



Protecting Your Deposits

Deposit Protection Scheme Highlights

IADI CORE PRINCIPLE 14 – FAILURE RESOLUTION

According to the International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems (Core Principles), a deposit insurer must have an effective failure resolution regime in place in order to effectively protect depositors and contribute to financial stability. Furthermore, the failure resolution framework must be clearly stated in law of the deposit protection system and include a special resolution regime.

To have an effective failure resolution framework, a deposit insurer must be granted operational independence and adequate resources to fully exercise its resolution powers and mandate. In Zimbabwe, the Deposit Protection Corporation (DPC / the Corporation) is a separate legal entity with its own budget and board of directors. The bank resolution framework in Zimbabwe principally relies on reimbursement and liquidation options. Some areas of improvement include the need to provide for writing down of shareholding.

IADI requires jurisdictions where multiple safety net participants are charged with the responsibility of effecting resolution, to clearly show mandates, objectives, and powers of each participant. In Zimbabwe, the mandates, roles, and responsibilities of each safety-net participant are clearly defined and formally specified in the various statutes. The DPC Act, for instance, clearly articulates the mandate, role, and responsibilities of the Corporation. DPC has formal arrangements with the Reserve Bank of Zimbabwe (RBZ) via statutes and a memorandum of understanding. The law mandates RBZ to appoint DPC as a liquidator of failed banking institution, which appointment equivalent to a court appointment. Thus, DPC's appointment by RBZ does not require further confirmation by the courts.

It is imperative to note that resolution frameworks go beyond just depositor reimbursement to include such tools that may help to preserve good assets or protect the health part of the bank. Various corrective actions are instituted before recourse to closure and deposit payout. DPC managed to successfully restructure Tetrad without resorting to liquidation. In terms of the Banking Amendment Act, 2015, the RBZ can utilize a wide array of resolution tools like mergers, acquisitions, establishment of bridge banks, curatorship, and taking control of a problem banking institution, establishing and instituting a resolution plan, and taking any action necessary to give effect to the plan of resolution, including sale or closure of branches, agencies or dismissal of employees.

Depositor priority or creditor hierarchy ensures that shareholders take losses first. The DPC is currently amending its laws to bring speedy and finality in resolving failed member institutions, and to enhance depositor priority.

In the event of a bank closure, DPC moves in to secure a failed bank's assets, minimize asset stripping, preserve the value of the bank as well as inventorying its assets and liabilities. The resolution option might take the form of private solutions (recapitalization, sale of bank shares or merger), purchase and assumptions or liquidated payout. The inventories cast will expedite the liquidation processes of compensating creditors and depositors via proceeds from realization of assets and recoveries from debtors. This promotes the stability of the financial system as it allows DPC to expeditiously and reimburses insured depositors. In conclusion, the establishing of a competent resolution framework for failing or failed banks enhances financial stability and public confidence in the financial system.

For more information on the Deposit Protection Scheme contact:

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