



Protecting Your Deposits

Deposit Protection Scheme

Highlights

GOVERNANCE OF DEPOSIT PROTECTION SCHEMES

Governance generally refers to the system of principles, policies, procedures and clearly defined responsibilities and accountabilities used by stakeholders to overcome conflicts of interest inherent in the corporate form. In Deposit Protection Systems (DPS), it concerns the relationship between the deposit insurer and the authority from which it receives its mandate or to which it is accountable.

Governance structures in deposit insurers vary like in any other organization depending on ownership. They can be in form of state enterprises, government departments, departments of Central Banks or privately owned. The key pillars are as discussed hereunder.

Key Elements (Pillars) in Governance

Operational Independence

Gives a DPS the ability to exercise or use its legitimate powers and means as pronounced in legislation without external interference. The relationship between a DPS and its key stakeholders can hold the potential for conflict of interest and for excessive stakeholder influence and interference.

In practice, it is a good governance practice for the DPS to have operational independence with regard to the use of its powers and the means accorded to it to fulfill its mandate. To be operationally independent, a DPS must carry out its mandate in a way that minimizes the potential for conflicts arising from undue political, industry, or other external influence.

Accountability

Deposit insurers should fulfill their mandate and be responsible for their actions. Board is accountable to shareholders whilst management is accountable to the Board.

Integrity

Requires that in discharging the mandate of an organization, individuals should ensure and follow appropriate standards of behavior and conflict of interest codes, and that the day-to-day operations of the insurer are subject to internal control and audit.

Transparency and Disclosure

Relates to revealing and clarifying actions and decisions of an organization. Disclosure relates to availing information to stakeholders necessary for them to judge the effectiveness of the organization's conduct.

There is no best specific governing body structure for a DPS. Some jurisdictions use a two-tier board structure, in which the supervisory function of the board is performed by a separate entity, known as a supervisory board, which has no executive functions. Other jurisdictions, by contrast, use a one-tier board structure in which the board has a broader role.

The Board of directors for a deposit insurer is normally composed of nominees representing the interest of all stakeholders that is the depositors, shareholder and the financial services sector (contributory institutions). Each stakeholder will have representation on the Board to protect their interests and for their voice to be heard on matters concerning policy. In situations where the deposit insurer is owned by the government, nominees are normally employees from the line Ministry whilst depositors and contributory institutions select representatives from a pool of former bankers or individuals who have wealth of experience in banking.

For more information on the Deposit Protection Scheme contact:

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