



External Relations Department

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Deposit Protection Mechanism for Banking Companies

Deposit Protection Corporation (DPC), a wholly owned subsidiary of State Bank of Pakistan (SBP) has launched deposit protection mechanism under its Circular dated June 22, 2018. As envisaged in the Deposit Protection Corporation Act, 2016, the protected amount has been determined to be Rs. 250,000 per depositor per bank. All commercial banks are members of this scheme and will be paying the required premium.

The establishment of DPC was envisaged as one of the important objectives in SBP's strategic plan 2016-2020 under the strategic goal of "strengthen the financial system stability regime". DPC has been established as a wholly owned subsidiary of SBP under the Deposit Protection Corporation Act, 2016. The objective of DPC is to compensate the small and financially unsophisticated depositors to the extent of protected deposits in the unlikely event of a bank failure.

Stability of their financial systems is of paramount concern for policymakers around the world. State Bank of Pakistan (SBP) has a comprehensive framework to ensure safety and soundness of the banking system of Pakistan. While key pillars of this framework, namely strong banking laws and regulations, and effective supervision have been in place for a long time; the introduction of Deposit Protection is a recent addition, which will reinforce the bank resolution regime of SBP.

The international standard followed for designing a robust deposit protection scheme is laid out in "Core Principles for Effective Deposit Insurance Systems" issued by International Association of Deposit Insurers (IADI). The design features of deposit protection mechanism in Pakistan are mostly in line with these principles.

Establishment of a formal deposit protection scheme will be beneficial for Pakistan as it will build up sizable funds, through premium payments from banks that can be used to provide immediate liquidity to small depositors in case of a bank failure. Such scheme will not only reduce burden on the exchequer but will also improve the financial stability in the system. Financial Stability is one of the top priorities of SBP; and its effective supervisory regime has ensured that depositors do not lose their money and that public confidence in the system remains strong. Implementation of deposit protection will further strengthen the overall regulatory architecture and safety of deposits.



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