



Protecting Your Deposits

Deposit Protection Scheme

Highlights

CASE FOR INTEGRATED PROTECTION SCHEMES

Introduction

- The on-going evolution of the financial services sector on the basis of deregulation, globalization, financial innovation, informational and technological advances facilitated conglomeration in the financial sector. The operational design of financial institutions has moved away from the era of distinct banking, insurance and securities business entities to a more consolidated functional structure offering integrated financial services and complicated financial products. These changes have necessitated a review of the scope and functional role of deposit protection schemes in an attempt to improve crisis responsiveness, enhance the protection of financial consumers and contribute to the stability of the financial system.

Integrated Protection Schemes (IPS)

- Some jurisdictions in Europe and Asia have introduced IPS to provide protection to bank and microfinance bank depositors; insurance and pension policyholders; and stock exchange investors in the event that their bank, microfinance bank, insurer, pension or asset management company fails.
- IPS is a system where a single deposit insurer provides guarantee or protection to investors in security firms (Investor Compensation Scheme), policyholders of insurance companies (Insurance Compensation Scheme) and depositors in deposit-taking financial institutions (Deposit Protection Scheme) for the loss of insured funds in the event of a member institution's failure.
- Introduction of an IPS is important from the perspective of policyholders and investors that their savings be protected in the unlikely event of failure of an insurance or asset management or stockbroker. An IPS can benefit the insurance and securities sectors as it will level the playing field among the banking, securities and insurance industries, address key gaps in consumer protection, allows coordinated policy decisions with other safety net participants and enhance resolution and crisis response capabilities.
- The design of the IPS should be in such a way that: it provides protection to at least 90% of the clients by volume or number of all insurance policyholders, security holders and/or depositors in the market; offer similar protection for financial consumers in different financial sectors and be tailored to meet the unique needs of our local environment; cost efficient; and contribute to the stability and confidence in the financial system.
- Potential challenges in adopting an IPS can be adequately addressed if the IPS is well designed, properly managed and a well-developed legal framework that is a prerequisite for adopting an IPS is put in place.

For more information on the Deposit Protection Scheme contact:

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