



**National University  
of Science & Technology**

**Faculty of Commerce**

**Department of Banking**

**“The effectiveness of the Zimbabwe Deposit Insurance  
Scheme in according protection to depositors (2003 to  
August 2009)”**

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## ABSTRACT

During the periods 2003 to 2004 and 2008, the Zimbabwean financial sector experienced problems that led to amendments of banking laws and regulations. The problems included speculative practices, 'burning money', and depositors' rejecting the Zimbabwe dollar. Against a background of these problems, an explicit deposit insurance scheme was set-up through the Statutory Instrument 29/2003 and administered by Zimbabwe Deposit Protection Board (ZDPB). The deposit insurance scheme was formulated and implemented to provide protection to small and unsophisticated depositors in the event of closure of an insured member. Banks play a pivotal role in economic growth and development of all countries', therefore the stability of the banking system enhances depositors' confidence. The researcher sought to evaluate the effectiveness of the Zimbabwean scheme in according depositor protection (2003 to 2009). The country operated two currency regimes, local currency (prior to February 2009) and currently multiple currency (February 2009 to date). In order to analyze effectively the scheme, the researcher obtained theoretical and empirical literature review which guided in selecting the survey based research design. Information was obtained from both primary and secondary data sources, for the period 2003 to August 2009. The respondents included the ZDPB, regulatory and supervisory agency (RBZ), financial institutions and depositors. The targeted financial institutions of the study were commercial banks and building societies. Depositors were limited to those in Harare only due to time and resources. Research findings revealed that ZDPB was currently limited to the paybox mandate. Also the ZDPB lacked independence as a result of the board composition which was not properly balanced. Too much power was vested in the Chairman and did not comply with the corporate governance principles. The financial safety-net players were not properly integrated by the Memorandum of Understanding available. There was weakness in the financial system to curb illegal deposits which resultant were covered by the DIS. Operations were greatly affected by funding, with the target level of 2% of deposits not being attained over the five year period (2003 to 2009). The funding also affected the public awareness plan. The depositors, technical people from the financial institutions and regulatory agencies were not aware of the essentials of scheme in Zimbabwe. Lack of proper awareness initiatives and problems associated with accessing cash from banks also contributed to low confidence levels in the financial sector. On average three (3) months was the period taken to start effecting payments after placement under curatorship. Considerably, the scheme was not effective in according protection to depositors. Understanding and dealing effectively with these issues is critical for building effective deposit insurance systems that accords protection to depositors. Moreover, while each of these issues is important on their own they are also highly interconnected. Deposit insurers worldwide acknowledge the fact that it was impossible to give effective protection to depositors unless they are aware of the rules of deposit insurance in protecting their savings. The emphasis on consumer awareness comes against products of financial innovation. It was recommended that the statute be amended to have a balanced board composition, establishing strategic alliance with the media. Offering targeted training to financial institutions personnel and put in place measures to curb illegal deposits using the formal banking channels. The ZDPB should ensure sound governance to reduce inefficiencies. Inefficiencies arise from moral hazard and adverse selection

problems associated with deposit insurance, and conclusively remaining dynamic in a changing environment. As such areas of future study include effectiveness of failure resolution processes and regulations in Zimbabwe, effectiveness of anti-money laundering regulations in Zimbabwe, financial consumer protection laws with the advent of multi-currency and applicability of changing the mandate from paybox (phase one) to risk minimizer (phase two).