

**Shariah Compliant Deposit Protection Mechanism for Islamic Banking Institutions
Under Section 7(3) of Deposit Protection Corporation Act, 2016**

Deposit Protection Corporation has been established as a subsidiary of the State Bank of Pakistan (SBP) under the Deposit Protection Corporation Act, 2016 (the Act). The objective of the Corporation is to protect depositors and compensate them to the extent of their protected deposits in the event of failure of a member bank.

In terms of Section 7(3) of the Act, a Shariah compliant mechanism of deposit protection in respect of the Islamic Banking Institutions (IBIs), duly approved by State Bank's Shariah Advisory Committee, is provided as under:

1. Nature and Scope of Deposit Protection Waqf (DP Waqf):

- a. A DP Waqf shall be established under this mechanism for protection of depositors of IBIs. The nature of DP Waqf shall be as an account established by the Corporation to receive premium contributions from participatory/ member IBIs for the purpose of reimbursement of protected deposits of a failed participatory/ member IBI. The DP Waqf shall be represented by the Corporation in all its affairs.
- b. The mechanism shall be in addition to and not in derogation of the Act, the Rules and Regulations thereunder and the instructions/ policies approved by the Board with respect to its applicability to the DP Waqf and all its participatory/ member IBIs.

2. Objective of the DP Waqf:

The objective of the DP Waqf is to provide a Shariah compliant mechanism for protected depositors of IBIs up to an amount prescribed under Section 7(1) of the Act, in the event of failure of a participatory/ member IBI as notified by the State Bank in terms of Section 21(1) of the Act.

3. Members/ Participants:

The members/ participants of the DP Waqf shall include following IBIs:

- a. Islamic Banks;
- b. Islamic Banking Subsidiaries of Conventional Banks; and
- c. Islamic Banking Branches of Conventional Banks.

4. Structure of the DP Waqf:

Structure of the DP Waqf shall be based on Waqf-Wakalah model, as stated below:

- a. Waqf:
 - i. DP Waqf shall be created with an amount of Rs. 1,000,000 (Rupees One Million only) as a seed money (*Asl-e-Waqf*) contributed by the Corporation, with approval of its Board.
 - ii. Participatory/ member IBIs shall participate into the DP Waqf in the form of premium contributions, on donation/ tabarru basis, which shall become the property of the DP Waqf (*Mamlook-e-Waqf*).

- b. Wakalah: The Corporation shall be responsible for management of the DP Waqf. The Corporation shall act as Manager/ Agent (wakeel) of the DP Waqf under Wakalah relationship. Under this arrangement, as per Shariah principles, the DP Waqf shall be the Principal and the Corporation shall act as its Agent. However, the Corporation shall not be an agent of any member/ participatory IBI.

5. Premium Contribution and its Status:

- a. Each member/ participant IBI shall pay premium contribution amount, from their own sources with no cost to the depositors, into the DP Waqf as determined by the Corporation in terms of the Deposit Protection Rules and Deposit Protection Regulations/ Instructions.
- b. The premium contribution shall be on donation/ tabarru basis along with any return thereon. After payment of premium contribution by member/ participatory IBIs, the ownership of the premium contribution along with any return thereon shall be transferred into the DP Waqf and this shall no longer remain in the ownership of member/ participatory IBIs.

6. Shariah Compliance:

The Board shall ensure Shariah compliance of the deposit protection mechanism for the IBIs. The matters of Shariah compliance related to day-to-day affairs of DP Waqf may be supervised by the internal compliance/ audit arrangement of the Corporation or as advised by the Board. However, matters requiring Shariah opinion/ rulings shall be referred to SBP to seek opinion/ rulings of the Shariah Advisory Committee of SBP, if the same is advised by the Board.

7. DP Waqf's Resources Pool:

- a. The Corporation shall open and maintain separate Shariah compliant account(s) for managing resources of the DP Waqf with the State Bank of Pakistan, SBP Banking Services Corporation or any other Islamic banking/ financial institution with prior approval of the Board.
- b. The DP Waqf's resources pool may consist of:
- i. Initial premium contribution, if any, received from the member/ participant IBIs.
 - ii. Periodic premium contributions received from the member/ participant IBIs.
 - iii. Proceeds received from liquidation of failed member institution's assets under Section 17(e) of the Act.
 - iv. Return on Shariah compliant investments.
 - v. Other sources including financing, donations, grants and assistance under Shariah compliant mechanism.

8. Backup Funding Avenues:

- a. The Corporation may raise funding and/ or meet shortfall for the DP Waqf through the following modes:

- i. Financing through Islamic modes as approved by the Board.
 - ii. Financing facility from conventional deposit protection fund of the Corporation subject to Shariah compliant mechanism.
 - iii. Financial arrangements from State Bank of Pakistan.
 - iv. Special allocation from the national budget/ Federal Government.
 - v. Increase in premium contribution to be received from member/ participant IBIs.
 - vi. Seeking advance premium contribution from member/ participant IBIs.
- b. Financing drawn by the Corporation for the DP Waqf may be secured by a guarantee issued by the Federal Government, the State Bank or by the Corporation's assets, including Corporation's future claims on member/ participant IBIs for premium contributions.

9. Application of the DP Waqf's Resources:

The resources of DP Waqf may be applied for:

- i. Shariah compliant investments in different avenues such as Sukuks issued by the Government, Sukuks guaranteed by the Government, remunerative deposits in Islamic banking institutions and other Shariah compliant avenues.
- ii. Payment of the management/ wakalah fee to the manager (the Corporation) of the DP Waqf.
- iii. Repayment of the financing (if any) taken for the DP Waqf.
- iv. Payments against protected deposits of participatory/ member IBIs, up to the amount prescribed under Section 7(1) of the Act.
- v. Any other purpose as approved by the Board.

10. Payment to the Depositors from the DP Waqf by the Corporation:

Subject to Section 21 of the Act, the payment to any depositor(s) will be made from the DP Waqf by the Corporation, up to the protected amount, against the balances held in their accounts with the relevant member IBI.

11. Management/ Wakalah Fee:

To cover the operating expenses of the manager (the Corporation), Wakalah fee may be charged to the DP Waqf. The fee shall be calculated keeping in view the expenses incurred by the Corporation. For the sake of clarity, all such outlays shall be considered as expenses that are approved by the Board. The Wakalah Fee may be revised periodically by the Corporation, as approved by the Board.

12. Liquidation of the DP Waqf:

In case of liquidation, the outstanding assets of the DP Waqf (excluding an amount equal to the seed money as mentioned in para 4a(i) above) shall be vested with State Bank of Pakistan, which shall be utilized for any arrangement as advised by the Shariah Advisory Committee. The seed money shall be transferred to any other Waqf as advised by the Shariah Advisory Committee.
