UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA
Denkleiers • Leading Minds • Dikgopolo tša Dihlalefi

The development of explicit deposit insurance schemes in selected countries in Southern Africa

By

Mbakiso Ndumiso Moloi

Student no: 16020899

Submitted in partial fulfilment of the requirements for the degree

Master of Laws (LLM Banking Law)

In the

Faculty of Law

University of Pretoria

April 2024

Supervisor: Dr AB Nyaude

ACKNOWLEDGEMENTS

This work is the culmination of years of dedication, perseverance, and the unwavering support of many incredible individuals. I would like to extend my deepest gratitude to those who have supported me throughout the journey of completing this thesis.

First and foremost, to my parents, Mbaakanyi David and Baba Moloi, thank you for your endless support, belief in my abilities, and for always motivating me to strive for excellence. Your sacrifices and guidance have been the cornerstone of my success. To the rest of my family, thank you for your collective support, whether near or far. It has been a source of strength and inspiration.

My heartfelt thanks go to my girlfriend, Ame Ofile Tshobo. Your unwavering love, patience, and encouragement have been a constant source of strength and inspiration. Your love and support have been invaluable, and I am truly grateful to have you by my side.

I would also like to express my sincere appreciation to my friends, whose moral support has been indispensable. Your encouragement and understanding have helped me through the challenges and triumphs of this journey.

I am profoundly grateful to my supervisor, Dr Ashley Nyaude, whose invaluable insights, guidance, and constructive feedback have been pivotal in bringing this work to fruition. Your dedication and expertise have greatly enriched my research.

Lastly, I would like to extend my gratitude to myself for the perseverance, dedication, and hard work that have gone into completing this pinnacle of my achievements. The countless hours of research, writing, and revising, as well as the ability to overcome challenges and stay focused, have been crucial in bringing this work to fruition. I take immense pride in presenting this thesis, which I consider a paragon of excellence in my academic endeavours thus far. It stands as a testament to the collective efforts and support of everyone mentioned above. Thank you all for making this possible.

DECLARATION OF ORIGINALITY

Full names of student: Mbakiso Ndumiso Moloi

Student number: 16020899

Declaration

1. I understand what plagiarism is and am aware of the University's policy in this regard.
2. I declare that this mini-dissertation is my own original work. Where other people's work has been used (either from a printed source, Internet, or any other source), this has been properly acknowledged and referenced in accordance with departmental requirements.
3. I have not used work previously produced by another student or any other person to hand in as my own.
4. I have not allowed, and will not allow, anyone to copy my work with the intention of passing it off as his or her own work.

DATE: 22 April 2024

SIGNATURE: ....

SUMMARY

This dissertation explores the evolution of explicit deposit insurance schemes (EDIS) in Southern African countries. It emphasises the important role of banks in the economy and their vulnerability to failures despite prudential requirements and supervision. Financial safety nets are essential for failing banks, and deposit insurance is the primary mechanism to protect depositors and maintain financial system stability in the event of a bank's failure. Originating in 1933 with the establishment of the Federal Deposit Insurance Corporation in the United States of America during the Great Depression, EDIS has become a global standard.

Southern Africa, with its developing financial sector, faces many challenges including bank failures, causing depositors to lose funds. The region's high interconnectedness increases the threat of contagion if parent banks fail. The absence of deposit insurance raises the likelihood of fiscal authorities succumbing to political pressure to bailout failing banks during crises as seen during the 2007-09 Global Financial Crisis (GFC). The GFC prompted the International Association of Deposit Insurers and the Basel Committee on Banking Supervision to establish the Core Principles for Effective Deposit Insurance Systems. Issued in June 2009, these principles are used by jurisdictions as a benchmark for assessing the quality of their deposit insurance systems and identifying gaps in their deposit insurance practices.

This research aims to evaluate international best practice standards for EDIS and extract lessons from the establishment of EDIS in the USA to address gaps in the implementation of deposit insurance schemes in Southern African countries. Examining ten Southern African countries, this research investigates varied progress in EDIS adoption. Case studies, particularly Zimbabwe as a pioneer of EDIS in the region and Namibia as a recent entrant, help to identify gaps and opportunities for enhancing deposit insurance frameworks in the region.

Keywords: Bank failure, Deposit Insurance, Financial Stability, Depositor protection, Southern Africa.

ACRONYMS

BCBS	Basel Committee on Banking Supervision
BIF	Bank Insurance Fund
CBL	Central Bank of Lesotho
DISB	Deposit Insurance Scheme of Botswana
DPB	Deposit Protection Board
DPC	Deposit Protection Corporation
EDIS	Explicit Deposit Insurance Scheme
EESA	Emergency Economic Stabilization Act of 2008
FDIA	Federal Deposit Insurance Act of 1950
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FDIRA	Federal Deposit Insurance Reform Act of 2005
FIRREA	Financial Institution Reform, Recovery and Enforcement Act of 1989
FSB	Financial Stability Board
GFC	Global Financial Crisis
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
NDGA	Namibia Deposit Guarantee Authority
RBZ	Reserve Bank of Zimbabwe
SAIF	Savings Association Insurance Fund
SVB	Silicon Valley Bank
USA	United States of America

Table of Contents

Chapter 1: Introduction 1

1.1 Introduction 1

1.2 Background 2

1.3 Research Problem 9

1.3.1 The Evolution of Deposit Insurance in Southern Africa 11

1.4 Research Questions 15

1.5 Motivation for Study 16

1.6 Literature Review 17

1.7 Research Methodology 20

1.8 Comparative Study 20

1.8.1 The United States of America 20

1.8.2 Zimbabwe 21

1.8.3 Namibia 22

1.9 Limitations of the Study 22

1.10 Chapter Overview 23

Chapter 2: Analysis of Deposit Insurance and Moral Hazard 25

2.1 Introduction 25

2.2 Deposit Insurance Schemes 25

2.2.1 Implicit Deposit Insurance and Advantages and Disadvantages 25

2.2.2 Explicit Deposit Insurance and Advantages and Disadvantages 28

2.3 Challenges Presented by Deposit Insurance Systems 34

2.3.1 The Moral Hazard Problem 34

2.3.2 Mitigating the Moral Hazard Problem 35

2.4 Conclusion 35

Chapter 3: International Best Practice Standards for Deposit Insurance Systems 37

3.1 Introduction 37

3.2 The 2007-09 Global Financial Crisis 37

3.3 Precondition for Effective Deposit Insurance 39

3.4 Minimising Moral Hazard.. 40

3.5 Special Issues in Applying the IADI Core Principles 41

3.6 The IADI Core Principles for Effective Deposit Insurance Systems 41

3.6.1 Core Principle 1: Public Policy Objectives 41

3.6.2 Core Principle 2: Mandate and Powers 42

3.6.3 Core Principle 3: Governance... 42

3.6.4 Core Principle 4: Relationships with Other Safety-net Participants........... 42

3.6.5 Core Principle 5: Cross-border Issues 43

3.6.6 Core Principle 6: Deposit Insurers' Role in Contingency Planning and Crisis Management.. 43

3.6.7 Core Principle 7: Membership... 44

3.6.8 Core Principle 8: Coverage... 44

3.6.9 Core Principle 9: Source and Uses of Funds 45

3.6.10 Core Principle 10: Public Awareness... 46

3.6.11 Core Principle 11: Legal Protection 46

3.6.12 Core Principle 12: Dealing with Parties at Fault in a Bank Failure 47

3.6.13 Core Principle 13: Early Detection and Timely Intervention.................... 47

3.6.14 Core Principle 14: Failure Resolution 48

3.6.15 Core Principle 15: Reimbursing Depositors 48

3.6.16 Core Principle 16: Recoveries 49

3.7 Conclusion 49

Chapter 4: Deposit Insurance in the United States of America......................... 51

4.1 Introduction 51

4.2 The Great Depression.. 51

4.3 The Establishment of the Federal Deposit Insurance Corporation 52
4.3.1 The Banking Act of 1933 52
4.3.2 The Banking Act of 1935 54
4.3.3 The Federal Deposit Insurance Act of 1950 54
4.3.4 The Financial Institutions Reform, Recovery and Enforcement Act of 1989 55
4.3.5 The Federal Deposit Insurance Corporation Improvement Act of 1991 56
4.3.6 The Federal Deposit Insurance Reform Act of 2005 57
4.3.7 The 2007-09 Global Financial Crisis and the USA................................... 57
4.3.8 The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 58
4.4 The Federal Deposit Insurance Corporation 59
4.5 The FDIC's Compliance with the IADI Core Principles 60
4.6 The FDIC and Moral Hazard 63
4.7 The 2023 Banking Turmoil 64
4.8 Conclusion 66
Chapter 5: Deposit Insurance in Zimbabwe and Namibia.................................. 68
5.1 Introduction 68
5.2 Zimbabwe's Deposit Insurance System 68
5.2.1 The Deposit Protection Corporation... 70
5.2.2 How Does the DPC Address Moral Hazard? 78
5.2.3 Summary of Zimbabwe's EDIS 78
5.3 Namibia's Deposit Insurance System 79
5.3.1 The Namibian Deposit Guarantee Authority 80
5.3.2 How Does the NDGA Address Moral Hazard? 86
5.3.3 Summary of Namibia's EDIS 87
5.4 Conclusion 87
Chapter 6: Conclusion and Recommendations.. 89

6.1 Summary 89

6.2 Recommendations 92

6.2.1 Recommendation 1: Establish or Enhance EDIS 92

6.2.2 Recommendation 2: EDIS Should Be in Line with International Standards 93

6.2.3 Recommendation 3: Funding 93

6.2.4 Recommendation 4: Governance 93

6.2.5 Recommendation 5: Coverage 94

6.2.6 Recommendation 6: Reimbursement 94

6.2.7 Recommendation 7: Public Awareness 95

Bibliography 96

Chapter 1: Introduction

1.1 Introduction

In the ever-evolving banking landscape, numerous potential risks, and uncertainties, such as the loss of public confidence or bank failures, threaten financial stability and the potential loss of deposits by depositors, posing a significant risk.[1] Maintaining the stability of the financial system is of paramount importance given today's interconnected global economy. Ensuring the protection of depositors' funds in the event of a bank failure is a vital measure for achieving financial stability, making an explicit deposit insurance scheme (EDIS) essential. Deposit insurance systems play a crucial role in maintaining financial stability by providing insured depositors with prompt access to their funds, up to a defined limit (per depositor per bank) in the event of a bank failure.[2] This ensures that the public maintains confidence in the financial system and establishes a safety net for depositors.[3]

Southern Africa showcases a vibrant financial sector with diverse financial regulatory frameworks aimed at preserving financial stability and confidence in the financial system. Given the varied financial challenges and economies in Southern African countries, some nations have acknowledged the importance of safeguarding depositors' interests and maintaining financial stability through an EDIS. The main objective of this research is to assess the progress and identify gaps in Southern African countries' development of EDIS and in aligning it with international standards, with the overall goal of encouraging all Southern African countries to establish effective deposit insurance systems for greater financial stability in the region.

1 Okafor, Fadul "Bank risks, regulatory interventions and deconstructing the focus on credit risk" 2019 *Research Journal of Finance and Accounting* 102.

2 The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 1 March 2023 at 10.

3 David, Michael, Ulrich "The Design and Implementation of Deposit Insurance Systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023 at 5.

1.2 Background

Banks play a crucial role in supporting economic growth, as various elements that contribute to economic development are interconnected with the banking system.[4] They play a critical and unique role in the economy and financial system by facilitating transactions and payments among economic agents.[5] They also differentiate themselves from other financial institutions by accepting deposits from the public.[6] Furthermore, they serve as a significant mechanism for channelling financial resources between depositors and borrowers. Banks play an important role in facilitating the smooth transmission of both international and domestic trade, and they are instrumental in addressing various financial risks, such as funding or liquidity issues in other institutions.[7] Their significance in the financial system becomes evident through the acceptability, liquidity, and mobility of transaction accounts[8] issued by banks. This enables the financial system to operate efficiently and with relative ease, in contrast to older, more time-consuming, and riskier methods, such as the hand-to-hand circulation of money.[9] Banks offer certainty and flexibility in receiving or making payments, especially during times of financial stress. Their ability to swiftly transfer transaction account balances to third parties helps prevent the spread of financial disruptions. Additionally, banks provide loans and liquidity during periods of stress.[10]

---

4 Okafor, Fadul "Bank risks, regulatory interventions and deconstructing the focus on credit risk" 2019 *Research Journal of Finance and Accounting* 101.

5 Aggarwal "Financial institutions: types, roles, and advantages" available at https://www.shiksha.com/online-courses/articles/financial-institutions-types-roles-and-advantages/ accessed 1 February 2024.

6 The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 1 March 2023 at 3.

7 Okafor, Fadul "Bank risks, regulatory interventions and deconstructing the focus on credit risk" 2019 *Research Journal of Finance and Accounting* 101.

8 Hill "Transaction account fees: do the poor really pay more than the rich?" 2012 *University of Pennsylvania Journal of Business Law* 79 defines a transaction account as "a deposit or account on which the depositor or accountholder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone transfers, or other similar items for the purpose of making payments or transfers to third persons or others".

9 Corrigan "Are banks special?" In Federal Reserve Bank of Minneapolis Annual Report 1982 available at https://econpapers.repec.org/article/fipfedmar/y_3a1982.htm accessed 1 April 2023 at 7.

10 *Ibid* 10.

Throughout the history of banking, the prospect of insolvency has existed.[11] The term "bankrupt" itself originates from bank failures, signifying insolvency across languages.[12] The risk of insolvency is heightened with the adoption of fractional reserve banking, a system where only a fraction of deposits received by the bank are held by the bank and made available for retrieval by depositors on demand, and the rest of the deposits are used to create loans.[13] Furthermore, the risk of insolvency increased when bankers began extending loans to borrowers on longer terms, potentially resulting in a maturity mismatch, where short-term liabilities are funded by long-term assets.[14] This increased the riskiness of a bank's operations, as it heightened the potential for liquidity issues. In such scenarios, banks may struggle to meet the demands of depositors if a large number, or all, of them withdraw their money at the same time.[15] Compared to failures in other industries, the collapse of a bank carries far greater consequences for the economy, financial system, and community. This is primarily due to the unique and critical role that banks play in the financial system, as discussed earlier.[16] Unlike failures in other sectors, a bank's collapse can trigger a systemic crisis,[17] impacting the entire financial system due to factors such as interconnectivity between banks.[18]

As bank failures are a global phenomenon that can affect any bank in any country, the necessity of a robust financial safety net becomes crucial.[19] A financial safety net is a

---

11 Haentjens "Bank recovery and resolution: an overview of institutional initiatives" 2014 *International Insolvency Law Review* 255.
12 *Ibid*.
13 *Ibid* 256. See also Nevil "Fractional reserve banking: What it is and how it works" available at https://www.investopedia.com/terms/f/fractionalreservebanking.asp accessed 14 February 2024.
14 *Ibid* 256. See also Milne "Understanding the current credit crisis: Maturity mismatch and structured credit illiquidity" 2009 available at https://warwick.ac.uk/fac/soc/wbs/subjects/finance/events/seminars/maturity_mismatch.pdf accessed 14 February 2024 at 7.
15 *Ibid* 256.
16 Kaufman "Bank failures, systemic risk, and bank regulation" 1996 *Cato Journal* 17.
17 "Banking crisis" available at https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/banking-crisis accessed 1 March 2024 states that "A (systemic) banking crisis occurs when many banks in a country are in serious solvency or liquidity problems at the same time—either because there are all hit by the same outside shock or because failure in one bank or a group of banks spreads to other banks in the system".
18 Caprio, Klingebiel "Bank insolvency: bad luck, bad policy, or bad banking?" In Annual World Bank Conference on Development Economics 1996 available at https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=b3c8368d0c13c7ee11d62bc0884585b17b9b921a accessed 10 October 2023 at 4.
19 Uahatjiri "Protecting depositors and promoting financial stability in South Africa: Is there a case for the introduction of deposit insurance" (2003) *MCOM Dissertation, Rhodes University* 110.

set of arrangements that are in place to reduce the effects of the failure of one or more financial institutions on the economy, depositors, and the financial system.[20] The objectives of a financial safety net are to assist nonviable and inadequately capitalized banks that need to be resolved and to assist viable and adequately capitalized but illiquid banks to survive.[21] Both these objectives are aimed at minimising the adverse effects that arise from the failure or distress of a bank on the financial system, the economy, and the depositors.[22] Nolte and Hoelscher identify four pillars of the financial safety net, namely, central bank liquidity assistance, deposit insurance, resolution of financial institutions, and supervisory early intervention.[23]

As an element of the financial safety net, an EDIS seeks to protect depositors' funds and the stability of the financial system.[24] It achieves this goal by guaranteeing deposits up to a specified amount or through a blanket guarantee as defined by statute. This assurance enhances depositor confidence, as depositors will know with certainty that their funds, or a portion thereof, are guaranteed during financial difficulties. Additionally, it serves to prevent bank runs, as depositors will not need to rush to withdraw their funds in times of crisis.[25] During financial crises, it provides a credible safety net to depositors as it is explicit, prefunded, and predetermined, eliminating any uncertainty or delays of reimbursement.[26] However, this does not make it perfect because it raises concerns of moral hazard, which in short means that the banks will no longer have an incentive to take fewer risks and depositors will no longer have an incentive to monitor the banks' risk-taking as they will know that their funds are safe even if a bank fails.[27]

---

20 The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 1 March 2023 at 3.

21 *Ibid*.

22 *Ibid*.

23 Nolte, Hoelscher "Using the FSB Key Attributes to Design Bank Resolution Frameworks for non-FSB members: Proportionality and Implementation Challenges" 2020 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/b6688a44-7029-5df7-9280-d9bf2d8ad61e/content accessed 1 March 2023 at 3.

24 *Ibid.*

25 De Jager "Central bank, lender of last resort assistance: an elusive concept" 2010 *De Jure* 228 defines bank runs as when many depositors experience a loss of faith in the security of their bank, which causes them to all withdraw their money at once.

26 Schoenmaker "Building a stable European deposit insurance scheme" 2018 *Journal of Financial Regulation* 314.

27 *Ibid*.

Before the establishment of EDISs, an implicit deposit insurance system was in place and is always in place where an EDIS does not exist.[28] In this system, the government, by its own discretion decides whether or not to offer protection to depositors and to what extent they are willing to offer protection.[29] The government's decision is based on the belief that public policy objectives would be met by offering protection, that it would be cheaper to do so, or that it may feel partly responsible for the absorbed losses.[30] A mechanism used under this system to protect depositors and maintain public confidence is a bailout, which is when a government transfers money or other resources to a failed or failing bank that cannot meet its financial obligations.[31] This mechanism is problematic as it results in taxpayer funds being used to save or resolve the bank, protect depositors and the financial system, and maintain public confidence.

The United States of America (USA) is the pioneer of EDISs, being the first country in the world to officially enact an EDIS to protect depositors from losses due to insolvent banks during the Great Depression.[32] The significance of EDIS became evident with the immediate success of the Federal Deposit Insurance Corporation (FDIC), which played a pivotal role in restoring stability and public confidence in the banking system during this period. Established by the Banking Act of 1933, the FDIC insured deposits of commercial banks to maintain depositor confidence, reduce economic disruptions caused by bank runs and failures, and counter the weakening public trust in the banking system.[33] Its establishment was mainly a result of the deteriorating banking conditions and the wave of bank failures from 1930 to 1933, as bank runs became common due to the weakening of public confidence in the banking system.[34] The FDIC was able to restore confidence in the public and diminish the rate of bank runs during

---

28 Talley, Mas "Deposit Insurance in Developing Countries" World Bank Policy Research Working Paper 548 1990 available at https://econpapers.repec.org/paper/wbkwbrwps/548.htm accessed 10 March 2023 at 9.

29 *Ibid*.

30 *Ibid*.

31 Casey, Posner "A Framework for Bailout Regulation" Public Law & Legal Theory Working Paper No 530, University of Chicago 2015 available at https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=12151&context=journal_articles accessed 20 June 2022 at 3.

32 Kumar *Strategies of banks and other financial institutions: Theories and cases* (2014) 39.

33 FDIC *Federal Deposit Insurance Corporation: The first fifty years: A history of the FDIC 1933-1983* (1984) 1.

34 FDIC *A brief history of deposit insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 25 July 2022.

the Great Depression by guaranteeing depositors funds to a limit of $2 500 at that time, assuring depositors that their funds were protected up to the set limit.[35] Over the years, this coverage limit has increased to maintain confidence and prevent bank runs, as discussed further in Chapter four on the USA.[36]

The Global Financial Crisis of 2007-09 (GFC) also attested to the importance of an EDIS.[37] The GFC made it clear from the bank runs and deteriorating public confidence, that existing policy interventions were ineffective in restoring trust in financial markets.[38] The collapse of Lehman Brothers in the USA in September 2008 triggered widespread depositor distrust in banks, emphasising the need to maintain depositor confidence, limit contagion,[39] and prevent bank runs, which are the core functions of an EDIS.[40] In response to the crisis, the US government shifted from a case-by-case approach to a systemic approach.[41] The successful management of the crisis by the USA involved temporary measures such as increased FDIC coverage, expanded coverage scope, government cash injections, and FDIC guarantees on senior unsecured debts, ultimately preventing deteriorating confidence, bank runs, and contributing significantly to restoring financial stability.[42]

35 *Ibid*.
36 Helfer "What deposit insurance can and cannot do" 1999 *Finance and Development* 22.
37 Schich "Financial crisis: Deposit insurance and related financial safety net aspects" 2009 *OECD Journal: Financial Market Trends* 12.
38 *Ibid*.
39 Lastra "Lender of last resort, an international perspective" 1999 *The International and Comparative Law Quarterly* 348 provides that a contagion is a situation where the financial difficulties at one or more banks spill over to a large number of banks or to the financial system.
40 Caruana "Post-crisis financial safety net framework: lessons, responses and remaining challenges" In Keynote address at the FSI-IADI Conference on "Bank resolution, crisis management and deposit insurance" issue 6 December 2016 available at https://www.bis.org/speeches/sp170105.pdf accessed 24 July 2022 at 4.
41 Schich "Financial crisis: deposit insurance and related financial safety net aspects" 2009 *OECD Journal: Financial Market Trends* 13.
42 *Ibid* 21.

In June 2009, the Basel Committee on Banking Supervision (BCBS)[43] and the International Association of Deposit Insurers (IADI)[44] issued the "Core Principles for Effective Deposit Insurance Systems" (IADI Core Principles) as the international standards for assessing and benchmarking the EDISs of countries.[45] They were issued in response to a 2008 report by the Financial Stability Board (FSB) titled "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience", that emphasised the need for authorities to agree on an international set of principles for an effective EDIS as a result of the events of the GFC.[46] The IADI Core Principles were revised in 2014 to take into account the regulatory developments post-GFC including the FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions" (FSB Key Attributes), which were revised in 2014 to include additional guidance on how the attributes should be applied for amongst others, insurers.[47] The main objective of the IADI Core Principles is to avoid the government using public funds to bail-out banks by requiring the banks to contribute to a prefunded deposit insurance fund that will be used to reimburse depositors for their insured deposits when a bank fails.[48] These IADI Core Principles are used by jurisdictions as a standard to assess the quality of their EDIS, identify any shortfalls and steps to take in order to

[43] The BCBS is a forum that comprises of central banks and authorities with the formal responsibility for the supervision of banking business, for regular cooperation on banking supervisory matters. The BCBS is the primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. The focus of the committee is on improving the quality of banking supervision worldwide. The committee prepared international standards on capital adequacy, the core principles for effective bank supervision, and the agreement on cross-border banking supervision. See Kumar *Strategies of banks and other financial institutions: Theories and cases* (2014). See also "Basel Charter" available at https://www.bis.org/bcbs/charter.htm?m=3070 accessed 9 April 2023.

[44] IADI "IADI About" available at https://www.iadi.org/en/about-iadi/ accessed 1 April 2023 provides that IADI is an international forum for deposit insurers from around the world to gather to share knowledge and expertise. It provides training and educational programs and produces research and guidance on matters related to deposit insurance.

[45] The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 10 March 2023 at 43.

[46] Financial Stability Board "Thematic Peer Review on Deposit Insurance Systems" Peer Review Report February 2012 available at https://www.fsb.org/wp-content/uploads/r_120208.pdf accessed 22 April 2023 at i.

[47] Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 61.

[48] *Ibid* 62.

address them.[49] Furthermore, the World Bank and the International Monetary Fund (IMF) use the IADI Core Principles to assess the effectiveness of jurisdictions' EDIS.[50]

The most recent bank failures in the USA occurred during its 2023 banking turmoil, which saw the failure of Silicon Valley Bank (SVB) on 10 March 2023, Signature Bank on 12 March 2023, and First Republic Bank on 1 May 2023.[51] These failures were a result of rising interest rates, poor management, and digital bank runs.[52] Currently, these are the second, third, and fourth largest bank failures in the history of the FDIC.[53] SVB was the first bank to fail during the 2023 banking turmoil triggering a contagion effect as a result of a lack of depositor confidence, and leading to bank runs and the failures of Signature Bank and First Republic Bank.[54] The FDIC successfully dealt with the crisis and protected the financial system and depositors by using bridge banks, purchase and assumption agreements, extending deposit insurance coverage, and covering uninsured depositors.[55] Chapter four provides a more in-depth discussion of the turmoil.

Southern Africa, in the southernmost region of the African continent, comprises countries such as Angola, Botswana, Eswatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, Zambia and Zimbabwe.[56] Of these countries, Angola, Botswana, Namibia, Mozambique, Malawi, South Africa, and Zimbabwe have

---

49 The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 10 March 2023 at 43.

50 *Ibid*.

51 FDIC *Bank failures in brief – 2023* available at https://www.fdic.gov/resources/resolutions/bank-failures/in-brief/bfb2023.html accessed 17 February 2024.

52 Berner, Schoenholtz, White "Evaluation of the policy response: on the resolution of Silicon Valley Bank, Signature Bank, and First Republic Bank" In: Acharya, Richardson, Schoenholtz, Tuckman *SVB and beyond: The banking stress of 2023* (2023) 95.

53 FDIC *Options for deposit insurance reform* 2023 available at https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf accessed 23 September 2023 at 5.

54 Choi, Goldsmith-Pinkham, Yorulmazer "Contagion Effects of the Silicon Valley Bank Run" National Bureau of Economic Research No w31772 available at https://www.nber.org/system/files/working_papers/w31772/w31772.pdf accessed 20 February 2024 at 11.

55 FDIC *Remarks by Chairman Martin J. Gruenberg on Oversight of Prudential Regulators before the Committee on Financial Services, United States House of Representatives* available at https://www.fdic.gov/news/speeches/2023/spnov1523.html accessed 20 February 2024.

56 Marks "Southern Africa" available at https://www.britannica.com/place/Southern-Africa accessed 9 March 2024.

developed an EDIS in legislation. However, Malawi and South Africa's EDISs are not yet fully operational. Eswatini, Lesotho, and Zambia do not currently have an EDIS. The status of each Southern African country is explored further in the section on the evolution of EDIS in the region below. The focus of this dissertation is on two selected Southern African countries, namely, Namibia and Zimbabwe. These countries have been selected because they have established an EDIS captured in legislation and have made significant progress in aligning their EDIS with international standards. Their journeys in developing and maintaining the effectiveness of their EDIS, as well as aligning it with international standards, make them the best examples for other countries in the region to follow.

1.3 Research Problem

A bank failure is one of the motives for establishing an EDIS and is a problem that may be experienced anywhere in the world including Southern Africa.[57] A bank fails when its liabilities are more than its assets, meaning that it will be unable to pay all of its debts and depositors.[58] Furthermore, a bank's failure has the potential to cause a systemic event resulting in a potentially devastating impact on the economy.[59] One bank failure has the potential to have a domino effect on other banks that were in good standing, causing them to fail.[60] Bank failures are the main reason for the need for depositor protection because depositors are the ones that are faced with the greatest losses as they usually put all their trust in banks and deposit in them all their life savings.[61] Without deposit protection, there is a greater chance that depositors will not be able to recover their savings when a bank fails.[62] The absence of an EDIS gives rise to implicit deposit insurance whereby a government uses its discretion to intervene, by using taxpayer funds to reimburse depositors and assist in resolving or

[57] The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 1 March 2023 at 3.
[58] Zaire "Deposit insurance: legal analysis" (2019) *LLM Dissertation, University of Johannesburg* 15.
[59] Kaufman "Bank failures, systemic risk, and bank regulation" 1996 *Cato Journal* 17.
[60] *Ibid*.
[61] Zaire "Deposit insurance: legal analysis" (2019) *LLM Dissertation, University of Johannesburg* 15.
[62] *Ibid*.

saving the bank, during a financial crisis or bank failure, to prevent the financial system from collapsing.[63]

In the case of the recent collapse of the Venda Building Society (VBS) mutual bank in South Africa in 2018, due to mismanagement and corruption, the South African Reserve Bank (SARB) found itself spending R257 000 000 by 2020 to guarantee deposits of the failed VBS Bank.[64] South Africa, which is a developing country faced with many issues to deal with such as unemployment, corruption, crime, inequality, infrastructural developments, and electricity challenges, as a result of bank failures, had to, in the past, sacrifice resources allocated for dealing with those issues, to use them to resolve a bank and bail it out. Furthermore, the delays associated with the government bailing out a bank, increase the financial difficulties of depositors resulting in them having to live without financial resources for that period or turn to taking loans to survive.

