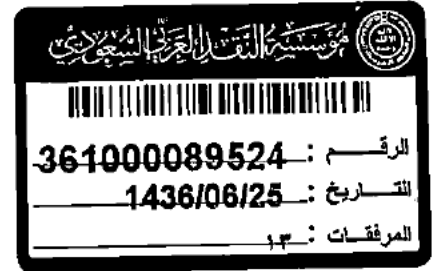


Saudi Arabian Monetary Agency

Banking Supervision Dept.



From : Saudi Arabian Monetary Agency
To : All Banks
Attention : Managing Directors, Chief Executive Officers and
General Managers
Subject : **Depositors Protection Fund(DPF) Rules**

In order to provide a formal mechanism for the protection of small depositors and to further strengthen the existing safety nets, the Saudi Arabian Monetary Agency (SAMA) has decided to establish a Depositors Protection Fund (DPF). The main objective of the DPF is to maintain financial stability by protecting small depositors.

SAMA has prepared the enclosed DPF Rules to provide for the establishment of the DPF and for matters connected therewith. These Rules are being issued by SAMA under Article 3(d) of its Charter issued by Royal Decree No. 23 dated 23-5-1377H (15 December 1957G) and Article 16(3) of the Banking Control Law issued by Royal Decree No. M/5 dated 22-2-1386H (11 June 1966 G). All banks including the branches of foreign banks licensed under the Banking Control Law that conduct banking business in Saudi Arabia shall be members of the DPF and liable to pay the prescribed premium. These Rules shall come into force with effect from 1st January 2016.

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Fahad Almubarak
Governor
الفرع

Encl: As above.

Saudi Arabian Monetary Agency

Banking Supervision Dept.

SAUDI ARABIAN MONETARY AGENCY(SAMA)

Depositors Protection Fund(DPF) Rules

April 2015

Saudi Arabian Monetary Agency

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Depositors Protection Fund (DPF) Rules

In order to provide a formal mechanism for the protection of Eligible Depositors and to further strengthen existing safety nets, the Saudi Arabian Monetary Agency (SAMA) has decided to establish a Depositors Protection Fund (DPF) in Saudi Arabia. These rules (DPF Rules) for the establishment of the DPF are being issued by SAMA in exercise of the powers vested upon it under Article 3(d) of its Charter issued by Royal Decree No. 23 dated 23-5-1377 H (15 December 1957 G) and Article 16(3) of the Banking Control Law issued by Royal Decree No. M/5 dated 22-2-1386 H (11 June 1966 G).

The main objective of the DPF is to maintain financial stability by protecting depositors up to certain limits.

These Rules are meant to provide for the establishment of the DPF and for matters connected therewith:

1. Definitions:

The following terms and phrases, where used in these Rules, shall have the corresponding meanings, unless the context requires otherwise:

- i. **SAMA:** the Saudi Arabian Monetary Agency.
- ii. **Rules:** Depositors Protection Fund (DPF) Rules.
- iii. **Bank:** means any Person practicing any banking business as such term is defined in the Banking Control Law of the Kingdom issued under Royal Decree No. M/5 on 22/2/1386H (11/6/1966).
- iv. **Subsidiary:** means any legal entity in which a Bank owns or controls more than 50% of the shares or voting rights.
- v. **Deposit:** means the unpaid balance of the aggregate of moneys received or held by a Bank from or on behalf of a person in the usual course of the business of deposit taking of the Bank and includes:

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- a) a bank draft, cheque or other similar instrument or instruction entered into a payment system notwithstanding any delay or failure or unsettlement by the Bank in crediting the account;
- b) all forms of deposits including current accounts, savings accounts, time deposits, inheritance accounts, unclaimed accounts, escrow accounts, client accounts, trust accounts, structured deposits, etc. by whatever name called;
- c) a foreign currency deposit; and/or
- d) any other deposit or financial instrument as may be specified by SAMA.

