

“The Changing Business Environment and Deposit Insurers”

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Organization



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

Introduction



- ❖ The Financial Stability Board (FSB) report (2012) noted that after the global financial crisis (GFC) there were substantial enhancements to deposit protection design features including:
- a) the elimination of coinsurance.
 - b) introduction of higher coverage limits.
 - c) improvements in payout processes.
 - d) adoption of ex ante funding by some jurisdictions.
 - e) greater depositor awareness.
 - f) and strengthening of information sharing and co ordination with other safety net participants.

Introduction-Zimbabwean Case



- Hanke & Kwok (2009) note Zimbabwe's hyperinflation of 2007–08 was the first hyperinflation of the 21st century.



Economic Environnement –Pre-dollarisation



1998 –2008 economic crises affected all sectors.

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

Economic
Environnement –
Pre dollarisation
(2000-2008)

Worsening social conditions: -food shortages -fuel shortages

Inability to borrow from domestic and international debt markets leading to excessive money supply to finance the budget deficit.

Banking Sector –Pre Multicurrency System

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

The result

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

Post Dollarisation Developments



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

Phase 1 (2009-2012)

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

Phase II (2013 to date)

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

Banking Sector Initiatives and Challenges



Challenges

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

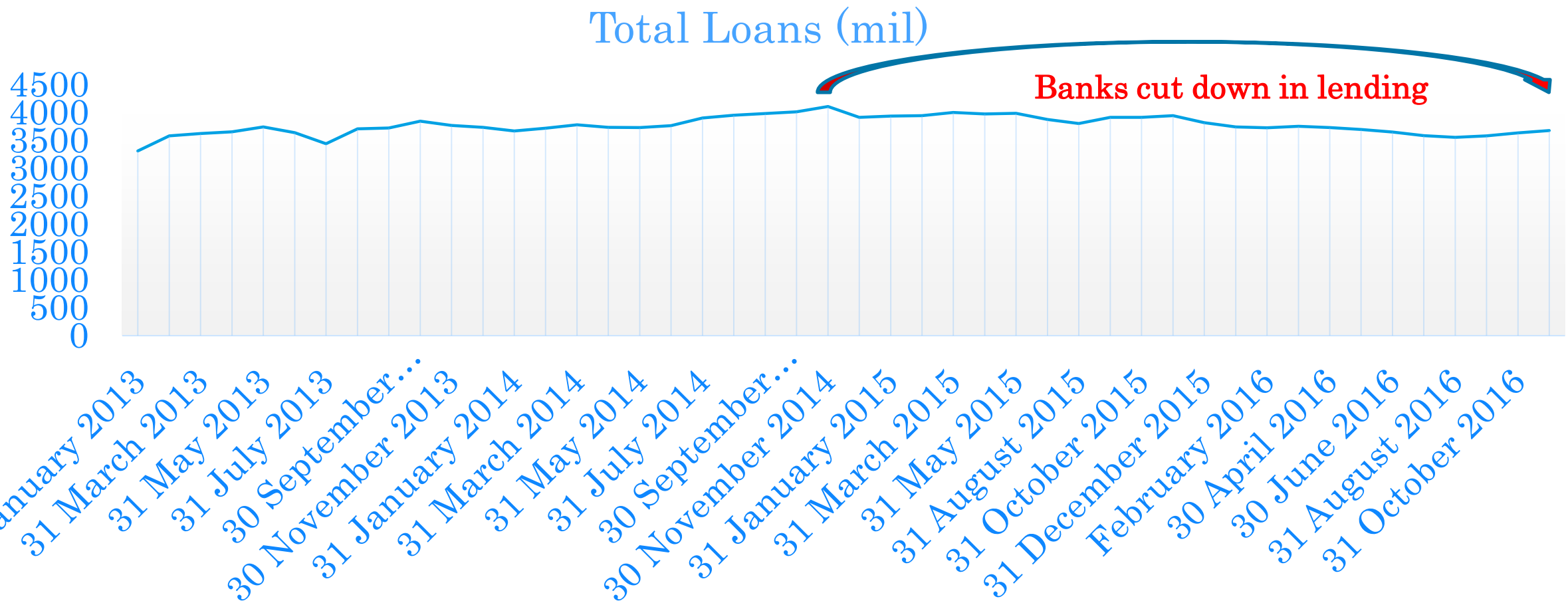
Initiatives

- The banking sector tightened lending procedures as a way to curb NPLs.
- Introduction of a surrogate currency (bond notes) in late 2016 at par with the US\$. The bond notes are backed by a USD200 million loan facility from the Afreximbank.
- Establishment of ZAMCO in July 2014 to purchase NPLs.
- Central Bank and Afreximbank introduced a liquidity support facility (AFTRADES) which is similar to the lender of last resort facility.
- Regulatory capital increased to \$100 million from \$25 million.
- RBZ is in the process of setting up a CRB

Lending



- From Dec 2014 banks reduced lending to minimize NPL's. The decline in total loans was also as a result of assumption of bad debts by ZAMCO.



