



DEPOSIT PROTECTION FUND BOARD, KENYA

1. Introduction

The Deposit Protection Fund Board (DPFB) was established in 1985 following a banking crisis in Kenya. It was established through an amendment to the Banking Act which provided for the setting up of the Deposit Protection Fund to provide deposit insurance to depositors of DPFB member institutions and consequently restore confidence and stability in the banking sector. The Act further states that the Central Bank of Kenya would appoint DPFB as liquidator of insolvent commercial banks and non bank financial institutions.

2. Vision & Mission & Objectives of The Deposit Protection Fund Board

Vision:

- ❖ To attain international standards of efficiency and the best practices in deposit insurance and liquidation of financial institutions.

Mission:

- ❖ To enhance public confidence in the nation's financial system by providing a sound safety net whereby all depositors' funds held by institutions are sufficiently insured against loss as a result of bank failure. The Board is also mandated to be the liquidator of any institution that is deemed to be insolvent and part of its mission is to ensure a diligent liquidation process for maximum benefit of all creditors.

Objectives:

- To Provide a deposit insurance scheme for customers of member institutions and;
- To wind up any institution in respect of which the Board is appointed as the Liquidator.
- To hold, manage and prudently apply funds levied as contributions from member institutions.

3. Structure and Organisation

DPFB is a public institution managed by a Board comprising of the Governor of the Central Bank of Kenya as the Chairman, the Permanent Secretary to the Treasury and five other members who represent the interests of contributory institutions. The members are appointed by the Minister of Finance.

The Board is responsible for policy formulation and direction while day to day management is under a Director appointed by the Central Bank of Kenya. Under the provisions of the Banking Act, the Central Bank provides staff and facilities required for the proper and efficient functioning of DPFB.

4. Membership of the Fund

Membership is mandatory for all institutions licensed to carry on business as Commercial Banks, Financial Institutions, Mortgage Finance Companies and Building Societies. As at 30th June 2008, membership comprised 43 commercial banks and 2 mortgage finance companies.

All members pay flat-rate contributions based on the level of deposits taken by the institution in the previous twelve months. The Banking Act empowers DPFB to cease membership of an institution if its activities and conduct are detrimental to the interests of the Fund and its members.

5. Funding

The main source of funds for DPFB is annual premiums from member institutions. Currently, premiums are calculated at 0.15 per cent of the average of the institution's total liabilities during the period of twelve months prior to the date of payment notice. However, this is subject to a minimum of Kshs.300,000.00 (approx. US\$ 3,896) and a maximum of 0.4 per cent of the deposit liabilities. It is applied uniformly and assessments are carried out in July and premium payments are expected by August of each year.

Should need arise, the fund is also empowered to receive funding from the Government and the Central Bank of Kenya.

6. Coverage

The deposit protection fund provides deposit insurance coverage of up to Kshs.100,000.00 (Approx. US\$1,298.7) to each depositor of a member institution. The insurance covers all types of deposit accounts held by depositors. However, payment is restricted to one depositor per institution. As at 30th June, 2008, 89.7% of all deposit accounts were fully covered and 14.5% of all total deposits. This is in line with one of the main objectives of the Board which is to provide maximum protection for small and unsophisticated depositors.

7. Supervision

The supervision of the banking sector is an essential part of deposit insurance. The mandate of DPFB does not include inspection and supervision of member institutions. However, it works very closely with the Bank Supervision Department of the Central Bank of Kenya to regularly monitor the performance and viability of all institutions in the banking industry. The Bank Supervision Department conducts off-site surveillance as well as periodic on-site inspections and examines, among other things, key financial soundness indicators including capital adequacy, asset quality, liquidity, earnings and profitability and shares these information with DPFB.

8. Failure Resolution

The DPFB mandate is currently restricted to the provision of deposit insurance and liquidation of failed institutions. Where it is conclusively determined that an institution has become insolvent, the Central Bank of Kenya appoints DPFB as the liquidator. The Banking Act also empowers the Central Bank to appoint any other person as liquidator provided that it makes a submission to the High Court that it does not wish to appoint DPFB as the liquidator of the institution.

Liquidation of insolvent institutions has been a challenge for the DPFB largely due to factors outside its control which slow down process, such as the courts, invariably impact on its budget through increased administrative costs. To-date, it has successfully wound up four of the twenty four banks/financial intuitions under liquidation.

9. Payment of Protected Deposits and Dividends.

In the event of a member institution's failure, depositors are informed of payment of protected deposits through the national daily newspapers and are thereafter required to complete and submit claim forms to the respective institutions. A depositor with an amount exceeding the limit of the protected amount of kshs.100,000.00 is paid the balance through dividends once assets of the institution are realized. However, under the subrogation rights, DPFB takes priority in recovery of the amount paid as protected deposits.

10.IADI Membership

Being one of the founding members, DPFB has maintained active participation in IADI activities and presently holds membership to a number of its Committees including The Executive Council and the Vice Chair of the Africa Committee among others.

7. Future

DPFB is presently in the stage of sensitizing stakeholders on a draft law which will enhance its operational autonomy and provide powers to enable it execute its mandate more efficiently and as per standards expected of a world class DIS.

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June 29, 2009