



Protecting Your Deposits

Deposit Protection Scheme

Highlights

KEY ATTRIBUTES OF EFFECTIVE RESOLUTION REGIMES

- The Financial Stability Board (2011) outlines the key attributes of effective resolution regimes for financial institutions. It sets out the responsibilities, instruments and powers that regulatory authorities should have for effective and orderly resolution of financial institutions.
- The key attributes relate to scope, resolution powers, set-off, netting, funding of firms in resolution, recovery and resolution planning, among others.

Scope

- The resolution regime should be comprehensive enough to cover financial institutions (banking institutions, non-bank financial institutions, holding companies of a firm, subsidiaries that are significant to the operations of the business insurers and financial market infrastructures) that are viewed to be systematically significant or critical if it fails.

Resolution Powers

- In general, the resolution should have explicit powers which may include; power to replace senior management and directors of an institution and manage all the affairs of the institution including collecting outstanding loans or advances.
- The resolution authority may have powers to override shareholders of the institution in the best interest to resuscitate the firm.
- This may be through capitalization or restructuring the company's assets or liabilities or effect the closure and orderly wind-down of the whole or part of a failing firm with timely payout or transfer of insured deposits and prompt access to transaction accounts and to segregated client funds.

Resolution Process

- The resolution authority should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank.
- For the purposes of ensuring finality and timely resolution of an identified weak, troubled, problem or insolvent banking institution, as the case may be, the law should empower the authorities to, with or without any approval, assignment or consent of any director, officer, shareholder, creditor, depositor, or investor of the banking institution concerned, establish and implement, or cause implementation of, a plan of resolution.

Funding of Firms in Resolution

- Deposit insurer should have all funding arrangements in place to ensure prompt reimbursement of depositors with minimal use of public funds.
- Contributory institutions should provide primary funding through payment of premiums to meet the cost of deposit protection as it is their members that benefit directly from deposit protection.
- In case of systemic crisis, the insurer may require back-up funding from government, other safety net players such as the Central Bank or borrow from capital markets to meet depositor payments.
- In relation to this, deposit insurers around the world collect premiums either ex-ante or ex-post to meet deposit obligations.

To be continued...

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