



Protecting Your Deposits

Deposit Protection Scheme

Highlights

CORE PRINCIPLE 7 - MEMBERSHIP

The International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems states that membership to the deposit protection scheme should be compulsory for all financial institutions accepting deposits to avoid adverse selection. In other words, membership should be compulsory both to private or government-owned (with or without explicit guarantees) financial institutions that are involved in deposit taking.

Once a bank is registered or authorized to operate by the relevant authorities it automatically becomes a member of the deposit protection scheme. In cases where the newly established bank is in breach of certain supervisory or membership requirements, it maybe allowed entry into the system subject to rectifying the identified deficiencies within a certain period in order to maintain its membership status.

It is imperative that all the conditions, processes to be followed and periods of attaining membership are clearly documented and transparent. This is important so that newly established banks can easily follow the process and minimizes delays into acceptance, as members, which may be detrimental to building confidence in the banking system.

In some jurisdictions, the deposit insurance agency is not responsible for granting membership to an institution becoming a contributory institution. Under such circumstances, the relevant authority coordinates with the deposit insurer using administrative procedures and provisions in the law which normally calls for the deposit insurer to be given a clear and reasonable time frame within which the agency is consulted or informed in advance, and is given sufficient information about an application for a new licence.

In rare circumstances when a membership license is being cancelled/terminated normally due to revocation or surrender of a bank's licence, the deposit insurer informs all its stakeholders including depositors concerning the status of their deposits.

Up Next: Core Principle 8 – COVERAGE

For more information on the Deposit Protection Scheme contact:

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