Another case is the SME bank in Namibia which collapsed before the establishment of the Namibia Deposit Guarantee Act 16 of 2018, which established an EDIS in Namibia. SME's collapse was due to mismanagement, corruption, and its link to the South African VBS bank.[65] The failure of SME bank in 2017 led to the loss of access to millions of dollars by depositors when the bank was liquidated.[66] The High Court only authorised the provisional liquidators to pay back depositors up to an amount of N$25 000 two years later, due to the delays of the liquidation process and court battles.[67] In 2021, some depositors had still not received their funds.[68] The presence of an EDIS prevents such suffering and delays in paying back depositors as it is

[63] Demirgüç-Kunt, Tolga "Deposit insurance around the world" 2001 *World Bank Economic Review* 482.
[64] De Wet "VBS still owes more than 5000 people sums of money" available at https://www.news24.com/news24/bi-archive/thousands-of-vbs-depositors-still-havent-claimed-their-money-and-have-until-july-2021-2020-7 accessed 1 August 2022.
[65] Van Rensburg "How VBS plotters helped kill another bank, this time in Namibia" available at https://www.news24.com/fin24/economy/africa/how-vbs-plotters-helped-kill-another-bank-this-time-in-namibia-20191115 accessed 29 July 2022.
[66] New Era "New authority protects commercial bank deposits" available at https://www.pressreader.com/namibia/new-era/20210426/281496459132841 accessed 2 August 2022.
[67] The Namibian "Hope for SME Bank Depositors" available at https://namibian.com.na/hope-for-sme-bank-depositors/ accessed 2 August 2022.
[68] Van Wyk "SME Bank depositors still licking their wounds" available at https://www.namibiansun.com/news/sme-bank-depositors-still-licking-their-wounds2021-09-15 accessed 29 July 2022.

explicit, predetermined, and prefunded, ensuring an efficient reimbursement process.[69]

1.3.1 The Evolution of Deposit Insurance in Southern Africa

In Zimbabwe, an IADI member,[70] the Deposit Protection Corporation (DPC) previously known as the Deposit Protection Board, was established in 2003 and its mandate was further expanded in 2012.[71] Zimbabwe was the first country in Southern Africa to establish an EDIS and this was brought by the wave of bank failures and a wholesale run on banks that the country experienced in the early 2000s.[72] Since the DPC was established, it has successfully resolved several banks such as Royal Bank, AfrAsia Bank, Trust Bank, and many others.[73] It is important to note that the DPC was awarded the most improved deposit insurer in the world in 2015 at the 14th annual general meeting and conference of the IADI.[74] The DPC has made significant progress and improvements since its establishment and as such, is a suitable example for other Southern African countries which are in the process of establishing an EDIS.

Namibia, a member of the IADI, has a fairly new EDIS as the Namibia Deposit Guarantee Act No 16 of 2018, which establishes its EDIS, was gazetted on 28 December 2018 and fully operationalised on 1 February 2020.[75] Its establishment emerged in response to the collapse of Namibia's SME Bank which saw delays in the reimbursement of depositors through the liquidation process and the loss of deposits

---

69 The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 10 March 2023 at 4.

70 IADI "IADI Members" available at https://www.iadi.org/en/about-iadi/iadi-members-and-participants/ accessed 3 April 2023 defines IADI members as entities that, under law or agreements, have an EDIS and have been approved for membership in the Association.

71 DPC *Annual Report* 2012 available at https://www.dpcorp.co.zw/assets/dpc-annual-report-2012.pdf accessed 2 August 2022 at 7.

72 Nyaude "Regulatory measures to address bank failures in Zimbabwe" (2021) *LLD Thesis, University of Pretoria* 106.

73 The Herald "Deposit protection, resolution of bank failures" available at https://www.pressreader.com/zimbabwe/the-herald-zimbabwe/20201103/281775631669876 accessed 2 August 2022.

74 DPC *DPC wins international award* 2015 available at https://www.dpcorp.co.zw/dpc-wins-international-award.html accessed 2 August 2022.

75 Namibia Deposit Guarantee Authority *Annual Report* 2020 available at https://www.ndga.com.na/images/NDGA-2020-Annual-Report.pdf accessed 2 August 2022 at 11.

by depositors. Lessons for other Southern African countries that are lagging may be learnt from its development, design, and implementation.

South Africa, a member of the IADI, has established an EDIS framework captured in the Financial Sector Regulation Act 9 of 2017 as amended by the Financial Sector Laws Amendment Act 23 of 2021, which was signed by the South African President in January 2022.[76] The South African EDIS is not yet fully operational, however significant progress has been made, and it is expected to be fully operational during 2024.[77] The establishment of the South African EDIS was due to a history of bank failures with African Bank and VBS bank being recent failures that led to delays in reimbursing depositors and taxpayer funds being used to reimburse depositors.[78]

Angola, a member of the IADI, recently implemented a Deposit Guarantee Fund established by Presidential Decree No. 195/18, of 22 August 2018. This proactive measure was prompted by the collapse of the Banco Espirito Santo Angola, which cost the Angolan government US$5 billion of taxpayer funds to assist the bank and prevent a contagion effect.[79] The introduction of the Deposit Guarantee Fund demonstrates Angola's commitment to fortifying its financial landscape and protecting depositors, aligning it with international best practices in deposit insurance.

Mozambique has implemented an EDIS through the establishment of a Deposit Guarantee Fund by the Decree Law No. 49/2010, of 11 November 2010.[80] Mozambique's EDIS is ineffective as it is underfunded and lacks operational

[76] The Financial Sector Laws Amendment Act No 23 of 2021.
[77] SAnews "Deposit insurance body established to protect bank depositors" 2023 available at https://www.sanews.gov.za/south-africa/deposit-insurance-body-established-protect-bank-depositors accessed 15 December 2023.
[78] De Wet "VBS still owes more than 5000 people sums of money" available at https://www.news24.com/news24/bi-archive/thousands-of-vbs-depositors-still-havent-claimed-their-money-and-have-until-july-2021-2020-7 accessed 1 August 2022.
[79] "Deposit Guarantee Fund is being finalized" available at http://country.eiu.com/article.aspx?articleid=392201823 accessed 10 October 2022.
[80] The World Bank Group "The World Bank International Development Association Project Appraisal Document on a Proposed Grant in the Amount of SDR 29 Million (Us$40 Million Equivalent) to the Republic of Mozambique for a Financial Inclusion and Stability Project" 2018 available at https://documents1.worldbank.org/curated/pt/986901551713827331/text/project-appraisal-document-pad-p166107-11262018-636805944190375925.txt accessed 8 April 2023 at 13.

capacity.[81] Notably, the Deposit Guarantee Fund covers less than 1% of insured deposits compared to its target which is 3% as opposed to the 90% that is suggested by the IADI.[82] When Moza Banco, the fourth largest bank in Mozambique failed in 2016, the Government of Mozambique had to intervene to provide depositors with reimbursements and recapitalize the bank by using the central bank of Mozambique's employees' pension fund.[83] This clearly illustrates the dangers of an ineffective EDIS as the government had to use funds meant for employees' pensions to reimburse depositors. The lack of confidence in Mozambique's financial system has led to individuals preferring to hoard cash at home as they do not trust financial institutions.[84] Urgent measures are required to bolster Mozambique's EDIS and restore confidence in the country's financial institutions.

Botswana, which was admitted as an associate of the IADI in September 2021,[85] recently established an EDIS through the Bank of Botswana (Amendment) Act, 2020, passed by the National Assembly on 25 July 2022.[86] The Deposit Insurance Scheme of Botswana (DISB) was operationalised on 21 July 2023 through the Bank of Botswana (Deposit Insurance Scheme) regulations, 2023.[87]

---

[81] The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 10 March 2023 at IX.

[82] The World Bank Group "Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)" 2018 available at https://documents1.worldbank.org/curated/en/614411526647372508/pdf/Concept-Project-Information-Document-Integrated-Safeguards-Data-Sheet-Mozambique-Financial-Inclusion-and-Stability-Project-P166107.pdf accessed 26 July 2022 at 5.

[83] *Ibid.*

[84] *Ibid.*

[85] IADI "IADI Members" available at https://www.iadi.org/en/about-iadi/iadi-members-and-participants/ accessed 3 April 2023 defines IADI associates as entities that do not fulfil all of the criteria to be a member but are considering the establishment of an EDIS or are part of a financial safety net and have a direct interest in the effectiveness of an EDIS.

[86] Bank of Botswana *Financial Stability Council Meets* 3 November 2022 available at https://www.bankofbotswana.bw/sites/default/files/press-release-files/FINANCIAL%20STABILITY%20COUNCIL%20MEETS%20-%20November%202022.pdf accessed 15 April 2023 at 3. See also Bank of Botswana *Financial Stability Council Meets* 4 November 2021 available at https://www.bankofbotswana.bw/sites/default/files/press-release-files/Press%20Release%20-%20Financial%20Stability%20Council%20Meets%20-%20November%202021.pdf accessed 15 April 2023 at 4.

[87] DISB *List of member of deposit insurance scheme of Botswana* 11 October 2023 available at https://www.bankofbotswana.bw/sites/default/files/press-release-files/Deposit%20Insurance%20Scheme%20of%20Botswana%20Members%20-%202023.pdf accessed 31 January 2024.

Eswatini, an associate of the IADI, currently lacks an established an EDIS. However, there are promising developments outlined in the Central Bank of Eswatini annual integrated report 2021/22. The report highlights the inclusion of setting up a Deposit Protection Scheme for Eswatini as one of the approved financial stability strategic initiatives.[88] To facilitate the implementation of this initiative, a project charter was approved and working committees were established which shows the intent of the Central Bank of Eswatini to establish an EDIS.[89]

In Zambia, discussions of the establishment of an EDIS have been ongoing since 2001, prompted by the failure of seven banks between 1995 and 1998.[90] In 2019, the Zambian Government committed to taking the Deposit Insurance Bill, which was said to be finalised in 2011, to Parliament for legislation in order to establish an EDIS.[91] In 2020, the speaker of the National Assembly stated that the Bank of Zambia has proceeded to convert the provisions of the Bill into an instrument to be issued under the Banking and Financial Services Act, 2017.[92] However, the Banking and Financial Services (Amendment) Bill, 2020, introduced afterward, merely splits depositor claims into depositors not covered by the deposit protection scheme and those that are covered by the scheme but does not establish a comprehensive EDIS. Furthermore, the 2020 report of the Committee on National Economy, Trade and Labour Matters on the Banking and Financial Services (Amendment) Bill states that the Deposit Insurance Scheme is non-existent therefore making the provision unclear.[93] After all the delays and confusion, legislation or a unit to implement a Deposit Protection Scheme has still not been established.[94]

---

88 Central Bank of Eswatini *Annual Integrated Report 2021/22* 2022 available at https://centralbank.org.sz/annual-integrated-report/2021-22/ accessed 1 May 2023 at 38.

89 *Ibid*.

90 Maimbo "The diagnosis and prediction of bank failures in Zambia, 1990-98" *Development Policy Review* 2002 261.

91 Bank of Zambia *Zambanker – A Bank of Zambia Journal*, December 2018 available at https://www.boz.zm/Zambanker-December-2018-Edition.pdf accessed 10 May 2023 at 4.

92 Zambian Parliament *National Assembly of Zambia Debate* 17 July 2020 available at https://www.parliament.gov.zm/node/8446 accessed 10 April 2023.

93 Zambian Parliament *Republic of Zambia Report of the Committee on National Economy, Trade and Labour Matters on the Banking And Financial Services (Amendment) Bill, N.A.B NO 7 of 2020 for the Fifth Session of the Twelfth National Assembly* 2020 available at https://www.parliament.gov.zm/sites/default/files/documents/committee_reports/Banking%20and%20Financial%20Services%20%28Amendment%29%20Bill%2C%20N.A.B%20No.%207%20Of%202020.pdf accessed 15 April 2023 at 6.

94 IMF "Request for an Arrangement under the Extended Credit Facility" IMF Country Report No. 22/292 2022 available at https://www.imf.org/en/Publications/CR/Issues/2022/09/06/Zambia-

In 2021, the Malawian Cabinet approved the Deposit Insurance Corporation Bill and submitted it to Parliament for enactment.[95] On 18 March 2022, the Malawian parliament passed the Bill, which aims to safeguard depositors and regulate banks in Malawi.[96] In 2022, the Reserve Bank of Malawi stated that it was setting up a task force to establish an EDIS in Malawi and in 2023 it stated that it was implementing resolution frameworks including working on establishing an EDIS in Malawi.[97] It is clear that Malawi is working on implementing and fully operationalising its EDIS.

In the Kingdom of Lesotho, discussions by the Central Bank of Lesotho (CBL) for the need to establish an EDIS can be traced back to as early as 2004.[98] In 2012, the CBL established the Deposit Protection Division with the mandate to establish an EDIS.[99] However, 20 years later from the initial discussions, the CBL has still not established an EDIS and currently states that it continues its efforts to establishing an EDIS.[100]

1.4 Research Questions

The essential question to be asked and answered in this research is:

How can EDISs be effectively designed to protect depositors, mitigate the risk of bank runs, promote, and maintain financial stability, and prevent moral hazard in Southern African countries?

Request-for-an-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-Staff-523196 accessed 1 May 2023 at 76.

95 Reserve Bank of Malawi *The Registrar of Financial Institutions Annual Report* 2021 available at http://www.rfi.mw/Publications/RegulatoryContent?documentTypeId=1076&documentType=Annual%20Reports&title=Publications accessed 1 September 2023 at 62.

96 "Deposit insurance law to protect citizen money" available at https://www.maravipost.com/deposit-insurance-law-to-protect-citizen-money/ accessed 15 April 2023.

97 Reserve Bank of Malawi *Financial Stability Report* June 2023 available at https://www.rbm.mw/FinancialStability/FinancialStabilityReports/ accessed 1 October 2023 at viii.

98 Central Bank of Lesotho *Supervision Annual Report* 2004 available at https://www.centralbank.org.ls/images/Publications/Supervision/Supervision_Annual_Report_2004.pdf accessed 1 February 2024 at 31.

99 Central Bank of Lesotho *Annual Report* 2012 available at https://centralbank.org.ls/images/Publications/Research/Reports/Annual/2012-Annual-Report---Final_REVISED.pdf accessed 1 February 2024 at 53.

100 Central Bank of Lesotho *Supervision Annual Report* 2018 available at https://www.centralbank.org.ls/images/Financial_Markets/Treasury_Bills/Announcements/2018_-_Supervision_Annual_Report_-_Design_Proof_-_HR_-_Singles_-_11.11.2019.pdf accessed 1 February 2024 at 61.

The research thus aims to answer the following questions:

a) What is an EDIS and what are the benefits and risks of implementing such a scheme?
b) What are the international best practice standards for an EDIS?
c) How was EDIS developed in the USA and what lessons may be derived from its development and current form for Southern African countries?
d) What progress has been made and gaps identified in selected countries like Zimbabwe and Namibia in developing an EDIS and complying with international best practices?

1.5 Motivation for Study

Corruption, fraud, and poor corporate governance are the main causes of bank failures in Africa, imposing severe consequences on depositors and the financial system.[101] The implementation of an EDIS is essential, serving as a critical component of the financial safety net. Its significance lies in preventing taxpayers from bearing the cost of a bank failure, safeguarding the financial system by maintaining confidence and preventing bank runs, and protecting depositors against loss of deposits or delays associated with liquidation processes during financial crises.[102] The purpose of this study is to explain the importance of an EDIS, advocating for its adoption in Southern African countries, as well as expediting the adoption process for those already in progress, or aligning their existing EDIS with international standards. Additionally, it seeks to identify and address gaps in current EDIS implementation across the region, drawing lessons from the frameworks and strategies of selected countries for valuable insights to guide other Southern African nations considering EDIS implementation.

---

[101] Dzomira "Analysis of bank failures during financial tumult in Africa-Zimbabwe: A historical review" 2014 *Journal of Governance and Regulation* 76.

[102] The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 10 March 2023 at 10.

In addition, an EDIS is a developing concept in Southern Africa that is under-researched, prompting the need for this study to shed light on the current adoption status, effectiveness, and areas of improvement for Southern African countries. By providing recommendations based on comprehensive research, this study strives to contribute to the development and enhancement of EDIS frameworks in the region.

1.6 Literature Review

An EDIS is an essential part of the financial safety net afforded to the banking system.[103] A credible EDIS prevents bank runs as depositors are at ease knowing that their funds or a certain portion of their funds are guaranteed.[104] Preventing bank runs is a vital function of an EDIS as a bank run can turn into a systemic event.[105] As banks dominate the payment system, bank runs can cause a standstill in the payment system by causing the failed bank to default on payments.[106] Maintaining the confidence of the public is important for banks because, without the public's trust, one bank's failure can cause panic withdrawals in other safe and sound banks or even result in a full-on contagion run.[107] The necessity for an EDIS stems from the fact that the majority of depositors have insufficient knowledge to monitor and assess bank risk.[108] This lack of knowledge further makes it more likely for depositors to panic in times of financial distress. Many countries established an EDIS to convince depositors that their money is safe because of the known inherent fragility of banks.[109]

The main contributor to the fragility of banks is their practice of fractional reserve banking.[110] Fractional reserve banking in its simplest form means a bank obtaining

[103] Anginer, Demirguc-Kunt "Bank Runs and Moral Hazard: A Review of Deposit Insurance" Policy Research Working Paper 8589 2018 available at https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-8589 accessed 5 January 2023 at 2.
[104] Schoenmaker "Building a stable European deposit insurance scheme" 2018 *Journal of Financial Regulation* 315.
[105] Nikolaj, Draženović, Buterin "Deposit insurance, banking stability and banking indicators" 2022 *Economic Research-Ekonomska Istraživanja* 2.
[106] Anginer, Demirguc-Kunt "Bank Runs and Moral Hazard: A Review of Deposit Insurance" Policy Research Working Paper 8589 2018 available at https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-8589 accessed 5 January 2023 at 8.
[107] Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 4.
[108] Nikolaj, Draženović, Buterin "Deposit insurance, banking stability and banking indicators" 2022 *Economic Research-Ekonomska Istraživanja* 1.
[109] *Ibid* 2.
[110] Ciuriak "Banking Fragility and Financial Crises" 2015 *Canadian Business Law Journal* 266.

funds from its depositors and lending out those funds to borrowers while keeping a fraction of those funds as reserves in transaction accounts that are readily available for transfer to third parties by depositors or are payable on demand to depositors.[111] Fractional reserve banking is problematic during bank runs as the banks would only have a small fraction of the deposits readily available and as a result, the bank would then need to quickly increase the funds it has available in order to meet the demands of the depositors and to achieve this, it would primarily, hastily and at low prices, sell its assets.[112] It is clear that this practice makes it very difficult for a bank to survive a run and the loss that the bank experiences from the sale of its assets at low prices exacerbates the possibility of the bank becoming insolvent.

Demirgüç-Kunt and Kane argue that an EDIS is an inexpensive solution to stabilizing the banking system by reducing the risk of bank runs by providing confidence and reassurance to the public.[113] Diamond and Dybvig's model argues that, banks operate on a first come first serve basis according to their deposit contracts and this increases the incentive for depositors to make a run on the bank regardless of its solvency when there is a panic.[114] However, if depositors believe that regardless of what happens or what other depositors do, they will get their money back, then they will no longer have an incentive to make a run on the bank.[115]

When a bank fails in the absence of an EDIS, implicit deposit insurance is provided by the government due to the political pressure on it to protect depositors and the financial system, which in turn results in the government using taxpayer funds to pay back depositors and resolve a bank.[116] Moving to an EDIS relieves the government of this

[111] Wall "Fractional reserve cryptocurrency banks" April 2019 available at http://business.cch.com/bfld/FractionalReserveCryptocurrencyBanks.pdf accessed 20 March 2023 at 1.
[112] Kaufman "Bank runs" The concise encyclopaedia of economics 2008 available at https://www.econlib.org/library/Enc/BankRuns.html accessed 20 March 2023 at 1.
[113] Demirgüç-Kunt, Kane "Deposit insurance around the globe: where does it work?" 2002 *Journal of Economic Perspectives* 176.
[114] Anginer, Demirguc-Kunt "Bank Runs and Moral Hazard: A Review of Deposit Insurance" Policy Research Working Paper 8589 2018 available at https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-8589 accessed 5 January 2023 at 4.
[115] *Ibid*.
[116] Demirgüç-Kunt, Tolga "Deposit insurance around the world" 2001 *World Bank Economic Review* 482.

commitment because this commitment shifts to the deposit insurer.[117] If a country does not have an EDIS then it is assumed that it has an implicit deposit insurance.[118]

Under an EDIS, the process of protecting depositors and handling the failure of banks, is faster and smoother than under an implicit deposit insurance system.[119] This is because an EDIS is prefunded, relies on formal regulation, and has predetermined rules and procedures unlike an implicit deposit insurance system which is purely discretionary.[120] Because of the faster and easier access to funds that an EDIS provides, there is no disruption to a depositor's financial well-being and expenditure that may be caused by government, liquidation or court battle delays.[121]

Garcia argues for an EDIS in lieu of implicit deposit insurance.[122] The argument is that under implicit deposit insurance, it is the discretion of the government to protect depositors.[123] This results in a lot of uncertainty on whether the depositors will be compensated and if so when, how and for how much, which reduces public confidence that their funds are safe.[124] Garcia provides us with the reasons why countries implement an EDIS.[125] These reasons are that it protects small depositors by insuring their deposits, increases the public's confidence and financial stability, encourages saving and economic growth, it allows new and small banks to compete with the larger

[117] Demirgüç-Kunt, Kane "Deposit insurance around the globe: where does it work?" 2002 *Journal of Economic Perspectives* 176.
[118] Demirgüç-Kunt, Karacaovali, Laeven "Deposit Insurance Around the World: A Comprehensive Database" World Bank Policy Research Working Paper 3628 2005 available at https://documents1.worldbank.org/curated/en/593131468330040612/pdf/wps36280rev.pdf accessed 10 December 2022 at 3.
[119] Garcia "Deposit Insurance: Actual and Good Practices" IMF Occasional Paper 197 2000 available at https://doi.org/10.5089/9781557759481.084 accessed 20 December 2022 at 9.
[120] Talley, Mas "Deposit Insurance in Developing Countries" World Bank Policy Research Working Paper 548 1990 available at https://econpapers.repec.org/paper/wbkwbrwps/548.htm accessed 10 March 2023 at 15.
[121] Ketcha "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023 at 223.
[122] Garcia "Deposit Insurance: Obtaining the Benefits and Avoiding the Pitfalls" IMF Working Paper WP/96/83 1996 available at https://doi.org/10.5089/9781451850499.001 accessed 10 December 2022 at 6.
[123] DPC *Types of deposit insurance* available at https://www.dpcorp.co.zw/assets/types-of-deposit-insurance-systems.pdf accessed 18 September 2022 at 1.
[124] Talley, Mas "Deposit Insurance in Developing Countries" World Bank Policy Research Working Paper 548 1990 available at https://econpapers.repec.org/paper/wbkwbrwps/548.htm accessed 10 March 2023 at 16.
[125] Garcia "Deposit Insurance: Obtaining the Benefits and Avoiding the Pitfalls" IMF Working Paper WP/96/83 1996 available at https://doi.org/10.5089/9781451850499.001 accessed 10 December 2022 at 15.

banks, it defines how much exposure government will face for the loss of a bank and lastly it requires banks to contribute to the resolution of other banks.[126]

An EDIS does have disadvantages such as encouraging excessive risk-taking by banks as the depositors no longer have an incentive to monitor the banks.[127] However, it is argued that good design features of an EDIS reduce the negative effects of moral hazard and enhance the positive effects of an EDIS.[128]

1.7 Research Methodology

This research mainly consists of academic, desk-based research based on the review of existing literature on deposit insurance schemes. The literature review comprises policy documents, standards and guidelines, legislation, and opinions of academic writers from books and journal articles. A brief historical approach will be followed when determining the development of an EDIS in the USA, as the first country to adopt an EDIS, and the relevant international standards. A comparative approach will be followed to determine the development and progress of Southern African countries in adopting an EDIS that complies with international best practice standards and to ascertain if there are any lessons that other countries in the region may employ. For purposes of this research, the deposit insurance frameworks in the USA, Zimbabwe, and Namibia will be interrogated.

1.8 Comparative Study

1.8.1 The United States of America

The EDIS of the USA was established in 1933 through the Banking Act of 1933, which established the FDIC.[129] The USA, which is a member of the IADI, is the first country

---

[126] Garcia "Deposit Insurance: Actual and Good Practices" IMF Occasional Paper 197 2000 available at https://doi.org/10.5089/9781557759481.084 accessed 20 December 2022 at 8.
[127] Demirgüç-Kunt, Kane "Deposit insurance around the globe: where does it work?" 2002 *Journal of Economic Perspectives* 176.
[128] David, Michael, Ulrich "The Design and Implementation of Deposit Insurance Systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023 at 5.
[129] FDIC *Federal Deposit Insurance Corporation: the first fifty years: a history of the FDIC 1933-1983* (1984) 1.

in the world to enact an EDIS in its legislation and currently, its EDIS has been active for 91 years at the time of this study.[130] During this period, its EDIS has successfully dealt with a number of bank failures and financial crises including the Great Depression, the GFC and the 2023 banking turmoil, which were severe financial crises.[131] The most recent financial crisis in the USA was the 2023 banking turmoil, which pointed out that the protection of depositor funds is vital in maintaining confidence of the public in the financial system, preventing bank runs and contagion effects, and maintaining financial stability.[132] The EDIS has undergone numerous developments and assessments due to the constant challenges and experiences the USA has faced in its financial system. As such, considering all the above and the fact that it is an exemplary jurisdiction to learn from, it has been chosen to be part of this study.

1.8.2 Zimbabwe

Zimbabwe, an IADI member, implemented its EDIS in 2003 through the Banking Act [Chapter 24:20]. At the time of this study, the country has maintained an operational EDIS for 31 years.[133] This makes the EDIS of Zimbabwe the oldest EDIS in the Southern African region. Its establishment was as a result of bank runs and bank failures in the early 2000s.[134] Since its establishment, it has successfully resolved several banks such as Royal Bank, AfrAsia Bank, and many others.[135] Furthermore, the Zimbabwean EDIS was awarded the most improved deposit insurer in the world in 2015 at the 14th annual general meeting and conference of the IADI.[136] As such, considering the above and the fact that it is the pioneer of EDIS in the Southern African region, as well as the effectiveness of the Zimbabwean EDIS and overcoming any

130 *Ibid*.
131 FDIC *A brief history of deposit insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 25 July 2022 at 1.
132 Metrick, Schmelzing "The March 2023 Bank Interventions in Long-run Context–Silicon Valley Bank and Beyond" National Bureau of Economic Research Working Paper No. 31066 2023 available at https://www.nber.org/system/files/working_papers/w31066/w31066.pdf accessed 10 May 2023 at 2.
133 Nyaude "Regulatory measures to address bank failures in Zimbabwe" (2021) *LLD Thesis, University of Pretoria* 106.
134 *Ibid.*
135 The Herald "Deposit protection, resolution of bank failures" available at https://www.pressreader.com/zimbabwe/the-herald-zimbabwe/20201103/281775631669876 accessed 2 August 2022.
136 DPC *DPC wins international award* 2015 available at https://www.dpcorp.co.zw/dpc-wins-international-award.html accessed 2 August 2022.

obstacles it may have faced, it has been selected to be a part of this study to provide other countries in the Southern African region with guidance and lessons.

1.8.3 Namibia

Namibia, an IADI member, instituted its EDIS through the Namibia Deposit Guarantee Act No 16 of 2018. This legislation, officially gazetted on 28 December 2018, was fully operationalised on 1 February 2020, rendering Namibia's EDIS relatively recent.[137] Being a recent country in the region to both establish and operationalise an EDIS, Namibia has been selected for this study. The aim is to serve as a source of motivation for other countries in the region, encouraging them to fully establish and implement their own EDIS.

1.9 Limitations of the Study

Southern Africa comprises 10 countries as mentioned above, and of these countries, only two will be the focus of this study namely, Namibia and Zimbabwe. This is because these countries are at the forefront of deposit insurance in Southern Africa as they have already established a fully operational, effective, and active EDIS. Angola and Namibia are both members of the IADI, established both their EDIS in 2018, and have established frameworks that are similar to each other. Discussing both jurisdictions would be redundant and for this reason, only one jurisdiction is selected which is Namibia. It has been selected because it provides a more comprehensive framework and has experienced a bank failure that negatively affected depositors more recently between the two jurisdictions. As discussed in the evolution of deposit insurance in Southern Africa above, the EDIS of Mozambique is ineffective and inadequate and for this reason, will not be discussed in this study. Botswana's EDIS framework will not be discussed as it was established and fully operationalised during the writing of this dissertation.

This study will analyse implicit deposit insurance, the role of an EDIS, its advantages and disadvantages, and why it is the optimal choice for depositor protection. This study

[137] NDGA *Annual Report* 2020 available at https://www.ndga.com.na/images/NDGA-2020-Annual-Report.pdf accessed 2 August 2022 at 11.

will also discuss the international best practices of deposit insurance in the form of the IADI Core Principles and the FSB Key Attributes. All the IADI Core Principles will be discussed in this part as the purpose of this study is to motivate and assist jurisdictions in adopting an effective EDIS that is in line with international standards. In terms of the FSB's Key Attributes, only Key Attribute 6 dealing with "funding of firms in resolution" will be discussed as it directly deals with deposit insurance and encourages countries to establish an EDIS to protect depositors.

