



Protecting Your Deposits

# Deposit Protection Scheme

## Highlights

### CHARACTERISTICS OF AN EFFECTIVE DEPOSIT PROTECTION SCHEME

#### Introduction

The advances in financial liberalization and globalization demand an appropriate Deposit Protection Scheme that takes into account the new economic and financial environment, more so since it will become increasingly more difficult for the government to operate an implicit Deposit Protection Scheme (DPS) in the changing environment.

Some of the characteristics of an effective Deposit Protection Scheme are listed below:

#### a) Public Policy Objectives

The principal public policy objectives for deposit insurance scheme are to protect depositors and contribute to financial stability. These objectives should be formally specified and publicly disclosed. The design of the deposit protection scheme should reflect the scheme's public policy objectives.

#### b) Mandate and Powers

The mandate and powers of the deposit insurer should support the public policy objectives and be clearly defined and formally specified in legislation.

#### c) Governance

The deposit insurer should be operationally independent, well-governed, transparent, accountable and insulated from external interference.

#### d) Relationships with other safety-net participants

In order to protect depositors and contribute to financial stability, there should be a formal and comprehensive framework in place for the close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety-net participants.

#### e) Membership

Membership in a deposit insurance scheme should be compulsory for all banks.

#### f) Coverage

Refers to the guaranteed amount a depositor will receive in the event of bank failure and type of deposits protected. Coverage should be clearly defined, limited, credible, cover the large majority of depositors and should be consistent with the deposit protection scheme's public policy objectives and related design features.

#### g) Sources and uses of Funds

The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit protection should be borne by banks.

*To be continued ...*

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