

Scenario Analysis of Deposit Protection Insurance Adequacy in Sierra Leone

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Received: May 16, 2025; **Accepted:** May 21, 2025; **Published:** May 27, 2025**ABSTRACT**

Deposit protection funds are now conventional across sovereigns as integral to financial system safety net and supportive to financial system stasis. This paper examines the potential adequacy of deposit protection fund in Sierra Leone by employing scenario analysis with data vintage 2021Q1-2023Q4 regarding the banking ecosystem health check. The paper unravels that adequacy of deposit protection fund in Sierra Leone should mimic some proportion of the gross domestic products (GDP) entrenched on Sierra Leone macro-economic and financial target framework that is dynamic. Thus, the paper recommends the need for robust banking supervision and macroeconomic and financial stability assessments can assuage unintended ramifications of deposit protection fund on banking ecosystem risk in buoyant episodes, thereby enthroning suitable incentive framework is crucial for financial system stasis in Sierra Leone.

Keywords: Deposit Protection, Moral Hazard, Banking Sector, Financial Soundness Indicators, Sierra Leone**JEL Classification:** E580, G01, G17, E65**Introduction**

The financial ecosystem is essential in facilitating economic growth and development. It modulates as a mechanism framework that enables the exchange of resources among economic agents. A pivotal component of this system is the banking sector, a germane instrument in financing a country's economic advancement [1,2]. Furthermore, banks are integral to the payment and settlement systems and play a significant role for implementation of monetary policy. Albeit, while fulfilling these intermediary functions, banks face various risks that can lead to failures with severe repercussions. To address functions and the associated risks, a financial safety buffer is established to promote financial system stability. The financial safety net comprises several key components: a deposit insurance system, a robust prudential supervisory and regulatory framework, a lender of last resort, plus efficient resolution structures [3,4].

A deposit insurance system serves as a vital element of the financial safety net, geared to safeguard depositors from the

risk of losing their funds held by financial institutions accepting deposits [5]. Consequently, it serves more as a safeguard against potential losses rather than as traditional insurance scheme [1]. Nonetheless, credibility of the deposit insurance system is essential. This necessity accounts for the fact that most deposit schemes are either provided by governments or receive explicit endorsement [6]. Recent empirics suggest that deposit insurance systems when cautiously deployed are merited with the advantage to align the gains of averting bank runs and safeguarding usual savers from the costs of decline market discipline and potential burdens on taxpayers. Studies by Elizabeth et al., Johnson, and Park support this trend. The conventional stance for government intervention in the banking sector are four pronged. These are supporting safety and soundness of the banking ecosystem, mitigating market failures due to the attendance of costly and asymmetric information and promotion of financial development, and allowing competitive banking services to residents of unbanked milieu [7].

Deposit insurance scheme, previously a subject of interest primarily for specialists, emerged as a significant policy issue all through the global financial crisis. Nations with the financial capacity expanded their deposit insurance frameworks and enhanced their financial safety nets to rebuild trust in their

banking systems, while enshrining long-run macroeconomic welfare [8,9]. In contrast, a limited number of less affluent countries either failed to uphold their commitments regarding insured deposits, as seen in Iceland, or inflicted considerable losses on uninsured depositors, exemplified by the situation in Cyprus [10]. In the recent past, precisely March 2023, deposit insurance scheme design and implementation was brought to the fore. This was triggered by the significant bank run of Silicon Valley Bank (SVB) and ultimate failure within two days. SVB was formerly the sixteenth largest lender in the US. The driver of the SVB failure was entrenched in losses from fixed income bonds which were depreciated as interest rate surged. A major quantum of their customers were firms holding exceeding \$250,000 safeguarded by the Federal Deposit Insurance Corporation (FDIC). SVB failure reverberated across the financial ecosystem, prompting liquidity challenges across regional banks.