When discussing the legislative framework of an EDIS in the USA, Zimbabwe, and Namibia, this study focuses on 8 Core Principles namely, public policy objectives, mandate and powers, governance, membership, coverage, funding, public awareness, and reimbursement, which are Core Principles the researcher deems essential for the initial establishment of an EDIS and for depositor protection. A detailed discussion on the causes of bank failures and the resolution of banks is not within the scope of this study.

1.10 Chapter Overview

Chapter 1 is the introductory chapter and outlines the background of the research, research problem and questions, rationale of the research, literature review, research methodology, selection of comparative jurisdictions, limitations of the study, and the chapter outline.

Chapter 2 focuses on the meaning of an EDIS, its advantages and disadvantages, and how it differs from implicit deposit insurance. The starting point is defining who depositors are and an analysis of implicit deposit insurance. This is followed by an analysis of EDIS and how it prevents bank runs, promotes financial stability, protects depositors, and a discussion on moral hazard.

Chapter 3 deals with the international standards of EDIS. Specifically, the influence of the GFC on establishing international standards, the preconditions for an effective EDIS, minimising moral hazard, and the 16 Core Principles as set out by the IADI will be discussed.

Chapter 4 evaluates the history and development of EDIS in the USA as the first country to establish an EDIS in the world. This chapter further identifies any lessons that may be gathered to assist Southern African countries in the development of their own EDIS.

Chapter 5 mainly compares the development and current positions of the adoption of effective deposit insurance schemes in the selected Southern African countries, namely, Namibia and Zimbabwe. It further highlights the lessons to be learnt from Namibia and Zimbabwe, which are at the forefront of EDIS in Southern Africa.

Chapter 6 consists of the conclusion and recommendations concerning the adoption of effective EDISs in Southern Africa.

Chapter 2: Analysis of Deposit Insurance and Moral Hazard

2.1 Introduction

A depositor, whether a natural person or a legal entity, holds various types of accounts including transaction accounts, investment accounts, and savings accounts. Depositors place funds into these accounts with the expectation that their money is secure and accessible on demand.[138] Across the globe, countries implement either an implicit deposit insurance system or an EDIS to protect depositors from the consequences of bank failure.[139] Determining an optimal system that minimises moral hazard for any jurisdiction is crucial because deposit insurance systems face the possibility of increased losses if effective steps are not taken to curtail moral hazard.[140] This chapter compares the two systems to ensure effective protection for depositors and the stability of the financial system.

2.2 Deposit Insurance Schemes

2.2.1 Implicit Deposit Insurance and Advantages and Disadvantages

An implicit deposit insurance system is present in cases where an EDIS does not exist.[141] Implicit deposit insurance systems are not rule-based and are not provided for in statute or any other legal instruments.[142] This form of deposit insurance represents an implied blanket guarantee to all depositors once a bank becomes insolvent. Decisions regarding the protection offered to depositors, and the extent of that protection, are typically made at the discretion of the government when a bank faces insolvency or during financial crises.[143]

---

138 Zaire "Deposit insurance: legal analysis" (2019) *LLM Dissertation, University of Johannesburg* 8.
139 David, Michael, Ulrich "The Design and Implementation of Deposit Insurance Systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023 at 2.
140 FDIC *Options for Addressing Moral Hazard* Guidance for Developing Effective Deposit Insurance Systems Discussion Papers available at https://www.fdic.gov/deposit/deposits/international/guidance/moralhazard.pdf accessed 5 April 2023 at 2.
141 *Ibid*.
142 *Ibid*.
143 *Ibid*.

Advantages of an Implicit Deposit Insurance System

a) Market discipline

Market discipline in the banking sector can be defined as a situation where the agents of the private sector (creditors or depositors) face the increased costs that come with a bank taking risks, and based on these costs, take action.[144] For example, depositors that are uninsured and exposed to the banks' risk-taking may penalize riskier banks by withdrawing their deposits or by requiring higher interest rates.[145] During a crisis, uninsured depositors respond by increasing market discipline, and in doing so, provide valuable checks to banks that are contemplating engaging in riskier behaviour during a period of systemic instability.[146] Creditors and depositors that do not perceive themselves to be protected by an EDIS exert market discipline and as such, an implicit deposit insurance system increases market discipline.[147] Market discipline improves the efficiency of banks by putting pressure on banks that are relatively inefficient to exit the industry or to become more efficient.[148] Furthermore, it reduces moral hazard as the banks now have to consider the penalties they will receive from the market if they undertake more risks, and it lowers the cost of supervising banks as greater control will be on market forces that can distinguish between good and bad banks.[149]

b) More freedom of action for policymakers

Under the implicit deposit insurance system, policymakers are given more freedom of action when exercising deposit protection measures.[150] Policymakers have more control over the protection offered regarding elements such as the cover amount, form, and timing of the protection.[151] This flexibility allows the government to tailor its response to a bank failure based on the gravity of the failure and its potential detriment to the financial system. An implicit deposit insurance system allows the government to

---

144 Claessens, Laeven *A reader in international corporate finance: vol. 2* (2006) 360.
145 *Ibid*.
146 Karas, Pyle, Schoors, "Deposit insurance, banking crises, and market discipline: evidence from a natural experiment on deposit flows and rates" 2013 *Journal of Money, Credit and Banking* 199.
147 Forssbæck *Essays on market discipline in commercial and central banking* (2009) 8.
148 Claessens, Laeven *A reader in international corporate finance: vol. 2* (2006) 360.
149 *Ibid*.
150 Talley, Mas "Deposit Insurance in Developing Countries" World Bank Policy Research Working Paper 548 1990 available at https://econpapers.repec.org/paper/wbkwbrwps/548.htm accessed 10 March 2023 at 23.
151 *Ibid*.

employ a constructive ambiguity[152] strategy, which has the potential to increase monitoring by depositors as they are uncertain whether their deposits will be covered in the event of a bank failure or financial crisis.[153]

Disadvantages of an Implicit Deposit Insurance System

a) Government uses its discretion to protect depositors

In this system, inconsistent treatment of depositors and other creditors is possible due to the reliance on discretionary government funding for bank failures.[154] As there are no explicit pre-existing rules and procedures, decisions on whether or not to assist the bank and provide protection for depositors depend solely on the government's discretion.[155] If the government decides to reimburse depositors, the extent of cover and to whom the cover extends, is at the government's discretion, leading to uncertainty about protection.[156] As depositors are not certain that their deposits are protected, this makes the likelihood of bank runs greater during financial difficulties or any signs of problems, because of the lack of confidence of depositors caused by uncertainty.[157] Furthermore, the amount of protection is inconsistent as it depends on the discretion of the government resulting in the unpredictability of the cover.[158]

b) Government and taxpayers bear the costs of bank failure

The decision-making process in implicit deposit insurance systems is not guided by any pre-existing rules and procedures. Depositor protection, including reimbursement and addressing financial obligations resulting from bank failure, is typically financed out of the central bank or the government's budget.[159] Consequently, the costs

---

[152] Jegen, Merand "Constructive ambiguity: comparing the EU's energy and defence policies" 2014 *West European Politics* 2 defines constructive ambiguity as "the deliberate use of ambiguous language in a sensitive issue in order to advance some political purpose".
[153] David, Michael, Ulrich "The Design and Implementation of Deposit Insurance Systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023 at 4.
[154] *Ibid* 2.
[155] Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 6.
[156] *Ibid*.
[157] Talley, Mas "Deposit Insurance in Developing Countries" World Bank Policy Research Working Paper 548 1990 available at https://econpapers.repec.org/paper/wbkwbrwps/548.htm accessed 10 March 2023 at 19.
[158] *Ibid 9*.
[159] *Ibid* 9.

associated with protecting depositors and managing bank failures are borne by taxpayers and the government. This financial burden diverts funds that were originally allocated for other vital issues, such as tackling unemployment in the country.[160]

c) Delays in the process of reimbursing depositors

In an implicit deposit insurance system, when handling a failing bank and protecting depositors, the process is often slow and inefficient, and the outcomes are inconsistent and unpredictable over time periods.[161] Financial regulatory authorities may need to consult with other branches of government or amongst themselves to decide whether to assist the failing banks, protect depositors, and to what extent. This decision-making process considers various factors, including whether there are funds available for assistance from the government, the systemic significance of the bank to the financial system, the presence of corruption or theft, or excessive risk-taking that could exacerbate moral hazard if assistance is provided. This complexity can lead to delays in decision-making and actions, which is problematic because, during a crisis, timely assistance is vital, especially as the public's confidence erodes rapidly during a banking crisis, aggravating the risk of bank runs.[162] Furthermore, there is no predetermined method for reimbursement under this system, slowing down the process of reimbursement.

2.2.2 Explicit Deposit Insurance and Advantages and Disadvantages

In contrast to an implicit deposit insurance system, this research focuses on an EDIS, which is a rule-based system that clarifies a government's obligations to protect depositors when a bank fails to fulfil its repayment obligations to its depositors.[163] It forms part of the financial safety net, guaranteeing depositors a promised amount related to their deposits, in the event of financial crisis or bank failure.[164] An EDIS is

---

[160] *Ibid*.
[161] *Ibid* 15.
[162] *Ibid* 15.
[163] David, Michael, Ulrich "The Design and Implementation of Deposit Insurance Systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023 at 2.
[164] Frolov "Deposit Insurance and its Design: A Literature Review" KUMQRP Discussion Paper DP2004-004 2004 available at http://ies.keio.ac.jp/old_project/old/gcoe-econbus/pdf/dp/DP2004-004.pdf accessed 1 April 2023 at 10.

expressly provided for by statute or other legal instruments, containing rules on coverage, membership, funding, and premiums.[165] Additionally, it clarifies the financial obligations of the public sector and the banking system, making it mandatory for banks to obtain deposit insurance as part of their annual licensing requirements.[166] This system provides certainty and confidence to depositors, ensuring the protection of their funds and clarity on procedures during a bank failure or financial crisis.[167]

An EDIS aims to protect small depositors, protect the banking system from bank runs, and contribute to the stability of the financial system.[168] A credible safety net is a key function of an EDIS, with the mandate of a deposit insurer varying in scope.[169] Under the narrow mandate, the system operates as a "paybox", primarily compensating insured depositors.[170] Conversely, a "paybox plus" system, indicative of a broader mandate, extends beyond deposit compensation to include monitoring the banking sector's conditions and facilitating financial contributions to a wider range of bank resolutions.[171] Additional mandate types include a "loss minimiser" mandate, where the deposit insurer seeks the most cost-effective resolution to ensure insured depositors' access to their funds. Similarly, a risk minimiser mandate endows the deposit insurer with comprehensive risk assessment and management capabilities, along with early intervention and resolution powers, and in some cases, prudential oversight responsibilities.[172]

---

[165] *Ibid.*
[166] Garcia "Deposit Insurance: Obtaining the Benefits and Avoiding the Pitfalls" IMF Working Paper WP/96/83 1996 available at https://doi.org/10.5089/9781451850499.001 accessed 10 December 2022 at 15.
[167] *Ibid*.
[168] Nikolaj, Draženović, Buterin "Deposit insurance, banking stability and banking indicators" 2022 *Economic Research-Ekonomska Istraživanja* 2.
[169] Garcia "Deposit Insurance: Actual and Good Practices" IMF Occasional Paper 197 2000 available at https://doi.org/10.5089/9781557759481.084 accessed 20 December 2022 at 5.
[170] *Ibid*. See also IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 10.
[171] *Ibid* 6. See also IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 10.
[172] The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 10 March 2023 at 4. See also IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 10.

Advantages of an explicit deposit insurance system

a) Protection of Small Depositors

Small depositors are the most vulnerable in times of bank failures and financial crises, standing to lose more than larger depositors.[173] This vulnerability arises because small depositors often lack the resources or the skills necessary to monitor the activities or the risks of banks.[174] Furthermore, small depositors frequently diversify their wealth poorly by concentrating all their financial resources in basic deposit accounts at one or two financial institutions.[175] The purpose of an EDIS can be seen as insurance for the financial wealth of these depositors against any loss due to a financial crisis or bank failure. It ensures that these depositors receive their funds at a guaranteed amount, at a prompt time, more easily and fairly than they would under general bankruptcy law.[176] EDIS provides small depositors with the confidence to save more of their money in banks and eliminates the risk that their funds will be lost.

b) Reduction of the Risk of Bank Runs

Bank runs are viewed as detrimental signs of an unstable financial system due to their economic inefficiency and the significant disruption they cause to the banking system.[177] Small depositors, lacking sufficient information about the banking conditions or risks, often trigger runs either out of panic or the need to beat a run.[178] The susceptibility of banks to runs stems from the combination of holding liquid liabilities and illiquid assets.[179] Banks' primary assets, loans, cannot be quickly sold without incurring losses.[180] While under normal circumstances, not all depositors withdraw their deposits simultaneously, during times of panic or financial crisis, a large number of simultaneous withdrawals depletes the bank's liquid assets, forcing the sale

---

173 Uahatjiri "Protecting depositors and promoting financial stability in South Africa: Is there a case for the introduction of deposit insurance" (2003) *MCOM Dissertation, Rhodes University* 50.
174 David, Michael, Ulrich "The Design and Implementation of Deposit Insurance Systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023 at 5.
175 *Ibid*.
176 *Ibid*.
177 Hon Chu "Deposit insurance and banking stability" 2011 *Cato Journal* 99.
178 *Ibid*.
179 Ketcha "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023 at 222.
180 *Ibid*.

of illiquid assets at a loss. The first-come, first-served nature of bank operations further incentivises bank runs, as early withdrawals secure complete deposits while later withdrawals face the risk of incomplete or no compensation.[181]

In today's digital era, a new form of bank run has emerged, known as the digital bank run, which is faster and more destructive.[182] Information disseminated on social media platforms, whether accurate or not, can induce panic among depositors, leading to rapid attempts to withdraw funds through digital banking applications.[183] An example is the SVB digital bank run in the USA in 2023, where depositors attempted to withdraw $42 billion in 24 hours through digital platforms.[184]

Bank runs not only impact one bank but can have a spillover effect on others.[185] Due to the interconnectedness of banks, the failure of one institution may lead to the failure of others.[186] The links or similarities between financial institutions may cause panic among other depositors, irrespective of their bank's financial position.[187] Prudential supervision alone cannot provide the same level of protection against bank runs as an EDIS.[188] An EDIS offers depositors a guarantee that their funds are safe and available on demand, thus instilling confidence and eliminating the incentive for a bank run.[189]

c) Promotion and Maintenance of Financial Stability

Financial stability refers to a condition in which the mechanisms for allocating, pricing, and managing financial risks, such as liquidity and credit, function effectively, contributing to the overall performance of the economy.[190] An EDIS, as defined by its

---

181 *Ibid* 223.
182 Turrin "Silicon Valley Bank the world's first digital bank run!" available at https://richturrin.com/silicon-valley-bank-the-worlds-first-digital-bank-run/ accessed 10 November 2023.
183 *Ibid.*
184 Metrick, Schmelzing "The March 2023 Bank Interventions in Long-run Context – Silicon Valley Bank and beyond" National Bureau of Economic Research Working Paper No 31066 2023 available at https://www.nber.org/system/files/working_papers/w31066/w31066.pdf accessed 10 April 2023 at 1.
185 Uahatjiri "Protecting depositors and promoting financial stability in South Africa: Is there a case for the introduction of deposit insurance" (2003) *MCOM Dissertation, Rhodes University* 27.
186 *Ibid* 20.
187 *Ibid* 20.
188 Ketcha "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023 at 224.
189 *Ibid* 223.
190 Schinasi "Defining Financial Stability" IMF Working Paper WP/04/187 2004 available at https://www.imf.org/external/pubs/ft/wp/2004/wp04187.pdf accessed 1 February 2023 at 10.

focus on depositor assurance during bank failures, instils confidence in depositors. This confidence allows them to continue with their daily lives, spending habits, and business activities without fearing the potential risks to their deposits.[191] This, in turn, contributes to the smooth and stable operation of the economy emphasizing the crucial role of deposit safety in achieving financial and economic stability.[192]

The consequences of a bank run extend beyond the specific bank involved, potentially causing panic among customers of other sound banks and leading to a chain of failures.[193] Such a chain can have an adverse effect on the stability and safety of the financial system. By eliminating risks of contagion while protecting depositors, an EDIS removes the incentive for bank runs, promoting stability in individual banks and the financial system.[194] An EDIS, together with other safety net elements, contain potential threats to banks. It helps to prevent interruptions in bank liquidity caused by failures or disruptive bank runs, thereby supporting financial stability.[195]

d) Enhancing Competition Among Banks

In the absence of an EDIS, depositors tend to prefer large banks because of their more diversified portfolio and the perceived lower risk attributed to implicit deposit insurance linked to their size and significance in the financial system.[196] EDIS levels the playing field by offering depositors the freedom to choose any bank, ensuring the safety of their funds irrespective of the bank's size.

e) Reduces the Government's Obligations and Role in a Bank's Failure

An EDIS reduces or eliminates the cost that the government would otherwise bear when a bank fails. It achieves this by providing a formal mechanism that ensures that

---

[191] *Ibid*.
[192] Ketcha "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023 at 223.
[193] *Ibid*.
[194] David, Michael, Ulrich "The Design and Implementation of Deposit Insurance Systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023 at 5.
[195] Ketcha "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023 at 224.
[196] Garcia "Deposit Insurance: Obtaining the Benefits and Avoiding the Pitfalls" IMF Working Paper WP/96/83 1996 available at https://doi.org/10.5089/9781451850499.001 accessed 10 December 2022 at 15.

banks contribute to the cost of deposit protection.[197] This prevents taxpayers from shouldering the burden of bank failure and spares the government funds for addressing other national issues.

f) Increase Savings and Encourage Economic Growth

As a result of the protection and guarantee that an EDIS provides depositors, it motivates them to increase savings, reassured that their money is safe even in the event of a bank failure.[198] Furthermore, an EDIS provides them with the certainty and confidence that, in the event of a bank failure, they would have prompt access to their funds and savings.[199]

Disadvantage of an Explicit Deposit Insurance System

a) Reduce Market Discipline

EDIS raises a major concern that it reduces the incentives of depositors to monitor and discipline their banks through withdrawing their funds or requiring higher interest rates when bank risk increases.[200] This is achieved by providing depositors with guarantees and confidence that their funds are safe, potentially eliminating the role of market discipline.[201] As a result, banks may feel less pressure to maintain prudent financial practices and may take on excessive risks, knowing that their depositors are protected by EDIS. This erosion of market discipline can contribute to moral hazard and increase the likelihood of financial instability in the long run.

b) Moral Hazard

Banks may face moral hazard under an EDIS as depositors are protected by the EDIS, leading to a reduction in the costs of pursuing riskier strategies.[202] This can incentivise excessive risk-taking, as the cost of engaging in risky behaviour has been reduced.[203] Consequently, banks can pursue more profitable but riskier strategies or investments

---

197 *Ibid*.
198 Garcia "Deposit Insurance: Actual and Good Practices" IMF Occasional Paper 197 2000 available at https://doi.org/10.5089/9781557759481.084 accessed 20 December 2022 at 1.
199 *Ibid*.
200 *Ibid*.
201 *Ibid*.
202 Ketcha "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023 at 224.
203 *Ibid*.

without facing potential losses associated with those risks.[204] While this may benefit depositors in the short term through higher interest rates on deposits, it poses long-term risks to the stability of the financial system.[205]

2.3 Challenges Presented by Deposit Insurance Systems

2.3.1 The Moral Hazard Problem

The moral hazard problem emerges as a predominant concern associated with EDISs.[206] It occurs when parties involved in deposit insurance, such as bank managers, supervisors, owners, and depositors become less cautious about the bank's soundness due to the protection afforded by deposit insurance.[207] This protection can incentivise excessive risk-taking and reduce the costs associated with pursuing risky strategies, thereby introducing the problem of moral hazard.[208] Consequently, depositors may prioritise seeking the highest return on their deposits, diminishing the incentive to monitor the bank's risk-taking behaviour.[209] Similarly, banks, operating under an EDIS, might engage in risky investments with the knowledge that even if they incur losses, depositors are protected, thus incentivising them to take risks regardless.[210] It's important to note that moral hazard is not exclusive to an EDIS, it also exists in implicit deposit insurance. In implicit systems, depositors may assume protection from losses, believing that the government will always prevent bank failures.[211]

---

204 Talley, Mas "Deposit Insurance in Developing Countries" World Bank Policy Research Working Paper 548 1990 available at https://econpapers.repec.org/paper/wbkwbrwps/548.htm accessed 10 March 2023 at 17.

205 Ioannidou, De Dreu "The Impact of Explicit Deposit Insurance on Market Discipline" CentER Discussion Paper No 2006-05 Tilburg University 2006 available at SSRN: http://dx.doi.org/10.2139/ssrn.888681 accessed 10 March 2023 at 1.

206 Ketcha "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023 at 224.

207 Garcia "Deposit Insurance: Actual and Good Practices" IMF Occasional Paper 197 2000 available at https://doi.org/10.5089/9781557759481.084 accessed 20 December 2022 at 1.

208 Ketcha "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023 at 224.

209 *Ibid*.

210 Uahatjiri "Protecting depositors and promoting financial stability in South Africa: Is there a case for the introduction of deposit insurance" (2003) *MCOM Dissertation, Rhodes University* 60.

211 Zaire "Deposit insurance: legal analysis" (2019) *LLM Dissertation, University of Johannesburg* 31.

2.3.2 Mitigating the Moral Hazard Problem

Mitigating the moral hazard problem is crucial for an effective EDIS. Without appropriate measures in place, an EDIS faces the risk of increased losses due to moral hazard issues, which can have far-reaching consequences on the economy as more funds are directed toward riskier activities.[212] While it's recognised that moral hazard cannot be entirely eliminated, its adverse effects can be mitigated through a well-designed EDIS.[213] Conversely, a poorly designed EDIS heightens the risks associated with moral hazard, potentially destabilising the overall financial system.[214] Various measures can be implemented to limit moral hazard, including the exclusion of certain categories of deposits from coverage, the introduction of risk-based premiums, timely intervention and resolution by deposit insurers, and collaboration with other safety net participants.[215] These measures will be further explored in Chapter 3.

2.4 Conclusion

In conclusion, the advantages of an EDIS clearly outweigh those of an implicit deposit insurance system, making it the optimal choice for jurisdictions aiming to protect depositors and ensure financial system stability. An EDIS not only safeguards depositors but also plays a crucial role in enhancing the stability of the financial sector. While it's essential to acknowledge the drawbacks of an EDIS, they can be effectively addressed and minimized through a well-designed system. By proactively preventing last-minute scrambling for funds during financial crises or bank failures, an EDIS ensures the protection of depositors and the financial system.[216] This proactive approach helps to avoid haphazard policy decisions and uncertainties surrounding

---

212 FDIC *Options for Addressing Moral Hazard* Guidance for Developing Effective Deposit Insurance Systems Discussion Papers available at https://www.fdic.gov/deposit/deposits/international/guidance/moralhazard.pdf accessed 5 April 2023 at 2.

213 David, Michael, Ulrich "The Design and Implementation of Deposit Insurance Systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023 at 3.

214 *Ibid*.

215 Micajkova "Deposit insurance in times of financial crisis" 2013 *South-Eastern Europe Journal of Economics* 174.

216 South African Reserve Bank *Designing a deposit insurance scheme for South Africa - a discussion paper* 2017 available at http://www.treasury.gov.za/twinpeaks/Designing%20a%20deposit%20insurance%20scheme%20for%20South%20Africa.pdf accessed 5 October 2022 at 2.

compensation arrangements.[217] Implementing an EDIS is therefore paramount for every country to safeguard its financial system and depositors, providing a necessary safety net for banks to save for a rainy day.

[217] *Ibid*.

Chapter 3: International Best Practice Standards for Deposit Insurance Systems

3.1 Introduction

The implementation and effectiveness of EDISs vary worldwide. International standards, particularly, the IADI Core Principles, are instrumental in guiding countries to establish an effective EDIS. These standards serve as a benchmark for jurisdictions to assess the quality of their EDIS and identify any gaps in their practices. By complying with international standards, countries not only establish an effective EDIS aligned with best practices but also promote international cooperation, coordination, consistency, and transparency among various financial systems.

3.2 The 2007-09 Global Financial Crisis

During the GFC, failures in macroeconomic policies and the regulation and supervision of banks became apparent. The GFC highlighted that the authorities responsible for regulating, supervising, and managing bank crises lacked a clear mandate and the necessary tools to address failing banks. While an EDIS had been in existence in some countries for an extended period before the GFC, it was evident that there was a lack of international consistency and coherence in policies, prompting a re-examination of the global financial structure.[218] The evolution of the crisis emphasized the importance of maintaining depositor confidence in the financial system and the key role that an EDIS plays in sustaining that confidence.[219] In the aftermath of the crisis, several deposit insurers saw their mandates expand to include resolution tools in addition to depositor reimbursement.[220]

The IADI Core Principles consisting of 16 Core Principles essential for an effective EDIS, were issued by the BCBS and the IADI in June 2009 and revised in 2014 as a

[218] Claessens, Dell' Arccia, Igan, Laeven "Lessons and Policy Implications from the Global Financial Crisis" IMF Working Paper WP/10/44 2010 available at https://www.imf.org/external/pubs/ft/wp/2010/wp1044.pdf accessed 10 May 2023 at 3.
[219] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 5.
[220] *Ibid*.

response to the GFC.[221] Currently, these IADI Core Principles are under review and being updated, following approval by the IADI Executive Council meeting in March 2022.[222] They serve as a benchmark for jurisdictions, aiding in the identification of gaps in EDISs and the implementation of measures to address them.[223] Additionally, the World Bank and the IMF use the IADI Core Principles to assess the effectiveness of EDISs globally.[224] The Core Principles set the minimum standards that should be in place to achieve an effective EDIS, and jurisdictions have the freedom to introduce additional measures they consider essential for achieving an effective deposit insurance scheme.[225] They have played a crucial role in establishing new EDISs and supporting reforms related to EDISs worldwide.[226] The FSB Key Attributes, which were also adopted in the wake of the GFC to address the problem of financial institutions that are considered "too big to fail", provide the elements necessary for an effective resolution regime.[227] One of the key attributes of an effective resolution regime is making arrangements to ensure the protection of depositors through an EDIS.[228] Key attribute 6, titled "Funding of firms in resolution", contains paragraph 6.3 that directly relates to EDISs, stating that a privately financed resolution fund or an EDIS should be in place in all jurisdictions.[229]

---

[221] The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 1 March 2023 at 43.

[222] IADI "Deposit Insurance in 2023 Global Trends and Key Issues" February 2023 available at https://www.iadi.org/en/news-and-media/iadi-deposit-insurance-report-global-trends-and-key-emerging-issues/2023-iadi-deposit-insurance-report-global-trends-and-key-issues/ accessed 6 June 2023 at 23.

[223] IADI "IADI Core Principles For Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 5.

[224] *Ibid.*

[225] *Ibid.*

[226] O'keefe, Ufier "Determining The Target Deposit Insurance Fund: Practical Approaches for Data-Poor Deposit Insurers" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023 at 9.

[227] Financial Stability Board "Key Attributes of Effective Resolution Regimes for Financial Institutions" October 2014 available at https://www.fsb.org/wp-content/uploads/r_141015.pdf accessed 10 February 2023 at 1.

[228] *Ibid* 3.

[229] *Ibid* 12.

3.3 Precondition for Effective Deposit Insurance

The IADI Core Principles illustrate the interdependence between the establishment, design features, and preconditions of an EDIS.[230] The preconditions play a crucial role in ensuring the effectiveness of an EDIS while minimising the potential for moral hazard.[231] These preconditions include, first, the macroeconomic environment. It provides that macroeconomic conditions influence the effectiveness of markets, the ability of the financial system to intermediate resources, and economic growth.[232] Economic instability and uncertainty can lead to bank runs and the inability of a bank to absorb and manage risks.[233] Second, in terms of the financial system structure, a sound financial system influences the appropriate design features of an EDIS.[234] It allows for emerging risks to be identified and considered by the EDIS.[235] Additionally, it fosters a strong relationship with other safety net participants.[236] Third, in terms of prudential regulation, supervision, and resolution, ensuring that a bank's weaknesses are identified and corrected promptly requires the assistance of strong regulation and supervision.[237] Early intervention, facilitated by robust regulatory measures, helps reduce the costs associated with bank failure. Additionally, strong prudential regulation and supervision play a crucial role in mitigating moral hazard. Fourth, in regard to the legal framework, comprehensive and relevant business laws must exist to guide financial transactions.[238] These laws include, amongst others, corporate, insolvency, contract, creditor rights, and consumer protection.[239] Last, is the precondition dealing with accounting, disclosure, and auditing. For the effective evaluation of the risk profile of a bank by an EDIS, sound accounting and disclosure regimes are essential.[240] These regimes aim to increase market, regulatory, and supervisory discipline.[241]

---

230 The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 1 March 2023 at 29.
231 *Ibid*.
232 *Ibid*.
233 *Ibid*.
234 *Ibid*.
235 *Ibid*.
236 *Ibid*.
237 *Ibid*.
238 *Ibid*.
239 *Ibid*.
240 *Ibid*.
241 *Ibid.*

3.4 Minimising Moral Hazard

The IADI Core Principles serve as a valuable guide for countries, offering strategic insights into addressing moral hazard in banking through the effective design of EDISs.[242] These systems should incorporate well-thought-out features that not only limit moral hazard from depositors but also reduce incentives for excessive risk-taking.[243] The design must guard against various factors, such as shareholders seeking profit maximization, bank managers driven by incentives for higher remuneration and depositors feeling insulated from the bank's risks due to deposit protection.[244] Key design features aimed at mitigating moral hazard include timely intervention and resolution by the deposit insurer, limited coverage levels and scope, and the implementation of risk-based premiums.[245] These features mitigate moral hazard by ensuring that banks bear the cost of their own risk-taking through risk-based premiums.[246] Furthermore, they incentivise uninsured depositors to monitor risks, even those exceeding coverage limits, out of concern for potential deposit losses by limiting the scope and level of coverage, and lastly by taking actions such as compelling banks to reduce or prudently manage their risks through timely intervention.[247]

[242] Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 44.

