



Protecting Your Deposits

Deposit Protection Scheme Highlights

TYPES OF DEPOSIT PROTECTION SYSTEMS

A Deposit Protection System (DPS) guarantees depositors repayment of part or all of their deposits in the event of failure of a contributory institution. Deposit protection can either be explicit or implicit. Although there are some differences between explicit and implicit deposit protection systems, their main objective is to protect depositors and enhance financial system stability.

Implicit Deposit Protection

Under implicit deposit protection systems, the government's protection of depositors is discretionary. This system does not have any formal laws or regulations relating to the compensation of depositors in the event of a bank failure. The reimbursement amount and the form of protection is based on an ad hoc decision solely made by the government and is responsible for the financing of depositors.

This system has drawbacks in that it creates uncertainty about how and when depositors will be compensated and funding depends on government's ability to access funds after a bank failure. As a result, in some countries depositors have not been reimbursed at all. In Zimbabwe, some depositors of banking institutions that failed before 2003 and those whose resolution did not involve liquidation failed to receive any compensation highlighting the weaknesses of an implicit type of deposit protection.

Explicit Deposit Protection

Explicit deposit protection systems have clearly specified laws that guarantee depositors repayment of part or all of their deposits in the event of failure of a contributory institution. The laws specifically provide for the basic aspects of a deposit protection system such as coverage limits, if and how the system will be funded, how depositors are to be paid in the event of a bank failure, types of institutions and deposits eligible for protection, and whether membership is voluntary or compulsory. It is normally created by an Act of Parliament. Zimbabwe has had an explicit deposit protection system since 2003. The Deposit Protection Corporation ("Corporation" / "DPC") has been reimbursing depositors of failed contributory institutions over the years and is currently compensating depositors for Afrasia, Allied, Interfin and Trust Bank. In the absence of an explicit Deposit Protection System, depositors of several failed banking institutions which went into liquidation would not otherwise have received any form of compensation.

Mandates under Explicit Deposit Protection

The categories differ in powers and mandates, but they share the same overall objective of promoting financial system stability by providing depositors with clarity, reassurance and confidence regarding their savings placed with banks. The mandates of explicit deposit protection are generally well defined and formalized, and may be broadly classified into four categories:

- a) Paybox** – the mandate is narrow and deposit insurers have limited set of powers that facilitate payment of claims to depositors.
- b) Paybox plus** - has additional responsibilities and resolution functions over and above reimbursing depositors. The DPC in Zimbabwe operates under a paybox plus mandate.
- c) Loss minimizer** - mandate allows the deposit insurer to actively engage in the selection from a full suite of appropriate least-cost resolution strategies and in some cases the deposit insurer may inject capital in a member institution.
- d) Risk minimizer** – with this mandate, the deposit insurer has comprehensive functions that include a full suite of resolution powers as well as prudential oversight responsibilities. Deposit insurers operating under this mandate have more extensive powers to assess and limit their risk; access examination data from the supervisory agency; have direct access to information from insured institutions, and authority or some influence over decisions to grant or terminate deposit insurance. A number of jurisdictions are responsible for, or participate in, the resolution of failed institutions and some have receivership or liquidation powers to dispose of the assets and settle the claims of failed institutions.

For more information on the Deposit Protection Scheme contact:

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