



Protecting Your Deposits

# Deposit Protection Scheme Highlights

## Core Principles for Effective Deposit Insurance System in Detail.

The coming articles will explain each core principle in detail and how a deposit protection scheme is assessed to ascertain compliance with each Core Principle.

### Principle 1 – Public Policy Objectives

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

In Zimbabwe the public policy objectives of the DPS, which are in line with the provisions of the Act include:

- a) Protect small and less-financially-sophisticated depositors.
- b) Enhance financial system stability through minimizing chances of small depositors to cause bank runs, and thereby contributing to an orderly payment system.
- c) Enhance competition in the financial sector by mitigating some of the competitive barriers in the deposit-taking industry.
- d) In addition to the above, legal means and procedures should be found to facilitate the DPS to also enhance financial system stability through:-
  - i. Creating formal mechanisms for participating in resolving failing/failed deposit-taking institutions.
  - ii. Participating in avoiding and/or resolving a financial crisis.

### Carrying out a compliance assessment essential criteria

- The public policy objectives of the deposit protection system are clearly and formally specified and made public, for example through legislation or documents supporting legislation.
- The design of the deposit protection system is consistent with the system's public policy objectives.
- There is a review of the extent to which a deposit protection system meets its public policy objectives. The timing of regular reviews will depend on jurisdiction-specific factors but should occur at least every five years, or more frequently as deemed necessary. This involves both an internal review conducted on a regular basis by the governing body and an external review conducted periodically by an external body (e.g. the body to which the deposit insurer is accountable or an independent entity with no conflicts of interest, such as an auditor general). Any review must take into consideration the views of key stakeholders.
- If additional public policy objectives are incorporated, they do not conflict with the two principal objectives of protecting depositors and contributing to the stability of the financial system.

For more information on the Deposit Protection Scheme contact:

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