[243] Bretschneider, Benna "Risk-Based Premium Models for Deposit Insurance Systems" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023 at 48.

[244] Van Heerden "Deposit protection in South Africa: recent developments" 2020 *Journal of International Banking Law and Regulation* 46.

[245] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 11.

[246] *Ibid* 9.

[247] See para 3.6.8. See also IADI "General Guidance on Early Detection and Timely Intervention for Deposit Insurance Systems" Guidance Paper June 2013 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/2013-06_Early_Detection_Timely_Intervention-publication_final.pdf accessed 25 January 2023 at 18.

3.5 Special Issues in Applying the IADI Core Principles

These issues comprise several key aspects. Firstly, Islamic EDISs aim to protect Islamic deposits in accordance with Islamic principles and rules.[248] Secondly, the existence of multiple EDISs seeks to address inefficiencies, and competitive concerns and promote information sharing and coordination among systems operating within a national jurisdiction.[249] Thirdly, the focus on financial inclusion encourages deposit insurers to actively participate in initiatives promoting financial inclusion and embrace technological innovations catering to unsophisticated small-scale depositors.[250] Lastly, depositor preference, concerning the treatment of depositors in the creditor hierarchy, has the potential to reduce liquidation and depositor reimbursement costs.[251] However, it also introduces complexities, as lower-ranking creditors may take protective measures, impacting banks' funding, such as collateralising their claims.[252]

3.6 The IADI Core Principles for Effective Deposit Insurance Systems

3.6.1 Core Principle 1: Public Policy Objectives

Core Principle 1 provides that protecting depositors and contributing to financial stability are the principal public policy objectives of an EDIS.[253] These objectives must be reflected in the design of the EDIS. They should be formally specified and publicly disclosed, for example, through legislation or documents supporting legislation.[254] This is to assure the public that their funds are safe and that the reimbursement of their insured funds is guaranteed thus increasing the public's confidence.[255]

[248] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 15.
[249] *Ibid* 16.
[250] *Ibid* 16.
[251] *Ibid* 17.
[252] *Ibid* 17.
[253] *Ibid* 18.
[254] IADI "Public Policy Objectives for Deposit Insurance Systems" Guidance Paper March 2020 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI_PPO_Guidance_Final_23032020.pdf accessed 10 February 2023 at 5.
[255] Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 65.

3.6.2 Core Principle 2: Mandate and Powers

Core Principle 2 deals with the mandate and powers of the deposit Insurer. It states that the mandate and powers of the deposit insurer should be consistent with public policy objectives and be formally specified and clearly defined in legislation.[256] The mandate should clarify the roles and responsibilities of the deposit insurer and be aligned with the mandates of other safety-net participants.[257] The powers of the deposit insurer should enable it to fulfil its roles and responsibilities, and to support its mandate, such as the power to collect premiums and reimburse insured depositors.[258]

3.6.3 Core Principle 3: Governance

Core Principle 3 deals with governance. It emphasizes that the deposit insurer should be operationally independent, well-governed, transparent, accountable, and insulated from external interference.[259] There should be no central bank, government, industry, or supervisory interference that compromises the deposit insurer's operational independence.[260] Operational independence prevents political meddling in the normal operations and duties of the governing body, as well as the creation of an investment strategy by the governing body of the EDIS.[261]

3.6.4 Core Principle 4: Relationships with Other Safety-net Participants

Core Principle 4 addresses the relationship between the deposit insurer and other participants in the financial safety net. It emphasizes that, to protect depositors and contribute to financial stability, a formal and comprehensive framework should be

---

256 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 19.
257 *Ibid* 19.
258 Bretschneider, Benna "Risk-Based Premium Models for Deposit Insurance Systems" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023 at 49.
259 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 21.
260 *Ibid*.
261 Kajander-Saarikoski "Investing For The Bad Times: How To Achieve A Balanced Investment Strategy For A Deposit Insurance Fund" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023 at 97.

established for continuous information sharing and close coordination of activities between the deposit insurer and other financial safety-net participants.[262] The financial safety net includes prudential regulation, supervision, resolution, lender of last resort, deposit insurance, and the Ministry of Finance.[263] Coordination of actions and ongoing sharing of information must be explicitly formalised through legislation, regulation, memoranda of understanding, or legal agreements.[264]

3.6.5 Core Principle 5: Cross-border Issues

Core Principle 5 deals with cross-border issues. It provides that where there is a material presence of foreign banks in a jurisdiction, formal coordination and information-sharing arrangements must be in place among deposit insurers in relevant jurisdictions, subject to confidentiality provisions.[265] In instances where the deposit insurer is responsible for coverage in a foreign jurisdiction, or where more than one deposit insurer is responsible for coverage in a jurisdiction, bilateral or multilateral agreements determine who is responsible for setting levies and premiums, managing the reimbursement process, and enhancing public awareness.

3.6.6 Core Principle 6: Deposit Insurers' Role in Contingency Planning and Crisis Management

Core Principle 6 deals with contingency planning and crisis management, and it emphasizes that deposit insurers must establish effective policies and procedures to respond to the risk of, and actual occurrences of, bank failures and other events.[266]

---

262 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 23.

263 Lugulu "Addressing the moral hazard through Explicit Deposit Insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 48 ft 80.

264 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 23.

265 *Ibid* 24.

266 *Ibid* 25. See also IADI "Deposit Insurers Role in Contingency Planning and System-Wide Crisis Preparedness and Management" Guidance Paper May 2019 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI%20Guidance%20Paper_DI%20role%20in%20contingency%20planning%20&%20crisis%20management.pdf accessed 10 January 2023 at 36 states that a contingency plan identifies and describes issues and alternatives for handling an unexpected risk event that may cause severe consequences to an institution. Crisis management on the other hand involves understanding the crisis, its development and the resolution options that may be used to mitigate the crisis.

The EDIS response to trigger events must be prompt, with no room for unpreparedness.[267] All safety net participants should be jointly responsible for the development of system-wide crisis preparedness strategies and management policies.[268] The deposit insurer should be a member of any institutional framework facilitating ongoing communication and coordination involving financial safety net participants related to system-wide crisis preparedness and management.[269]

3.6.7 Core Principle 7: Membership

Core Principle 7 requires that membership in an EDIS should be compulsory for all banks, including state-owned banks, and that all banks should be subject to sound prudential regulation and supervision.[270] This helps prevent the problem of adverse selection, whereby the better capitalised and stronger banks opt out of membership leaving the weaker banks which are more susceptible to failure, as members.[271] The time frame, conditions, and process for attaining membership must be transparent and explicitly stated.[272] Depositors must be given immediate notice when membership is cancelled due to the revocation or surrender of a bank's licence, informing them that their deposits will be insured until a specified deadline.[273]

3.6.8 Core Principle 8: Coverage

In terms of Core Principle 8, the scope and level of deposit coverage should be publicly and clearly defined in law and apply equally to all member banks.[274] Coverage must be consistent with the public policy objectives of the EDIS. It should be limited and credible to reduce the risk of bank runs and not undermine market discipline. It should

---

[267] Kuczynski "Deposit Guarantee Scheme Contingency Planning and Stress Testing" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023 at 136.
[268] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 25.
[269] *Ibid*.
[270] *Ibid* 26.
[271] Lugulu "Addressing the moral hazard through Explicit Deposit Insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 63.
[272] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 26.
[273] *Ibid*.
[274] *Ibid* 27.

do so by fully protecting the majority of depositors and leaving a substantial portion of deposits exposed to market discipline and mitigating moral hazard.[275] If deposits are fully covered, moral hazard is mitigated by strong regulation and supervision, and other design features of the EDIS.[276] To ensure that coverage meets the public policy objectives, the scope and level of coverage must be reviewed periodically. The residency status or nationality of depositors should not influence coverage.[277]

3.6.9 Core Principle 9: Source and Uses of Funds

Core Principle 9 deals with sources and uses of funds. It provides that to ensure prompt reimbursement of depositors' claims, the deposit insurer should have all the necessary funding mechanisms and readily available funds.[278] Banks should bear the responsibility for paying the cost of the EDIS.[279] Funding arrangements for the EDIS must be established, clearly, and explicitly defined in law, and must be provided on an ex-ante basis.[280] Emergency funding arrangements should be explicitly set out in law or regulation. A target size for the fund must be determined based on clear, consistent, and transparent criteria and achieved within a reasonable period.[281] The deposit insurer should invest and manage its funds in a sound manner with the aim of preserving the fund's capital and maintaining liquidity, and ensuring that adequate internal controls, disclosure and reporting systems, and risk management policies and procedures are in place.[282]

---

[275] *Ibid*. See Also Van Heerden "Deposit protection in South Africa: recent developments" 2020 *Journal of International Banking Law and Regulation* 47.

[276] Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 7.

[277] Van Heerden "Deposit Protection in South Africa: recent developments" 2020 *Journal of International Banking Law and Regulation* 47.

[278] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 29.

[279] *Ibid*.

[280] *Ibid* defines ex ante funding as "…the regular collection of premiums, with the aim of accumulating a fund to meet future obligations (e.g. reimbursing depositors) and cover the operational and related costs of the deposit insurer".

[281] Van Heerden "Deposit Protection in South Africa: recent developments" 2020 *Journal of International Banking Law and Regulation* 47.

[282] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 29.

3.6.10 Core Principle 10: Public Awareness

Core Principle 10 addresses the public's awareness of an EDIS. It emphasizes the importance of the deposit insurer, on an ongoing basis, informing the public about the limitations and the benefits of the EDIS.[283] To achieve this, the deposit insurer must, as part of an ongoing and comprehensive communication programme, utilise various communication tools to convey information about which banks are members, the scope and levels of coverage and any other related information.[284] The deposit insurer must appropriately notify, in a manner described by law, depositors in the event of bank failure through channels such as websites and press releases. Details regarding insured deposits, including where, how and when depositors can access their funds; the required information for payment; the possibility of advance or interim payments; and any potential loss of funds, should be provided.[285] Additionally, procedures for claims of uninsured depositors to the liquidator for their uninsured funds should be outlined.[286]

3.6.11 Core Principle 11: Legal Protection

Core Principle 11 deals with the legal protection afforded in an EDIS and provides that the deposit insurer and its current and former employees, in carrying out their responsibilities, should be legislatively protected from liability arising from actions, claims, lawsuits, or other proceedings in relation to their decisions, actions or omissions taken in good faith in the normal course of their duties.[287] Legal protection ensures that certainty and accountability are provided to the decision-making process without affecting the personnel involved if the acts are taken within the applicable legal framework.[288] However, legal protection should not hinder depositors, individual

[283] *Ibid* 32.
[284] *Ibid* 32.
[285] *Ibid* 32.
[286] *Ibid*.
[287] IADI "Guidance for the Establishment of Legal Protection Scheme for Deposit Insurance Systems" Guidance Paper February 2010 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI_Final_Guidance_Paper_Legal_Protection_26Feb2010.pdf accessed 15 January 2023 at 3.
[288] *Ibid* 5.

claimants, or banks from challenging the omissions or acts of the deposit insurer through administrative or public review procedures.[289]

3.6.12 Core Principle 12: Dealing with Parties at Fault in a Bank Failure

Core Principle 12 deals with parties at fault in a bank failure and requires that the deposit insurer, or other relevant authority, should be empowered to seek legal redress against those parties at fault in a bank failure.[290] The conduct of parties responsible for, or contributing to, the failure of a bank should be subject to investigation.[291] Criminal or investigative authorities, supervisory or regulatory authority, the deposit insurer, or any other disciplinary or professional body may conduct such investigations.[292] Efficient investigations and sanctions, including civil proceedings for damages or criminal prosecution, directly impact the preservation of the EDIS fund and the sustainability of the system. This promotes responsible behaviour of parties and funds may be recovered from culpable parties.[293]

3.6.13 Core Principle 13: Early Detection and Timely Intervention

In terms of Core Principle 13, the deposit insurer should be part of a framework within the financial safety net that provides for the early detection of, and timely intervention in troubled banks before they become non-viable.[294] The framework should establish clearly defined qualitative and/or quantitative criteria for triggering timely intervention and corrective action.[295] These criteria should be clearly defined in law, regulation, or

---

[289] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 34.
[290] Van Heerden "Deposit protection in South Africa: recent developments" 2020 *Journal of International Banking Law and Regulation* 48.
[291] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 35.
[292] *Ibid*.
[293] IADI "Dealing with Parties at Fault in a Bank Failure and Fraud in Deposit Insurance" Guidance Paper March 2015 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/Dealing_with_parties_March_2015_FINAL_Version.pdf accessed 15 March 2023 at 6.
[294] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 36.
[295] *Ibid*.

agreements; including safety and soundness indicators such as the institution's capital, asset quality, management, earning, liquidity, and sensitivity to market risk; and are reviewed periodically and the procedure for this review is formalised.[296] Early detection and intervention yield the best results by identifying and rectifying problems early.[297]

3.6.14 Core Principle 14: Failure Resolution

Core Principle 14 deals with failure resolution and provides that an effective failure resolution regime should enable the deposit insurer to contribute to financial stability and ensure the protection of depositors.[298] The legal framework should include a special resolution regime. Depositor protection and resolution procedures should extend beyond reimbursing depositors to include effective resolution tools for preserving critical bank functions and to resolve banks such as powers to replace and remove senior management, terminate contracts, and transfer or sell assets and liabilities.[299] Resolution procedures should follow a defined creditor hierarchy in which insured deposits are protected from sharing losses and shareholders take first losses.[300]

3.6.15 Core Principle 15: Reimbursing Depositors

Core Principle 15 deals with the reimbursement of depositors and provides that the depositors insured funds should be reimbursed promptly by the EDIS.[301] The trigger for the reimbursement of insured depositors should be clear and unequivocal, and depositors should ideally be reimbursed within seven working days.[302] If not, a credible

---

[296] Van Heerden "Deposit protection in South Africa: recent developments" 2020 *Journal of International Banking Law and Regulation* 48.
[297] IADI "General Guidance on Early Detection and Timely Intervention for Deposit Insurance Systems" Guidance Paper June 2013 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/2013-06_Early_Detection_Timely_Intervention-publication_final.pdf accessed 25 January 2023 at 5.
[298] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 37.
[299] *Ibid*.
[300] *Ibid.*
[301] *Ibid* 39.
[302] *Ibid* 39.

plan must be in place for timely reimbursement.[303] This key role of the EDIS is critical for maintaining confidence in the banking system and ensuring financial stability.[304]

3.6.16 Core Principle 16: Recoveries

Core Principle 16 deals with recoveries of deposit insurers and provides that by law and in accordance with the statutory creditor hierarchy, the deposit insurer should have the right to recover its claims.[305] The deposit insurer's role in the recovery process must be clearly defined by law and recognised by subrogation as a creditor of the failed bank.[306] This enables the EDIS to recover any amount that it has paid out from the sale of the assets of the failed institution.[307] In doing so, it mitigates its losses from the resolution of banks.[308] The deposit insurer has, by law, at least the same creditor rights or status as a depositor in the treatment of the estate of the failed bank.[309]

3.7 Conclusion

The IADI Core Principles provide a comprehensive framework for countries that are implementing, reviewing or actively reforming their EDIS.[310] They ensure that those countries meet the objectives of an EDIS, which are building confidence in the financial system, protecting depositors and maintaining financial stability.[311] Furthermore, they provide a guide to establishing a well-designed EDIS that minimises moral hazard as well as provides the preconditions, such as the legal and judicial framework, that

---

303 *Ibid* 39.
304 IADI "Enhanced Guidance for Effective Deposit Insurance Systems: Reimbursement Systems and Processes" Guidance Paper November 2012 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI-Reimbursement_Enhanced_Guidance_Paper.pdf accessed 20 May 2023 at 2.
305 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 41.
306 *Ibid.*
307 Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 210.
308 *Ibid*.
309 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 41.
310 *Ibid* 5.
311 See para 3.2.

contribute to the effectiveness of an EDIS.[312] These standards are, however, the minimum, and jurisdictions may add additional measures or standards to their jurisdictions that they may deem necessary to increase the effectiveness of their EDIS.[313] Adopting and implementing these standards by a country will enhance the resilience of the country's financial system and help achieve the objectives of an EDIS. Compliance with these standards is of utmost importance in achieving an effective EDIS. As a result, assessing the compliance of the selected countries namely the USA, Namibia and Zimbabwe, will indicate the effectiveness and shortcomings of their EDIS as well as measures to address them.

[312] See para 3.3. See also para 3.4.
[313] *Ibid*.

Chapter 4: Deposit Insurance in the United States of America

4.1 Introduction

The USA became the first country in the world to establish an EDIS, which has been in operation for 91 years as of 2024.[314] Over the years, in response to bank failures and reform discussions, the USA has introduced and amended several laws related to its EDIS, aiming to enhance its effectiveness and mitigate the risk of moral hazard. The USA's extensive history and success in establishing, developing, and maintaining its EDIS position it as the best example for other countries to follow. Furthermore, the USA's EDIS has consistently maintained financial stability and boosted confidence in the US financial system during major crises such as the Great Depression, the GFC, and the 2023 Banking Turmoil.[315] The chapter will explore the history and development of the USA's EDIS, and its compliance with the IADI Core Principles as a member of the organisation.[316]

4.2 The Great Depression

Deposit insurance, originally a phenomenon exclusive to the USA, has evolved due to the need to safeguard depositors and maintain the stability of the banking system worldwide.[317] The establishment of an EDIS in the USA was caused by the Great Depression, a worldwide economic downturn that included widespread bank runs and failures.[318] This tumultuous period, which commenced in 1929 and lasted until 1939, prompted the USA to pioneer EDIS as a protective measure.[319] During the last few months of 1930, the wave of bank failures triggered widespread attempts of bank runs

---

314 Kumar *Strategies of banks and other financial institutions: theories and cases* (2014) 39.
315 Basel Committee on Banking Supervision "Report on the 2023 Banking Turmoil" October 2023 available at https://www.bis.org/bcbs/publ/d555.pdf accessed 5 February 2024.
316 IADI "IADI Members" available at https://www.iadi.org/en/about-iadi/iadi-members-and-participants/ accessed 03 April 2023.
317 Calomiris, White "The origins of federal deposit insurance" In: Golding, Libecap *The regulated economy: a historical approach to political economy* (1994) University of Chicago 145.
318 Calomiris "Runs on Banks and the Lessons of the Great Depression" 1999 *Regulation* 6.
319 History "Great Depression History" available at https://www.history.com/topics/great-depression/great-depression-history accessed 1 April 2024.

and as such brought great liquidity problems and the closure of banks.[320] The number of failures continued to increase as well as the amount of loss that depositors suffered. This continued through to 1933, a year which saw the peak of the banking panic which led to the total collapse of the banking system, known as the banking crisis of 1933.[321] In 1933, approximately four thousand banks closed permanently, and depositors lost an estimated $1.3 billion.[322] No EDIS existed during this time which led to fearful depositors performing large-scale cash withdrawals, causing the failure of banks that might have otherwise survived the crisis.[323]

Between 1886 and 1933, Congress received approximately 150 proposals for an EDIS, many of which were prompted by financial crises.[324] However, it was the severity of the Great Depression and its profound impact on public confidence that ultimately convinced both the public and the President of the necessity of national measures to alleviate the disruptions caused by bank failures.[325] This resulted in the introduction of Federal Deposit Insurance in 1933 when the then President of the USA, President Franklin D. Roosevelt, signed the Banking Act of 1933 into law, which created the Federal Deposit Insurance Corporation (FDIC).[326] According to the FDIC, since its establishment in 1934, not a single depositor has lost any of their deposits insured by the FDIC.[327]

4.3 The Establishment of the Federal Deposit Insurance Corporation

4.3.1 The Banking Act of 1933

President Franklin D. Roosevelt signed the Banking Act of 1933 into law, thereby establishing the FDIC to insure bank deposits and provide a secure system for

320 FDIC *A brief history of deposit insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 25 July 2022 at 20.
321 *Ibid* 23.
322 History "FDIC" available at https://www.history.com/topics/great-depression/history-of-the-fdic accessed 1 April 2024.
323 *Ibid*.
324 FDIC *Federal Deposit Insurance Corporation: The first fifty years: A history of the FDIC 1933-1983* (1984) 3.
325 *Ibid* 1.
326 *Ibid* 1.
327 FDIC *Your insured deposits* 2020 available at https://www.fdic.gov/resources/deposit-insurance/brochures/documents/your-insured-deposits-english.pdf accessed 28 December 2022 at 2.

depositors.[328] Section 12B of the Banking Act of 1933 outlined two separate plans for deposit insurance: a temporary plan set to commence on 1 January 1934, and a permanent plan scheduled to take effect on 1 July 1934.[329] Under the temporary plan, all banks that were members of the Federal Reserve and licensed by the Secretary of the Treasury, as authorised by the President's Executive Order issued on 10 March 1933, were mandated to join the Temporary Federal Deposit Insurance Fund (TFDIF) before 1 January 1934.[330] Initially, the temporary plan provided depositors with limited coverage of $2 500 which was increased to $5 000 effective from July 1934, which was paid to depositors solely through a new bank or through the Deposit Insurance National Bank (DINB).[331] Federal Deposit Insurance proved highly effective in reinstating stability to the banking system and boosting public confidence.[332] In stark contrast to the 9000 bank failures that occurred in the preceding four years, only nine banks failed in 1934 as a testament to the program's success.[333]

The temporary plan was initially scheduled to be in place from 1 January 1934 until 1 July 1934, after which the permanent plan was intended to come into operation.[334] However, this period was extended by one year for administrative reasons, shifting the planned transition from the temporary plan to the permanent plan to 1 July 1935.[335] Consequently, the original envisioned permanent deposit insurance plan outlined in the Banking Act of 1933 was never implemented, as it was replaced by a revised permanent plan detailed in the Banking Act of 1935.[336]

---

[328] FDIC *A brief history of deposit insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 25 July 2022 at 1.

[329] FDIC *Federal Deposit Insurance Corporation: The first fifty years: A history of the FDIC 1933-1983* (1984) 43.

[330] Section 12B(y) of the Banking Act 1933.

[331] *Ibid*.

[332] FDIC *A brief history of deposit insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 25 July 2022 at 1.

[333] *Ibid*.

[334] FDIC *Federal Deposit Insurance Corporation: The first fifty years: A history of the FDIC 1933-1983* (1984) 44 states the original permanent plan as "Banks participating in insurance under the original plan were to subscribe to capital stock of the FDIC and be subject to whatever assessments might be needed to meet the losses from deposit insurance operations. The plan provided for full protection of the first $10,000 of each depositor, 75 percent coverage of the next $40,000 of deposits, and 50 percent coverage of all deposits in excess of $50,000".

[335] *Ibid* 48.

[336] *Ibid* 44.

4.3.2 The Banking Act of 1935

The Banking Act of 1935 officially established the FDIC as a permanent agency under the federal government, instituting a permanent EDIS.[337] It mandated that all banks already insured under the TFDIF would automatically be covered under the new permanent EDIS.[338] This provision excluded banks that failed to submit the necessary certified statement of deposits, neglected required assessments or indicated within 30 days their intention to withdraw from the EDIS.[339] The Banking Act of 1935 maintained the coverage limit of $5 000, a threshold established in 1934.[340] Unlike the Banking Act of 1933, which empowered the FDIC to pay insured depositors solely through the DINB or a new bank, the Banking Act of 1935 granted the FDIC the authority to directly pay insured depositors or channel payments through an existing bank.[341] Under the Banking Act of 1935, the FDIC was endowed with additional powers including the ability to offer guarantees, facilitate acquisitions or mergers, provide loans, and purchase assets.[342]

4.3.3 The Federal Deposit Insurance Act of 1950

The Federal Deposit Insurance Act of 1950 (FDIA), formerly section 12B of the Federal Reserve Act of 1913, was enacted as a standalone Act in 1950.[343] The FDIA incorporated revisions to the EDIS law, based on recommendations from the FDIC, informed by their 15 years of administering the permanent insurance plan.[344] FDIC officials identified opportunities for improvement in several areas of the law relating to handling insured banks during financial difficulties, bank examination and supervision, and administrative procedures.[345] The FDIA increased the maximum coverage per depositor from $5 000 which was set in 1934 to $10 000 to maintain the original level

---

337 FDIC *U.S. banking and deposit insurance history 1930 - 1939* available at https://www.fdic.gov/about/history/deposit-insurance/1930-1939.html accessed 1 April 2024.
338 FDIC *A brief history of deposit insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 25 July 2022 at 37.
339 *Ibid.*
340 *Ibid* 36. See also Section 12B(c)(13) of the Banking Act of 1935.
341 *Ibid* 38.
342 Section 12B(n)(4) of the Banking Act of 1935.
343 Preamble of the Federal Deposit Insurance Act of 1950.
344 FDIC *Annual Report* 1950 available at https://www.fdic.gov/about/financial-reports/reports/archives/fdic-ar-1950.pdf accessed on 1 September 2023 at xvii.
345 *Ibid* 5.

of protection of depositors.[346] This effectively increased the insured deposits by $12 billion and provided full protection for an additional three million accounts.[347] The FDIA brought changes to the assessment rate, reducing it due to the recognition that the method used under the Banking Act of 1935 to calculate FDIC assessments was cumbersome and costly.[348] It gave the FDIC new powers critical to maintaining essential banking services in banks at the risk of closure.[349] These powers include the ability to provide loans to, purchase assets from, or make deposits in insured banks.

4.3.4 The Financial Institutions Reform, Recovery and Enforcement Act of 1989

The most significant restructuring of financial institutions and the EDIS in the US between 1933 and 1989 occurred with the passage of the Financial Institution Reform, Recovery, and Enforcement Act of 1989 (FIRREA) in August 1989.[350] This legislation was prompted by escalating financial difficulties in the thrift industry and emerging vulnerabilities in the banking sector.[351] The FIRREA aimed to achieve several objectives concerning the FDIC: promoting its independence through adequate funding, an independent board of directors, and appropriate powers; ensuring the sound financial footing of Federal Deposit Insurance funds; and restricting investments and other activities of savings associations that pose unacceptable risks to the Federal Deposit Insurance funds.[352] The FIRREA amended several laws, including the FDIA. It expanded the FDIC's board of directors from three members to five members and imposed broader service restrictions on board members.[353] Additionally, FIRREA assigned the FDIC new responsibilities beyond its primary mission. These include insuring the deposits of savings associations, conducting examinations of savings associations under similar circumstances as banks, issuing regulations to restrict

---

346 *Ibid* 3.
347 *Ibid* 4. See also section (3)(m) of the Federal Deposit Insurance Act of 1950.
348 *Ibid* 3.
349 *Ibid* 6. See also section 13(c) of the Federal Deposit Insurance Act of 1950.
350 Gail, Norton "A decade's journey from deregulation to supervisory reregulation: The Financial Institutions Reform, Recovery, and Enforcement Act of 1989" 1989 *Business Lawyer (ABA)* 1106.
351 *Ibid* 1104. See also Brumbaugh, Carron, Poole "Thrift industry crisis: Causes and solutions" *Brookings Papers on Economic Activity* 1987 350 provides that "The thrift industry comprises primarily savings and loan associations and mutual savings banks; credit unions are sometimes included".
352 Section 101 of Financial Institution Reform, Recovery and Enforcement Act of 1989.
353 Gail, Norton "A decade's journey from deregulation to supervisory reregulation: The Financial Institutions Reform, Recovery, and Enforcement Act of 1989" 1989 *Business Lawyer (ABA)* 1111.

certain services of savings associations, and enforcing actions against them.[354] Notably, by 1980, the maximum coverage had been increased to $100 000.[355]

4.3.5 The Federal Deposit Insurance Corporation Improvement Act of 1991

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was signed into law by the President of the USA, President George H.W. Bush, in 1991 to address problems within the banking and thrift industries.[356] The FDICIA was passed to implement regulatory changes that would ensure the safety and soundness of the banking and thrift industries.[357] The purpose of the FDICIA was to recapitalize the insurance fund of the FDIC and to reform the EDIS and bank regulatory system to minimise costs on taxpayers.[358] The FDICIA successfully achieved this by increasing the ability of the FDIC to borrow from the Treasury to $30 billion from $5 billion, and by allowing the FDIC to assess high deposit insurance premiums until it could pay back its loans.[359] The FDICIA includes additional prompt corrective action provisions, which require the FDIC to intervene earlier and more vigorously when a bank faces financial difficulties.[360] The FDICIA instructed the FDIC to introduce risk-based insurance premiums, moving away from flat-rate premiums.[361] The FDIC established a system that uses the banks' capital classification and supervisory criteria to assess premiums.[362] This legislation significantly improved the regulatory environment and represented fundamental reform in deposit insurance and prudential regulation.[363] By 1995, the banking system had notably recovered from its state of distress, proving the positive impact of the FDICIA on both the banking and regulatory frameworks.[364]

---

354 *Ibid*.
355 FDIC *Managing the crisis: the FDIC and RTC experience* 1997 available at https://www.fdic.gov/bank/historical/managing/documents/history-consolidated.pdf accessed 20 December 2022 at 230.
356 Richards "Federal Deposit Insurance Corporation Improvement Act of 1991" 1991 available at https://www.federalreservehistory.org/essays/fdicia accessed 1 September 2023.
357 *Ibid*.
358 Mishkin "Evaluating FDICIA" 1997 *Research in Financial Services: Private and Public Policy* 1.
359 *Ibid* 9.
360 *Ibid* 11. Section 131(a) of Federal Deposit Insurance Corporation Improvement Act of 1991.
361 *Ibid* 13.
362 *Ibid* 13.
363 Benston, Kaufman "FDICIA after five years" 1997 *Journal of Economic Perspectives* 140.
364 *Ibid*.

