



THE DEPOSIT INSURANCE BOARD (DIB) OF TANZANIA

A PAY BOX PLUS CASE

**IADI AFRICA REGIONAL COMMITTEE CONFERENCE
15 – 19, SEPTEMBER, 2019, KAMPALA – UGANDA**

**Presented by:
Richard J. Maliisa
Deposit Insurance Board of Tanzania**

10/12/2019

Presentation Summary

- 1) DIB – Background
- 2) Governance
- 3) Mandate
- 4) Contribution to Financial Stability
- 5) Challenges
- 6) Lessons
- 7) Way forward

1. Background

- Established under Banking and Financial Institutions Act, 1991 which was repealed
- Continue to exist under provisions of Sections 36 through 42 of the Banking and Financial Institutions Act, 2006
- Started operations in 1994

1. Background (Cont.)

- 52 members institutions as at June, 2019
- Maximum coverage TZS 1.5 million (equivalent to USD. 655) per depositor per bank
 - full coverage to 95% of all depositors
- Fund size as at 30th June, 2018 stood at TZS 434 billion (USD 189.6 million)

2. Governance Issues

- Section 37(3)
 - Board of Directors
 - Governor of central bank – Chairman of the Board of Directors
 - Permanent Secretary Ministry of Finance – URT
 - Permanent Secretary Ministry of Finance – RoG Zanzibar
 - 3 members appointed by Minister for Finance (URT) – at least one from either side of URT

2. Governance Issues (Cont.)

- Section 37 (12) BFIA, 2006
 - Bank of Tanzania make available of Officers and facilities
- DIB therefore :
 - Managed by central bank staff
 - Housed inside central bank premises
 - Management appointments by central bank not Board of Directors

3. DIB Mandate

- Section 36 (1) BFIA, 2006
 - Deposit Insurance Fund (DIF)
 - To be paid all contributions and other payments
 - Deposit Insurance Board (DIB)
 - Manage and control DIF
 - DIB – Make payment required from DIF
 - Section 39, BFIA – **Payment of protected deposits (Pay Box).**

3. DIB Mandate (Cont.)

- Section 41 (a), BFIA, 2006
“ where a bank or financial institution becomes insolvent, as determined by the Bank, the Bank may appoint the DIB to be a liquidator.....”

Thus a box plus – in our case

3. DIB Mandate (Cont.)

- IADI Core Principle 2 – **Mandates and Powers**

A “**pay box plus**” mandate, where the deposit insurer has additional responsibilities, such as certain resolution functions (e.g. financial support).

Call for having DIS with early intervention aspects

4. DIB – CONTRIBUTION TO FINANCIAL SECTOR STABILITY

a) PAY OUT TO DEPOSITORS OF CLOSED BANKS

8th May, 2017 - One bank closed

- **FBME Bank Ltd** – with cross border branches (Cyprus)
 - Five branches across the country
 - One branch in Cyprus (90% of business)
 - Pay out to depositors commenced in Nov. 2017 – six months after closure

Why delay?

- Ex staff boycott - IT Super user (foreigner)
- Use of physical mandates files to verify entitled depositors

Pay out was done by DIB staff with support of central bank staff

4. DIB - Contribution to Financial Stability (Cont.)

12th May, 2017

- **Mbinga Community Bank Plc** – A small Community bank
 - Pay out commenced in July, 2017 – two months after closure
 - Depositors scattered in wide rural area
 - Collaborate with another bank
 - DIB verify entitled depositors
 - Cash/transfers by another bank with own money refundable weekly

4. DIB – Contribution to Financial Stability (Cont.)

4th January, 2018 – Five Community banks closed

- Efatha Bank Ltd
- Covenant Bank for Women Tanzania Ltd
- Meru Community Bank Ltd
- Njombe Community Bank Ltd
- Kagera Farmers Co-operative Bank Ltd
- Closed after failure to raise core capital to new levels prescribed by central bank
- Pay out commenced in March, 2018 – two months after closure

5. CHALLENGES

a) Pay Out Exercise

- First ever taste (learning curve)
 - 1000kms away from office
- Incomplete Customer Information (KYC)
- Low level of turning up reimbursement
 - low level of awareness
 - reimbursed amount Vs Travel Cost
- Liquidation Exercise

5. CHALLENGES (Cont.)

(b) Liquidation of closed banks


- **Legal battle between Central Bank of Cyprus and DIB**
 - Who has the right to liquidate Cyprus branch
- **Need for other professionals support**
 - Lengthy procurement process
- **Massive inherited court cases plus new ones**

LESSONS LEARNED

- Need of Special Resolution Regime (SRR)
 - Labour law – FBME Case
 - Procurement law
- Avoid licensing of faith biased institutions
 - Efatha Bank Case
- Early Involvement and effective implementation of PCA

WAY FORWARD

- Draft New Law
 - New mandate (loss minimizer)
 - Accommodate existing gaps (Comply with IADI Core Principles)
 - An independent institution



- **THANK YOU FOR
YOUR ATTENTION**