Asset Management



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

Strategies Implemented

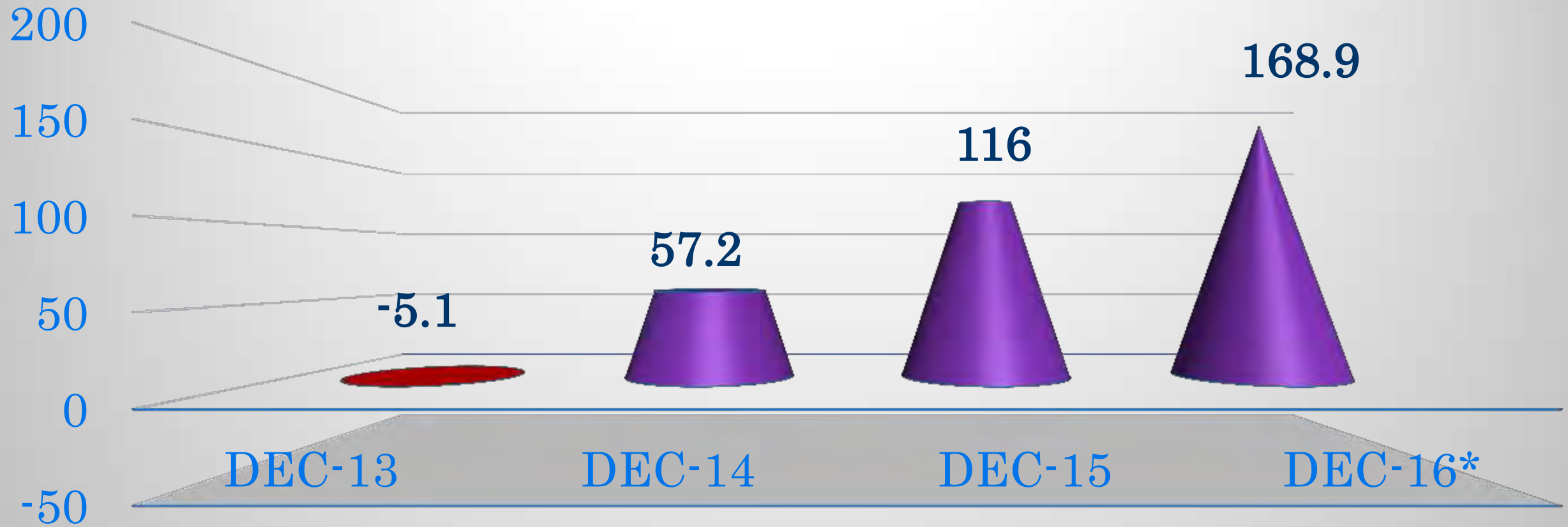
- ✓ Rescheduling of loans and renegotiating loan conditions.
- ✓ Disposed some loans to ZAMCO (an SPV created by Central Bank).
- ✓ Accepting payment in assets (TBs or Properties) in cases where debtors could not pay in monetary terms.
- ✓ Pursued both auction system and private treaty on asset disposal.
- ✓ Insisted on buyers to meet at least the reserve value of the asset.

Persistence of Banking Sector Profitability



- Notwithstanding the numerous anomalies the banking sector experienced, banks remained profitable as shown below;

Banking Sector Profitability (mil)



Technological Advancement



- The banking sector in Zimbabwe adopted a bank-led mobile banking system.
- Money underlying a mobile payment is deposited in an account covered by deposit protection.
- The owner of the funds will receive deposit protection for those funds up to the applicable limit (in the event of a bank failure)
- Deposit protection does not guarantee that a consumer's funds will be protected in the event of a bankruptcy or insolvency of a nonbank entity (agent) in the mobile payment chain.

Legal and Regulatory Environment



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

Implications to DPC.

- The removal of powers to carry out special/targeted examination makes it difficult for DPC to ascertain whether;
 - banks are paying the appropriate premium contributions
 - operating in a safe and sound manner
 - complying with terms and conditions of membership.

Risk Assessment & Surveillance



- Currently, DPC has a Risk Assessment & Surveillance Section which is mainly involved in the off-site surveillance of member institutions.
- Information used in the off-site surveillance is obtained from member institutions on a monthly and quarterly basis through statutory returns.
- DPC has incorporated stress tests and Early Warning Systems in its off-site surveillance.
- Apart from off-site surveillance, DPC gets additional information on the status of member institutions from the central bank through monthly meetings.
- However, there is need to formalise information sharing between the central bank, DPC and other financial safety net participants.
- The Corporation adopted a model that will be used to determine the appropriate target fund size on a regular basis. The model was developed by the World Bank consultants and is forward looking.

Compensate Depositors



- Since inception in 2003, DPC has compensated depositors of nine (9) failed CIs, namely:
 - ❑ Century Discount House;
 - ❑ Rapid Discount House;
 - ❑ Sagit Finance House;
 - ❑ Genesis Investment Bank;
 - ❑ Royal Bank;
 - ❑ Trust Bank Corporation;
 - ❑ Allied Bank;
 - ❑ Interfin Bank; and
 - ❑ AfrAsia Bank

Conclusion



- ❖ DPC has managed to weather the storm from adverse business environment and is currently resolving six (6) banks.
- ❖ The DPC Fund continues to grow steadily, premiums being the main source of income.
- ❖ Investment income is mainly from unit trusts and money market investments (short term).
- ❖ DPC enhanced its risk assessment and monitoring of member institutions by incorporating stress tests and early warning systems.

I THANK YOU