4.3.6 The Federal Deposit Insurance Reform Act of 2005

The Federal Deposit Insurance Reform Act of 2005 (FDIRA) was signed into law in 2006.[365] The FDIRA merged the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) to form the Deposit Insurance Fund.[366] This merger aimed to eliminate the possibility of disparity of premiums between BIF and SAIF, and reporting and accounting for insured institutions, and simplify operations for the FDIC.[367] The FDIRA maintained the $100 000 maximum insurance coverage that was set in 1980 and increased the coverage limit for retirement accounts to $250 000.[368] Additionally, it introduced inflation adjustments to coverage limits, enabling the FDIC to increase deposit coverage in response to inflation every 5 years.[369] This is determined by the FDIC board and the National Credit Union Administration board. Adjustments to the Deposit Insurance Fund are influenced by various factors, such as the fund's overall health and potential issues affecting insured banks.[370] Despite these adjustments, the GFC still occurred.

4.3.7 The 2007-09 Global Financial Crisis and the USA

The GFC, caused by the housing boom and subsequent bust of the 2000s, stands as the most severe financial crisis in the USA since the Great Depression.[371] Large financial institutions both within and outside of the traditional banking system, faced significant threats such as liquidity issues due to a lack of interbank lending and bank runs as a result of diminished trust in the financial system, thereby posing risks to the overall financial system as some institutions were systemically important financial institutions.[372] The GFC saw its peak when the fourth-largest investment bank, Lehman Brothers, filed for bankruptcy in September 2008 with US$613 billion in

---

365 FDIC *Federal Deposit Insurance Reform Act of 2005* available at https://www.fdic.gov/resources/deposit-insurance/deposit-insurance-fund/dif-historical/dif-reform-2005.html accessed 5 September 2023.
366 *Ibid*. Section 2102 (a) of the Federal Deposit Insurance Reform Act of 2005.
367 *Ibid.*
368 Section 2103 (a)(2) of the Federal Deposit Insurance Reform Act of 2005.
369 Section 2103 (a)(2)(f) of Federal Deposit Insurance Reform Act of 2005.
370 *Ibid.*
371 FDIC *Crisis and response: An FDIC history 2008–2013* 2017 available at https://www.fdic.gov/bank/historical/crisis/ accessed 10 October 2022 at xi.
372 *Ibid.*

debt.[373] The government did not bailout Lehman Brothers and following its collapse, the crisis was exacerbated as financial institutions became reluctant to perform interbank lending which increased the risk of illiquidity.[374] This resulted in a contagion effect spreading throughout the USA to international markets.

To successfully deal with the GFC, containing the systemic risk and restoring financial stability was paramount. This was done through the establishment of the Emergency Economic Stabilization Act of 2008 (EESA), a law passed by the US Congress on 3 October 2008, which was meant to prevent the collapse of the financial system during the subprime mortgage crisis, temporarily increase deposit insurance coverage to US$250 000 and authorise the $700 billion Temporary Asset Relief Program (TARP).[375] Furthermore, the FDIC took two actions to maintain access to funding for financial institutions and restore confidence in the financial system. Firstly, it guaranteed bank debt for newly issued debt instruments and provided unlimited deposit insurance guarantees to non-interest-bearing transaction accounts.[376] Secondly, the FDIC and other federal regulators extended extraordinary support using the systemic risk exception to some of the largest financial institutions in the USA to prevent their disorderly failure.[377] The GFC emphasized the need to improve the EDIS that the USA had in place.

4.3.8 The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) was signed into law in 2010 and was enacted as a response to the GFC.[378] Its objectives include promoting financial stability in the USA and this is to be achieved

---

373 Wiggins, Piontek, Metrick "The Lehman Brothers Bankruptcy A: Overview" 2019 *Journal of Financial Crises* 40.
374 Hattingh "Implications of the global financial crisis for financial regulation in South Africa" (2017), *LLM Dissertation*, *University of Pretoria* 15.
375 FDIC *Crisis and response: An FDIC history 2008–2013* 2017 available at https://www.fdic.gov/bank/historical/crisis/ accessed 10 October 2022 at xxxvii. See also U.S Department of Treasury *About TARP* available at https://home.treasury.gov/data/troubled-assets-relief-program/about-tarp accessed 1 March 2024 states that "The purpose of TARP was to stabilize the financial system by getting the government to buy bank stocks and mortgage-backed securities. It successfully did so and stabilized the collapsing financial system".
376 *Ibid* xvii.
377 Preamble of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
378 *Ibid*.

by enhancing accountability and transparency in the financial system.[379] One of the aims of the Dodd-Frank Act is to protect taxpayers by ending bailouts thus promoting an EDIS.[380] The Dodd-Frank Act is a wide-ranging statute that had significant effects on the US financial system.[381] Concerning deposit insurance, it permanently increased the coverage limit from $100 000 to $250 000.[382] Initially the coverage limit was temporarily increased from 2008 to 2009 by the EESA in response to the GFC.[383] The Dodd-Frank Act brought a change to the board of the FDIC as it struck out the Director of the Office of Thrift Supervision and inserted the Director of the Consumer Financial Protection Bureau.[384] Furthermore, it changed the way that the FDIC measured risk by moving away from relying on domestic deposits as the assessment base, to using the banks total liabilities as the assessment base because large banks were funded with proportionately less domestic deposits.[385] Lastly, it reduced the assessment rate that was applied to the new risk measure as the Dodd-Frank Act stated that the expansion in the new assessment base should not result in increased revenue.[386]

4.4 The Federal Deposit Insurance Corporation

The FDIC, a permanent and independent agency of the USA, is established to safeguard the nation's banking system and protect depositors of insured banks in the event of bank failure, thereby preventing any loss of deposits.[387] It carries out three primary responsibilities: acting as a receiver, supervisor and insurer.[388] In its capacity as a receiver, the FDIC plays a crucial role in the resolution of FDIC-insured banks.[389]

---

379 *Ibid*.
380 *Ibid*.
381 FDIC *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* available at https://www.fdic.gov/resources/deposit-insurance/deposit-insurance-fund/dif-historical/dif-dodd-frank-act.html accessed 7 September 2023.
382 Section 335 (a)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
383 FDIC *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* available at https://www.fdic.gov/resources/deposit-insurance/deposit-insurance-fund/dif-historical/dif-dodd-frank-act.html accessed 7 September 2023.
384 Section 336 (a)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
385 Allen, Davidson, Hein, Whitledge "Dodd–Frank's federal deposit insurance reform" 2018 19 *Journal of Banking Regulation* at 11.
386 *Ibid.*
387 FDIC *Your insured deposits* 2020 available at https://www.fdic.gov/resources/deposit-insurance/brochures/documents/your-insured-deposits-english.pdf accessed 28 December 2022 at 2.
388 FDIC *Managing the crisis: the FDIC and RTC experience* 1997 available at https://www.fdic.gov/bank/historical/managing/documents/history-consolidated.pdf accessed 20 December 2022 at 6.
389 *Ibid.*

This includes the responsibility to maximise the recovery of funds owed to the creditors of the receivership.[390] As a supervisor, the FDIC directly oversees and examines banks to ensure their compliance with consumer protection laws and maintain operational safety and soundness.[391] Lastly, as an insurer, the FDIC steps in to compensate insured depositors by facilitating the assumption of deposits by another financial institution or direct payment, when an insured bank fails.[392] These roles ensure the stability of the financial system, providing insured depositors with the guarantee that their funds are safe and helping to prevent panic or bank runs.[393]

4.5 The FDIC's Compliance with the IADI Core Principles

This chapter benchmarks the USA's compliance with 8 Core Principles essential for the initial establishment of an EDIS and depositor protection, namely, public policy objectives, mandate and powers, governance, membership, coverage, funding, public awareness, and reimbursement. The FDIC's full adherence to these IADI Core principles, demonstrating compliance, will be assessed within this context.[394] Core Principle 1 deals with public policy objectives and states that the principal public policy objectives for an EDIS are to protect depositors and contribute to financial stability.[395] The FDIC was established during the Great Depression to safeguard depositors' funds, boost public confidence, and ensure stability within the US financial system.[396] It continues to maintain these objectives.[397] Core Principle 2 provides that the mandate and powers of the deposit insurer should be clearly specified in legislation and consistent with stated public policy objectives.[398] The FDIA, which is the FDIC's

[390] *Ibid*.
[391] FDIC *What we do* available at https://www.fdic.gov/about/what-we-do/ accessed 23 December 2022.
[392] FDIC *Managing the crisis: the FDIC and RTC experience* 1997 available at https://www.fdic.gov/bank/historical/managing/documents/history-consolidated.pdf accessed 20 December 2022 at 6.
[393] *Ibid*.
[394] FDIC *U.S. self-assessment against the core principles for effective deposit insurance systems* 2020 available at https://www.fdic.gov/bank/international/2020-self-assessment.pdf accessed 25 July 2023 at 1.
[395] *Ibid* 9.
[396] FDIC *A brief history of deposit insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 25 July 2022 at 1.
[397] *Ibid.*
[398] IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 19.

enabling statute, clearly provides the mandate of the FDIC as a risk minimiser deposit insurer[399] and provides the powers of the FDIC which are necessary for it to meet this mandate and public policy objectives such as deposit insurer powers, bank supervisory powers, and receivership and resolution powers.[400] Core Principle 3 provides that the deposit insurer should be operationally independent, well-governed, transparent, accountable, and insulated from external interference.[401] The FDIC is empowered to be operationally independent and the board of directors that manage the affairs of the FDIC are accountable to the US Congress.[402] The FDIC board is expected to manage the affairs of the FDIC without discrimination, fairly and impartially.[403] The FDIC board comprises of one Comptroller of the Currency, one Director of the Consumer Financial Protection Bureau, and three individual citizens of the USA, of which one must have state bank supervisory experience, that are appointed by the President with advice and consent of the Senate.[404] Core principle 7 provides that deposit insurance should be compulsory for all banks.[405] In the US, commercial banks and savings institutions are required to have deposit insurance.[406] This requirement dates back to the establishment of the FDIC, as outlined in the Banking Act of 1933, which made FDIC membership mandatory for national banks.[407] Over the years, legislation expanded FDIC insurance to include state-chartered banks under the Banking Act of 1935, saving associations through the FIRREA of 1989, and foreign bank branches under the International Banking Act of 1978.[408]

---

399 Section 10 of the Federal Deposit Insurance Act of 1950.
400 Section 9 of the Federal Deposit Insurance Act of 1950. See also FDIC *U.S. self-assessment against the core principles for effective deposit insurance systems* 2020 available at https://www.fdic.gov/bank/international/2020-self-assessment.pdf accessed 25 July 2023 at 11.
401 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 21.
402 Section 2 of the Federal Deposit Insurance Act of 1950. See also FDIC *U.S. self-assessment against the core principles for effective deposit insurance systems* 2020 available at https://www.fdic.gov/bank/international/2020-self-assessment.pdf accessed 25 July 2023 at 15.
403 Section 10 of the Federal Deposit Insurance Act of 1950.
404 Section 2(a) of the Federal Deposit Insurance Act of 1950.
405 FDIC *U.S. self-assessment against the core principles for effective deposit insurance systems* 2020 available at https://www.fdic.gov/bank/international/2020-self-assessment.pdf accessed 25 July 2023 at 26.
406 Scott "An analysis of bank charters and selected policy issues" Congressional Research Service report R47014 2022 available at https://sgp.fas.org/crs/misc/R47014.pdf accessed 9 July 2023 at 3.
407 Section 12B(e) of the Federal Deposit Insurance Act of 1950. See also Blair, Kushmeider "Challenges to the dual banking system: The funding of bank supervision" 2006 *FDIC Banking Rev* 3.
408 Matasane "A deposit guarantee framework for South Africa: A comparative appraisal" (2023), *LLD Thesis, University of Pretoria* 145.

Core Principle 8 provides that legislation should clearly define the level and scope of deposit coverage in accordance with public policy objectives.[409] FDIC coverage applies to various deposit types, such as checking and savings accounts.[410] However, it is essential to note that the FDIC coverage does not extend to other investments like stock investments and life insurance policies.[411] Currently, standard deposit insurance amount is set at $250 000 per insured bank, per depositor.[412] While this threshold adequately protects households, it may not be sufficient for small and medium enterprises or accounts used for business transactions or payroll, which are vital to workers relying on these funds for their livelihoods.[413] Core Principle 9 provides that the deposit insurer should have readily available funds and appropriate funding mechanisms to ensure prompt reimbursement of depositors.[414] Moreover, banks should bear the cost of deposit insurance.[415] Initially, the FDIC's Deposit Insurance Fund was established through premiums levied at flat rate subscription fees on member banks and from the sale of its stock, establishing the fund as an ex-ante fund.[416] However, in response to the banking crises of the 1980s and 1990s, the FDIC, through the FDICIA, implemented a risk-based approach when levying premiums on member banks.[417] As an insurer, the FDIC has consistently maintained an explicit, ex-ante fund financed by the banking industry to fulfil claims as they arise.[418]

---

409 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 27.

410 Section 11(a)(1)(E) of the Federal Deposit Insurance Act of 1950.

411 FDIC *Your insured deposits* 2020 available at https://www.fdic.gov/resources/deposit-insurance/brochures/documents/your-insured-deposits-english.pdf accessed 28 December 2022 at 2.

412 *Ibid*.

413 DiVito "Options for Deposit Insurance Reform to Stabilize Our Banking System and Protect Depositors" Testimony before the United States Senate Committee on Banking, Housing, and Urban Affairs, 20 July 2023 available at https://rooseveltinstitute.org/wp-content/uploads/2023/07/RI_Options-for-Deposit-Insurance-Reform-to-Stabilize-Our-Banking-System-and-Protect-Depositors_Testimony_202307.pdf accessed 20 September 2023 at 3.

414 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 29.

415 *Ibid*.

416 Section 12B of the Banking Act of 1933. See also Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 221.

417 FDIC *A history of risk-based premiums at the FDIC* 2020 available at https://www.fdic.gov/analysis/cfr/staff-studies/2020-01.pdf accessed 10 January 2023 at 3.

418 Ellis "Deposit Insurance Funding: Assuring Confidence" 2013 available at https://www.fdic.gov/deposit/insurance/assuringconfidence.pdf accessed 1 January 2023 at 3.

Core Principle 10 provides that the public should be informed, on an ongoing basis, about the benefits and limitations of the EDIS.[419] The FDIC maintains a comprehensive public awareness program, including various activities and a website that houses detailed information about the FDIC's role as a resolution authority and a deposit insurer.[420] This includes information on member banks, coverage limits and scope.[421] Additionally, the FDIC publishes brochures on coverage, available both in print and online formats, to ensure accessibility and understanding among the public.[422] Core Principle 15 provides that the deposit insurer should reimburse depositors promptly.[423] According to the FDIA, in the event of a bank's liquidation or winding-up, the FDIC is mandated to notify depositors of the bank's failure and promptly make payments to insured depositors, up to the maximum coverage limit.[424] These payments can be made in cash or transferred to a new insured institution or another insured institution.[425] The FDIC aims to reimburse insured depositors within two business days of the insured institution's failure.[426]

4.6 The FDIC and Moral Hazard

The FDIC traditionally charged member banks a flat rate premium for deposit insurance, as mandated by statute, which posed challenges.[427] This approach increased moral hazard by penalising prudent banks with higher premiums while subsidising riskier banks, thereby incentivising riskier behaviour among the latter, which could exploit the EDIS.[428] However, the FDICIA addressed this issue by introducing risk-based premiums.[429] These premiums mitigate the risk of excessive

[419] FDIC *U.S. self-assessment against the core principles for effective deposit insurance systems* 2020 available at https://www.fdic.gov/bank/international/2020-self-assessment.pdf accessed 25 July 2023 at 36.
[420] *Ibid*.
[421] *Ibid* 38.
[422] *Ibid* 38.
[423] *Ibid* 57.
[424] Section 11(f)(1) of the Federal Deposit Insurance Act of 1950.
[425] *Ibid*.
[426] FDIC *Payment to depositors* available at https://www.fdic.gov/consumers/banking/facts/payment.html accessed 2 January 2023.
[427] Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), *LLD Thesis, University of Pretoria* 224.
[428] *Ibid.*
[429] Section 302(c) of the Federal Deposit Insurance Corporation Improvement Act of 1991.

risk-taking by ensuring that creditors feel the full consequences of a bank's failure and actively monitor the bank's condition.[430] The FDIC limits deposit insurance to $250 000 per depositor, which serves to mitigate moral hazard by exposing deposits to market discipline.

4.7 The 2023 Banking Turmoil

The events of March 2023 served as a reminder to the US of the risks posed by bank runs.[431] The failures of SVB, Signature Bank, and First Republic Bank were caused by rising interest rates, poor management, and digital bank runs by uninsured depositors.[432] These are currently the second, third, and fourth largest bank failures in the history of the FDIC.[433] On 10 March 2023, SVB collapsed due to severely damaged balance sheets, rising interest rates, investments in government bonds, and panicked depositors attempting to withdraw $42 billion in less than 24 hours, triggering a bank run. Additionally, 90% of depositors were either uninsured or had deposits above the FDIC's maximum coverage limit.[434] The bank run was abrupt, unexpected, and had severe consequences.[435] It diminished the public's confidence in the financial system and led to a contagion that saw other banks facing financial difficulties such as Signature Bank.[436] In response to the SVB failure and to protect all depositors, the FDIC transferred all deposits and assets of SVB to a newly established bridge bank operated by the FDIC, named Silicon Valley Bridge Bank.[437] The FDIC also provided coverage for deposits above $250, 000.[438] All depositors were made whole, and

[430] Ellis "Deposit Insurance Funding: Assuring Confidence" 2013 available at https://www.fdic.gov/deposit/insurance/assuringconfidence.pdf accessed 1 January 2023 at 3.
[431] FDIC *Options for deposit insurance reform* 2023 available at https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf accessed 23 September 2023 at 5.
[432] Berner, Schoenholtz, White "Evaluation of the policy response: on the resolution of Silicon Valley Bank, Signature Bank, and First Republic Bank" In: Acharya, Richardson, Schoenholtz, Tuckman *SVB and beyond: The banking stress of 2023* (2023) 107.
[433] *Ibid*.
[434] Ali, Aysan, Yousef "From tech hub to banking failure: exploring the implications of CBDCs on the destiny of Silicon Valley Bank" University Library of Munich 2023 available at https://econpapers.repec.org/paper/pramprapa/116937.htm accessed 5 April 2023 at 7.
[435] *Ibid*.
[436] *Ibid*.
[437] FDIC *FDIC acts to protect all depositors of the former Silicon Valley Bank, California* available at https://www.fdic.gov/news/press-releases/2023/pr23019.html accessed 23 September 2023.
[438] *Ibid.* See also Nyaude "Open communication: A credit in banking crisis" UP Re.search Issue 6 available at https://indd.adobe.com/view/9cb1660d-2fc4-41ed-8e42-2e43ec469ec0 accessed 23 March 2024 at 28.

taxpayers did not bear the losses associated with the resolution of SVB.[439] No depositor lost any money and this provided stability and confidence in the banking system, preventing further panic, and maintaining the public's trust.[440] As a result, it successfully achieved the objectives of an EDIS.

On 12 March 2023, Signature Bank was closed by the New York State Department of Financial Services.[441] The bank's failure was caused by poor management and illiquidity triggered by contagion effects from the SVB bank run and its failure.[442] In response to this failure, the FDIC was appointed receiver and transferred all deposits and substantially all of the bank's assets to a full-service bank operated by the FDIC named Signature Bridge Bank.[443] The FDIC then entered into a purchase and assumption agreement for substantially all deposits and assets of Signature Bank with Flagstar Bank, to protect depositors as all deposits were assumed by Flagstar Bank.[444]

On 12 March 2023, the US Treasury, the Federal Reserve, and the FDIC announced a systemic risk exception[445] under the FDICIA to protect the depositors of SVB and Signature Bank including uninsured deposits.[446] This was because of concerns that a run by uninsured depositors would cause contagion effects to other banks and would possibly cause a severe crisis that would affect the real economy.[447] Under this exception, using the FDIC Deposit Insurance Fund, the FDIC guaranteed uninsured deposits and extended deposit insurance coverage to be above the $250 000 limit.

439 *Ibid.*
440 *Ibid*.
441 FDIC *Failed Bank Information for Signature Bank, New York, NY* available at https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/signature-ny.html accessed 14 February 2024.
442 *Ibid.*
443 FDIC *Statement of Martin J. Gruenberg chairman federal deposit insurance corporation on "recent bank failures and the federal regulatory response" before the committee on banking, housing, and urban affairs United States senate* available at https://www.fdic.gov/news/speeches/2023/spmar2723.pdf accessed 22 February 2024 at 15.
444 *Ibid*.
445 Congressional Research Service "Bank failures: The FDIC's systemic risk exception" available at https://crsreports.congress.gov/product/pdf/IF/IF12378 accessed 14 February 2024 defines systemic risk exception as "a recognition by Congress that financial stability concerns sometimes trump the desire to minimize potential costs to the taxpayer".
446 *Ibid*.
447 *Ibid*.

These measures successfully halted the bank runs, prevented a contagion, and restored confidence in the financial system.[448]

On 1 May 2023, First Republic Bank was closed by the California Department of Financial Protection and Innovation (CADFPI)[449] due to the loss of market and depositor confidence.[450] In response, the FDIC was appointed receiver and entered into a purchase and assumption agreement with JPMorgan Chase Bank to safeguard depositors by assuming all of First Republic Bank's deposits.[451] Fortunately, none of the depositors incurred losses, as all deposits were seamlessly transferred to JPMorgan Chase Bank.[452] Notably, the FDIC did not need to utilise the systemic risk exception to protect uninsured depositors of First Republic Bank, as it successfully found a buyer for all assets and liabilities.[453]

These bank failures demonstrate the FDIC's resilience and efficacy in mitigating systemic risks, maintaining financial stability, and safeguarding depositors during the 2023 banking turmoil. The FDIC's proactive approach, including early intervention, facilitating purchase and assumption transactions, and deposit guarantees, reassured depositors and contributed to swift stabilisation of the turmoil.

4.8 Conclusion

The establishment of an EDIS in the USA aims to protect depositors, ensure deposit guarantees during financial crises or bank failures, and maintain the stability of the financial system by preventing panic and bank runs. The FDIC, with its coverage limit, risk-based premiums, and robust ex-ante fund, effectively addresses the problem of

[448] Metrick, Schmelzing "The March 2023 Bank Interventions in Long-run Context – Silicon Valley Bank and Beyond" National Bureau of Economic Research Working Paper No 31066 2023 available at https://www.nber.org/system/files/working_papers/w31066/w31066.pdf accessed 10 April 2023 at 3.
[449] FDIC *FDIC's supervision of First Republic Bank* 2023 available at https://www.fdic.gov/news/press-releases/2023/pr23073a.pdf accessed 21 February 2024 at 2.
[450] *Ibid* 2.
[451] FDIC *Frequently asked questions* available at https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/first-republic-faq.html accessed 14 February 2024.
[452] *Ibid*.
[453] Berner, Schoenholtz, White "Evaluation of the policy response: on the resolution of Silicon Valley Bank, Signature Bank, and First Republic Bank" In: Acharya, Richardson, Schoenholtz, Tuckman *SVB and beyond: The banking stress of 2023* (2023) 94.

moral hazard in alignment with the IADI Core Principles and meets the standards set by the FSB Key Attributes. The FDIC's full compliance with the IADI Core Principles underscores its efficacy.[454] Since its inception in 1933, FDIC insurance has effectively shielded depositors, thanks to the broad range of powers provided by policymakers at its establishment. The US government's commitment to shielding depositors from banking troubles is evident in the FDIC's notable history.[455] As the pioneer of EDISs, the US has continuously strengthened its EDIS over the years, offering valuable insights for other countries in the process of establishing or improving their own EDIS. It is clear from the swift handling of the 2023 banking turmoil, that the USA is a good jurisdiction to benchmark against the developments on deposit insurance in Southern Africa which will be discussed in the next chapter.

[454] FDIC *U.S. self-assessment against the core principles for effective deposit insurance systems* 2020 available at https://www.fdic.gov/bank/international/2020-self-assessment.pdf accessed 25 July 2023 at 1.

[455] "History of FDIC" available at https://www.investopedia.com/articles/economics/09/fdic-history.asp accessed 20 January 2023.

Chapter 5: Deposit Insurance in Zimbabwe and Namibia

5.1 Introduction

In recent years, the Southern African region has experienced numerous bank failures, including cases such as Banco Espirito Santo Angola in Angola in 2014, AfrAsia Bank in Zimbabwe in 2015, Moza Banco in Mozambique in 2016, the SME Bank in Namibia in 2017, and VBS Bank in South Africa in 2018, among others. These failures, occurring over the past few decades, have significantly impacted depositors, resulting in bank runs, deposit losses, and in some instances government interventions to mitigate financial losses. However, it's important to note that not all governments intervened to bail out failing banks, and the absence of an EDIS worsened these challenges in some cases. Notably, the establishment of EDIS varies across Southern African countries. For instance, countries like Eswatini, Lesotho, and Zambia lack an EDIS altogether. Additionally, among countries with an EDIS, some, like Mozambique, possess ineffective schemes, while others, including Malawi and South Africa, are still in the process of fully operationalizing their EDIS. This chapter specifically examines two selected countries: Zimbabwe, which pioneered EDIS establishment in Southern Africa, and Namibia, a recent country to establish and fully operationalise its EDIS. The chapter will examine various aspects of each country's EDIS, including public policy objectives, mandate and powers, membership, coverage, governance, funding, public awareness, reimbursement of depositors, measures to address moral hazard, and alignment with international standards.

5.2 Zimbabwe's Deposit Insurance System

Zimbabwe leads the way in Southern Africa by being the first country in the region to establish an EDIS in 2003.[456] The deregulation of Zimbabwe's banking sector in the 1990s, coupled with a series of bank failures in the early 2000s, exposed the sector to risk management and structural vulnerabilities.[457] In 1997, the failure of Universal

[456] DPC *Introduction to concept of deposit insurance system* available at https://www.dpcorp.co.zw/assets/introduction-to-concept-of-deposit-insurance-system---10.2.15.pdf accessed 1 March 2024.

[457] Chikura "Role of deposit protection systems" available at https://www.dpcorp.co.zw/assets/role-of-deposit-protection-systems.pdf accessed 1 January 2024 at 3.

