LIKE the bird flu or Sars, it is one of those global contagions most Singaporeans never truly expected to hit home.

Yet, if Bear Stearns, the United States' fifth-largest investment bank, can collapse as the credit crisis spreads, some are asking if commercial banks and depositors anywhere are truly safe.

The reassuring word from analysts is that Singaporeans have more reason than most to be confident in the health of local banks and the regulatory system.

Yet, should the worst somehow happen — and that is a scenario even regulators here do not rule out — how well-protected is the average heartlander's life-savings?

The answer is in two parts: Insurance and the Government.

Ordinary depositors here come under the free umbrella of the Singapore Deposit Insurance Corporation (SDIC) — which, in the event their bank or finance company fails, will compensate individuals and charities for the first $20,000 of their Singapore dollar deposits in standard saving, current and fixed deposit accounts, minus liabilities.

Such payouts will come from insurance premiums paid every year by the banks. On the need for such a scheme, in 2005, Mr Tharman Shanmugaratnam, then the deputy chairman of the central bank, had said: “International experience has shown that the possibility of a bank failure and loss to depositors cannot be eliminated, even in reputable and well-supervised jurisdictions.”

On Oct 18, 2005, the fund started building its reserves.
And as of the last financial year ended March 31, 2007, it had $13.8 million in the kitty. Growing at the same rate, the fund would have accumulated more than $23 million by now.

The goal is to hit $120 million by 2016, with the ability to cover about $40 billion in insured deposits — or a reserve ratio of 0.3 per cent.

With the fund still in its infancy, should a bank run occur here, hypothetically speaking, four bank analysts that TODAY spoke to said they expect the Government to intervene.

Kim Eng bank analyst Pauline Lee said: “The financial sector is crucial to the economy, so the Government would take steps.”

An analyst at a foreign bank added: “A bank run will cause systemic risk if the government does not step in.”

Still, government bailouts have become a subject of some controversy in the US, with the Federal Reserve recently intervening to keep Bear Sterns from collapsing. Some question the “moral hazards” inherent in rescuing banks that have been overly reckless.

But the likelihood of such a dilemma cropping up here is very unlikely, observers say — notwithstanding that a bank run has occurred before. In 1960, rumours sparked panic that led to memorable queues outside Chung Khiaw Bank of customers waiting to withdraw their life-savings.

These days, the Monetary Authority of Singapore (MAS) has rules to ensure that banks and finance companies have enough liquidity to meet unforeseen needs. Singapore-incorporated banks must keep a certain amount of capital to protect against defaults — they need to hold a minimum capital adequacy ratio of 10 per cent.

As of Dec 31, 2007, the three local banks — DBS, OCBC and UOB — hold capital above MAS’ requirements. “This means the banks’ capital structure is still sound,” said Ms Lee.

Also, the capital in banks here comes mainly from long-term and more stable sources, such as deposits, said Mr Benny Zhang, an analyst at research firm The Asian Banker. Conversely, capital that comes from loans from other banks and financial institutions is riskier as costs fluctuate more.

British bank Northern Rock had more of such “short-term funding”, and was brought to the brink of collapse last September when it could not raise funds on credit markets to cover its liabilities. Britain’s financial watchdog last Wednesday admitted to mistakes it made in supervising Northern Rock.

In Singapore, depositors can take heart that the regulatory framework is more stringent than the international benchmark. The MAS has set the Tier 1 CAR ratio — the first line of defence against defaults — at 6 per cent, while under the global Basel framework the ratio is set at 4 per cent, Ms Lee said.

Yesterday, the US Treasury unveiled plans to consolidate its various regulatory agencies. This is where Singapore’s regulatory regime is ahead — as MAS already holds all the reins, said Singapore Management University associate professor Annie Koh.

And because of this, the central bank would have more to look after as products evolve. This means “we need training programmes to equip central bankers for this evolution of products and players”, said Prof Koh.

“With the interconnectedness of financial markets, the system has become a lot more fragile and even one fraud case can cascade and bring down perfectly strong banks because their counterparty risks have multiplied many times.”

The MAS can also learn from the mistakes of its UK and US counterparts, said Mr Zhang, who noted that run on Northern Rock happened after it was publicised that regulators had refused to give the bank funding.

“When handling such a crisis, it’s important for them to intervene, but the question is how,” said Mr Zhang, suggesting for instance that the bailout be done quietly.

Ultimately, bank analysts do not see any signs of breeding grounds for a bank run to happen here. Said an analyst at a local brokerage: “In US, you have the economic slowdown and possible recession, and consequently, the risk to the banking system is much higher. The Asian economies are still experiencing strong growth, so I don’t see a similar scenario taking place here.”