Thereafter Signature Bank, Head Quarter in New York also failed. In dealing with this disruption, the Federal Reserve and the Treasury Department indicated that insured and uninsured depositors in both banks would be reciprocated fully, in addition to the establishment of an emergency liquidity facility and acceptance of high-quality bonds at face value despite their sharp decline market value. May 2023 saw another regional bank, First Republic Bank, resolved and sold off by the regulators. These three banks in total were worth more in inflation-adjusted assets than the 25 that had collapsed in 2008. These interventions renewed the deliberation on the attractiveness of unlimited deposit insurance, and assessing how full coverage explicit would be more effective in ensuring financial stability or lead to riskier behaviour of banks.

Deposit insurance scheme is crucial for intervention in the banking ecosystem. Preventive regulation and protective regulation are two forms of regulation in the banking sector. Preventive regulation refers to actions taken by the authorities to curb entry into banking ecosystem by licensing, the restriction of the types of business wherein banks can engage, capital adequacy requirements, control of liquidity and statutory reserves, thresholds for lending and or investment, and lastly bank examination. On the other hand, protective regulation in the banking sector includes protective strides including deposit insurance schemes and central bank assumptions on the control of banks. These actions aid to prevent losses before operations and bolster risk mitigation maximization after the operations [11]. The deposit protection fund is expected to complement the protective functions of other systems including credit reference bureau and financial markets amongst others in the same vein that these systems support the deposit protection fund in delivering on its roles. Surely five key functions are carried out by the deposit insurance fund. Nwokoji avers that given the power of deposit protection, it reinforces the entitlements of depositors in the realm of insured deposits. It guarantees that enough financial resources are required to conduct safeguard functions and for a risk-free administration of an increase in the accumulated fund size. Opala avers that deposit insurance complements other financial safety net institutions directed at the stasis of the financial ecosystem.

Regardless, the challenge confronted by policymakers in assessing the core function of deposit insurance is supportive

with safety net mechanisms avails the opportunity of prompting imprudent lending dynamics by the insured financial institutions or banks. Demircuc-Kunt et al. portend that the element of moral hazard comes to the forefront since these protected banks' ability to endear deposits is now independent of the risk of their asset portfolio and these institutions are encouraged to finance high-risk and high return projects. They averred therefore that financial safety net arrangements may ensue involuntarily to increased bank failures and suppose banks tolerate correlated risks that, banking system crisis may manifest regularly. The motivation of the present research fundamentally is entrenched on the likely effect of deposit insurance scheme on the banking ecosystem in Sierra Leone with empirical assessment by employing sound data exploratory analysis to elicit critical levels of deposit insurance schemes that policymakers must endeavour to maintain in order to fully stabilise the banking ecosystem in Sierra Leone. Furthermore, the paper is also partly motivated by the current empirical literature, which aligns with the fact that unless deposit protection schemes are properly and promptly deployed in the banking system, then the banking ecosystem may be quite vulnerable and disruptive.

A crucial bottleneck in the calibration of financial safety nets is addressing the risk of moral hazard. Johnson in his work on assessing banking sector stability in Sierra Leone employed an econometric analysis and recommended the need for deposit insurance scheme rollout to strengthen banking ecosystem stability in Sierra Leone. Johnson crafted a Banking Sector Stability Index (BSSI) for Sierra Leone leveraging statistical and Conference Board Methodology normalisation processes with banking data from 2019Q1 to 2022Q4. The resultant index fairly mirrored the periods of crisis in the system over the study period. Its practicality as a complementary regulatory policy tool is crucial to gauge potential risks to enable monetary authorities leverage timely precautionary policy measures to moderate crisis in the banking system. The departing point of this current research work is that it delves into the scenario analysis of adequacy of the current deposit protection fund in Sierra Leone, leveraging on the Deposit Protection Fund Act (2023) that empowers the Bank to use this instrument as a crisis resolution backstop and assessing the likely impact on the Bank of Sierra Leone Revised Minimum paid up capital for commercial banks. Hence, to the best of the authors' knowledge, this is the first time an attempt is crafted to assess the adequacy of the deposit for Sierra Leone.

To bridge this lacuna, the study employs graphical exploratory analysis techniques mirroring the small open economy context for Sierra Leone. Consequently, the research work is data exploratory approach to the study. Also, the authors are consistent with recent extant literature in averring that applied econometrics is not wholly entrenched on the acceptance and rejection of extant theories. Therefore, the results from data Exploratory approach also serve as platforms for building theories, especially when the research work is well situated in the light of extant debates in the body of knowledge embedded in the literature.

