

INSTRUCTIONS ON DEPOSIT PROTECTION MECHANISM

In exercise of the powers conferred upon it by Section 6 of the Deposit Protection Corporation Act, 2016 (the Act), the Corporation is pleased to put in place a mechanism for protection of depositors. For this purpose, following instructions are being issued for compliance by the banking companies that have become members of the Corporation vide its Circular No. 03 dated June 22, 2018. These instructions shall become effective from July 01, 2018.

1. Membership of the Deposit Protection Corporation:

Membership of the Deposit Protection Corporation shall be compulsory for all banks scheduled under sub-section (2) of section 37 of the State Bank of Pakistan Act, 1956.

2. Protected Deposits:

- a. All categories and classes of depositors shall be protected, except for those mentioned below:
 - i. Categories and classes of depositors mentioned under Section 8 of the Act.
 - ii. All such amounts that have already been reported under unclaimed deposits by a member bank in compliance of Section 31 of Banking Companies Ordinance, 1962.
 - iii. Such deposits that are maintained at branches and subsidiaries of Pakistani banks operating outside Pakistan and branches located in Export Processing Zones.
- b. Under the provisions of Section 7(1) of the Act, an amount up to Rs. 250,000 (rupees two hundred and fifty thousand) per depositor per bank has been determined by the Corporation to be the guaranteed amount. The guaranteed amount may also be referred to as the protected amount or protected deposit.
- c. The funds of protected depositors of member banks, held under following types of deposits and banking accounts, shall be guaranteed by the Corporation up to the protected amount mentioned at para-2(b) above:
 - i. All types of current and saving accounts.
 - ii. All types of branchless banking accounts.
 - iii. Fixed term deposits/ accounts.
 - iv. Call deposit receipts/ Security deposit receipts.

- v. Deposit balances kept as cash margins/ cash collateral or under lien, that are payable to protected depositors after satisfaction of all dues payable by them to the bank.
- vi. Foreign currency accounts (under section 21(7) of the Act, the foreign currency denominated depositors shall be paid the Rupee equivalent of the protected amount at the exchange rate declared by the State Bank on the day of the notification under section 21(1) of the Act).
- vii. Any profit accrued and unpaid (under the terms and conditions of the product) on any or all of the above accounts and instruments.
- viii. Any other type/ category of accounts or deposits, as may be communicated by the Corporation from time to time.

3. Coverage Methodology:

The principle of per depositor per bank shall be used for determination of coverage up to the guarantee amount for the protected depositors of the member banks. The following methodology shall be used in this respect:

- a. In terms of section 20(1) of the Act, all outstanding balances of deposits and accounts mentioned under para-2(c) above, shall be aggregated together even if such accounts are maintained at different branches of the same bank.
- b. Where an account holder maintains individual as well as joint accounts, all the balances and accrued profits in his/ her individual as well as his/ her portion in joint accounts shall be added together to arrive at a final liability of the bank towards that depositor.
- c. Where a depositor maintains deposits in conventional branches as well as in its Islamic Banking Branches (IBBs), all the amounts so payable by the member bank shall be counted together, without comingling of conventional and Islamic deposits, to arrive at a final accumulated liability of the bank towards that depositor. The payment of protected deposit shall be made proportionately from respective Depositor Protection Funds on pro-rata basis, according to the share of conventional and Islamic deposits, subject to the maximum limit of protected amount as mentioned in para-2(b) above.
- d. If a depositor has deposits with two or more member banks that merge or amalgamate, the deposits up to the guarantee amount shall continue to be protected separately for a period of one year or full withdrawal or until maturity of the deposits, whichever occurs earlier, from the effective date of merger or amalgamation.

4. Reimbursement of Protected Deposits:

- a. The guarantee amount shall become payable to the protected depositors, if a member bank has been notified by State Bank of Pakistan as a failed institution under section 21(1) of the Act.
- b. The Corporation shall commence the procedure for reimbursement of protected deposits as per procedure laid down under Section 21 of the Act.
- c. The protected depositors of a member bank shall be reimbursed by the Corporation, up to the guarantee amount mentioned at para-2(b) or the amount calculated as per the provisions of Section 20 of the Act read with para-3 above, whichever is lower.

