for Ghana considering this is its first explicit scheme.

Public Awareness

Previously, the average UK depositor was oblivious to the FSCS's existence. However, Recast Directive 2014/49/EU on Deposit Guarantee Schemes (Recast Directive) which obliges depositors to endorse a deposit information template on the details of their funds' protection has helped to resolve this issue (Directive 2014/4/49/EU, 2014, art. 16). Additionally, the banks must notify depositors of the updated standardized information sheet on an annual basis and also confirm that their deposits/funds are still eligible for protection (Clarke, 2015).

In the USA, FDIC members are required to display the FDIC logo in their institution and on official documents. The FDIC also engages in public awareness programs to sensitize the general public on the scheme's existence and operations. Additionally, the FDIC has a website that also provides depositors with information on the fund.

When juxtaposed with Ghana's public awareness, the GDPA seems to leave information dissemination to banks and SDIs. The banks and SDIs are to advertise the GDPS by the use of brochures and other educational material. Considering the level of literacy in Ghana, this means of information disclosure may prove inadequate and many depositors may remain oblivious to the GDPS's existence (UNESCO Institute of Statistics, 2020). The GDPC as a deposit insurer ought to take active steps to conscientize the general public on its existence as well as provide an easy means of confirming the membership or otherwise of a bank or SDI before engaging in any business with them.

CONCLUSION AND RECOMMENDATIONS

Conclusion and Recommendations

This study set out to answer whether the GDPS provides adequate protection for depositors in Ghana. An effective and properly structured DPS is essential for adequate depositor protection. Thus, to truly answer the question, it was necessary to determine if the GDPS is well structured enough to safeguard Ghanaian depositors' interests. Considering the fact that there has yet to be a bank or SDI crisis that would test the GDPS's efficacy or otherwise since its implementation began, this research has relied on the Core Principles (which are considered sound practice principles) that stand out in the GDPS, within the context of a comparative analysis of the GDPS with the UK's FSCS and the USA's FDIC.

The study has revealed that although the GDPS's introduction is a welcome development, particularly in the light of the recent Banking Crisis in Ghana, and has a number of strong points, it does not provide adequate protection to depositors. The study argues that the current coverage limits for both banks and SDIs are far too low to protect even the average depositor. Moreover, the failure to provide any directives on who qualifies as a "small depositor" creates a lot of ambiguity as to who is truly eligible for protection. Moreover, although the GDPS's limited paybox function aims to ensure speedy reimbursements when an insured event occurs, it does little to minimize the risk of occurrence of the insured event and thus, exposes depositors unduly. Additionally, the delay in the risk-based system of contributions' implementation stands to encourage moral hazard, a major canker that must be circumvented in DPS setup. Furthermore, the public awareness provisions in the GDPA fail to take account of the one-third of the Ghanaian population that is not literate and thus, these persons may remain oblivious to the scheme's existence and this in itself could trigger a bank or SDI run by their reactions if an uninsured event occurs. The study in no way suggests that the GDPS be made to exactly mimic the comparators used. Rather, it seeks to establish that a continual reevaluation of the GDPS is essential if it is to fulfill its objectives in the ever-evolving banking sector in today's global economy.

In light of the above, the study makes the following recommendations for reforms to be made before another systemic crisis hits to make the GDPS better equipped to handle any such storms:

i. The level of coverage under the GDPS should be increased and be brought as close as possible to the IMF recommendation of twice the per capita

income. This would provide depositors with stronger assurance that their funds are safe as compared to the current coverage limit.

ii. The definition of "small depositor" ought to be clarified to ensure certainty as to eligibility as the current coverage scope remains ambiguous.

iii. The differential premium or risk-based assessment system should be introduced without further delay to curb moral hazard amongst banks and SDIs.

iv. The nature of reimbursements in the case where an individual has more than one account in the same bank or SDI ought to be clarified to clear any doubts in depositors' minds (GDPA, 2016, s. 20(5)).

v. Considering the numerous advantages of the risk-minimizer model over the paybox one, the GDPC's functions should be extended beyond the paybox role yet bearing in mind its interactions with the other financial safety net participants.

vi. Although the 30-day reimbursement period is a promising start for the GDPS, it must be subject to frequent review over time to further boost public confidence.

vii. In addition to the current public awareness provisions in the GDPA, public awareness campaigns should be conducted by the GDPC to sensitize the public on the GDPS and its operations.

Finally, it is noteworthy that even if the GDPS is reformed to provide the best protection for depositors in Ghana, this protection would not be outright if the other financial safety net elements fail to play their roles. Thus, the lender of last resort (BoG), prudential regulation and supervision, bank resolution law, and resolution processes must work hand in hand with the GDPS to ensure absolute protection of depositors in Ghana.

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