The structure of the paper is as such: section 2 delineates a brief history of deposit insurance, types of deposit insurance followed by stylised facts mirroring deposit insurance elements in Sierra Leone in Section 3. Section 4 deoicts the preconditions for the establishment of deposit protection fund while Section 5 delves

into the behaviour of selected macro financial sector indicators. Section 6 concludes with final thoughts.

Brief Insights of Deposit Insurance Schemes

The inception of deposit insurance can be traced to establishing the New York Safety Fund in 1829, confined to the state of New York. The scheme was intended to safeguard deposits and promote the issuance of notes during bank failures. Regrettably, the program was futile and ended up bankrupt by 1842. In the early 1920s, eight state-level insurance programs were initiated, yet these also failed, largely due to insufficient funding and inadequate oversight, worsened by the economic downturn [12].

The Federal Deposit Insurance Corporation (FDIC), established in the United States in 1934 as part of the Banking Act of 1933, was the world's first national deposit insurance system. Unlike state-funded programs, the FDIC was created using capital sourced from the Treasury and the Federal Reserve Bank. Its principal purpose was to offer limited guarantees on deposits, thereby reducing potential losses and reinstating the confidence of depositors. This trajectory of implementation of deposit insurance in Western Europe began in the late 1970s and early 1980s. A notable trigger was the collapse of Bankhaus Herstatt in Germany in 1974, which prompted several countries, including Austria, Belgium, and France, to establish deposit insurance systems in 1974, 1979, and 1980, respectively. Furthermore, by 1994, the majority of European nations had instituted explicit deposit insurance schemes to align with the European Union's Directive on Deposit Insurance. In November 2015, European Commission put forth a proposal for the establishment of common European Deposit Insurance Scheme (EDIS), with aim at implementing it by 2024 [13].

In the African context, the implementation of deposit insurance systems began with Kenya in 1985, next to Nigeria in 1988. Subsequently, Tanzania and Uganda introduced deposit insurance systems in their respective jurisdictions in 1991 and 1994. In 2014, the West African Monetary Union established the Deposit Guarantee and Resolution Fund, which provides insurance for deposits across all eight member countries of the West African Monetary Union, namely Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo [14].

In 2009, Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon, all of which are part of a regional central banking system, created the Fonds de Garantie des Dépôts en Afrique Centrale (FOGADAC). This regional deposit insurance program commenced its operations in 2011 [10,15]. Likewise, the Ghana Deposit Protection Corporation (GDPC) was founded in 2016. Ongoing expansion of deposit insurance systems across the continent can be attributed to the strengthening of financial system stability and the effective management of banking crises in the countries that have espoused these systems.

Types of Deposit Insurance Schemes

There are bipartite (2) types of deposit insurance schemes namely implicit and explicit deposit insurance schemes. Implicit deposit insurance arises from the expectation created by the government's verbal assurances and historical actions aimed at safeguarding depositors in the event of a bank failure. Consequently, such form of deposit insurance scheme is undefined by any specific

legislation or legal framework; it lacks established rules or formal communications regarding the volumes of deposits that are protected, and it does not have predetermined funding sources [16]. The argument presented by Demirgüç-Kunt et al. is that a country can be considered to provide implicit deposit insurance due to the significant pressures from governmental to offer assistance during a widespread banking crisis, unless there exists formal legislation or regulation that specifies explicit deposit protection. Albeit, under this implicit deposit insurance scheme, the government cannot be legally liable held for defaulting in delivering on deposit protection to depositors. Such type of deposit insurance scheme offers benefit of enhancing market discipline and mitigating issues of moral hazard.

The formation of an explicit deposit insurance scheme is mandated by law through various means such as legislation, legal agreements, or other legal instruments. This system is characterised by specific regulations or mirror structures dictating the level of deposit coverage, the types of deposits that are insured, the methodology for calculating premium assessments, and the funding mechanisms for the scheme, which may include different sources or types of funding and/or coinsurance. The International Association of Deposit Insurers (IADI) asserts that an explicit deposit insurance scheme is optimal choice for any jurisdiction seeking to implement a DIS [17].