Merchant Bank had a domino effect, leading to the subsequent collapse of UNI-Bank in 1998.[458] This was driven by systemic interconnections and depositor panic.[459] Bank failures during the 1990s and early 2000s, particularly involving institutions like United Merchant Bank in 1998, Universal Merchant Bank in 2002, Zimbabwe Building Society in 2002 and First National Building Society in 2003, underscored the urgent need for an EDIS.[460] These failures left thousands of depositors without access to their funds and eroded confidence in the banking sector, as an EDIS had not yet been established.[461] Depositors lost significant amounts in these failures, including US$18.7 million with First National Building Society, US$10 million with Universal Merchant Bank, and US$15 million with Genesis Investment Bank, Trust Bank, Royal Bank and First Capital Bank.[462]

The culmination of these events prompted the Government of Zimbabwe to establish the Deposit Protection Board (DPB) in 2003.[463] This statutory body was established in terms of the Banking Act [Chapter 24:20] as read with Banking Regulations (Deposit Protection), Statutory Instrument 29 of 2000, to protect deposits, enhance public confidence and stability in the financial system.[464] In 2012, a significant transformation occurred with the implementation of the Deposit Protection Corporation Act [Chapter 24:29], No 7/2011 (the DPC Act). This led to improvements in the already established EDIS and marked the official change of the DPB to the name Deposit Protection Corporation (DPC).[465] Additionally, on 16 March 2012, the DPC's mandate underwent a substantial expansion in accordance with the DPC Act. This expansion included new responsibilities, including the resolution of failing or failed banks, the judicial

458 Magondo "An assessment of the effectiveness of the regulatory tools in managing bank failures in Zimbabwe (Case of Interfin and Royal Bank)" (2015) *MBA Dissertation, University of Zimbabwe* 13.
459 *Ibid.*
460 Nhavira, Mudzonga, Mugocha "Financial regulation and supervision in Zimbabwe: An evaluation of adequacy and options" Zimbabwe Economic Policy Analysis and Research Unit 2013 available at https://elibrary.acbfpact.org/acbf/collect/acbf/index/assoc/HASH3ed8/84ebb838/2bd78228/cc.dir/Financial%20Regulation.pdf accessed 1 November 2023 at 42 which provides the reason for these failures as failure of corporate governance.
461 Magondo "An assessment of the effectiveness of the regulatory tools in managing bank failures in Zimbabwe (Case of Interfin and Royal Bank)" (2015) *MBA Dissertation, University of Zimbabwe* V.
462 *Ibid* 12.
463 *Ibid* 7.
464 DPB *Annual report* 2010 available at https://www.dpcorp.co.zw/assets/dpc-annual-report-2010.pdf accessed 1 November 2023 at 7. See also DPC *About* available at https://www.dpcorp.co.zw/about-dpc.html accessed 1 November 2023.
465 DPC *Frequently asked questions* available at https://www.dpcorp.co.zw/faq.html accessed 1 January 2023.

management of troubled or insolvent banks, and liquidation of closed banks.[466] The primary objective of the DPC is to protect depositor funds in deposit-taking institutions licensed by the central bank, the Reserve Bank of Zimbabwe (RBZ), under the Banking Act (Chapter 24:20), Building Societies Act (Chapter 24:02), People's Own Savings Bank (POSB) Act (Chapter 24:22), Infrastructure Development Bank of Zimbabwe (IDBZ) Act (Chapter 24:14) and Micro-finance Act (Chapter 24:29).[467] The DPC provides this protection by compensating part or all of depositors' funds, through its Deposit Protection Fund, in the event of a bank failure up to the maximum coverage limit at the time the bank collapses.[468]

5.2.1 The Deposit Protection Corporation

The DPC was established as an independent statutory body with the ability to be sued or to sue in its own name.[469] The public policy objectives of the DPC include several key objectives: protecting depositors, particularly small depositors, from loss of deposits in the event of the failure of a DPC member institution by providing compensation to depositors;[470] creating a framework for the resolution of failed or failing banks to enhance the public's confidence in Zimbabwe's financial system;[471] contributing to the stability of Zimbabwe's financial system; enhancing competition in the Zimbabwean financial sector by providing depositor protection for both big and small banks;[472] promoting sound business practices among member institutions; and ensuring the protection of the Deposit Protection Fund from any potential losses.[473] These objectives are in line with IADI Core Principle 1, which provides that protecting depositors and contributing to financial stability are the public policy objectives of an EDIS.[474]

---

466 DPC *About* available at https://www.dpcorp.co.zw/about-dpc.html accessed 1 November 2023.
467 *Ibid*.
468 Makuyana "Some aspects of the new microfinance law in Zimbabwe" 2017 *Mediterranean Journal of Social Sciences* 214.
469 Section 4 of the Deposit Protection Corporation Act [Chapter 24:29].
470 DPC *Summary of deposit protection scheme* available at https://www.dpcorp.co.zw/assets/quick-reference-guide-deposit-protection-scheme.pdf accessed 1 January 2023 at 1.
471 Section 5(2) of the Deposit Protection Corporation Act [Chapter 24:29].
472 DPC *Introduction to concept of deposit insurance system* 2015 available at https://www.dpcorp.co.zw/assets/introduction-to-concept-of-deposit-insurance-system---10.2.15.pdf accessed 1 January 2023.
473 Section 5 of the Deposit Protection Corporation Act [Chapter 24:29].
474 See Chapter 3 para 3.6.1.

The DPC fulfils various functions aimed at achieving its objectives. These include administering the Fund, collecting contributions from contributory institutions, compensating depositors in case of insolvency of a DPC-insured institution, monitoring the activities and business of member institutions to minimise risk to the Deposit Protection Fund, supporting the RBZ and the Minister of finance in formulating and implementing monetary and fiscal policies to ensure fair competition and sound banking practices across Zimbabwean banks, informing the public about depositors' rights in the event of insolvency of a contributory institution, educating the public about the DPC's role in strengthening Zimbabwe's financial system, and carrying out any other functions mandated or conferred upon the DPC under the DPC Act.[475]

As mentioned above, the DPC was initially named the DPB and, at that time, had a paybox mandate, meaning it was only responsible for reimbursing insured deposits.[476] In 2012, the mandate was expanded by the DPC Act to include responsibilities such as monitoring, liquidation, and judicial management of closed banks, as well as the resolution of failing or failed banks.[477] The expansion of the DPC's mandate to a paybox plus mandate enabled it to implement its objectives effectively and in line with international standards.[478] The mandate and functions of the DPC are in line with IADI Core Principle 2, which provides that the mandate and powers of the deposit insurer should be consistent with public policy objectives.[479]

5.2.1.1 Governance

The DPC operates as an independent statutory body with the authority to be sued or to sue in its own name.[480] Governance of the DPC is outlined in section 6 of the DPC Act.[481] According to this section, a board of directors oversees the operation and management of the DPC, consisting of one director representing the RBZ, one

[475] Section 5 of the Deposit Protection Corporation Act [Chapter 24:29].
[476] Nyaude "Regulatory measures to address bank failures in Zimbabwe" (2021) *LLD Thesis, University of Pretoria* 107.
[477] *Ibid* 89. See also Magondo "An assessment of the effectiveness of the regulatory tools in managing bank failures in Zimbabwe (Case of Interfin and Royal Bank)" (2015) *MBA Dissertation, University of Zimbabwe* 7.
[478] *Ibid.*
[479] See Chapter 3 para 3.6.2.
[480] Section 4 of the Deposit Protection Corporation Act [Chapter 24:29].
[481] Section 6 of Deposit Protection Corporation Act [Chapter 24:29].

representing the responsible Ministry,[482] the Chief Executive Officer of the DPC, and four directors representing contributory institutions. The board is responsible for policy formulation and oversees the administration of the Deposit Protection Fund.[483] However, the composition of the board of directors, with four representatives from contributory institutions, raises concerns about whether the DPC meets the requirement of operational independence outlined by the IADI Core Principle 3. This structure may introduce biased influence and result in decision-making that favours contributory institutions potentially undermining operational independence. Except for the Chief Executive Officer, directors are appointed by the Minister of Finance or any other designated Minister under the DPC Act by the President.[484] Directors serve for a fixed term, not exceeding three years, with the option for reappointment.[485] However, no director may serve for more than 12 years in total.[486] The board of directors is mandated to meet at least once every three months for quarterly meetings to address DPC-related matters.[487] Eligibility criteria for directors include being Zimbabwean citizens or ordinary residents, not being declared bankrupt or insolvent within the past five years, and meeting fit and proper standards.[488] Additionally, directors must disclose any familial, friendship, or material interests to ensure transparency, and accountability, and minimise conflicts of interest.[489]

5.2.1.2 Membership

All deposit-taking institutions registered under the Banking Act (Chapter 24:20), Building Societies Act (Chapter 24:02), People's Own Savings Bank (POSB) Act (Chapter 24:22), Infrastructure Development Bank of Zimbabwe (IDBZ) Act (Chapter 24:14) and Micro-finance Act (Chapter 24:29) are required by law to be members of the DPC.[490] Furthermore, they are obligated to make the necessary contributions to the DPC. Currently, membership in the DPC includes all commercial banks, merchant

---

482 Section 2 of Deposit Protection Corporation Act [Chapter 24:29] provides that the ministry that is responsible for the DPC is the Ministry of Finance.
483 Section 6 of Deposit Protection Corporation Act [Chapter 24:29].
484 *Ibid.*
485 Section 7 of First Schedule of the Deposit Protection Corporation Act [Chapter 24:29].
486 *Ibid.*
487 Section 8 of First Schedule of the Deposit Protection Corporation Act [Chapter 24:29].
488 Section 2 of First Schedule of the Deposit Protection Corporation Act [Chapter 24:29].
489 Section 9 of First Schedule of the Deposit Protection Corporation Act [Chapter 24:29].
490 DPC *Deposit Protection* available at https://www.dpcorp.co.zw/deposit-protection.html accessed 2 November 2023.

banks, building societies, discount houses, finance houses, deposit-taking micro-finance institutions, POSB, and IDBZ, comprising 27 institutions.[491] This requirement aligns with the IADI Core Principle 7, which mandates that membership be compulsory for all banks.[492] The DPC may terminate a contributory institution's status by written notice if the institution fails to comply with prudential requirements or if the institution requests termination, provided it is in the best interest of all parties involved.[493] Additionally, the DPC has the authority to suspend a contributory institution for a period not exceeding 3 months if it fails to comply with its prudential requirements.[494]

5.2.1.3 Coverage

The DPC covers all types of deposits received by insured institutions in their normal course of business, including savings deposits, time/fixed deposits, demand deposits, and interest accrued and/or payable on all deposits.[495] Additionally, the DPC extends coverage to any financial instrument or liability specified by notice in the Government Gazette and shares in a building society (class B and C shares) other than preference shares, capital share and deferred shares.[496] However, certain funds or investments do not qualify for deposit protection as defined in section 8 of the Statutory Instrument 156 of 2013. Some of these include, amongst others, interbank deposits, safety deposit boxes, government deposits, securities purchased by a banking institution on behalf of the depositor, unit trust/managed funds, deposits of executive management, board members, and shareholders of a contributory institution, capital shares, deposits deposited by foreign or other domestic banks on their own account, and any other financial instrument or liability specified by the DPC in a notice published in the Government Gazette.[497] Notably, deposits with asset managers are currently not covered by the DPC.[498]

---

[491] DPC *List of member institutions* available at https://www.dpcorp.co.zw/member-banks.html accessed 3 November 2023.
[492] Chapter 3 para 3.6.7.
[493] Section 27 of the Deposit Protection Corporation Act [Chapter 24:29].
[494] *Ibid.*
[495] Section 7 of the Statutory instrument 156 of 2013.
[496] *Ibid*.
[497] Section 8 of Statutory Instrument 156 of 2013.
[498] DPC *What is deposit protection* available at https://www.dpcorp.co.zw/deposit-protection.html accessed 2 January 2023.

In 2009, when the Zimbabwean Dollar was abolished, the deposit protection cover limit was US$150 and was increased to US$500 in 2013.[499] The cover limit was then increased from US$500 to US$1 000 per depositor per deposit class per insured institution effective from June 2016.[500] After the reinstatement of the Zimbabwean dollar, the deposit protection cover level was again increased to a maximum of ZWL$10 000 per depositor, per account type, per banking institution, and to a maximum of ZWL$500 for deposit-taking microfinance institutions effective from January 2020.[501] Starting from December 2021, the DPC began offering explicit deposit protection for Nostro Foreign Currency Denominated Accounts (FCA) and/or FCAs.[502] In the event of an insured bank's failure, FCA holders will be compensated in the insured foreign currency. As of January 2022, the maximum coverage per deposit class per banking institution was set at USD$1 000. For deposit-taking microfinance institutions, the maximum coverage is USD$500 per deposit class.[503] In February 2022, the cover level for Zimbabwean dollar deposits was increased to a maximum of ZWL$120 000 per depositor per deposit class per banking institution.[504] In terms of deposit-taking microfinance institutions, the cover level was increased to a maximum of ZWL$5 000 per deposit class per deposit-taking microfinance institution.[505] As of June 2023, the maximum deposit protection cover level was increased from ZWL$120 000 to ZWL$1 000 000 per deposit class per contributory banking institution.[506] Furthermore, there was an increase per deposit class per contributory deposit-taking microfinance institution from ZWL$5 000 to ZWL$100 000.[507]

---

499 DPC *Recent trends and developments in deposit protection* available at https://www.dpcorp.co.zw/assets/recent-trends-in-deposit-protection-30-june-2015.pdf accessed 2 January 2023.
500 The Herald "DPC increases cover limit" 2016 available at https://www.pressreader.com/zimbabwe/the-herald-zimbabwe/20160719/281857232884868 accessed 1 January 2023.
501 DPC *Deposit protection corporation increases cover level* 2020 available at https://www.dpcorp.co.zw/assets/dpc-press-release-feb-2020.pdf accessed 2 January 2023.
502 DPC *Notice of explicit deposit protection of foreign currency denominated accounts and/or nostro fca accounts* 2021 available at https://www.dpcorp.co.zw/assets/public-notice-1-of-2021.pdf accessed 2 January 2023.
503 *Ibid*.
504 DPC *Increase in Zimbabwean Dollar (ZWL) deposit protection cover* 2022 available at https://www.dpcorp.co.zw/assets/new-cover-level_180222.pdf accessed 2 January 2023.
505 *Ibid.*
506 DPC *Notice of Zimbabwean dollar (ZWL) deposit protection cover review* Circular No.1 of 2023 available at https://www.dpcorp.co.zw/assets/zwl-cover-review-150623.pdf accessed 3 November 2023.
507 *Ibid*.

These increases in the cover limit result from the ongoing review of the cover limits to ensure their effectiveness, credibility and the full coverage of at least 90% of depositor accounts. In the event of the failure of an insured institution, the DPC aims to compensate at least 90% of depositors.[508] If a depositor of an insured institution holds a deposit balance exceeding the DPC cover limit, the balance will be paid on a pro-rata basis through the liquidation process.[509] In December 2021, while the coverage level was ZWL$10 000, 92,3% of depositor accounts belonging to contributory institutions were fully covered.[510] This demonstrates the DPC's commitment to covering at least 90% of depositors in member institutions and ensuring the credibility of its cover, aligning it with the standards required by the IADI Core Principle 8 dealing with coverage. The DPC continues to review its maximum coverage limits guided by macroeconomic trends, fund size, and the requirement of public policy objectives to cover at least 90% of depositor accounts in full.[511]

5.2.1.4 Funding

Section 13 of the DPC Act establishes the Deposit Protection Fund, which serves the primary goal of compensating depositors, either fully or partially, in the event of a contributory institution's failure, mitigating their incurred losses.[512] The fund is administered and vested in the DPC, with its operations governed by Statutory Instrument 156 of 2013 (Deposit Protection Corporation Regulations 2013).[513] The DPC maintains an explicit ex-ante fund, funded by mandatory annual premium levies collected from member institutions.[514] Unlike the FDIC in the USA, which employs risk-based premiums, the DPC utilises a flat rate for premium assessment, applying the

[508] DPC *Summary of deposit protection scheme* available at https://www.dpcorp.co.zw/assets/quick-reference-guide-deposit-protection-scheme.pdf accessed 1 January 2023.
[509] DPC *What is deposit protection* available at https://www.dpcorp.co.zw/deposit-protection.html accessed 2 January 2023.
[510] Reserve Bank of Zimbabwe *2021 Annual financial stability report* 2021 available at https://www.rbz.co.zw/documents/BLSS/2021/Financial_Stability_Annual_Report_2021.pdf accessed 15 January 2023 at 39.
[511] DPC *Annual report* 2022 available at https://www.dpcorp.co.zw/assets/dpc-annual-report-2022.pdf accessed 1 November 2023 at 22.
[512] Nyaude "Regulatory measures to address bank failures in Zimbabwe" (2021) *LLD Thesis, University of Pretoria* 89.
[513] *Ibid*.
[514] Kondongwe "The root causes of bank failures in Zimbabwe since the year 2008 to 2015" 2015 available at http://dx.doi.org/10.2139/ssrn.3120898 accessed 2 November 2023 at 13.

same rate to all insured institutions.[515] As of 2022, the DPC Fund had a balance of ZWL$2 billion, deemed insufficient to cover the ZWL$5 billion exposure it would face if required to reimburse contributory institutions in the watch list category.[516] To mitigate this fund adequacy risk and bridge the funding gap, the premium rate was increased from 0.2% to 0.3%, effective from 1 January 2021.[517] Currently, annually, a 0.3% flat rate premium is levied on contributory institutions and a 0.2% flat rate premium is levied on foreign currency deposits at all member institutions of the DPC.[518] Any contributory financial institution refusing or failing to pay the premiums without lawful excuse will be liable to pay a fine.[519] The DPC is also tasked with managing the fund and investing any surplus funds in a manner that preserves capital and maintains liquidity.[520] While the DPC partially complies with the requirements of the IADI Core Principle 9 by maintaining an ex-ante fund, it does not levy risk-based premiums, as required by the IADI Core Principles as it states that risk-based premiums are a key design feature to mitigate the risk of moral hazard.[521]

5.2.1.5 Public Awareness

The DPC Act requires the DPC to keep the public informed on its role in enhancing Zimbabwe's financial stability and the rights of depositors in the event of a member institution's failure.[522] Additionally, every member institution is required to inform its depositors about the extent to which their deposits are protected, where their deposits are protected, and how they will receive compensation in the event of failure of a member institution.[523] The DPC informs depositors about their rights, the extent to which deposits are protected, maximum cover limits, and the benefits and limitations

---

515 DPC *Recent trends and developments in deposit protection* available at https://www.dpcorp.co.zw/assets/recent-trends-in-deposit-protection-30-june-2015.pdf accessed 2 January 2023.

516 Reserve Bank of Zimbabwe *2022 Annual financial stability report* 2022 available at https://www.rbz.co.zw/documents/BLSS/2021/2022_Financial_Stability_Report.pdf accessed 3 January 2024 at 28.

517 *Ibid*.

518 DPC *Annual Report 2022* available at https://www.dpcorp.co.zw/assets/dpc-annual-report-2022.pdf accessed 6 March 2024 at 11.

519 Section 32 of Deposit Protection Corporation Act [Chapter 24:29].

520 Section 16 of Deposit Protection Corporation Act [Chapter 24:29].

521 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 11.

522 Section 5 of Deposit Protection Corporation Act [Chapter 24:29].

523 Section 61 of Deposit Protection Corporation Act [Chapter 24:29].

of deposit protection through various channels.[524] These include digital platforms such as national television, social media, brochures, online banners, webinars, newspapers, and its website. On its website, the DPC provides comprehensive information about its operations, such as what its protection entails, member banks, application forms, updates, processes, and bank failures.[525] Moreover, the DPC conducts in-person exhibitions, roadshows, workshops, and expositions to reach a wider audience.[526] It also engages in collaborative efforts, such as partnerships with academic institutions and joint advertising initiatives with other safety-net participants.[527] In alignment with this principle, the DPC is fully compliant with the requirements of the IADI Core Principle 10 as it keeps the public well-informed about any DPC-related matters, processes, or bank failures through ongoing awareness efforts. Notably, increasing public awareness is an objective in the DPC's "Strategic Plan Document 2022-2025".[528]

5.2.1.6 Reimbursement of Depositors

In the event of a DPC-insured bank failure, depositors must complete and submit a claim form to the DPC to receive compensation for their covered deposits.[529] Under normal circumstances, once the claim forms are completed, depositors can expect reimbursement within 4 working days. Payments are typically made through bank wire transfers and mobile phone transfers.[530] According to section 38(5) of the DPC Act, depositors are required to submit their claim forms within 90 days from the date the DPC notifies the depositor of its appointment as the liquidator or curator of the failed insured institution, or 36 months from the date the DPC becomes the liquidator of the failed institution, whichever is later. The DPC has established a clearly defined and credible reimbursement plan that provides depositors with the necessary information and prompt time frames for implementation. Therefore, the DPC is compliant with the

---

524 DPC *Annual report* 2022 available at https://www.dpcorp.co.zw/assets/dpc-annual-report-2022.pdf accessed 1 November 2023 at 11.

525 DPC *Deposit Protection* available at https://www.dpcorp.co.zw/deposit-protection.html accessed 2 November 2023.

526 *Ibid.*

527 *Ibid.*

528 DPC *Strategic plan document 2022-2025* available at https://www.dpcorp.co.zw/assets/dpc-strategic-plan-2022-2025.doc accessed 10 October 2023 at 1.

529 DPC *Summary of deposit protection scheme* available at https://www.dpcorp.co.zw/assets/quick-reference-guide-deposit-protection-scheme.pdf accessed 1 January 2023.

530 *Ibid.*

requirements of the IADI Core Principle 15 in relation to this principle as the principle recommends a reimbursement period of seven working days or less.

5.2.2 How Does the DPC Address Moral Hazard?

Flat rate premiums pose a concern as they may increase bank moral hazard by penalising prudent banks with higher premiums while subsidising riskier banks, potentially leading to increased reliance on the EDIS by riskier institutions.[531] The DPC currently charges a flat rate premium, which increases the risk of moral hazard.[532] However, the DPC does not cover all types of deposits as it provides a credible limited level and scope of coverage to mitigate the risk of bank runs without undermining market discipline.[533] Over time, the DPC has adjusted its coverage limit to ensure that the limit is not too low nor too high but is just enough to meet the public policy objective of ensuring that 90% of deposits are fully covered.[534] The limited level and scope of coverage set by the DPC serves to prevent moral hazard by subjecting certain deposits to market discipline. In summary, while the DPC's measures aim to mitigate moral hazard, its current practices demonstrate partial alignment with the IADI Core Principles under the heading "minimising moral hazard".

5.2.3 Summary of Zimbabwe's EDIS

Owing to numerous bank failures and low coverage limits in the past, Zimbabwean depositors had lost confidence in the financial system and up to today, still have the fear of losing their money. However, the establishment of the DPC marks a significant step towards enhancing depositor protection and restoring confidence in Zimbabwe's financial system. Overall, Zimbabwe demonstrates substantial alignment with international standards outlined by the FSB Key Attributes and the IADI Core

---

531 Lugulu "Addressing the moral hazard through explicit deposit insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019) *LLD Thesis, University of Pretoria* 224.

532 DPC *What is deposit protection* available at https://www.dpcorp.co.zw/deposit-protection.html accessed 1 January 2023.

533 IADI "IADI Core Principles for Effective Deposit Insurance Systems" November 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 10 March 2023 at 21.

534 Reserve Bank of Zimbabwe *2020 Annual financial stability report* 2020 46 available at https://www.rbz.co.zw/documents/BLSS/2020/Financial-Stability-Report-2020.pdf accessed 3 January 2023 at 46.

Principles regarding the discussed design features. However, there remains room for improvement to achieve full compliance with these standards. While the DPC largely meets the essential criteria outlined by the IADI, it falls short in adopting a risk-based approach to premiums, opting instead for a flat rate premium system. Furthermore, the composition of its board may compromise its independence as it may allow for influence from contributory institutions for more favourable decisions.

Since its establishment, the DPC has successfully reimbursed depositors and resolved several failed banks, including Allied Bank, Royal Bank, Interfin Bank, Genesis Investment Bank, AfrAsia Bank and other banks that were liquidated before the multi-currency period.[535] These actions highlight the DPC's effectiveness in fulfilling its public policy objectives of safeguarding depositors and strengthening the financial system. Additionally, the DPC has outlined a strategic plan aimed at improving staff retention and capacity, enhancing Enterprise Risk Management (ERM) maturity levels, increasing recoveries from failed banks, reducing compensation periods for depositors, increasing public awareness of the Deposit Insurance Fund, promoting financial inclusion and literacy, instilling public confidence in the banking sector, and enhancing systems automation.[536] It is evident that the DPC remains committed to making substantial contributions towards the development of a resilient, trustworthy, and inclusive financial system in Zimbabwe.[537]

5.3 Namibia's Deposit Insurance System

Bank failures in Namibia are an uncommon occurrence, as the only bank failure that the country has ever experienced was the failure of SME Bank in 2017.[538] The main contributing factor to this failure was that SME Bank invested around N$200 million in VBS Bank, a troubled South African Bank.[539] As a result of the failure of VBS Bank, SME Bank lost around N$200 million. This led to the winding-up of SME Bank as the

535 The Herald "Deposit protection, resolution of bank failures" available at https://www.pressreader.com/zimbabwe/the-herald-zimbabwe/20201020/281840056152975 accessed 10 January 2023.
536 DPC *Strategic plan document 2022-2025* available at https://www.dpcorp.co.zw/assets/dpc-strategic-plan-2022-2025.doc accessed 10 October 2023 at iv.
537 *Ibid.*
538 Zaire "Deposit insurance: legal analysis" (2019) *LLM Dissertation, University of Johannesburg* 16.
539 *Ibid.*

bank was found to be insolvent by Namibia's central bank, the Bank of Namibia.[540] At the time, Namibia had not yet established an EDIS and had an implicit deposit insurance system in place. As a result, the Bank of Namibia had to provide financial assistance to assist in the resolution of the bank and the reimbursement of depositors.[541] As mentioned in Chapter One, the liquidation process caused delays in the reimbursement of depositors' funds as well as the loss of millions in deposits and resulted in depositors waiting years to receive a portion of their deposits.[542] However, Namibia now has a fairly new and active EDIS that became fully operational in 2020.

The Namibia Deposit Guarantee Bill, which introduced an EDIS in Namibia, was drafted and tabled in October 2018. It was subsequently passed in December 2018 as the Namibia Deposit Guarantee Act 2018 (Act No. 16 of 2018) (the Namibia Deposit Guarantee Act), thereby establishing the Namibia Deposit Guarantee Authority (NDGA).[543] The Namibia Deposit Guarantee Act grants the Minister of Finance the power to set the date of operation for the Act through publication in the government gazette.[544] Accordingly, on 15 May 2019, the Minister of Finance, via notice No. 122 in the "Government Gazette of the Republic of Namibia No. 6904", brought into effect certain provisions of the Namibia Deposit Guarantee Act.[545] On 14 February 2020, the Minister of Finance, through notice No.23 in the "Government Gazette of the Republic of Namibia No. 7117", enacted the remaining provisions. These provisions came into effect on 1 February 2020.[546]

5.3.1 The Namibian Deposit Guarantee Authority

The NDGA was established as an independent juristic entity, operating within the existing structures of the Bank of Namibia, to oversee the EDIS, as mandated by the

---

540 *Ibid* 17.
541 New Era "New authority protects commercial bank deposits" available at https://www.pressreader.com/namibia/new-era/20210426/281496459132841 accessed 10 January 2023.
542 The Namibian "Hope for SME Bank Depositors" available at https://www.namibian.com.na/195303/archive-read/Hope-for-SME-Bank-depositors accessed 2 January 2023.
543 Zaire "Deposit insurance: legal analysis" (2019) *LLM Dissertation, University of Johannesburg* 27.
544 Section 62 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
545 These provisions include Part 1 (section 1); Part 2 (section 2–5); Part 3 (section 6–21); Part 9 section (45–46); Part 10 (section 50–62).
546 These provisions include Part 4 (section 22–24); Part 5 (section 25–33); Part 6 (section 34–38); Part 7 (section 39–40); Part 8 (section 41–44); Part 9 (section 47–49).

Namibia Deposit Guarantee Act.[547] The Act further provides that the NDGA must act impartially and independently when performing its functions, free from undue or improper interference from any authority or person and without fear, favour or prejudice.[548] The Namibia Deposit Guarantee Act mandates the NDGA to establish, administer and maintain a deposit guarantee scheme to protect depositors of NDGA member institutions in the event of bank failure or unavailability of deposits held by a member institution.[549] This is achieved by compensating depositors in such instances.[550] In addition, the scheme aims to enhance financial stability, prevent bank runs and instil confidence among depositors that their funds are safe.[551] This is in line with IADI Core Principle 1, which provides that protecting depositors and contributing to financial stability are the public policy objectives of an EDIS.[552] The NDGA's functions include guaranteeing deposits, managing the scheme, administering the fund, collecting premiums from member institutions, recovering payments from the estate of an insolvent member institution, keeping the public informed of the rights of depositors and procedures to be followed in the event of unavailability of deposits of a member institution and performing any other duty required by the Namibia Deposit Guarantee Act.[553] These objectives align with the public policy objectives of an EDIS of protecting depositors and contributing to financial stability, empowering the NDGA to achieve its core mission. The preamble of the Namibia Deposit Guarantee Act and the NDGA's objectives and functions affirm its exclusive responsibility for reimbursing insured deposits. As such, the NDGA's mandate can be classified as a paybox mandate. The mandate and functions of the NDGA are in line with IADI Core Principle 2, which provides that the mandate and powers of the deposit insurer should be consistent with public policy objectives.[554]

---

[547] NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 12.
[548] Section 2(2) of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[549] NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 5.
[550] *Ibid*.
[551] *Ibid*.
[552] See Chapter 3 para 3.6.1.
[553] Section 3 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[554] See Chapter 3 para 3.6.2.

5.3.1.1 Governance

A board of directors that is operationally independent manages the NDGA, overseeing its administration, general policy, and control of the affairs and business of the NDGA, as well as the performance of all its functions and powers.[555] It is required to perform its functions without undue interference, ensuring impartiality and observance of adopted policies and rules.[556] The board consists of the Deputy Governor of the Bank of Namibia, a representative nominated by the Minister from the Ministry responsible for finance, two individuals with expertise in accounting, finance, banking, law or any other related field, a person representing the interests of consumers, and an ex officio member of the board with no voting rights as the head of the authority.[557] Eligibility criteria exclude individuals not lawfully admitted to permanent residency in Namibia or are not Namibian citizens, those declared mentally ill by a competent court, or unrehabilitated insolvents.[558] Thus, board members must be fit and proper people and be suitable for the position.

