



DEPOSIT INSURANCE IN UGANDA: UNDERSTANDING ITS SIGNIFICANCE IN LIGHT OF THE RECENT GLOBAL BANKING TURBULENCE

In March 2023, the international financial sector was on high alert following the failure of three (3) banks in the United States of America, namely: Silicon Valley Bank, Silver Gate Bank in California and Signature Bank in New York. The collapse of Silicon Valley Bank was the largest bank insolvency since the 2008 global financial crisis. These events also triggered the forced acquisition of Credit Suisse Bank, a leading global institution in private banking and asset management, based in Switzerland. These recent events present a learning opportunity for the Ugandan banking sector especially with respect to the role of the Deposit Protection Fund of Uganda, in nipping a potential banking crisis in the bud.

Mrs. Julia Clare Olima Oyet, Chief Executive Officer of the Deposit Protection Fund of Uganda (DPF), sheds light on these developments and their relevance to the operations of the DPF.



Q1. As a safety net player, what is your comment about the role which was played by the Deposit Insurance Agencies in the USA and Switzerland in managing the recent events?

The Deposit Insurance Agencies in the USA and Switzerland worked closely with their respective Central Banks (as the supervisory authorities of the affected Banks) and National Governments/Treasuries to avert a possible banking crisis. Together, they took swift, decisive, and collective actions to protect their banking systems by ensuring a smooth exit of the affected banks with minimal impact on the rest of the financial sector.

In the USA, the Federal Deposit Insurance Corporation (FDIC) which is the equivalent of Deposit Protection Fund in Uganda (DPF), activated the backstop funding arrangement from the Government to ensure that all depositors would access their deposits, in the event their coffers got depleted.

With regards to Credit Suisse Bank, the Switzerland Government immediately announced the decision to provide financial support to the Bank, in order to safeguard its financial reputation and maintain depositor confidence.

These actions demonstrate the need for close collaboration between the Ministry of Finance, Planning and Economic Development, the Bank of Uganda, the Deposit Protection Fund of Uganda, and other safety net players, in addressing domestic systemic financial sector challenges.

Q2. What are the measures that DPF has put in place to contribute to public confidence in the event that there is a bank closure?

1. The deposit insurance limit was increased from UGX 3million to UGX 10million. At the UGX 10m deposit limit, up to 98% of depositors in the country are fully covered. Meaning that if their bank was closed for liquidation by Bank of Uganda, they would be paid in full.

2. An elaborate and extensive public awareness campaign has been rolled-out across the country to inform the public about the mandate and role of the DPF using various channels like print media, radio and TV. Knowledge about the critical role of the Fund contributes immensely to enhancement of public confidence.

3. An IT system termed "The Depositor Payout and Premium Management System has been rolled out to enable the Fund obtain information and data relating to depositors. This will enable the Fund pay depositors fast and conveniently in case their bank is closed.

4. The financial capacity of the Fund has continued to grow from strength to strength, driven by prudent investments in risk-free Government of Uganda securities. The funds are well managed by a team of professionals under the close watch of the Board of Directors.

5. The Fund has more recently, expanded its collaboration with Bank of Uganda by undertaking joint on-site examinations of regulated financial institutions.

6. A robust Crisis Management Plan has been put in place by the Fund to guide its response and operations in the unlikely event of a bank closure.

Q3. What plan does DPF have to better prepare for and enhance its capacity to deal with similar developments, if they occur in Uganda?

i) Efforts are underway to put in place a back stop funding arrangement with Government of Uganda. It is a similar arrangement to that which enabled the FDIC maintain public confidence in the banking sector during the Silicon Valley Bank crisis.

ii) Following the roll out of the depositor payout management system to the financial sector, the Fund shall conduct regular simulation tests to ensure the system works as desired.

iii) The Fund is working closely with other financial sector safety net players to develop a National Crisis Management plan, to strengthen the country's ability to manage a potential financial crisis before it escalates. The parties involved in this exercise include, the Ministry of Finance, Planning and Economic Development, Bank of Uganda, The Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA), Uganda Retirement Benefits Regulatory Authority (URBRA), Financial Intelligence Authority (FIA) and the Uganda Microfinance Regulatory Authority (UMRA).

Q4. Are there any lessons that Uganda can learn from the events in the USA and Switzerland?

The main lesson for the financial sector in Uganda, is that the key financial sector agencies should not only maintain, but also enhance their existing close collaboration to better prepare for and manage any potential destabilizing occurrences in the domestic banking sector. The other lesson to pick is that relevant stakeholders should work collectively to respond to distressful situations in the sector. The public should receive well-coordinated messages from the Bank of Uganda, DPF and Ministry of Finance, Planning and Economic Development in case of a bank closure or potential banking crisis.

Q5. On the part of the depositors, is there anything that they must do? It is a requirement for the banks to know

their customers (KYC) by ensuring that they have up-to-date information about their depositors such as their national identity number, their registered mobile phone numbers, address and other relevant customer details. In the same vein, it is equally important that depositors make every effort to get to know about their financial institutions. Depositors should take interest in confirming that their financial institution is properly licensed and that the entity is of sound financial standing. Where needed, a depositor may seek the services of a finance professional, to interpret their banks' financial statements.

Depositors should ensure that they keep accurate records with their banks and update their personal details as regularly as a change occurs. They should furnish their respective bankers with their National Identification Numbers (NIN), registered mobile money accounts or alternative bank accounts, to enable the Fund easily pay them when the need arises. Depositors should desist from listening to rumors about possible bank closures because these can cause bank runs which pose a risk to financial sector stability. Additionally, depositors should remain calm in the unlikely event that Bank of Uganda announces the closure of their bank and requests DPF to pay. This is because the Fund has sufficient resources to pay depositors up to the protected limit of UGX 10 million. The amount above this limit, will be paid by the liquidator (Bank of Uganda) when the assets of the closed banks are sold.

Any closing remarks

The events which unfolded in the USA and Switzerland bring to the fore, the crucial need for prompt coordination among key players in a country's financial sector to prevent a potential financial crisis. Ugandans should be assured, that the DPF collaborates closely with the Bank of Uganda and the Ministry of Finance, Planning and Economic Development to ensure financial sector stability is maintained.

Deposit Protection Fund of Uganda (DPF) is a government agency established under the Financial Institutions (Amendment) Act, 2016 to compensate depositors (currently, up to UGX 10 million) in the event of a bank closure.

AHA Towers, 3rd Floor, Plot 7 Lourdel Road, Nakasero, P.O.Box 37228, Kampala - Uganda

Deposit Protection Fund of Uganda

@DPFUganda