Stylised Facts on Deposit Insurance in Sierra Leone

This section encapsulates the elements that impact deposit insurance fund operationalisation in Sierra Leone. It is true that operationalising deposit insurance fund (DPF) in Sierra Leone means that it has to be institutionalised so that over time it has the capacity to detoxify the banking ecosystem and acts as shock absorber. In so doing, it gives banks enough oxygen and room to facilitate their banking business (avails working capital, and in some cases long term capital) and more so intervene as energisers of the economy and growth catalysts.

In this context, it is necessary to dimension deposits (demand, savings and time) in the lens of the banking ecosystem to unravel the behaviour of depositors during the reviewed period. Figure 1 mirrors the trajectory of the share of savings demand, and time deposits vis a vis total deposit. Main takeaway is that bank depositors (demand deposits) do not largely follow the trajectory of a huge call of deposits in quarter four (festive season) and a reflow of funds into the banking system during quarters one and two.

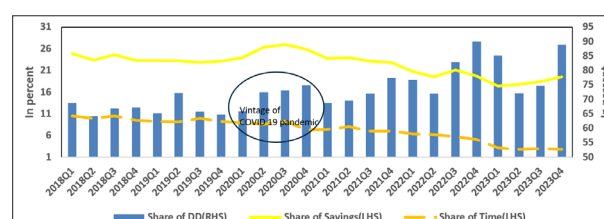


Figure 1: Share of demand, savings and time deposits Vis a vis total deposits over the period 2018 to 2023

Source: Authors Calculation from IMF published FSIs for Sierra Leone

However, customer depositors in the time and savings categories largely mimic the conventional expectation of huge withdrawals during quarter four (festive season) and reflow of funds in quarter one and two of the year.

Figure 2 reflects the sovereign bank nexus in Sierra Leone reflecting the fact that banks largely invest in government papers or securities because they are sufficiently attractive (especially the 1-year treasury bills papers), safe and liquid. The IMF Article IV November 2024 report flagged that the banking ecosystem largely invested in government securities driven by high yields and zero risk weights. Sovereign bank nexus embeds a financial stability risk and elicits macro financial interconnections.

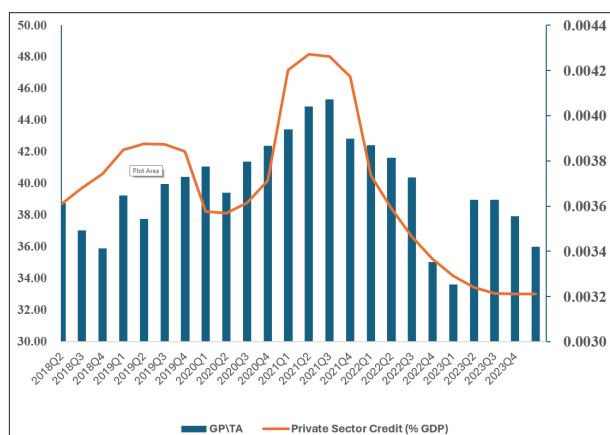


Figure 2: Sovereign Bank Nexus in Sierra Leone

Source: IMF published FSIs for Sierra Leone & World Bank's World Development Indicators (WDI)

Further the concentrated vulnerabilities in the banking ecosystem make it prone to built-up uncertainties in sovereign risk. Suppose the sovereign's ability to repay is dampened would translate to affect the solvency of banks and impair trust and confidence in the economy of Sierra Leone. Available data showed that greater than 70 per cent of sovereign debt stock are lock in the 365-day government papers. This has ensued in tempo to regularly rollover government papers have elicited refinancing risk for banks.

