



Protecting Your Deposits

Deposit Protection Scheme

Highlights

CORE PRINCIPLE 13 - EARLY DETECTION & TIMELY INTERVENTION

The Core Principles for Effective Deposit Insurance Systems (Core Principles) state that a deposit protection agency should be part of a financial safety net framework that deals with early detection and timely intervention in troubled banks. The framework should be crafted in such a way that it allows for intervention well in advance before the contributory institution becomes non-viable. Such actions should protect depositors and contribute to financial stability. The principal objective of the Deposit Protection Corporation (DPC) is to contribute to financial system stability by promoting public confidence and promptly compensating depositors, thus preventing individual bank failures from escalating into a systemic banking crisis.

Unsophisticated depositors are frequently incapable of knowing the true financial condition of a banking institution due to lack of skills and resources. Against this background, DPC carry out offsite surveillance (risk assessment and monitoring) to promote sound business and risk management practices among banks thereby complementing the supervisory and regulatory framework of the Central Bank. This helps to engender confidence in the system, thereby promoting financial system stability.

While financial safety net frameworks differ significantly among jurisdictions, an effective framework should comprise of all regulators/supervisors or agencies/authorities in the financial services sector including the deposit insurer. In Zimbabwe, the DPC is part of the Multidisciplinary Financial Stability Committee which comprises of the Reserve Bank of Zimbabwe, Insurance and Pension Commission of Zimbabwe, and Securities and Exchange Commission of Zimbabwe.

The Multidisciplinary Financial Stability Committee meets regularly to consider financial stability developments and craft possible ways to mitigate emerging vulnerabilities and fault lines in the financial services sector.

To be effective, the financial safety net players should have operational independence and accorded necessary powers to perform respective roles covering early detection and timely intervention. Logically the, framework for early detection taps into off-site surveillance and onsite supervisory regime focusing on the institution's capital, asset quality, management, earnings, liquidity and sensitivity to market risk, as well as macroprudential indicators. The failure resolution framework has clear benchmarks/criteria, which are used to determine distressed contributory/banking institutions. The criteria is clearly defined in law or regulations.

UP NEXT...Core Principle 14 - Failure resolution.

For more information on the Deposit Protection Scheme contact:

PUBLIC RELATIONS DEPARTMENT

Evelyn House, 26 Fife Avenue/Cnr Blakiston Street, P.O. Box 7390, Harare.
e: claims@dpcorp.co.zw | w: www.dpcorp.co.zw | t: +263 242 252 336



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