5. Premium Amount and Eligible Deposits:

- a. The amount of annual premium payable to the Corporation by the member banks under Section 5(2) of the Act, shall be calculated by multiplying 0.16% (sixteen hundredths of one percent) with their respective eligible deposits.
- b. The eligible deposits for each member bank shall be its "aggregate of the protected depositors' total funds" outstanding in their accounts, as mentioned at para-2 above, as on December 31st of each preceding calendar year.
- c. The member banks shall be required to report their eligible deposits, in their annual audited financial statements of each year, under the note on Deposits.
- d. The member banks shall not recover the premium cost from the protected depositors.
- e. Any change in the premium rate mentioned at para-5(a) above shall be communicated to the member banks from time to time.

6. Payment of Premium by Member Banks:

- a. The premium, as determined at para-5 above, shall be payable quarterly in four equal installments. The quarterly payments shall be made by 7th day of starting month of every quarter i.e., January, April, July and October of each calendar year. In case the 7th day is a holiday, it shall become payable by next working day.

- b. In case the annual audited accounts for the preceding year of any member bank do not become available till 7th of January, the premium shall be determined on the basis of eligible deposits as reported in its last available annual audited accounts. Subsequently, within seven days of the approval of annual audited accounts in its annual general meeting (AGM), the member bank shall recalculate their premium accordingly, for the relevant calendar year, and any differential shall be settled accordingly.

(explanation: In case of non-availability of annual audited accounts, the premium payable by member banks for 2018, becoming due on January 07, 2019, shall be initially based on the eligible deposits as reported by member banks as on December 31, 2017. However, the premium would be recalculated on the basis of eligible deposits of 2018 as per annual audited accounts of each member bank within seven days of approval of its annual audited accounts of 2018 in the AGM and any differential shall be settled accordingly.)

- c. The first premium shall be determined on the basis of eligible deposits of member banks as on December 31, 2017 and one-fourth of such premium shall become payable by July 07, 2018, while the rest one-fourth premium shall become payable by October 07, 2018.
- d. The member banks shall make payments of their premium payable amounts in the banking accounts of the Corporation maintained in SBP – Banking Services Corporation under intimation to the Deposit Protection Corporation within three days of such payments. The banks shall submit their details of eligible deposits as per the statement given at [Appendix-A](#), along with such intimation.

7. Shariah Compliant Mechanism:

- a. A separate Shariah Compliant Deposit Protection mechanism for protected depositors of Islamic Banking Institutions as required under Section 7(3) of the Act, shall be provided by the Corporation. However, protected deposits, guarantee amount, coverage methodology, reimbursement of protected deposits, premium amount, eligible deposits and payment of premium by member banks shall be the same as determined for conventional banks.
- b. The Conventional Banks carrying out Islamic banking operations through Islamic Banking Branches shall ensure that the premium contribution(s) for their Islamic and Conventional deposits should be segregated and should

be sourced from respective operations. The premium contribution for the protection of Shariah compliant deposits should under all circumstances be charged to their respective Shariah compliant banking operations. In this regard, the bank's Shariah Compliance and Shariah Audit departments shall make necessary arrangements to ensure proper supervision.

- c. The Islamic Banking Branches of Conventional Banks shall be required to disclose their eligible deposits in the annual audited financial statements of each year, under the disclosure on Deposits of Islamic Banking Business.

8. Public Awareness:

- a. The member banks shall formulate a communication strategy to educate and bring awareness among their depositors about the deposit protection mechanism.
- b. All member banks shall be required to display an introduction of the Corporation and its various Circulars at the notice boards of all their branches. The member banks shall also place materials and separate links to the instructions and regulations issued by the Corporation on their websites for education of depositors.