Establishing Deposit Protection Fund

Setting up Deposit Insurance

The Key facts on setting up deposit insurance reflect the following:

- Deposit insurance is only as strong as the safety net it operates

A stable financial safety net is a requirement for and supportive to safeguarding the financial ecosystem from crisis. Ogunleye posits using anecdotal evidence reflect that financial safety nets embeds prudential regulation and supervision, lender of last resort, bank resolution framework and deposit insurance. Nolte et al. avers that deposit insurance by itself alone is not expected to address systemic significant bank failures or crises. They furthered the need for an effective and efficient mechanism that works effectively and efficiently well. For instance, a well-honed and experienced supervisory and regulatory ecosystem can prevent and deal with bank failures by allowing early taking corrective measures to be taken by the supervisory authorities

and thus avails more cost-effective resolution strategies than bank closure sequenced by a deposit insurance pay-out.

- Effective Pay-out

A herculean task that ensures that financial ecosystems are faced with, regardless of experienced ones is the element of effective pay-out when bank failures occur. The efficiency of deposit insurance is needed to make timely payments to insured depositors in the instance of banks failures, thus triggering deposit insurance [18]. Key requisites for the establishing deposit insurance schemes include outstanding technical expertise, training to horn skillset, information access and sharing across banks in the spirit of coordination and cooperation. Swift delivery of pay-outs to insured depositors should be the core of deposit schemes and must be attained prior to expansion of deposit insurance schemes mandate beyond the banking ecosystem

- Public Awareness

Another crucial sine qua non is the need for raising awareness via sensitisation programs to provide an informed compendium on the merits and challenges. Anecdotal evidence reflect that the features of deposit insurance need to be regularly publicised to boost credibility and solidify confidence in the banking sector. Ogunleye indicated the significance of public awareness, in the instance of bank crisis, then depositors can be sensitised with guidance on how to file claims and receive reimbursements.

- Deposit Insurance vis a vis Banking ecosystem stasis in Sierra Leone

Sierra Leone like other parts in the world is such that the banking ecosystem is built and develop as open platform that facilitates the organisation of activity via building up its own resources and regularly adjust to market signals and vicissitudes in the economy, wherein itself is a driver [19]. Over the years, the banking sector has consistently shown its soundness, evident through high capital adequacy, reasonable profitability, and robust liquidity, holding the highest share of assets and deposits in the financial system (BSL FSR, 2022). Marshal reflects that delving into the relevant literature, it is discernible that banking crisis disrupts capital allocation and often elicit dampening the real sector to the economy. The banking ecosystem can deal with the events of huge withdrawals via several ways but the most operative strategy is via setting up and operationalising deposit insurance schemes. The deposit insurance schemes guarantees that the customers do not lose all in the instance of failures or likely to fail banks event. This, in turn, boosts trust and supports stasis in the banking ecosystem guaranteeing safety of customers deposits.

- Deposit Insurance vis a vis Moral Hazard

Deposit protection insurance schemes by sovereigns are employed to safeguard banks from runs albeit at a cost that is morally hazardous [20]. The scheme signals that when deposits are insured, and other deposits guaranteed by sovereign insurance, then the element of loss is non extant. This implies that the bank monitoring is subdued. The Deposit Protection Fund Act subsection (1 to 5) indicates that regular premiums shall be paid into the fund on quarterly basis. Flat baseline premiums shall be estimated a share of the average total insure deposits held by each member institution over the preceding assessment. However, a differential premium assessment system on the risk of member institution shall be calculated as a percentage of the average total deposits held by each member institution over the preceding assessment period.

- Deposit Insurance vis a vis Market Discipline of Bank Risk Moral hazards, engendered by the safety net of government-provided deposit insurance, tend to increase the probability and cost of bank failures. Uninsured depositors, by far the largest group of bank creditors, can bring market discipline to banks that should reduce their propensity to take excessive risks. However, three important objections to reliance on depositors for this purpose have been raised: (1) uninsured depositors may be unable to monitor banks or to do so in a timely fashion; (2) even if they could evaluate bank performance, the additional interest rate they could charge would be insufficient to affect bank behaviour materially; and (3) in any event, uninsured depositors are likely to withdraw their funds rapidly (run) rather than monitor banks, thereby causing costly disruptions to other banks and the economy.

