Objectives of Deposit Protection

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The Deposit Protection Fund was established on July 1 2003, in terms of Section 66 of the Banking Act Chapter 24:20 as read with Section 4 of the Deposit Protection Corporation Act Chapter 24:29.

The fund is vested in and administered by the Deposit Protection Corporation.

The need for deposit insurance in Zimbabwe was underscored by bank failures in the market between 1995-2000 (mainly United Merchant Bank, Universal Merchant Bank, Zimbabwe Building Society and First National Building Society). The new Deposit Protection Corporation Act [Chapter 24:29] has expanded the role of the corporation from that of a "paybox" function, restricted to the role of reimbursing depositors, to that of a fully-fledged risk minimisation mandate, which plays a wider role in enhancing financial stability.

The current design of the country's Deposit Protection Scheme (DPS) is in conformity with the Public Policy Objectives, available on our website http://www.dpcorp.co.zw. The Public Policy Objectives were adopted in 2002 after thorough research and extensive consultation; and to conform with the joint Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI)'s Core Principles for Effective Deposit Insurance Systems.

The principal objectives of the Deposit Protection Corporation's statutory responsibilities are to:

- protect depositors;
- maintain stability and public confidence in the financial system; and
- protecting the fund against loss. These statutory responsibilities are fulfilled by:

(i) providing insurance to compensate depositors in the event of a bank failure;

(ii) assessing and monitoring contributory institutions for safety and soundness via on-site examinations, off-site surveillance, and special investigations;

(iii) monitor the business and activities of contributory institutions to promote sound risk management practices, good corporate governance, and consumer protection;

(iv) keeping the public informed and promote public understanding of the benefits and limitations of the deposit insurance system;

(v) promoting consistency, accountability and transparency in deposit insurance activities and foster competition and regulatory neutrality;

(vi) managing and resolving failed contributory institutions; including curatorship, investigations and liquidation of failed banks;

(vii) pursuing investigations against culpable bankers to their logical conclusion;

(viii) recommending legislative reforms to ensure finality in problem bank resolution, provide depositors prompt access to their funds in the event of a bank failure or interim relief under curatorship;

(ix) increasing DPC's brand visibility through comprehensive public awareness programs aimed at increasing financial literacy and better informed depositors; and

(x) assisting the Minister of Finance and the Reserve Bank in the formulation and implementation of fiscal and monetary policies

It should be noted that some of the enhanced responsibilities of the corporation are complementary to those of the Reserve Bank of Zimbabwe. Given the foregoing, there is pedagogic value in undertaking a brief exploration of some of the corporation's key responsibilities.

Providing insurance to compensate depositors in the event of a bank failure

In the event of a bank failure, DPC reimburses depositors of the failed institution up to the maximum insurable amount which currently stands at US$500 per depositor.

This ensures that small depositors have prompt access to part or all of their funds in the event of bank failure. By carrying out this function DPC promotes public confidence in the Zimbabwean financial system as it protects depositors against the loss of their deposits.

Enhancing stability and public confidence in the Zimbabwe financial system

The existence of an explicit deposit protection scheme provides a mechanism to prevent panic withdrawals by assuring depositors on the safety of their deposits even in the event of failure of a contributory institution, thereby reducing the likelihood of bank runs and the on-set of a systemic crisis.

This enhances financial system stability by reducing the probability of bank runs.
Given the DPC's statutory risk minimisation mandate, the corporation now has a mandatory role in identification, assessment and management of financial risks.

Accordingly, there is need for access to timely and accurate information, so they can assess the financial condition of an individual institution, as well as the financial system.
In this regard, the DPC will be involved in assessing and monitoring contributory institutions for safety and soundness via on-site examinations, off-site surveillance, and special investigations.

Promoting sound business practices in contributory institutions

Unsophisticated depositors are frequently incapable of knowing the true nature of the condition and performance of a banking institution due to lack of skills and resources as well as opaqueness of the information.

Imprudent banking practices, however, erode confidence in the banking system to the detriment of financial stability.
Against this background, DPC monitors the business and activities of contributory institutions to promote sound risk management practices, good corporate governance, and consumer protection thereby complementing the supervisory and regulatory framework of the central bank by providing incentives for sound risk management in the financial system.

This helps to reduce high incidence of unethical practices in the banking industry, thereby engendering confidence in the system.

Fostering competition and regulatory neutrality

Membership to the deposit protection scheme is compulsory to avoid attracting only the riskier banking institutions, a phenomenon referred to as adverse selection in economic literature.

In addition, all deposits meeting the definition of deposit in the Deposit Protection Act (Chapter 24:29) except for interbank deposits are eligible for protection, in order to curtail the possibility of financial exclusion.

In other words, the deposit protection scheme applies all depositors be they in big, small, private or government owned deposit taking institutions.
This creates a level playing field through guaranteeing depositor reimbursements for all players in the sector, thereby promoting consistency, accountability and transparency in deposit insurance activities and foster competition and regulatory neutrality.

Bank resolution and recoveries

The DPC also plays a major role in the failure resolution and the closure process for failed institutions.
DPC in consultation with the central bank can employ various resolution options to turn around the fortunes of a distressed bank.

Accordingly DPC is currently building capacity in managing and resolving failed contributory institutions; including curatorship, investigations and liquidation of failed banks as well as pursuing investigations against culpable bankers to their logical conclusion.

In the event of a bank closure, DPC is appointed liquidator and is responsible for securing and disposing the assets of a failed banking institution.
Securing assets of the failed bank helps to minimize asset stripping and preserve the value of the bank.

In the event of liquidation, creditors and depositors will be paid from proceeds from asset sales and recoveries from debtors.
The disposal of the assets of a failed bank and the recovery process is guided by commercial considerations.

The decisive action to solve the problems of the bank might take the form of private sector solutions (recapitalisation, sale of bank shares or merger), assisted transaction (purchase and assumptions) or liquidation and depositor reimbursement.

Since its inception in 2003, DPC has compensated depositors of five failed banking institutions, which where subjected to liquidation, namely; Century Discount House, Rapid Discount House, Sagit Finance House, Genesis Investment Bank and Royal Bank. Payments to Genesis and Royal Bank depositors are still in progress and we urge all those depositors who have not yet submitted their claims to get in touch with us.

In accordance with the provisions of the current legislative framework, no compensations were made to depositors of failed banking institutions, whose resolution methods did not entail liquidation.

Examples include NDH, High Veld, Intermarket Bank and Intermarket Discount House, as well as the original Trust Bank, Royal Bank, and Barbican Bank, whose assets were sold to ZABG in 2005. As already indicated, some of the banking institutions also failed prior to the establishment of the DPC.

The establishment of an explicit deposit insurance scheme in Zimbabwe in 2003 was a major milestone in the banking sector as it ushered in a vital component of the financial safety net.

As portrayed in this article, DPC has statutory responsibilities to:

- protect depositors;
- maintain stability and public confidence in the financial system;
- providing a framework for the resolution of failing/failed banks and
- protecting the fund against loss.

Through its comprehensive public awareness programmes, DPC promotes financial literacy and help keeping the public informed and promote public understanding of the benefits and limitations of the deposit insurance system.

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