



Protecting Your Deposits

Deposit Protection Scheme

Highlights

CORE PRINCIPLE 9 - SOURCES & USES OF FUNDS

A Deposit Protection Scheme (DPS) should have all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims available including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by contributory institutions since they and their clients directly benefit from having an effective DPS. In Zimbabwe, the DPC Fund is largely funded by premium income from contributory institutions.

In most jurisdictions, premiums are collected on an ex-ante basis to build the fund in advance before a bank failure. In Zimbabwe, the Deposit Protection Corporation, likewise, collects premiums on an ex-ante basis. The funding arrangements are clearly specified in law.

In order to give a proper footing when establishing a deposit insurance system, the deposit insurer may get seed capital from government in the form of grants or from international institutions which should be repaid in full if it is in the form of a loan.

In cases where the deposit insurer needs emergency liquidity, there should be back up funding arrangements either with the central bank, powers to borrow from the market, or arrangements with government. These mechanisms should be clearly spelt out in the law and set up in advance to ensure effective and timely access of funds when the need arises.

For deposit insurance agencies that collect premiums using an ex-ante method, they should determine a target fund size and set a time frame to achieve such a target. The target fund refers to the size of the ex-ante deposit insurance fund which is sufficient to meet the expected future obligations and operational costs of the deposit insurer, typically expressed as a proportion of total or insured deposits. The target fund size should be clear, transparent and reviewed periodically.

The deposit insurer has the responsibility to invest its funds in order to shore up its capital and this should be guided by a robust investment policy, which helps to safeguard the fund and enhance liquidity maintenance.

Up Next: Core Principle 10 – PUBLIC AWARENESS

For more information on the Deposit Protection Scheme contact:

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