Each of these objections is evaluated here, including a review of relevant empirical studies. The conclusion of this analysis is that the objections to allowing uninsured depositors to serve as market disciplinarians may not be valid. Moral hazard and the need for market discipline moral hazard refers to the adverse incentive engendered by a guarantee or 'contract that does not account for all contingencies, or by a safety net that fully or partially compensates people for some outcomes. The adverse incentive is that people take actions or risks that they would not otherwise have taken, had they expected to bear the full cost as well as the benefit of their actions. Debtors to limited liability firms are subject to the moral hazard that equity holders will act more differently than they promised, once the debt holders have committed their resources to the firm. In particular, equity holders might assume greater risks and remove assets from the firm that the debt holders could attach. In effect, corporate equity holders have an option that they can put to the debt holders if losses from risky firm activities exceed the assets remaining in the firm [21,22].

Deposit Insurance and the Market Discipline of Bank Risk

The situation would not present a problem if it could be assumed that the deposit insurance fund had the same incentives and ability as private debt holders do in dealing with bankers' moral hazard incentives to take greater risks. However, such an assumption must be questioned, for two important reasons.

First, government officials have incentives to over restrain banks, because the officials do not get the full benefit of risks that bankers take but are criticised for the bankers' failures. Customers and bankers who lose when banks fail might blame the officials, but those who are well served are not likely to praise them. Bankers who are conservative, though, tend to praise officials for "reining in" their more adventurous brethren, particularly often times when more imaginative bankers take away some of the conservative bankers' customers [23-25].

Second, government officials have incentives to put off closing down banks that are in danger of failing. As Kane has pointed out, these officials can maximise their own welfare by permitting insolvent or weak banks to continue operations in the hope that the banks' fortunes will improve. Or, at the least, the banks' closure will be put off until after the officials have moved on to other opportunities. This forbearance is particularly desirable for bank regulators when a troubled bank is large, because

many people might be hurt should it be closed. An exception to this expectation occurs with a change in regime. Then the new regulators tend to “clean out” the mistakes of those they displace. The initial forbearance by the Federal Home Loan Bank Board and the zealous clean-up by its successors, the Office of Thrift Supervision and the Resolution Trust Corporation, are illustrative. The general argument in favour of using uninsured depositors to impose market discipline on banks is fairly straightforward. These debt holders are expected to act like the holders of the debt of other corporations, which is not government-insured. As described above, they are subject to moral hazard costs imposed by equity holders, and should act accordingly (see Benston, Hunter and Wall; and Macey and Garrett for extended discussions and additional information).

Dynamics of Deposits and Selected Macro Financial Health Indicators

This section delves into dynamics in selected financial soundness indicators over the review period 2021Q1-2023Q3. The vintage 2021Q1-2022Q2 was chosen because it mirrors the recovery period of the Sierra Leone economy postcovid-19 pandemic. This is needed to elicit key behaviours of banking sector conditions in Sierra Leone [25-30].

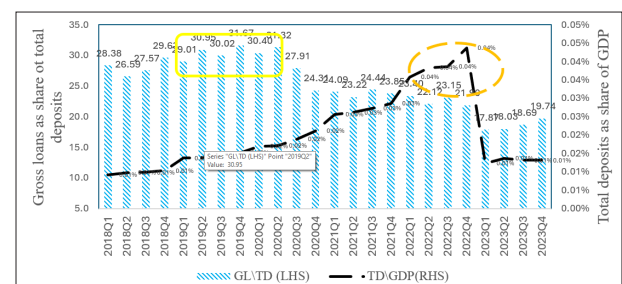


Figure 3: Gross loans (Share of total deposits) versus Total deposits as share of GDP

Source: IMF Published FSIs & SSL

Figure 3 shows gross loans as share of total deposits and total deposits as a share of rebased GDP during the period 2018Q1 and 2023Q4. The rectangular highlight in the gross loans as share of total deposits series mirror the pre covid19 period when banks were on lending to key sectors commerce and finance and more so construction over that period. However, this inimically showed up in the quantum of nonperforming loans over that period. The second series of total deposits as a share of rebased GDP showed that a peak that had a circular highlighted reflecting the marginal increase in this key variable of interest.

