



FACULTY OF COMMERCE

BANKING DEPARTMENT

***AN EVALUATION OF THE EFFECTIVENESS OF DEPOSIT INSURANCE  
 COVERAGE IN FINANCIAL FAILURE RESOLUTIONS IN ZIMBABWE  
 (2003 – 2008)***

BY

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## EXECUTIVE SUMMARY

This research sought to evaluate the effectiveness of deposit insurance coverage scope and limit in financial failure resolutions in Zimbabwe from 2003 to 2008. The Zimbabwean financial sector turmoil during the years under review prompted this research as it was marked by major public bank runs, lack of depositor's confidence and market discipline as some financial institutions were either merged or closed and liquidated. A cross sectional survey method was used coupled with combinations of stratified random sampling, systematic sampling and judgmental sampling techniques applied on fifteen financial institutions and twenty depositors through questionnaires and interviews. This research found that the level of coverage of Zimbabwe Deposit Protection Board (ZDPB) was not compatible with the Zimbabwean financial system. In contrast, the research showed that the deposit profile and scope of member institutions was adequately covered during failure resolutions in line with ZDPB's main objective of according cover to vulnerable retail depositors. Findings further showed that the case of ZDPB operating in a volatile and hyperinflationary environment resulted to unnecessary costs to healthy banks and an insignificant deposit insurance coverage limit. The deposit coverage limit reimbursed to affected depositors was also delayed due to long curatorship and liquidation processes thereby rendering the dividends drastically eroded by inflation. In addition, changes in success factors such as the extension of coverage limit, extent of coverage, public awareness, political environment, distribution of deposits and depositors, income distribution, gross domestic product per capita, exchange rate regime and institutional factors greatly impacted on the review of the coverage limit during the period under study to an extent that it was adjusted quarterly. Regional outlets and subsidiaries of Zimbabwean banks were not under ZDPB coverage and hence their likely failure had no impact on prevailed failure resolutions. The effectiveness of the ZDPB coverage on failure resolutions was benchmarked against deposit insurance best practices (members of International Association of Deposit Insurers - IADI) such as the Turkish Savings Deposit Insurance Fund and the Chilean Deposit Insurance Scheme. The research had a major limitation in that the evaluation was merely fixed in period and hence the researcher recommends historical considerations of other developing countries' deposit insurance schemes such as Nigeria, Uganda and Kenya. Due to the limitations on time and resources, it is further recommended that a comprehensive study be carried out to evaluate the best strategy of financial failure resolution that can be employed by the Zimbabwe Deposit Protection Board and other stakeholders during a multi-currency period. It is hoped that findings from such research will enable both financial institutions and depositors harness the best benefits of deposit insurance.