Deposit Protection Corporation

Protecting Your Deposits

Deposit Protection Scheme

Highlights

THE ROLE OF DEPOSIT PROTECTION DURING A CRISIS

It is imperative to note that notwithstanding the best supervisory efforts, banks do fail due to a number of reasons. As a result, governments across the globe established explicit deposit protection systems. In the last few years, the role of deposit protection has been undergoing various changes in light of the effects of the global financial crisis and the need to maintain financial stability.

The evolution of the global financial crisis of 2008/09 showed the importance of maintaining depositor confidence in the financial system and the central role that deposit protection serves in maintaining that confidence and supporting financial stability.
During a crisis, the Deposit Protection Corporation of Zimbabwe (DPC) coordinates with other financial safety net players to identify financial risks and develop coordinated policies to confront financial distress and respond to financial fragility. This is possible as the DPC has operational and institutional independence.

In Zimbabwe, notwithstanding that there is no crisis, the DPC and other financial safety net players (Reserve Bank of Zimbabwe, Insurance and Pensions Commission, Securities and Exchange Commission of Zimbabwe) meet regularly to discuss financial stability issues in order to identify potential risks and provide mitigating factors. During bank closures in Zimbabwe, the DPC works closely with the Reserve Bank of Zimbabwe which is the supervisor, regulator and resolution authority of banks to ensure an orderly resolution of the failed institution.

In the event of a bank failure/crisis, the DPC ensures that depositors have access to their money by reimbursing depositors of the failed institutions up to the coverage limit. This helps to minimize losses on the part of depositors and investors from crisis in the bank's balance sheet.

DPC helps to prevent or reduce losses associated with the bank failure to less informed depositors and may be viewed as part of a broader consumer protection program. By carrying out this function, DPC promotes public confidence in the financial system as it protects depositors against the loss of their deposits and help minimize panic and bank runs.

Lessons from the global financial crisis underscored the importance of rapid resolution to arrest contagion and restore stability. This, therefore, means that during a crisis, the role of a Deposit Protection System (DPS) is to ensure a resolution process where banking institutions can be wound down in an orderly fashion, removing the unsafe or unsound elements but preserving the vital financial activities. Inorder to fully discharge this role, there is need for deposit insurers, as highlighted by international financial standard-setting bodies like the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS), to have appropriate tools to deal with all types of financial institutions in difficulty.

In the event of a bank closure, the DPC is responsible for the process of actually securing and inventorying a bank's assets and preparing a final set of financial statements. The decisive action to resolve the problems of a failed banking institution might take the form of private solutions (recapitalization, sale of bank shares or merger), purchase and assumptions or liquidated payout. Securing assets of a failed bank helps to minimize asset stripping and preserve the value of the bank. In the event of liquidation, creditors and depositors will be paid from proceeds from asset sales and recoveries from debtors on a prorata basis.

For more information on the Deposit Protection Scheme contact:

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