

Govt fails to set up Deposit Protection Corporation

By Erum Zaidi October 01, 2016

KARACHI: The government has missed a September deadline for setting up of Deposit Protection Corporation (DPC) it agreed with the International Monetary Fund (IMF) to insure depositors from losses in case of a bank failure, officials said on Friday.

The International Monetary Fund (IMF), in its last review in July on the performance of Pakistan's economy, citing Pakistan's authorities, said the Deposit Protection Corporation (DPC) will become functional by the end of September 2016.

The DPC, to be working as a subsidiary of the State Bank of Pakistan (SBP), will protect savings and ensure financial stability in the event a bank's collapse.

In June, the National Assembly passed the DPC and last month the Senate also ratified the bill.

A senior banker, however, said President Mamnoon Hussain has yet to sign the bill into the law.

The new corporation will also need an approval from the Securities and Exchange Commission of Pakistan to be registered in the country. And, only after that the SBP will formulate a board of DPC.

The board of DPC will consist of seven directors, mainly nominated by the federal government. The authorised capital of the corporation will be Rs1 billion. The SBP said it has almost completed the preparatory work to set up the corporate infrastructure of the DPC with a view to make it operational as early as possible.

"The SBP is in the process of establishing and commencing the operation of Deposit Protection Corporation, which will be a subsidiary of the SBP," Abid Qamar, chief spokesman for the central bank said. "After its incorporation, the DPC board will decide the amount of insurance premium to be contributed by member banks, the limit of deposit coverage, and type of deposits which will be covered under the scheme." Qamar said.

Qamar declined to disclose the timeline for the inauguration of the corporation. All the scheduled and commercial banks regulated by the SBP will be the members of the corporation. An analyst said the deposit protection scheme sounds helpful and reassuring, "although the banking system in Pakistan hasn't experienced any sort of crisis and shocks."

The development of deposit protection scheme is a part of the central bank's ongoing financial sector reforms aiming at strengthening the resilience of the banking sector. Under the scheme, it's proposed that a customer gets a safeguard for up to Rs300,000 of the savings.

The proposed entity will collect the premium from member banks and reimburse the small depositors of a member bank in case of its failure. Islamic banks have some reservations about the structure of the deposit protection scheme.

"The arrangement for the protection of depositors for the Islamic banks should be a Shariah-compliant," a senior banker said. "For the implementation of the scheme, we need an Islamic deposit insurance system."

SBP clarification

The News

The State Bank of Pakistan (SBP) on Tuesday clarified the news titled “Govt fails to setup Deposit Protection Corporation appeared on October 1, saying that the progress on establishing the Deposit Protection Corporation (DPC) is well on track, and as such no deadline has been breached. As per agreed plan, the corporation will be established and operationalised by the end of 2016. The DPC Act is already in notification process and the SBP has completed all the preparatory arrangements that will be executed upon the Gazette Notification of the Act. It is further clarified that the DPC would be a statutory body that will be governed by its constituting law i.e. the DPC Act; therefore, it does not require corporate registration.