However, the term "Deposit" does not include the following, unless it is otherwise specified by SAMA:

- a) a deposit that is not payable in Saudi Arabia;
 - b) an inter-bank deposit;
 - c) a negotiable instrument of deposit and any other bearer deposit;
 - d) a repurchase agreement; and
 - e) any other deposit or financial instrument as may be specified by SAMA.
- vi. **Eligible Depositor:** means any depositor of a Bank, whether a natural or a legal Person, but excludes the following:
- a) members of the board of directors and senior management of Bank (including its chief executive officer and Key Executives) as well as their Family Members;
 - b) other Banks or financial institutions;
 - c) shareholders holding in excess of 5% shares in the Bank
 - d) Saudi government or quasi-government institutions; or

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- e) Persons acting on behalf of any of the Persons mentioned in a) through c) above;
- f) any other Person(s) or institution(s) as may be specified by SAMA from time to time;
- vii. **Family Members:** means first-degree relatives including father, mother, spouse and children.
- viii. **Key Executive:** means an officer of the Bank whose appointment is subject to prior non-objection of SAMA.
- ix. **Person:** means a natural or a legal person.
- x. **Assessment Year:** means a calendar year from 1st January to 31st December for determining the amount of annual premium payable by a Bank to the DPF;

2. General Provisions:

- i. These Rules shall be called the Depositors Protection Fund Rules, 2015 (hereinafter called the DPF Rules);
- ii. The DPF Rules shall be applicable to all Banks, including all branches of foreign Banks licensed under the Banking Control Law that conduct banking business in Saudi Arabia. However, the provisions of these Rules shall not apply to the following:
 - a) branches of Saudi Banks operating outside the Kingdom;
 - b) subsidiaries of Saudi Banks operating within or outside the Kingdom.
- iii. All Banks, including all branches of foreign Banks, operating in Saudi Arabia shall be participants of the DPF and required to pay the prescribed premium;
- iv. The DPF Rules shall come into force with effect from 1st January 2016.

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3. Establishment of the DPF:

- i. The DPF shall be established as an administrative unit in SAMA. The head of the DPF unit shall report to the Deputy Governor for Supervision;
- ii. The management and oversight of the DPF shall be provided by a governing committee appointed by the Governor of SAMA and its terms of reference will be approved by SAMA;
- iii. The governing committee may constitute one or more subcommittees and determine their terms of reference to ensure smooth functioning of the DPF.

4. Functions of the DPF:

The DPF shall carry on all or any of the following functions:

- i. Collect premiums and contributions;
- ii. Manage resources of the DPF and conduct its operations;
- iii. Evaluate the adequacy of the DPF's funding from time to time;
- iv. Assess claims of Eligible Depositors for payments out of the DPF;
- v. Make payments of accepted claims to Eligible Depositors within applicable protection limits;
- vi. Perform all such other functions as may be incidental or related to the affairs of the DPF or required to achieve its objectives.

5. Resources of the DPF:

- i. The DPF's resources shall consist of the following:
 - a) Initial and periodic premium payments from Banks;
 - b) return on the investment of DPF's resources;
 - c) proceeds received from a Bank's property in case of its sale or liquidation;

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- d) Other sources of funding including loans and grants.
 - ii. If at any time, the resources of the DPF fall short of its liabilities, such shortfall may be covered in such manner as may be specified by SAMA and may include, inter alia, requiring Banks to make advance premium payments and/or increasing the rate and/or frequency of premium payments for which Banks will be notified in advance;
 - iii. SAMA shall open and maintain a separate account in the name of DPF with itself and all premium payments and contributions shall be deposited in the said account.
- 6. Use of the DPF's Resources:**
- i. The DPF's resources shall be used only for:
 - a) payments in relation to protected Deposits up to the applicable protection limits under the DPF Rules;
 - b) repayment of principal and payment of commission/return on any loans obtained by the DPF; and
 - c) meeting its operating expenses;
 - ii. The DPF's resources shall be managed by the governing committee according to the guidelines approved by SAMA.
- 7. Protection of Deposits:**
- i. The DPF shall insure the payment of Deposits held on an Eligible Depositor's account(s) with a Bank up to the applicable protection limit as determined by SAMA from time to time. However, no financial liability shall be assumed by SAMA as a result of making any such determination;
 - ii. The applicable protection limit shall be inclusive of any special commission/return due or accrued on Deposits up to the cut-off date determined by SAMA.

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8. Protection Limit:

- i. The protection limit for protection of Eligible Depositors shall be SAR 200,000 per Person per Bank. This means that the total amount payable by the DPF to any one Eligible Depositor in respect of his Deposit in a Bank shall not exceed SAR 200,000;
- ii. SAMA may, from time to time, having regard to the availability of funds with the DPF as also to the maintenance of financial system stability, raise the above protection limit as deemed appropriate.