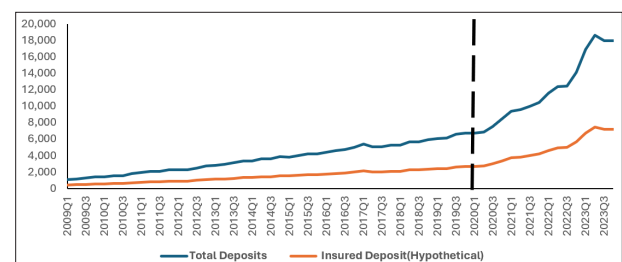


Figure 4: Deposits and Insured Deposits (Hypothetical)

Source: IMF Published FSIs

Figure 4 mirrors a hypothetical scenario of total deposits and insured deposits with laser focus on 2020 (with superimposed vertical line) and beyond. In the immediate term economic implication for the hypothetical insured deposits is that these financial resources will be ringfenced to provide a cushion for depositors that are insured in the spate to banking ecosystem crisis. From broad macroeconomic terms, in the short to medium run, gross loans in the form of domestic credit to private sector may decline and banks take a more cautious posture and redirect their funds to investment in government securities underpinned by sufficient attractiveness, safety and liquidity.

Applying the quantity theory of Money, i.e. Fisher's Equation in the context of potential impact to deposit insurance fund vis a vis instant payments effect on inflation dynamics in Sierra Leone, the cash less society is embedded in the velocity of circulation reflecting the fact that settling transaction is efficient and much faster with instant payments mechanism using payment platforms such as Credit Cards, POS, RTGS, National Switch amongst others. In other words, with exuding confidence and trust in the banking ecosystem given the roll out of deposit insurance fund, the velocity of circulation then mirrors the fact that money is turning so many times in settlement of transactions. From a pure macroeconomic stance, money is defined as what money can buy. This means that all cash and cashless payments are money, but not all money is cash [31-35].

The key point is that deposit taking and on lending by banks to economic sectors (as part of their intermediation role) mirror a dynamic banking business. In that regard, the adequacy of deposit insurance fund in Sierra Leone should be some percentage of the country's national cake (GDP) consistent with Sierra Leone broad macro financial and economic framework [36-40].

Conclusion

Deposit insurance is conventional policy supportive to stasis in the banking ecosystem. It is enshrined in part of the IMF best practices recommendations for developing countries. It is now inundated in the empirics reflecting that deposit insurance in its entirety may boost confidence of depositors and safeguard bank crisis. Despite such gains, it elicits unintended effects of endearing banks to tolerate high risk thresholds. The empirical evidence mirrors the relevance of formed structures and projects poorly crafted schemes or arrangements that precipitate a country's chance of banking haemorrhages(crisis). Thus, deposit insurance should embed elements to felicitate the internalisation of risk-taking banks [41-45].

In addition to the key crafted elements, deposit protection funds are entrenched on more robust capital rules and a financial ecosystem for supervisor with skills that are well horned to leverage on prompt corrective measures has the proclivity of operating in practice effectively. It is expedient for countries to muster a milieu wherein private market participants like shareholders, uninsured deposits and other creditors are empowered to with a cocktail of incentives to regulate and supervise the banks they lock their investments in. Crucially, both public and private supervision is a function of strong institutions and rule of law. In countries with weak institutional milieu, explicit deposit insurance may ensue in being inimical that beneficial in cognisance of bolstering financial stability. In

the main, the effect of deposit insurance can be capricious, be it buoyant of deleterious to a country is based on how well it is established and rolled out [46-50].

In the context of Sierra Leone, adequacy of deposit protection fund maybe some proportion of its national rebased GDP aligned with its key macro financial and economic variables of interest including inflation, exchange rates, public debt, real sector activity catalysts and fiscal competitiveness amongst other variables on interest. Hence, deposits of commercial banks should be charged in proportion to either deposits or holdings of risky assets, with the factor of proportionality the same for all banks and all dates, and the same overall portfolio choices. Depending on premium levels, deposit insurance subsidises banks that experience low asset returns, and therefore have a high probability of failing, and penalises banks that experience high returns. With technological advances and increased digitalisation, as depositors become more sensitive to price and risk, ensuring the stability of the banking system is likely to become even more challenging for bankers and regulators alike [51-55].

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