“The Changing Business Environment and Deposit Insurers”
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Organization

- Introduction-DIS Trends since Global Financial Crisis
  - Zimbabwean Case-Pre Multicurrency System.
  - Post Multicurrency System.
- Asset Management.
- Profitability of Banks.
- Lending Activities.
- Technological Advancement
- Legal and Regulatory Changes
- Compensate Depositors
- Conclusion
Introduction

The Financial Stability Board (FSB) report (2012) noted that after the global financial crisis (GFC) there were substantial enhancements to deposit protection design features including:

a) the elimination of coinsurance.
b) introduction of higher coverage limits.
c) improvements in payout processes.
d) adoption of ex ante funding by some jurisdictions.
e) greater depositor awareness.
f) and strengthening of information sharing and coordination with other safety net participants.
Hanke & Kwok (2009) note Zimbabwe’s hyperinflation of 2007–08 was the first hyperinflation of the 21st century.

Unstable macroeconomic environment – inflation rates of 60% in 1999 and 500 billion % in 2008

Worsening social conditions: - food shortages - fuel shortages

Inability to borrow from domestic and international debt markets leading to excessive money supply to finance the budget deficit.
Banking Sector – Pre Multicurrency System

- Liquidity and solvency problems
- Inadequate risk management systems
- Poor corporate governance
- Diversion from core business to speculative activities
- Rapid expansion
- High levels of non-performing loans
- Unsustainable earnings

The result

- Loss of confidence
- Decline in deposits
- Some Banks placed under curatorship e.g CFX, Barbican, Royal Bank, Rapid Discount House, Time Bank.
Post Dollarisation Developments

- Zimbabwe’s hyperinflation came to a sudden end in Feb 2009 upon adoption of a multiple currency system.
- While dollarization brought financial and economic stability, it had several unintended consequences.
  - Erosion of capital (DPC Fund & member institutions) during the demonetization process.
  - Entire financial sector was thrust in start-up situations.
  - Bank deposits were wiped out creating acute liquidity constraints & huge demand for credit versus limited supply of credit due to low level of deposits.
Phase 1 (2009-2012)

- The economy experienced a period of rapid growth from 2009 (GDP: 5.4%) to 2012 (GDP: 10.6%).
- During this period the banking sector was characterized by:
  - Expansion in credit, rising NPLs and increase in profitability.

Phase 11 (2013 to date)

- Commendable economic successes registered between 2009 & 2011 have been difficult to maintain in 2013 to 2016 due to:
  - Chronic liquidity challenges.
  - Limited foreign cash portfolio & foreign direct investments.
  - Cash challenges and increasing NPLs peaking at 20.45% in September 2014.
Banking Sector Initiatives and Challenges

Challenges
- Borrowers developed culture of not repaying loans.
- Non interest income share to bottom line increased.
- Cash problems.

Initiatives
- The banking sector tightened lending procedures as a way to curb NPLs.
- Introduction of a surrogate currency (bond notes) in late 2016 at par with the US$. The bond notes are backed by a USD200 million loan facility from the Afreximbank.
- Establishment of ZAMCO in July 2014 to purchase NPLs.
- Central Bank and Afreximbank introduced a liquidity support facility (AFTRADES) which is similar to the lender of last resort facility.
- Regulatory capital increased to $100 million from $25 million.
- RBZ is in the process of setting up a CRB
From Dec 2014 banks reduced lending to minimize NPL’s. The decline in total loans was also as a result of assumption of bad debts by ZAMCO.
Asset Management

- The adverse economic environment resulted in the DPC failing to realize maximum value on asset disposal due to lack of buyers.
- Loan collections negatively affected by the increasing number of companies being placed under judicial management.
- Some borrowers especially individuals were laid off making it difficult to recover loans.

Strategies Implemented

- Rescheduling of loans and renegotiating loan conditions.
- Disposed some loans to ZAMCO (an SPV created by Central Bank).
- Accepting payment in assets (TBs or Properties) in cases where debtors could not pay in monetary terms.
- Pursued both auction system and private treaty on asset disposal.
- Insisted on buyers to meet at least the reserve value of the asset.
Notwithstanding the numerous anomalies the banking sector experienced, banks remained profitable as shown below;
The banking sector in Zimbabwe adopted a bank-led mobile banking system.

Money underlying a mobile payment is deposited in an account covered by deposit protection.

The owner of the funds will receive deposit protection for those funds up to the applicable limit (in the event of a bank failure).

Deposit protection does not guarantee that a consumer’s funds will be protected in the event of a bankruptcy or insolvency of a nonbank entity (agent) in the mobile payment chain.
Legal and Regulatory Environment

- In 2012, DPC adopted a progressive legal framework widening the mandate from being a pay box to that of risk minimizer.
- In 2016, the Amendments to the Banking Act stripped off DPC’s special examination powers, timely intervention role and gave limited role in resolution of failed banks.

**Implications to DPC.**

- The removal of powers to carry out special/targeted examination makes it difficult for DPC to ascertain whether:
  - banks are paying the appropriate premium contributions
  - operating in a safe and sound manner
  - complying with terms and conditions of membership.
Currently, DPC has a Risk Assessment & Surveillance Section which is mainly involved in the off-site surveillance of member institutions.

Information used in the off-site surveillance is obtained from member institutions on a monthly and quarterly basis through statutory returns.

DPC has incorporated stress tests and Early Warning Systems in its off-site surveillance.

Apart from off-site surveillance, DPC gets additional information on the status of member institutions from the central bank through monthly meetings.

However, there is need to formalise information sharing between the central bank, DPC and other financial safety net participants.

The Corporation adopted a model that will be used to determine the appropriate target fund size on a regular basis. The model was developed by the World Bank consultants and is forward looking.
Since inception in 2003, DPC has compensated depositors of nine (9) failed CIs, namely:
- Century Discount House;
- Rapid Discount House;
- Sagit Finance House;
- Genesis Investment Bank;
- Royal Bank;
- Trust Bank Corporation;
- Allied Bank;
- Interfin Bank; and
- AfrAsia Bank
Conclusion

- DPC has managed to weather the storm from adverse business environment and is currently resolving six (6) banks.

- The DPC Fund continues to grow steadily, premiums being the main source of income.

- Investment income is mainly from unit trusts and money market investments (short term).

- DPC enhanced its risk assessment and monitoring of member institutions by incorporating stress tests and early warning systems.
I THANK YOU