Directors are tasked with protecting the assets of the NDGA, acting with integrity, honesty, and in the best interests of the NDGA in managing its affairs while adhering to conflict of interest guidelines or codes of conduct outlined in the Namibia Deposit Guarantee Act.[559] Violations of these provisions are subject to a fine not exceeding N$50 000 or imprisonment not exceeding five years or both.[560] Directors serve a fixed term of five years and may be re-appointed thereafter.[561] Board meetings occur at the discretion of the chairperson or upon written request from the Minister, Bank of Namibia, or majority of directors, with a minimum of four meetings annually.[562] These meetings primarily focus on monitoring NDGA policies, finances, and operations.[563] Directors must disclose any material interests that may compromise their objectivity

---

[555] NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 14.
[556] *Ibid* 5.
[557] Section 6(2) of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[558] Section 8 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[559] Section 7 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[560] *Ibid.*
[561] Section 9 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[562] Section 13 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[563] NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 28.

when performing their duties or exercising their powers as directors.[564] The NDGA's operational independence complies with IADI Core Principle 3 as it is operationally independent and insulated from external interference.

5.3.1.2 Membership

Membership in the NDGA is mandatory and automatic upon commencement of the Namibia Deposit Guarantee Act or during registration for banks registered after the commencement of the Act.[565] This requirement applies to all banking institutions that carry on the business of a bank in Namibia as defined in section 11 of the Banking Institutions Act 1998 (Act No. 2 of 1998) (the Banking Institutions Act 1998), as well as building societies registered under section 4 of the Building Societies Act 1986 (Act No. 2 of 1986) and branches of foreign banks that carry on the business of a bank in Namibia under section 19A of the Banking Institutions Act 1998.[566] These institutions must be members of the NDGA as long as they are registered under the designated provisions mentioned above.[567] Termination of membership occurs under several circumstances, including when a banking institution or building society cancels its registration or authorisation in accordance with their respective governing legislation, when a winding-up order is issued against a member institution, voluntary winding-up, or acquisition or merger with another institution.[568] In relation to this principle, the NDGA is fully compliant with Core Principle 7 of the IADI Core Principles, which stipulates that membership should be mandatory for all banks.

5.3.1.3 Coverage

Most types of deposits made to a member institution in its normal course of business are guaranteed by the EDIS up to the maximum set cover limit.[569] This does not include interbank deposits, deposits not payable in Namibian currency, deposits of the

[564] Section 15 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[565] Section 23 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[566] Section 23 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[567] NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 13.
[568] Section 24 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[569] NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 13.

Government of Namibia or institutions wholly or partially owned by the Namibian Government, negotiable certificate of deposits, or any other tradable debt funding instruments, debts arising from transactions offenses of money laundering and funding of terrorism resulting in conviction, deposits made by a financial institution supervised by the Namibia Financial Institutions Supervisory Authority, and any other deposits specified in a Government Gazette by the NDGA with the approval of the Minister of Finance.[570]

The current maximum coverage limit, set by the Minister with the recommendation of the NDGA's board of directors, is N$25 000, as published in Notice No. 24 in the "Government Gazette of the Republic Namibia No. 7117 on 14 February 2022".[571] The coverage limit is determined per depositor meaning that if a depositor has more than one account at the same insured institution, all the accounts will be added together and the depositor will only be entitled to the maximum cover limit.[572] The N$25 000 limit is credible and high enough to ensure that 90% of the insured depositors are fully reimbursed as reported in the NDGA's 2021 Annual Report.[573] While larger depositors are left vulnerable, their relatively small number minimises the potential threat of moral hazard.[574] Depositors with balances exceeding the coverage limit become concurrent creditors for the excess amount.[575] The NDGA's coverage policy aligns with Core Principle 8 of the IADI Core Principles, which stipulates that coverage should be limited, credible, and cover majority of depositors.

5.3.1.4 Funding

The Namibia Deposit Guarantee Act establishes the Deposit Guarantee Fund, administered by the NDGA.[576] The Fund operates on an ex-ante approach, with premiums collected annually from member institutions.[577] The NDGA, with approval

---

570 Section 39 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
571 Section 40 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
572 NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 13.
573 *Ibid* 12.
574 *Ibid* 12.
575 *Ibid* 13.
576 Section 25 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
577 NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 14.

from the Minister, determines the appropriate target level of the Fund and adjusts premiums paid by member institutions accordingly.[578] Premiums are determined by the board at the end of the financial year, approved by the Minister, and based on a risk assessment of each member institution.[579] These premiums support the Deposit Guarantee Fund, ensuring it can meet its liabilities and potential liabilities based on total guaranteed deposits.[580] If a member institution, without cause, refuses or fails to pay the premiums, the NDGA has the authority to impose financial penalties for the Fund's benefit.[581] Such penalties may not exceed N$100 000 for each day that the member institution remains non-compliant with the premium payment requirement.[582] Overall, the NDGA's ex ante fund and risk-based premium approach demonstrate compliance with IADI Core Principle 9 as it possesses an ex-ante fund and levies premiums using a risk-based approach.

5.3.1.5 Public Awareness

The NDGA maintains a website that serves as a comprehensive resource for information about the Namibian EDIS. This includes contact details, historical background, objectives, board members, legal framework, reports, and member institutions.[583] The Namibia Deposit Guarantee Act provides that one of the NDGA's key objectives and functions is to ensure public awareness of its roles, depositors' rights, and procedures to be followed in case of a member bank's failure.[584] Additionally, it mandates the NDGA to disseminate relevant information during the reimbursement process to keep the public informed.[585] In line with its strategic plan for 2023-2025, the NDGA prioritizes public awareness as an objective.[586] It aims to establish a strong national presence and strengthen its corporate image through strong social media engagement. The NDGA's proactive approach to keeping the

578 Section 27 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
579 NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 14.
580 Section 34 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
581 Section 36 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
582 *Ibid*.
583 NDGA *About* available at https://www.ndga.com.na/about accessed 10 November 2023.
584 Section 3(i) of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
585 Section 41(2)(c) of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
586 NDGA *Strategic plan 2023-2025* available at https://www.bon.com.na/CMSTemplates/Bon/Files/bon.com.na/c2/c2cf5e83-9d61-467b-b74e-0dea6a6cf787.pdf accessed 10 November 2023.

public informed aligns with IADI Core Principle 10, ensuring ongoing communication about NDGA-related matters, processes, and bank failures.

5.3.1.6 Reimbursement of Depositors

When a member institution becomes insolvent, depositors are notified of the unavailability of their deposits, and this information is also made public.[587] Deposit holders are then provided with the necessary procedures and details for filing claims from the fund, and they receive ongoing updates throughout the reimbursement process.[588] The timeframe within which the NDGA is mandated to reimburse insured depositors remains unclear, leading to uncertainty regarding the reimbursement process.[589] Payments may be disbursed in various forms, including cash, funds transferred to a guaranteed depositor's account at another institution, or through other approved payment methods.[590] The NDGA's approach to reimbursement aligns with most of the requirements of IADI Core Principle 15. However, the lack of a specified timeframe for reimbursement and emphasis on promptness may indicate partial compliance with certain aspects of the IADI Core Principle 15 on reimbursement.

5.3.2 How Does the NDGA Address Moral Hazard?

The NDGA employs a risk-based approach to assess premiums for each member institution, which helps to mitigate moral hazard as it ties each institution's premium to the risks it undertakes, thereby encouraging more prudent behaviour among insured institutions.[591] It's important to recognize that not all types of deposits are covered by the NDGA, including, interbank deposits, deposits not payable in Namibian currency, and deposits made by financial institutions supervised by the Namibia Financial Institutions Supervisory Authority.[592] Additionally, deposits are not fully covered, as the

[587] Section 41(1) of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[588] Section 41(2) of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[589] NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 21.
[590] Section 41(3) of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).
[591] NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 14.
[592] Section 39 of the Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).

maximum cover limit is N$25 000.[593] By providing limited level and scope of coverage, the NDGA mitigates moral hazard and maintains market discipline, minimizing the risk of bank runs.[594] The current coverage limit, covering around 90% of the deposits, leaves other deposits exposed to market discipline.[595] Overall, the NDGA complies with the IADI Core Principles under the heading "minimising moral hazard", by offering credible, limited coverage that covers the majority of depositors, and employing a risk-based approach to levy member institutions.

5.3.3 Summary of Namibia's EDIS

The above discussion demonstrates Namibia's partial compliance with international standards as outlined in the FSB Key Attributes and the IADI Core Principles discussed in Chapter three. The NDGA meets the essential criteria set out by the IADI regarding selected design features, including compulsory membership, limited coverage, operational independence, ex-ante funding, and public awareness. However, the NDGA's reimbursement timeframe is not clear, which is an essential part of an EDIS as required by IADI Core Principle 15. While bank failures are rare in Namibia, the timely establishment of an EDIS emphasizes the importance of preparedness. Being prepared mitigates the need for taxpayer-funded bailouts and prevents rash decisions made under pressure as the possibility of future bank failures or financial crises cannot be ignored.

5.4 Conclusion

The Governments of Zimbabwe and Namibia have demonstrated a strong commitment to safeguarding depositors and maintaining financial stability through the establishment of the respective EDIS. By prioritising public confidence and mitigating the risk of bank runs, both countries aim to avoid taxpayer-funded interventions during

593 NDGA *Namibia Deposit Guarantee Authority Annual Report* 2022 available at https://www.ndga.com.na/images/NDGA-2022-Annual-Report.pdf accessed 1 November 2023 at 18.
594 NDGA *Namibia Deposit Guarantee Authority Annual Report* 2021 available at https://www.ndga.com.na/images/NDGA-Annual-Report-2021.pdf accessed 1 March 2023 at 12.
595 NDGA *Namibia Deposit Guarantee Authority Annual Report* 2022 available at https://www.ndga.com.na/images/NDGA-2022-Annual-Report.pdf accessed 1 November 2023 at 18.

crises. This chapter has thoroughly evaluated the regulatory frameworks of the EDIS in Zimbabwe and Namibia, assessing their alignment with international standards across various key principles, including public policy objectives, mandate and powers, membership, coverage, governance, funding, public awareness, reimbursement of depositors, and the management of moral hazard. While Zimbabwe shows significant compliance with the IADI Core Principles, certain shortcomings such as the levying of flat rate premiums and concerns about the operational independence of the DPC board were identified. On the other hand, Namibia was found to be partially compliant, particularly due to the unclear reimbursement timeframe. Despite these variations, both countries share a common goal of enhancing resilience and depositor protection. Moving forward, addressing the identified areas of improvement will be crucial for further strengthening of deposit insurance systems and ensuring alignment with international standards.

Chapter 6: Conclusion and Recommendations

6.1 Summary

The stability of a country's financial system is important for its economic growth and the well-being of its citizens.[596] Ensuring the protection of depositors in the event of a bank failure not only promotes public confidence in the financial system but also prevents the occurrence of bank runs, which can have far-reaching consequences across various sectors of the economy that rely on financial institutions to conduct their business. As US President Franklin D. Roosevelt appropriately stated during the Great Depression, "After all, there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people".[597]

Chapter one of this research highlights the importance for Southern African countries to either adopt EDIS or align their existing schemes with international standards outlined in the FSB Key Attributes and the IADI Core Principles. This need is emphasized by historical global crises such as the Great Depression, the GFC, the 2023 banking turmoil, and notable bank failures in Southern Africa, including instances such as VBS in South Africa, SME Bank in Namibia, and AfrAsia in Zimbabwe, among others. These events emphasize the critical need for implementing effective EDIS to protect depositors, prevent bank runs and taxpayer-funded bailouts, and maintain financial stability. By emphasizing the importance of adopting effective EDISs, this research aims to encourage proactive measures among Southern African nations, including Angola, Botswana, Eswatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, Zambia and Zimbabwe. Furthermore, it examines the EDIS implementation status of each country in the region to pinpoint those at the forefront of EDIS establishment, thereby providing valuable insights for a focused study.

Chapter two discusses the types of deposit insurance systems and the risks they possess, such as moral hazard. It stresses the importance of establishing an EDIS to

---

[596] Olanipekun "Banking regulation and deposit insurance: legal and comparative perspective" (2008) *PhD Thesis, University of London* at 351.

[597] FDIC *A brief history of deposit insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 25 July 2022 at 1.

strengthen the financial safety net. It highlights that while implicit deposit insurance systems may promote market discipline by exposing depositors to risk as they do not know whether their funds are protected or not because protection is at the discretion of the government, they also introduce a lot of uncertainty, erode confidence in the financial system, increase the risk of bank runs and often lead to taxpayer-funded bailouts.[598] In contrast, the advantages of establishing an EDIS far outweigh its disadvantages. An EDIS serves to protect small depositors, prevent bank runs, maintain financial stability, promote competition among banks, reduce government obligations and roles in bank failures, increase savings, stimulate economic growth, and mitigate moral hazard.[599] It provides clarity on procedures following a bank failure, rather than relying on discretionary government action. In today's digital age, where information spreads rapidly through social media, the risks of bank runs have intensified. Instances like the SVB failure in the USA highlight the ease with which depositors can withdraw funds swiftly through digital channels. This emphasizes the importance and advantage of establishing an EDIS. It ensures depositors are protected in the event of a bank failure, thus increasing public confidence and preventing digital bank runs. Furthermore, this chapter discusses the challenge of moral hazard associated with both types of deposit insurance systems and ways that an EDIS can be designed to mitigate moral hazard through measures such as introducing risk-based premiums.[600]

Chapter three emphasizes the importance of complying with international standards in the establishment or reform of EDIS. These standards, expressed in the FSB Key Attributes and the IADI Core Principles, provide a guideline for jurisdictions seeking to establish an effective EDIS while mitigating moral hazard risks.[601] Particularly, Key Attribute 6.3 of the FSB Key Attributes and the 16 IADI Core Principles and preconditions form the foundation of effective EDIS frameworks. Developed from the lessons learned from the GFC, these standards emphasize the criticality of maintaining depositor confidence, limiting contagion risk, and preventing bank runs.[602]

598 See Chapter 2 para 2.2.1.
599 See Chapter 2 para 2.2.2.
600 See Chapter 2 para 2.3.
601 See Chapter 3 para 3.2.
602 Caruana "Post-crisis financial safety net framework: lessons, responses and remaining challenges" In Keynote address at the FSI-IADI Conference on "Bank resolution, crisis management and deposit

These international standards serve as a blueprint that offers invaluable guidance to countries embarking on EDIS establishment or reform endeavours.

Chapter four provides an overview of the EDIS in the USA, which was the first country in the world to establish an EDIS. This chapter explores the establishment of the FDIC, highlighting key reforms over the years that have made it highly effective.[603] By examining the FDIC's response to financial crises, including significant events such as the Great Depression, the GFC, and the 2023 banking turmoil, the chapter highlights the USA's resilience in navigating these economic crises.[604] Notably, the FDIC's compliance with international standards and its track record of safeguarding depositors' interests and maintaining financial stability are compelling evidence of its effectiveness. From the Banking Act of 1933 to the landmark Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the USA's comprehensive regulatory framework exemplifies a commitment to depositor protection and financial stability. It is commendable that since the establishment of the FDIC in 1934, no depositor has ever lost any of their deposits that have been insured by the FDIC.[605]

Chapter five offers a comprehensive analysis of the EDIS in selected Southern African countries, namely, Zimbabwe and Namibia. These countries were chosen based on their diverse timelines in establishing and operationalising their respective EDIS, providing valuable insights into the evolution of EDIS in the region. This chapter clearly illustrates that these countries have taken steps in the right direction in establishing an EDIS which is in line with international standards however, some areas need further development to ensure full compliance as discussed below.

Zimbabwe was the first country in Southern Africa to establish an EDIS in 2003 and as such was chosen for this study. It was found that Zimbabwe is largely compliant with the IADI Core Principles discussed in Chapter five, however, it does not comply with the funding requirement of the IADI Core Principle 9 which requires a risk-based

insurance issue 6 December 2016 available at https://www.bis.org/speeches/sp170105.pdf accessed 24 July 2022.

603 See Chapter 4 para 4.3.

604 See Chapter 4 para 4.2. See also Chapter 4 para 4.3.7 and para 4.7.

605 FDIC *Your insured deposits* 2020 available at https://www.fdic.gov/resources/deposit-insurance/brochures/documents/your-insured-deposits-english.pdf accessed 28 December 2022 at 2.

approach to funding as the DPC levies a premium at a flat rate.[606] Furthermore, the composition of the DPC board includes four directors representing contributory institutions, which may compromise its operational independence as decisions that are more favourable to contributory institutions may be made.[607] Despite these challenges, the DPC in Zimbabwe has effectively managed bank failures and reimbursed depositors of Tetrad Investment Bank, Royal Bank, Interfin Bank, and AfrAsia Bank, amongst others.[608]

Namibia is a recent country to fully establish its EDIS which was established in 2018 and fully operationalised in 2020 and as such was chosen for this study. Namibia is found to be partially compliant with the IADI Core Principles, specifically IADI Core Principle 15, due to a lack of clarity in the time frame that the NDGA reimburses its depositors.[609] This is an essential criterion for an EDIS considering that prompt reimbursement prevents depositor panic and bank runs.

6.2 Recommendations

6.2.1 Recommendation 1: Establish or Enhance EDIS

It is recommended that Southern African countries expedite the establishment or enhancement of effective EDISs to protect depositors during bank failures, promote public confidence in the financial system, and maintain financial stability. This recommendation is essential to strengthen the region's financial safety nets and contribute to the stability of its financial system. The recent banking turmoil in 2023 and the lessons learned from the GFC highlight the necessity of having an effective EDIS in place. Countries are advised to not only establish EDISs but also to closely monitor the performance of EDISs including those in the USA or other Southern African nations to avoid challenges such as low coverage limits, unpreparedness, and inadequate funding. Moreover, with multinational banks spanning Southern African countries, EDIS implementation is critical for harmonized regulations and depositor

---

606 See Chapter 5 para 5.2.1.4.
607 See Chapter 5 para 5.2.1.1.
608 The Herald "Deposit protection, resolution of bank failures" available at https://www.pressreader.com/zimbabwe/the-herald-zimbabwe/20201020/281840056152975 accessed 10 January 2023.
609 See Chapter 5 para 5.3.1.6.

protection across borders. Additionally, secure depositor funds will attract investment and bolster confidence, aiding economic growth and business operations regionally.

6.2.2 Recommendation 2: EDIS Should Be in Line with International Standards

It is recommended that all Southern African countries ensure that their EDISs align with international standards outlined in the FSB Key Attributes and the IADI Core Principles. These standards offer guidelines for an effective EDIS while mitigating the risk of moral hazard. It is important to emphasize that the IADI Core Principles and the FSB Key Attributes establish the minimum standards of an effective EDIS, and countries have the flexibility to incorporate additional measures they deem necessary or more effective for their specific contexts.

6.2.3 Recommendation 3: Funding

It is recommended that all Southern African countries establish an ex-ante fund for their EDIS and adopt a risk-based approach to levy member banks. Currently, Zimbabwe employs a flat rate approach, which may lead to inefficiencies and increased moral hazard as it can unfairly burden less risky banks while potentially encouraging risky behaviour among others. In contrast, a risk-based approach aligns premiums with the level of risk posed by individual institutions, thus promoting fairness and reducing moral hazard. Additionally, an ex-ante fund, supported by risk-based premiums, facilitates prompt reimbursement of depositors and holds accountable those responsible for bank failures by ensuring their contribution to the Fund before any failure occurs.

6.2.4 Recommendation 4: Governance

It is recommended that all Southern African countries ensure the operational independence of their EDIS to safeguard it against external influences. The board of Zimbabwe’s DPC may be compromised as four out of seven of its directors are representatives of member banks. As such they can influence or make decisions that are more favourable to member banks and not depositors. Southern African countries can learn from the composition of Namibia’s board which comprises amongst others, individuals with expertise in accounting, banking, finance, or law and a representative for the consumers. Furthermore, it is recommended that an EDIS board incorporate some members or representatives of other financial safety nets to foster coordination and enhance systemic resilience. This will strengthen the relationship of an EDIS with other safety net participants as required by IADI Core Principle 4, which requires a deposit insurer to have an ongoing relationship with other safety net participants.

6.2.5 Recommendation 5: Coverage

It is recommended that all Southern African countries adopt limited and credible coverage for their EDIS. This recommendation is based on the findings of this research, which have highlighted the importance of such coverage in promoting depositor confidence and maintaining market discipline to mitigate the risk of moral hazard. All countries examined in this study have adhered to limited and credible coverage, highlighting its effectiveness in promoting financial stability. Furthermore, they have ensured that they cover at least 90% of deposits, as recommended by international standards, by periodically reviewing and adjusting their coverage in consideration of the economic conditions in their country. This is evident from the continuous increase of cover limits in the USA and Zimbabwe as a result of ongoing reviews to ensure their effectiveness, credibility and the full coverage of at least 90% of depositor accounts.[610] Therefore, it is recommended that all other Southern African countries in the process of establishing or enhancing their EDIS follow this approach.

6.2.6 Recommendation 6: Reimbursement

It is recommended that all Southern African countries establish a clear and defined reimbursement process to ensure prompt reimbursement of depositors in the event of bank failure. Prompt reimbursement is important for increasing depositor confidence by assuring them that they will not suffer major delays in accessing their funds in the event of bank failure or financial crisis. This timely reimbursement is a key objective of an EDIS, as it prevents depositors from suffering from the delays associated with liquidation. To achieve this, a maximum reimbursement period of seven business days

[610] See Chapter 4 para 4.3. See also Chapter 5 para 5.2.1.3.

is recommended by IADI Core Principle 15, as it allows sufficient time for the EDIS to process reimbursements within an appropriate timeframe, minimising the impact of bank failures on depositors.[611] Furthermore, it is recommended that no claim forms be used but reimbursement should happen automatically.

This research found that Namibia currently lacks a clearly defined reimbursement timeframe, leading to uncertainty among depositors. Therefore, it is recommended that Namibia establishes a specific timeframe for reimbursement to eliminate the uncertainty. The Zimbabwe and USA EDIS serve as commendable examples in this respect with a reimbursement period of just four business days in Zimbabwe and two business days in the USA. This swift turnaround reduces depositor concerns. Therefore, other Southern African countries can learn from the Zimbabwe and USA's approach and strive to implement similar expedited reimbursement processes to enhance depositor confidence and mitigate the adverse effects of bank failures.

6.2.7 Recommendation 7: Public Awareness

It is recommended that all Southern African countries prioritise maintaining effective public awareness campaigns to keep the public informed about deposit insurance matters consistently. Public awareness plays a crucial role in increasing public confidence by providing clarity on the purpose and workings of the EDIS, as well as expectations in the event of a bank failure. Zimbabwe stands out as a commendable example in this regard, as it maintains proactive communication channels to keep depositors well-informed and updated. Zimbabwe's approach includes disseminating information through multiple channels such as websites, newspapers, brochures, workshops, and collaborations with academic institutions. Other Southern African countries can learn from Zimbabwe's comprehensive approach to public awareness and implement similar strategies to foster greater transparency and confidence in their respective EDISs.

[611] See Chapter 3 para 3.6.15.

Bibliography

Books and Chapters in Books

Berner R, K Schoenholtz, L White *Evaluation of the policy response: on the resolution of Silicon Valley Bank, Signature Bank, and First Republic Bank* In: Acharya V, Richardson M, Schoenholtz K, Tuckman B *SVB and beyond: The banking stress of 2023* (2023) Centre for Economic Policy Research Press.

Calomiris C, White E *The origins of federal deposit insurance* In: Golding C and Libecap G *The regulated economy: a historical approach to political economy* (1994) University of Chicago Press.

Claessens S, Laeven L *A Reader in International Corporate Finance: Vol. 2* (2006) World Bank Publications.

Federal Deposit Insurance Corporation *Federal Deposit Insurance Corporation Federal Deposit Insurance Corporation: The First Fifty Years: A history of the FDIC 1933-1983* (1984).

Forssbæck J *Essays on market discipline in commercial and central banking* (2009) Frederiksberg: Copenhagen Business School PHD Series No 8.

Kumar R *Strategies of banks and other financial institutions: Theories and cases* (2014) Elsevier.

Journal Articles

Allen D, Davidson R, Hein E, Whitledge D "Dodd–Frank's federal deposit insurance reform" 2018 19 *Journal of Banking Regulation* 271.

Benston G, Kaufman G "FDICIA After Five Years" 1997 11:3 *Journal of Economic Perspectives* 139.

Blair CE, Kushmeider RM "Challenges to the dual banking system: The funding of bank supervision" 2006 18:1 *FDIC Banking Rev* 1.

Calomiris CW “Runs on Banks and the Lessons of the Great Depression” 1999 22:1 *Regulation* 4.

Ciuriak D "Banking Fragility and Financial Crises" 2015 57:2 *Canadian Business Law Journal* 253.

De Jager JJ “Central Bank, Lender of Last Resort Assistance: An Elusive Concept” 2010 43 *De Jure* 228.

Demirgüç-Kunt A, Kane EJ “Deposit insurance around the globe: where does it work?” 2002 16:2 *Journal of Economic Perspectives* 175.

Demirgüç-Kunt A, Tolga S “Deposit insurance around the world” 2001 15:3 *World Bank Economic Review* 481.

Diamond DW, Dybvig PH “Bank runs, deposit insurance, and liquidity” 1983 91:3 *Journal of political economy* 401.

Dzomira S “Analysis of bank failures during financial tumult in Africa-Zimbabwe: A Historical Review” 2014 3:1 *Journal of Governance and Regulation* 75.

Gail D, Norton J "A Decade's Journey from Deregulation to Supervisory Reregulation: The Financial Institutions Reform, Recovery, and Enforcement Act of 1989" 1989 45:3 *Business Lawyer (ABA)* 1103.

Haentjens M “Bank Recovery and Resolution: An Overview of International Initiatives” 2014 3 *International Insolvency Law Review* 255.

Helfer RT “What deposit insurance can and cannot do” 1999 36:1 *Finance and Development* 22.

Hill JA “Transaction Account Fees: Do the Poor Really Pay More than the Rich?” 2012 15 *University of Pennsylvania Journal of Business Law* 65.

Hon Chu K “Deposit Insurance and Banking Stability” 2011 31:1 *Cato Journal* 99.

Jegen M, Merand F “Constructive ambiguity: Comparing the EU’s energy and defence policies” 2014 37:1 *West European Politics* 182.

Karas A, Pyle W, Schoors K “Deposit Insurance, Banking Crises, and Market Discipline: Evidence from a Natural Experiment on Deposit Flows and Rates” 2013 45:1 *Journal of Money, Credit and Banking* 179.

Kaufman GG “Bank Failures, Systemic Risk, and Bank Regulation” 1996 16:1 *Cato Journal* 17.

Lastra RM “Lender of Last Resort, an International Perspective” 1999 48:2 *The International and Comparative Law Quarterly* 340.

Maimbo SM “The Diagnosis and Prediction of Bank Failures in Zambia, 1990-98” 20:3 *Development Policy Review* 2002 261.

Makuyana T “Some aspects of the new microfinance law in Zimbabwe” 2017 *Mediterranean Journal of Social Sciences* 1.

Micajkova V “Deposit insurance in times of financial crisis” 2013 11:2 *South-Eastern Europe Journal of Economics* 165.

Mishkin S “Evaluating FDICIA” 1997 9 *Research in Financial Services: Private and Public Policy* 17.

Nikolaj SS, Draženović OB, Buterin V “Deposit insurance, banking stability and banking indicators” 2022 *Economic Research-Ekonomska Istraživanja* 5632.

Okafor A, Fadul J “Bank Risks, Regulatory Interventions and Deconstructing the Focus on Credit Risk” 2019 10:8 *Research Journal of Finance and Accounting* 1.

Schich S “Financial crisis: Deposit insurance and related financial safety net aspects” 2009 2 *OECD Journal: Financial Market Trends* 1.

Schoenmaker D “Building a stable European deposit insurance scheme” 2018 4:2 *Journal of Financial Regulation* 314.

Van Heerden C “Deposit Protection in South Africa: recent developments” 2020 35:2 *Journal of International Banking Law and Regulation* 45.

Wiggins R, Piontek T, Metrick A "The Lehman Brothers Bankruptcy A: Overview" 2019 *Journal of Financial Crises* 39.

Conferences, Speeches, Discussion Papers and Presentations

Ali H, Aysan AF, Yousef TM “From Tech Hub to Banking Failure: Exploring the Implications of CBDCs on the Destiny of Silicon Valley Bank” University Library of

Munich 2023 available at https://econpapers.repec.org/paper/pramprapa/116937.htm accessed 5 April 2023.

Caprio G, Klingebiel D "Bank insolvency: bad luck, bad policy, or bad banking?" In Annual World Bank conference on development economics April 1996 available at https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=b3c8368d0c13c7ee11d62bc0884585b17b9b921a accessed 20 July 2022.

Caruana J "Post-crisis financial safety net framework: lessons, responses and remaining challenges" In Keynote address at the FSI-IADI Conference on "Bank resolution, crisis management and deposit insurance issue 6 December 2016 available at https://www.bis.org/speeches/sp170105.pdf accessed 24 July 2022.

Casey A, Posner E "A Framework for Bailout Regulation" Public Law & Legal Theory Working Paper No 530, University of Chicago 2015 available at https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=12151&context=journal_articles accessed 20 June 2022.

