If Your Financial Institution Fails, Who Gets Paid?

The Rules Governing payouts - What Every Depositor Must Know.

When news breaks that Bank of Uganda has closed a financial institution, panic often spreads faster than facts. Depositors rush to ATMs, social media gets filled with rumours, and the same anxious question echoes across households and businesses alike: *Will I get my money back?* Deposit protection schemes are designed to provide reassurance in such moments. Yet, behind this safety net lies a complex system of rules that determines who gets paid, how much they receive, and how quickly compensation is processed. For many depositors, the real surprise comes not when a bank fails, but when they discover how their account type affects the amount of money they are paid by the Deposit Protection Fund of Uganda.

Understanding Deposit Protection

Deposit protection schemes are government-backed or legally mandated systems that safeguard depositors when regulated financial institutions collapse. Their key purpose worldwide is to maintain confidence in the banking sector and prevent widespread financial panic. In Uganda this role is played by the Deposit Protection Fund. Compensation is triggered when the Bank of Uganda opts to close and liquidate a supervised financial institution. The Deposit Protection Fund (DPF) then begins reimbursing depositors, typically aiming to pay most customers within 7 to 30 days, depending on the quality of available records.

The statutory protection limit stands at UGX 10 million per depositor per institution. This means that, all eligible deposits held by one individual in a single bank are consolidated and compensated up to that limit. Smaller depositors are usually prioritised, with payments often delivered quickly through systems such as mobile money. Larger depositors are paid through an agent bank or through transfers to an alternative bank account stipulated by the depositor. It is important to note that at this insurance limit, more than 98 percent of the depositors in Uganda are fully protected and would receive all their money. This above the global average of 96%.

Joint Accounts: Shared Money, Shared Protection

Joint accounts are among the most misunderstood when banks fail. Under standard practice, funds in a joint account are either apportioned according to ownership proportions stated in the account mandate or equally if no proportions are specified. However, in Uganda, if ownership proportions are unclear, the DPF engages account holders after closure to agree on how funds should be distributed. This requirement alone can delay payments. Where alternative bank details were previously provided and verified, reimbursement can be made directly to those accounts, improving efficiency. Delays arise when the ownership records are incomplete or disputed.

PROTECTION LIMIT

UGX 10 Million.
Per depositor, per institution

98% of depositors are fully covered. This is above the global average of 96%

Multiple Accounts: One Limit Reality

Many depositors mistakenly believe that having several accounts in the same bank increases their protection. If you hold multiple accounts with the same bank - such as savings, current, and fixed deposit accounts - all balances are consolidated using your unique identifier which is the National Identification Number (NIN). The total is then assessed against the UGX 10 million protection cap. For example, a depositor with UGX 4 million in savings, UGX 3 million in a current account and UGX 6 million in a fixed deposit account has a total of UGX 13 million. They will be treated as a single depositor and will receive UGX 10 million.

Although fixed deposits are often viewed as safer because they offer guaranteed returns, in the event of bank failure, they receive no special treatment under deposit insurance. In the event of bank closure, DPF will treat fixed deposit accounts as eligible accounts. The principal amount deposited plus any accrued interest up to the date of closure is calculated and added to the depositor's total balance across all accounts, this means that, Fixed deposits are protected - but within the overall deposit insurance limit of UGX 10 million. Any amount above UGX 10 million is paid by the liquidator (Bank of Uganda or its agent), depending on the proceeds realised from the sale of the closed bank's assets.

PAYOUT TIMELINE - FROM BANK CLOSURE TO YOUR MONEY

BOU Closes Institution → DPF verifies Depositor records → Deposits Calculated Per Depositor → Payout Mobile money / bank

Target: 7 - 30 days

HOW MULTIPLE ACCOUNTS ARE TREATED

EXAMPLE: ONE DEPOSITOR, THREE ACCOUNTS AT THE SAME BANK

Savings account	UGX 4,000,000
Current account	UGX 3,000,000
Fixed deposit (principal + accrued interest)	UGX 6,000,000
∑ Total consolidated balance	UGX 13,000,000

- DPF will pay: UGX 10m
- Balance of UGX 3m will be recovered from sale of bank assets by the liquidator.

Group Accounts: A Hidden Risk

Community savings groups, SACCOs and investment clubs face unique challenges. In Uganda, group accounts are required to be registered as legal entities. As such, when a group opens a bank account, it does so in the name of a group and not the names of the members. When payments are being made, group accounts are treated as a single depositor and paid up to the UGX 10 million deposit limit. For instance, if a bank is closed, an investment club with a deposit balance of UGX 12 million gets UGX 10 million regardless of the number of members. This amount is paid to an agreed bank account as indicated in a registered resolution.

Deceased Depositors: Estate First

When a depositor passes away, their funds do not automatically transfer to family members. If a bank collapses after the depositor's death, compensation is paid to the estate of the deceased, not directly to relatives. Legal representatives must provide certified copies of Letters of Administration or Grant of Probate, and valid identification. The Letters of Administration or Grant of Probate should first be certified by the Court that granted them.

Joint accounts involving deceased persons can further complicate matters. Under such circumstances, in the event of death of one of the joint account holders, the surviving joint account holder will be tasked to produce evidence of an existing administrator to the deceased account holder. The protected deposits can then be split according to the signing mandate from the bank.

Business Accounts: Companies, Partnerships, Universities, Religious Institutions and NGOs

For business accounts held by legal entities such as companies, partnerships, Universities, Religious Institutions, Non-Governmental Organisations (NGOs), and other registered organisations, the eligible deposits held in these accounts are protected up to the statutory protection limit of UGX 10 million. However, reimbursement depends on the Fund's ability to accurately identify the legal entity and verify the legal status of the entity.

These accounts are treated as separate depositors from the individuals who own or manage them. Consequently, the protection limit applies to the entity itself and not to each member, shareholder, director, partner, or beneficiary. The experience from previous bank closures has demonstrated that organisations with complete and up-to-date records such as registration certificates and registered resolutions are more likely to experience a fast and smooth reimbursement process.

What happens to the amounts above UGX 10 million?

If a bank is closed for liquidation, depositors are typically paid up to the protected amount of UGX 10 million subject to the computations described above. After the UGX 10 million is paid out, any balance above the protected limit is paid by the liquidator (Bank of Uganda or its agent) from the proceeds of the sale of assets of the closed bank.

Example: Depositor with UGX 13 million

DPF pays	Balance paid by Liquidator
UGX 10,000,000	UGX 3,000,000

What every depositor needs to know - But misses

Some of the common misconceptions regarding deposit insurance include;

i. The belief that the Deposit Protection Fund will pay the entire deposit balance, overlooking the UGX 10 million limit per depositor per bank cap.

ii. Failing to obtain registered resolutions in case of business or group accounts, believing that account signatories can give instructions to the Deposit Protection Fund.

iii. Fearing to provide a mobile money number or alternative bank account, due to the suspicion that the bank may collapse soon.

iv. Imagining that even if the deposit balance on the account was less than UGX 10 m at the time the bank was closed, the depositor will be paid UGX 10 m.

Lesson for Depositors

Depositors need to appreciate how the protected deposit is computed in various scenarios, as well as the documentation required to support payment. Depositors who have kept their information up-dated with their financial institutions and share their alternative modes of payment, usually enjoy a stress-free seamless payout process.

Dr. Julia Clare Olima Oyet (Mrs.) is the CEO of DPF & Chairperson of the Africa Regional Committee (ARC) of the International Association of Deposit Insurers (IADI).