Understanding deposit insurance claims procedure

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DEPOSIT protection schemes are designed to protect depositors and maintain financial stability.

By insuring the deposits, the deposit protection scheme fosters a climate of confidence so that banks are less exposed to self-fulfilling panics, or bank runs.
Deposit protection reduces financial uncertainty, thereby building confidence in the financial system and enhancing financial inclusion.
When bank failure is imminent or inevitable, problem bank resolution and intervention strategies help provide an orderly exit for failed banks as well as prompt reimbursement of insured deposits.

A deposit insurer requires a claims procedure and coverage rules for a quick and effective reimbursement process which is detailed below.

Deposit insurance claims procedure:

a) Planning the payout

The payout commencement date differs across jurisdictions. In Zimbabwe, the Deposit Protection Corporation Act stipulates that payout should commence within three months from date of closure of a contributory institution.

In order to meet the deadline, it is imperative that a payout plan be developed addressing issues relating to resources, information requirements, activities and scheduling, reporting requirements and payout budget.

Obligations of a Deposit Protection Scheme to a large extent depend on coverage rules as well as balances in the account of each depositor.
Accordingly, it is imperative that a deposit insurer compiles, as soon as practicable, a deposit register detailing the balance in each account, debt owed by the depositor, unprocessed Real Time Gross Settlement balances, any other liabilities owed to the bank and automatically set off against the individual's deposit balance.

For depositors with more than one account in the same institution benefiting the same person, the balances will be aggregated and the individual will be reimbursed the maximum limit.

In those jurisdictions where deposits and loans set-off provisions do not apply, deposit insurers pay the total balance in the account up to the prescribed limit, to enable faster payment and recover the money through the liquidation process.

b) Claims submission and verification

Following the placement of a contributory institution on provisional and final liquidation by the High Court, the DPC advises the insured depositors in writing, via electronic and print media to collect claim forms from its offices or to download them via the Internet in order for them to be compensated.

A duly completed claim form is submitted to DPC together with supporting documents (copy of national identification card and bank statement), thorough vetting is carried out to verify client's signature.

In cases where a third party completes a claim form on behalf of another depositor, a Power of Attorney or affidavit is required designating the person as authorised to sign documents on behalf of the account holder or claimant.

The claim form should be certified or notarised by a Commissioner of Oaths.
Claims on account of deceased depositors require a letter of administration or an order from a court of law confirming the executor of the estate.

In case of joint account, where one party is deceased, a letter of administration is required before payment is made or death certificate of the deceased depositor.

Where the account holder is a minor, the parent or guardian should submit a copy of the minor's birth certificate, affidavit or any such documentation by guardian confirming the minor/parent relationship.

All alterations or erasures on the claim form must be countersigned by the account holder.
Payment process

Once the verification process is complete, payment is done either be by cheque or electronic funds transfer. The purpose of the payout process is to make payments to depositors within the limits established for insured deposits.
Claims for payment out of the fund must be made up to 18 months after the trigger event date on which the DPC becomes obliged to make a payment to depositors of the policyholder.

If the claim is not made within this period, it will be claimed through the liquidation process using the formula applicable to all creditors.

Coverage rules

Deposit insurers provide insurance protection against the loss of depositors' funds, subject to the eligibility criteria and maximum coverage available.

It does not cover loss of deposits by fire, theft or fraud or the contents of safety deposit boxes. The deposit insurer's Act and Regulations provide the insurance coverage which is based upon the ownership rights and capacities in which deposit accounts are maintained with a contributory institution.

Eligibility criteria for deposit insurance
Deposit insurance protection applies to depositors whose monies are held or placed at a CI that is insured and the deposits has to be insurable deposits.

In Zimbabwe, all financial institutions registered to carry on the business of accepting deposits and which are licensed under the Banking Act or the Building Societies Act are eligible for deposit insurance coverage.

These institutions include: commercial and merchant banks, finance houses, discount houses and building societies.
In some jurisdictions deposit insurance extends to other types of financial institutions especially under integrated deposit protection schemes.

Maximum insurance coverage
The maximum protection available to a depositor in any one banking institution varies from one jurisdiction to another. In Zimbabwe it is currently US$500 per depositor per institution, regardless of citizenship or country of residence or number of accounts held.

In countries such as the USA it is US$250 000, 100 000 euros for the European Union countries and about US$3300 in Nigeria. The coverage limit amount is flexible and is also determined taking into account the size of the fund. Interest accrued (net of withholding tax) through to the date of the CI's closing/failure is added to the principal when calculating the amount of an insured deposit.

The maximum coverage applies to funds held in each CI without regard to deposits held in any other CI. If a depositor maintains several accounts in the same ownership category in two or more branches of the same CI, they are added together or aggregated for insurance calculation.

Deposits held in CI's owned by the same holding company, but separately incorporated are separately insured. In Zimbabwe, deposits held in different rights and capacities are as follows; single and joint ownership accounts, accounts held on behalf of others pursuant to a fiduciary relationship, irrevocable trust accounts and accounts of a corporation, partnership, or unincorporated association.

It is, therefore, possible to get US$500 coverage limit for each different account in a single CI in situations alluded to above

Scope and level of coverage

Insurable deposits are defined as a contributory institution's total deposit liabilities less inter-bank and Government deposits.

On the other hand, protected deposit means a deposit which is of such class (insurable deposit) as may be prescribed and immediately before the insolvency of the contributory institution with which it was made, created a liability, whether present or future, on the part of the institution towards the depositor.

Insured deposits refer to a depositor's aggregated deposits within each of the account ownership categories, not exceeding the maximum insurable limit.

All types of deposits received by a contributory institution in its usual course of business are insurable and include without being limited to the following time (fixed) deposits and certificates of deposits of all maturities, shares in a building society (Class B & C shares), other than capital shares, deferred shares or preference shares, demand deposits, savings deposits, interest accrued and/or payable on all deposits, deposit accounts which contain funds for the payment of taxes, insurance, principal and interest on mortgaged property and credit cards with credit balances

Uninsured deposits or investments include securities purchased by contributory institution on behalf of the depositor, deposits from another contributory institution, deposit from a statutory body or government entity, contents of safety deposit boxes, drafts or managers' cheques issued to trade creditors and managed funds, capital shares, negotiable certificates of deposit, bankers' acceptances, debentures issued by a contributory institution, deposits of directors, officers and auditors who are deemed to have contributed to or benefited from the circumstances giving rise to the insolvency.

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