DiVito E "Options for Deposit Insurance Reform to Stabilize Our Banking System and Protect Depositors" Testimony before the United States Senate Committee on Banking, Housing, and Urban Affairs 20 July 2023 available at https://rooseveltinstitute.org/wp-content/uploads/2023/07/RI_Options-for-Deposit-Insurance-Reform-to-Stabilize-Our-Banking-System-and-Protect-Depositors_Testimony_202307.pdf accessed 20 September 2023.

Frolov M "Deposit Insurance and Its Design: A Literature Review" KUMQRP Discussion Paper DP2004-004 2004 available at http://ies.keio.ac.jp/old_project/old/gcoe-econbus/pdf/dp/DP2004-004.pdf accessed 1 April 2023.

Ioannidou VP, de Dreu J "The Impact of Explicit Deposit Insurance on Market Discipline" CentER Discussion Paper No 2006-05 Tilburg University 2006 available at SSRN: http://dx.doi.org/10.2139/ssrn.888681 accessed 10 March 2023.

Metrick A, Schmelzing P "The March 2023 bank interventions in long-run context– Silicon Valley Bank and beyond" National Bureau of Economic Research Working Paper No 31066 2023 available at https://www.nber.org/system/files/working_papers/w31066/w31066.pdf accessed 10 April 2023.

Thesis and Dissertations

Hattingh J "Implications of the global financial crisis for financial regulation in South Africa" (2019) ***LLM Dissertation, University of Pretoria.***

Lugulu H "Addressing the moral hazard through Explicit Deposit Insurance: a comparative appraisal of the Kenya Deposit Insurance Act, 2012" (2019), ***LLD Thesis, University of Pretoria.***

Magondo RT "An assessment of the effectiveness of the regulatory tools in managing bank failures in Zimbabwe (Case of Interfin and Royal Bank)" (2015) ***MBA Dissertation, University of Zimbabwe*****.**

Matasane MA "A Deposit Guarantee Framework for South Africa: A Comparative Appraisal" (2023) ***LLD Thesis, University of Pretoria.***

Nyaude A "Regulatory measures to address bank failures in Zimbabwe" (2021) ***LLD Thesis, University of Pretoria.***

Olanipekun OO "Banking regulation and deposit insurance: legal and comparative perspective" (2008) ***PhD Thesis, University of London*****.**

Uahatjiri N "Protecting depositors and promoting financial stability in South Africa: Is there a case for the introduction of deposit insurance" (2003) ***Master of Commerce Dissertation, Rhodes University.***

Zaire R "Deposit Insurance: Legal Analysis" (2019) ***LLM Dissertation, University of Johannesburg.***

Publications by international Organisations

Bank for International Settlements "Basel Charter" available at https://www.bis.org/bcbs/charter.htm?m=3070 accessed 9 April 2023.

Bank for International Settlements, Ketcha N "Deposit Insurance System Design and Considerations" BIS Policy Papers 7 1999 available at https://www.bis.org/publ/plcy07o.pdf accessed 1 January 2023.

Financial Stability Board "Key Attributes of Effective Resolution Regimes for Financial Institutions" 15 October 2014 available at https://www.fsb.org/wp-content/uploads/r_141015.pdf accessed 10 February 2023.

Financial Stability Board "Thematic Peer Review on Deposit Insurance Systems" Peer Review Report 8 February 2012 available at https://www.fsb.org/wpcontent/uploads/r_120208.pdf accessed 22 April 2023.

IADI "Dealing with parties at fault in a bank failure and fraud in deposit insurance" IADI Guidance Paper March 2015 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/Dealing_with_parties_March_2015_FINAL_Version.pdf accessed 15 March 2023.

IADI "Deposit Insurance in 2023: Global Trends and Key Issues" February 2023 available at https://www.iadi.org/en/news-and-media/iadi-deposit-insurance-report-global-trends-and-key-emerging-issues/2023-iadi-deposit-insurance-report-global-trends-and-key-issues/ accessed 6 June 2023.

IADI "Deposit Insurers Role in Contingency Planning and System-wide Crisis Preparedness and Management" IADI Guidance Paper May 2019 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI%20Guidance%20Paper_DI%20role%20in%20contingency%20planning%20&%20crisis%20management.pdf accessed 10 January 2023.

IADI "Enhanced Guidance for Effective Deposit Insurance Systems: Reimbursement Systems and Processes" Guidance paper November 2012 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI-Reimbursement_Enhanced_Guidance_Paper.pdf accessed 20 May 2023.

IADI "Enhanced Guidance for Effective Deposit Insurance Systems: Deposit Insurance Coverage" Guidance Paper 2013 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI_Coverage_Enhanced_Guidance_Paper.pdf accessed 1 January 2023.

IADI "General Guidance on Early Detection and Timely Intervention for Deposit Insurance Systems" IADI Guidance paper June 2013 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/2013-06_Early_Detection_Timely_Intervention-publication_final.pdf accessed 25 January 2023.

IADI "Guidance for the Establishment of Legal Protection Scheme for Deposit Insurance Systems" IADI Guidance Paper February 2010 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI_Final_Guidance_Paper_Legal_Protection_26Feb2010.pdf accessed 15 January 2023.

IADI "IADI About" available at https://www.iadi.org/en/about-iadi/ accessed 1 April 2023.

IADI "IADI Core Principles for Effective Deposit Insurance Systems (Revised)" 2014 available at https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf accessed 2 August 2022.

IADI "IADI Glossary" available at https://www.iadi.org/en/core-principles-and-guidance/glossary/blanket-guarantee/ accessed 15 April 2023.

IADI "IADI Member and Participants" available at https://www.iadi.org/en/about-iadi/iadi-members-and-participants/list-of-members/ accessed 30 July 2022.

IADI "IADI Members" available at https://www.iadi.org/en/about-iadi/iadi-members-and-participants/ accessed 3 April 2023.

IADI "IADI Welcomes its 12th Associate" available at https://www.iadi.org/en/news/iadi-welcomes-its-11th-associate/ accessed 1 March 2023.

IADI "Public Policy Objectives for Deposit Insurance Systems" IADI Guidance Paper March 2020 available at https://www.iadi.org/en/assets/File/Papers/Approved%20Guidance%20Papers/IADI_PPO_Guidance_Final_23032020.pdf accessed 10 February 2023.

IMF "Request For An Arrangement Under The Extended Credit Facility" IMF Country Report No. 22/292 2020 available at available at https://www.imf.org/en/Publications/CR/Issues/2022/09/06/Zambia-Request-for-an-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-Staff-523196 accessed 1 May 2023.

IMF Occasional Paper, Garcia G "Deposit insurance: Actual and good practices" IMF Occasional Paper 197 2000 available at https://doi.org/10.5089/9781557759481.084 accessed 20 December 2022.

IMF Working Paper, Claessens S, Dell' Ariccia G, Igan D, Laeven L "Lessons and Policy Implications from the Global Financial Crisis" IMF Working Paper WP/10/44 2010 available at https://www.imf.org/external/pubs/ft/wp/2010/wp1044.pdf accessed 10 May 2023.

IMF Working Paper, Garcia G "Deposit Insurance: Obtaining the Benefits and Avoiding the Pitfalls" IMF Working Paper WP/96/83 1996 available at https://doi.org/10.5089/9781451850499.001 accessed 10 December 2022.

IMF Working Paper, Schinasi GJ "Defining Financial Stability" IMF Working Paper WP/04/187 2004 available at https://www.imf.org/external/pubs/ft/wp/2004/wp04187.pdf accessed 1 February 2023.

IMF, David SH, Michael T, Ulrich HK "The design and implementation of deposit insurance systems" IMF Occasional Paper 251 2006 available at https://doi.org/10.5089/9781589065031.084 accessed 1 April 2023.

The World Bank Group "Banking crisis" available at https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/banking-crisis accessed 1 March 2024.

The World Bank Group "Financial Safety Nets and Bank Resolution Frameworks in Southern Africa: Key Issues and Challenges" 2019 available at https://documents1.worldbank.org/curated/en/255991554269112963/pdf/Key-Issues-and-Challenges.pdf accessed 01 April 2023.

The World Bank Group "Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)" 2018 available at https://documents1.worldbank.org/curated/en/614411526647372508/pdf/Concept-Project-Information-Document-Integrated-Safeguards-Data-Sheet-Mozambique-Financial-Inclusion-and-Stability-Project-P166107.pdf accessed 26 July 2022.

The World Bank Group "The World Bank International Development Association Project Appraisal Document On A Proposed Grant In The Amount Of SDR 29 Million (Us$40 Million Equivalent) To The Republic Of Mozambique For A Financial Inclusion And Stability Project" 20 November 2018 available at https://documents1.worldbank.org/curated/pt/986901551713827331/text/project-appraisal-document-pad-p166107-11262018-636805944190375925.txt accessed 8 April 2023.

The World Bank Group, Anginer D, Demirguc-Kunt A "Bank Runs and Moral Hazard: A Review of Deposit Insurance" Policy Research Working Paper 8589 2018 available at https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-8589 accessed 10 January 2023.

The World Bank Group, Bretschneider B, Benna R "Risk-based premium models for deposit insurance systems" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023.

The World Bank Group, Kajander-Saarikoski M "Investing for the bad times: how to achieve a balanced investment strategy for a deposit insurance fund" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023.

The World Bank Group, Kuczynski A "Deposit guarantee scheme contingency planning and stress testing" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023.

The World Bank Group, Nolte JP, Hoelscher D "Using the FSB Key Attributes to Design Bank Resolution Frameworks for Non-FSB members: Proportionality and Implementation Challenges" 2020 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/b6688a44-7029-5df7-9280-d9bf2d8ad61e/content accessed 2 August 2022.

The World Bank Group, O'keefe J, Ufier A "Determining the target deposit insurance fund: practical approaches for data-poor deposit insurers" 2017 available at https://openknowledge.worldbank.org/server/api/core/bitstreams/24d24189-4e97-5c2c-a17b-7be1c79a68d3/content accessed 10 May 2023.

The World Bank Group, Talley S, Mas I "Deposit insurance in developing countries" World Bank Policy Research Working Paper 548 1990 available at https://econpapers.repec.org/paper/wbkwbrwps/548.htm accessed 10 March 2023.

Government Publications

Botswana

Bank of Botswana *Financial Stability Council Meets* 3 November 2022 available https://www.bankofbotswana.bw/sites/default/files/press-release-files/FINANCIAL%20STABILITY%20COUNCIL%20MEETS%20-%20November%202022.pdf accessed 15 April 2023.

Bank of Botswana *Financial Stability Council Meets* 4 November 2021 https://www.bankofbotswana.bw/sites/default/files/press-release-files/Press%20Release%20-%20Financial%20Stability%20Council%20Meets%20-%20November%202021.pdf accessed 15 April 2023.

Deposit Insurance Scheme of Botswana *List of member of deposit insurance scheme of Botswana* 11 October 2023 available at https://www.bankofbotswana.bw/sites/default/files/press-release-files/Deposit%20Insurance%20Scheme%20of%20Botswana%20Members%20-%202023.pdf accessed 31 January 2024.

Eswatini

Central Bank of Eswatini *Annual Integrated Report 2021/22* 2022 available at https://centralbank.org.sz/annual-integrated-report/2021-22/ accessed 1 May 2023.

Lesotho

Central Bank of Lesotho *Annual Report* 2012 available at https://centralbank.org.ls/images/Publications/Research/Reports/Annual/2012-Annual-Report---Final_REVISED.pdf accessed 1 February 2024.

Central Bank of Lesotho *Supervision Annual Report* 2004 available at https://www.centralbank.org.ls/images/Publications/Supervision/Supervision_Annual_Report_2004.pdf accessed 1 February 2024.

Central Bank of Lesotho *Supervision Annual Report* 2018 available at https://www.centralbank.org.ls/images/Financial_Markets/Treasury_Bills/Announcements/2018_-_Supervision_Annual_Report_-_Design_Proof_-_HR_-_Singles_-_11.11.2019.pdf accessed 1 February 2024.

Malawi

Reserve Bank of Malawi *Financial Stability Report* June 2023 available at https://www.rbm.mw/FinancialStability/FinancialStabilityReports/ accessed 1 October 2023.

Reserve Bank of Malawi *The Registrar of Financial Institutions Annual Report* 2021 available at http://www.rfi.mw/Publications/RegulatoryContent?documentTypeId=1076&documentType=Annual%20Reports&title=Publications accessed 1 September 2023.

Namibia

Namibia Deposit Guarantee Authority *About* available at https://www.ndga.com.na/about accessed 10 November 2023.

Namibia Deposit Guarantee Authority *Annual Report* 2020 available at https://www.ndga.com.na/images/NDGA-2020-Annual-Report.pdf accessed 1 October 2022.

Namibia Deposit Guarantee Authority *Annual Report* 2021 available at https://www.bon.com.na/CMSTemplates/Bon/Files/bon.com.na/84/8486ff86-82ac-4e70-8321-f3af7f064a42.pdf accessed 1 October 2022.

Namibia Deposit Guarantee Authority *Annual Report* 2022 available at https://www.ndga.com.na/images/NDGA-2022-Annual-Report.pdf accessed 1 November 2023.

Namibia Deposit Guarantee Authority *Strategic plan 2023-2025* available at https://www.bon.com.na/CMSTemplates/Bon/Files/bon.com.na/c2/c2cf5e83-9d61-467b-b74e-0dea6a6cf787.pdf accessed 10 November 2023.

South Africa

South African Reserve Bank *Designing a deposit insurance scheme for South Africa - a discussion paper* 2017 available at http://www.treasury.gov.za/twinpeaks/Designing%20a%20deposit%20insurance%20scheme%20for%20South%20Africa.pdf accessed 5 October 2022.

United States of America

Congressional Research Service *Bank failures: The FDIC's Systemic Risk Exception* 2023 available at https://crsreports.congress.gov/product/pdf/IF/IF12378 accessed 14 February 2024.

Federal Deposit Insurance Corporation *A Brief History of Deposit Insurance in America* 1998 available at https://www.fdic.gov/bank/historical/brief/brhist.pdf accessed 10 October 2022.

Federal Deposit Insurance Corporation *A history of risk-based premiums at the FDIC* 2020 available at https://www.fdic.gov/analysis/cfr/staff-studies/2020-01.pdf accessed 10 January 2023.

Federal Deposit Insurance Corporation *Annual Report* 1950 available at https://www.fdic.gov/about/financial-reports/reports/archives/fdic-ar-1950.pdf accessed on 1 September 2023.

Federal Deposit Insurance Corporation *Bank failures in brief – 2023* available at https://www.fdic.gov/resources/resolutions/bank-failures/in-brief/bfb2023.html accessed 17 February 2024.

Federal Deposit Insurance Corporation *Crisis and Response: An FDIC History 2008–2013* 2017 available at https://www.fdic.gov/bank/historical/crisis/ accessed 10 October 2022.

Federal Deposit Insurance Corporation *Deposit insurance at a glance* 2014 available at https://www.fdic.gov/resources/deposit-insurance/brochures/documents/deposit-insurance-at-a-glance-english.pdf accessed 28 December 2022.

Federal Deposit Insurance Corporation *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* available at https://www.fdic.gov/resources/deposit-insurance/deposit-insurance-fund/dif-historical/dif-dodd-frank-act.html accessed 7 September 2023.

Federal Deposit Insurance Corporation *Failed Bank Information for Signature Bank, New York, NY* available at https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/signature-ny.html accessed 14 February 2024.

Federal Deposit Insurance Corporation *FDIC's supervision of First Republic Bank* 2023 available at https://www.fdic.gov/news/press-releases/2023/pr23073a.pdf accessed 21 February 2024.

Federal Deposit Insurance Corporation *FDIC's Supervision of Signature Bank* 2023 available at https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf accessed 14 February 2024.

Federal Deposit Insurance Corporation *Federal Deposit Insurance Reform Act of 2005* available at https://www.fdic.gov/resources/deposit-insurance/deposit-insurance-fund/dif-historical/dif-reform-2005.html accessed 5 September 2023.

Federal Deposit Insurance Corporation *Managing the Crisis: The FDIC and RTC Experience — Chronological Overview* available at https://www.fdic.gov/bank/historical/managing/chronological/index.html accessed 10 October 2022.

Federal Deposit Insurance Corporation *Managing the Crisis: The FDIC and RTC Experience* 1997 available at https://www.fdic.gov/bank/historical/managing/documents/history-consolidated.pdf accessed 10 October 2022.

Federal Deposit Insurance Corporation *Options for Addressing Moral Hazard* Guidance for Developing Effective Deposit Insurance Systems Discussion Papers available at https://www.fdic.gov/deposit/deposits/international/guidance/moralhazard.pdf accessed 5 April 2023.

Federal Deposit Insurance Corporation *Options for Deposit Insurance Reform* 2023 available at https://www.fdic.gov/analysis/options-deposit-insurance-reforms/report/options-deposit-insurance-reform-full.pdf accessed 23 September 2023.

Federal Deposit Insurance Corporation *Remarks by Chairman Martin J. Gruenberg on Oversight of Prudential Regulators before the Committee on Financial Services, United States House of Representatives* available at https://www.fdic.gov/news/speeches/2023/spnov1523.html accessed 20 February 2024.

Federal Deposit Insurance Corporation *U.S. banking and deposit insurance history 1930 - 1939* available at https://www.fdic.gov/about/history/deposit-insurance/1930-1939.html accessed 1 April 2024.

Federal Deposit Insurance Corporation *Your Insured Deposits* 2020 available at https://www.fdic.gov/resources/deposit-insurance/brochures/documents/your-insured-deposits-english.pdf accessed 28 December 2022.

Federal Deposit Insurance Corporation, Gruenberg J *Recent bank failures and the federal regulatory response*, Committee on Banking, Housing, and Urban Affairs United States Senate 28 March 2023 available at https://www.fdic.gov/news/speeches/2023/spmar2723.pdf accessed 18 February 2024.

Federal Reserve Bank of Philadelphia, Richards N *Federal Deposit Insurance Corporation Improvement Act of 1991* 1991 available at https://www.federalreservehistory.org/essays/fdicia accessed 1 September 2023.

Zambia

Bank of Zambia *Zambanker – A Bank of Zambia Journal* December 2018 available at https://www.boz.zm/Zambanker-December-2018-Edition.pdf accessed 10 May 2023.

Zambia Parliament *National Assembly of Zambia Debate* 17 July 2020 available at https://www.parliament.gov.zm/node/8446 accessed 10 April 2023.

Zambian Parliament *Republic of Zambia Report of the Committee on National Economy, Trade and Labour Matters on the Banking And Financial Services (Amendment) Bill, N.A.B NO 7 of 2020 for the Fifth Session of the Twelfth National Assembly,* 2020 available at https://www.parliament.gov.zm/sites/default/files/documents/committee_reports/Banking%20and%20Financial%20Services%20%28Amendment%29%20Bill%2C%20N.A.B%20No.%207%20Of%202020.pdf accessed 15 April 2023.

Zimbabwe

Deposit Protection Board *Annual report* 2010 available at https://www.dpcorp.co.zw/assets/dpc-annual-report-2010.pdf accessed 1 November 2023.

Deposit Protection Corporation *2022-2025 Strategic Plan Document for Deposit Protection Corporation* available at https://www.dpcorp.co.zw/assets/dpc-strategic-plan-2022-2025.doc accessed 10 October 2022.

Deposit Protection Corporation *About* available at https://www.dpcorp.co.zw/about-dpc.html accessed 1 November 2023.

Deposit Protection Corporation *Annual Report* 2012 available at https://www.dpcorp.co.zw/assets/dpc-annual-report-2012.pdf accessed 2 August 2022.

Deposit Protection Corporation *Annual report* 2022 available at https://www.dpcorp.co.zw/assets/dpc-annual-report-2022.pdf accessed 1 November 2023.

Deposit Protection Corporation *Deposit Protection* available at https://www.dpcorp.co.zw/deposit-protection.html accessed 2 November 2023.

Deposit Protection Corporation *Deposit protection corporation increases cover level* 2020 available at https://www.dpcorp.co.zw/assets/dpc-press-release-feb-2020.pdf accessed 2 January 2023.

Deposit Protection Corporation *DPC wins international award* available at https://www.dpcorp.co.zw/dpc-wins-international-award.html accessed 2 August 2022.

Deposit Protection Corporation *Free deposit protection* available at https://www.stanbicbank.co.zw/static_file/zimbabwe/Common%20Content/Footer/English%20Brochure%20June21.pdf accessed 5 January 2023.

Deposit Protection Corporation *Frequently asked questions* available at https://www.dpcorp.co.zw/faq.html accessed 1 January 2023.

Deposit Protection Corporation *Increase in Zimbabwean Dollar (ZWL) deposit protection cover* 2022 available at https://www.dpcorp.co.zw/assets/new-cover-level_180222.pdf accessed 2 January 2023.

Deposit Protection Corporation *Introduction to concept of deposit insurance system* 2015 available at https://www.dpcorp.co.zw/assets/introduction-to-concept-of-deposit-insurance-system---10.2.15.pdf accessed 1 January 2023.

Deposit Protection Corporation *List of member institutions* available at https://www.dpcorp.co.zw/member-banks.html accessed 3 November 2023.

Deposit Protection Corporation *Notice of explicit deposit protection of foreign currency denominated accounts and/or nostro fca accounts* 2021 available at https://www.dpcorp.co.zw/assets/public-notice-1-of-2021.pdf accessed 2 January 2023.

Deposit Protection Corporation *Notice of Zimbabwean dollar (ZWL) deposit protection cover review* Circular No.1 of 2023 available at https://www.dpcorp.co.zw/assets/zwl-cover-review-150623.pdf accessed 3 November 2023.

Deposit Protection Corporation *Recent trends and developments in deposit protection* available at https://www.dpcorp.co.zw/assets/recent-trends-in-deposit-protection-30-june-2015.pdf accessed 2 January 2023.

Deposit Protection Corporation *Summary of deposit protection scheme* available at https://www.dpcorp.co.zw/assets/quick-reference-guide-deposit-protection-scheme.pdf accessed 1 January 2023.

Deposit Protection Corporation *Types of deposit insurance* available at https://www.dpcorp.co.zw/assets/types-of-deposit-insurance-systems.pdf accessed 2 August 2022.

Deposit Protection Corporation *What is deposit protection* available at https://www.dpcorp.co.zw/deposit-protection.html accessed 2 January 2023.

Reserve Bank of Zimbabwe *2020 annual financial stability report* 2020 available at https://www.rbz.co.zw/documents/BLSS/2020/Financial-Stability-Report-2020.pdf accessed 3 January 2023.

Reserve Bank of Zimbabwe *2021 Annual financial stability report* 2021 available at https://www.rbz.co.zw/documents/BLSS/2021/Financial_Stability_Annual_Report_2021.pdf accessed 15 January 2023.

Reserve Bank of Zimbabwe *2022 annual financial stability report* 2022 available at https://www.rbz.co.zw/documents/BLSS/2021/2022_Financial_Stability_Report.pdf accessed 3 January 2024.

Table of Legislation, Regulation and Guidelines Legislation

United States of America

Banking Act of 1933.

Banking Act of 1935.

Emergency Economic Stabilization Act of 2008

Federal Deposit Insurance Act of 1950.

Federal Deposit Insurance Corporation Improvement Act of 1991.

Federal Deposit Insurance Reform Act of 2005.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Zimbabwe

Deposit Protection Corporation (Amendment) Regulations, 2014 [S.I 46 of 2014].

Deposit Protection Corporation Act [Chapter 24.29].

Deposit Protection Corporation Regulations, 2013 [S.I 156 of 2013].

Statutory instrument 156 of 2013.

Namibia

Namibia Deposit Guarantee Act, 2018 (Act No. 16 of 2018).

Government Gazette of the Republic of Namibia No. 6904 15 May 2019.

South Africa

Financial Sector Laws Amendment Act 23 of 2021.

Financial Sector Regulation Act 9 of 2017.

Policy Documents / Reports

Choi B, Goldsmith-Pinkham P, and Yorulmazer T "Contagion effects of the silicon valley bank run" National Bureau of Economic Research No w31772 available at https://www.nber.org/system/files/working_papers/w31772/w31772.pdf accessed 20 February 2024.

Demirgüç-Kunt A, Karacaovali B, Laeven L "Deposit Insurance Around the World: A Comprehensive Database" World Bank Policy Research Working Paper 3628 2005 available at https://documents1.worldbank.org/curated/en/593131468330040612/pdf/wps36280rev.pdf accessed 10 December 2022.

Nhavira JD, Mudzonga E, Mugocha E "Financial regulation and supervision in Zimbabwe: An evaluation of adequacy and options" Zimbabwe Economic Policy Analysis and Research Unit 2013 available at https://elibrary.acbfpact.org/acbf/collect/acbf/index/assoc/HASH3ed8/84ebb838/2bd78228/cc.dir/Financial%20Regulation.pdf accessed 1 November 2023.

Scott AP "An analysis of bank charters and selected policy issues" Congressional Research Service report R47014 2022 available at https://sgp.fas.org/crs/misc/R47014.pdf accessed 9 July 2023.

Newspapers, Press and Media Statements

"Deposit Guarantee Fund is being finalized" available at http://country.eiu.com/article.aspx?articleid=392201823 accessed 10 October 2022.

De Wet P "VBS still owes more than 5000 people sums of money" available at https://www.news24.com/news24/bi-archive/thousands-of-vbs-depositors-still-havent-claimed-their-money-and-have-until-july-2021-2020-7 accessed 1 August 2022.

Dorica M "Deposit insurance law to protect citizen money" available at https://www.maravipost.com/deposit-insurance-law-to-protect-citizen-money/ accessed 15 April 2023.

New Era "New authority protects commercial bank deposits" available at https://www.pressreader.com/namibia/new-era/20210426/281496459132841 accessed 10 January 2023.

Nyaude A "Open communication: A credit in banking crisis" UP Re.search Issue 6 available at https://indd.adobe.com/view/9cb1660d-2fc4-41ed-8e42-2e43ec469ec0 accessed 23 March 2024.

SAnews.gov.co.za "Deposit insurance body established to protect bank depositors" 2023 available at https://www.sanews.gov.za/south-africa/deposit-insurance-body-established-protect-bank-depositors accessed 15 December 2023.

The Herald "Deposit protection, resolution of bank failures" available at https://www.pressreader.com/zimbabwe/the-herald-zimbabwe/20201020/281840056152975 accessed 10 January 2023.

The Herald "DPC increases cover limit" 2016 available at https://www.pressreader.com/zimbabwe/the-herald-zimbabwe/20160719/281857232884868 accessed 1 January 2023.

The Namibian "Hope for SME Bank Depositors" available at https://www.namibian.com.na/195303/archive-read/Hope-for-SME-Bank-depositors accessed 2 January 2023.

Van Rensburg D "How VBS plotters helped kill another bank, this time in Namibia" available at https://www.news24.com/fin24/economy/africa/how-vbs-plotters-helped-kill-another-bank-this-time-in-namibia-20191115 accessed 29 July 2022.

Van Wyk C "SME Bank depositors still licking their wounds" available at https://www.namibiansun.com/news/sme-bank-depositors-still-licking-their-wounds2021-09-15 accessed 29 July 2022.

Other Internet Sources

Aggarwal C "Financial institutions: Types, roles, and advantages" available at https://www.shiksha.com/online-courses/articles/financial-institutions-types-roles-and-advantages/ accessed 1 February 2024.

Claire B "Mutual funds are not FDIC insured: Here is why" available at https://www.investopedia.com/articles/investing/100215/mutual-funds-are-not-fdic-insured-here-why.asp accessed 1 November 2023.

Corrigan EG "Are Banks Special?" In Federal Reserve Bank of Minneapolis Annual Report 1982 available at https://econpapers.repec.org/article/fipfedmar/y_3a1982.htm accessed 5 April 2023.

Ellis D "Deposit insurance funding: assuring confidence" 2013 available at https://www.fdic.gov/deposit/insurance/assuringconfidence.pdf accessed 1 January 2023.

History "FDIC" available at https://www.history.com/topics/great-depression/history-of-the-fdic accessed 1 April 2024.

History "Great Depression History" available at https://www.history.com/topics/great-depression/great-depression-history accessed 1 April 2024.

Kaufman GG "Bank runs" 2008 The concise encyclopaedia of economics available at https://www.econlib.org/library/Enc/BankRuns.html accessed 20 March 2023.

Kondongwe S "The root causes of bank failures in Zimbabwe since the year 2008 to 2015" 2015 available at http://dx.doi.org/10.2139/ssrn.3120898 accessed 2 November 2023.

Marquit M "Too big to fail banks: where are they now?" available at https://www.investopedia.com/insights/too-big-fail-banks-where-are-they-now/ accessed 16 February 2024.

Milne A "Understanding the current credit crisis: Maturity mismatch and structured credit illiquidity" 2009 available at https://warwick.ac.uk/fac/soc/wbs/subjects/finance/events/seminars/maturity_mismatch.pdf accessed 14 February 2024.

Turrin R "Silicon Valley Bank the world's first digital bank run!" available at https://richturrin.com/silicon-valley-bank-the-worlds-first-digital-bank-run/ accessed 10 November 2023.

Wall LD "Fractional reserve cryptocurrency banks" Notes from the Vault 2019 available at http://business.cch.com/bfld/FractionalReserveCryptocurrencyBanks.pdf accessed 20 March 2023.

Whiteman D "How do banks work" available at https://www.forbes.com/advisor/banking/how-do-banks-work/ accessed 13 April 2023.