Deposit Protection Corporation

Protecting Your Deposits

Deposit Protection Scheme

Highlights

DEPOSIT INSURANCE AND FINANCIAL SECTOR STABILITY

Deposit insurance is a component of the financial safety net, which also includes prudential regulation, oversight, resolution, and lender of last resort. The aim of a financial safety net is to ensure the smooth functioning of the financial system and to reduce the likelihood of bank failures and thus preserve financial stability.

Deposit insurance is a bank deposit guarantee scheme which ensures that depositors are reimbursed part or all of their deposits in the unlikely event of a bank insolvency. Deposit insurance contributes to financial stability by reducing panic withdrawals (also known as "runs") by depositors from a bank which is deemed unsafe. Such a deposit guarantee scheme gives confidence to depositors that they will not lose their deposits in the event of a bank failure.

Prudential regulation and supervision is concerned with ensuring the safety and soundness of the financial system and protecting depositors and investors. It comprises laws and regulations that govern financial sector entities as well as on-site and off-site prudential supervision to ensure compliance with the laws, regulations, and standard operational procedures. Some of the methodologies used to ascertain the safety and soundness of banking institutions include risk-based supervision, macroprudential assessment and consolidated supervision.

A lender of last resort is the institution (typically a central bank) that provides liquidity to financial institutions that are experiencing liquidity challenges after exhausting all other options. In his classical book Lombard Street (1873) Bagehot highlights principles that continue to guide central banks and these are summarised by Paul Tucker (2009) as follows: "to avert panic, central banks should lend early and freely (i.e. without limit), to solvent firms, against good collateral, and at "high rates."" This has offered a useful framework for averting financial crises.

The International Association of Deposit Insurers defines bank resolution as "a disposition plan and process for a non-viable Bank." It further highlights that resolution may include liquidation and depositor reimbursement; transfer and/or sale of assets and liabilities; establishment of a temporary bridge institution; write-down or conversion of debt to equity and the application of procedures under Insolvency law to parts of an entity in resolution, in conjunction with the exercise of resolution powers. Resolution powers are powers legally available to authorities vested with the responsibility for resolution, which can be exercised without the consent of shareholders, creditors, debtors or the entity in resolution.

In Zimbabwe, the Reserve Bank of Zimbabwe carries out the prudential regulation, supervision, resolution, and lender of last resort functions, while the Deposit Protection Corporation is vested with the deposit insurance function and shares in the resolution function.

For more information on the Deposit Protection Scheme contact:

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