9. Determining the Size of Protected Deposits:

- i. The total amount of a Bank's liability to an Eligible Depositor shall be determined by adding up all such Eligible Depositor's Deposits, including any return due or accrued thereon on or before the cut-off date set by SAMA. In establishing the Bank's total liability to an Eligible Depositor, foreign currency Deposits shall be converted into Saudi Riyals at the exchange rate determined by SAMA on the cut-off date;
- ii. Only one Deposit per Person per Bank shall be covered under the DPF. If an Eligible Depositor has more than one account with a Bank, all Deposits with that Bank shall be deemed to be one Deposit and be protected only up to the maximum limit of SAR 200,000. Where an Eligible Depositor is a joint owner of a Deposit with a Bank together with one or more other Persons, only his proportionate share of such joint Deposit(s) shall be taken into account, and, together with any other Deposits he may have with that Bank, be deemed to be one Deposit and be protected only up to the specified limit of SAR 200,000 per Person per Bank;
- iii. The Deposit of a legal Person shall not be aggregated with the personal Deposit of its owner(s) while determining the amount of protected Deposit;
- iv. Any Deposits which are subject to a regulatory freeze or restrictions of any sort shall not be included while determining the amount of protected Deposits unless specifically allowed by SAMA;

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- v. The amount of a protected Deposit shall be determined after deducting any sum of money which the Bank is legally entitled to deduct by way of set-off from the deposit held by a depositor with the Bank;
- vi. SAMA may provide further guidance on determining the size of Deposits as well as the procedure to be adopted for payment of the protected amount of Deposits.

10. Payment of Premium:

- i. Every Bank shall initially pay a flat rate premium to the DPF as may be specified by SAMA from time to time. However, SAMA may at any time change the basis for calculation of premium, and may in particular move from a flat rate to a risk-based method;
- ii. The annual premium owed by a Bank for an Assessment Year shall initially be 0.05% of the average amount of Deposits of Eligible Depositors held by the Bank. However, SAMA may review the premium rate from time to time and make changes therein as deemed appropriate after taking into account the relevant factors including size of the accumulated DPF. Any such change in premium rate shall be notified to Banks at least six months in advance;
- iii. The amount of premium shall be payable on a quarterly basis and calculated by Banks at the rate of one-fourth of 0.05% (i.e. 0.0125%) of the average amount of deposits of Eligible Depositors held by the Bank during the preceding calendar quarter. The quarterly average of deposits will be calculated by adding the opening and closing balance of deposits of Eligible Depositors during a calendar quarter and dividing it by 2. The payable premium must be paid by a Bank within thirty (30) days of the end of each calendar quarter. The first premium payment shall be for the quarter ending 31st March 2016 and shall be paid by 30 April 2016;
- iv. No premium contribution (or part thereof) shall be refundable to a Bank in any circumstance;

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- v. The annual premium payable by a Bank shall be based on returns containing data of Deposits to be certified by its Managing Director or Chief Executive Officer and must be submitted in the form and within the deadlines determined by SAMA;
- vi. If a Bank fails to make a premium payment in full and on time, SAMA may impose a premium surcharge and take any other punitive action against the defaulting Bank as permitted under the Banking Control Law.

11. Submission of Return:

- i. Every Bank shall submit to SAMA a quarterly return containing information on the composition and amounts of its average Deposits for each calendar quarter. The return shall also set out in detail the calculation of the annual premium and shall be certified by the Managing Director or Chief Executive. The return shall be submitted to the DPF Unit within 30 days of the end of every calendar quarter;
- ii. If a Bank fails to submit the above return within the specified time or provides incorrect information, SAMA may take any action permitted under the Banking Control Law.

12. Responsibilities of Banks:

- i. A Bank shall pay the annual premium and any premium surcharge within such time and in such manner as specified by SAMA;
- ii. A Bank shall be liable to fully indemnify the DPF for any payments made to its Deposit holders, until its liquidation;
- iii. A Bank shall comply with and observe all relevant rules, regulations, directives/instructions, etc. issued by SAMA;
- iv. A Bank shall forthwith inform SAMA about any significant deterioration in its capital adequacy or liquidity position or any other major development which has a significant bearing on its safety and soundness.

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13. Maintenance of Accounts:

- i. The DPF shall maintain separate accounts and other records and prepare annual financial statements including the profit and loss account and balance sheet;
- ii. The accounts of the DPF shall be audited by an external auditor to be appointed by SAMA for this purpose.

14. Miscellaneous Matters:

- i. SAMA may from time to time issue further instructions and guidance to the Banks to deal with any other related matters and to achieve the objectives of the DPF;
- ii. Any issues arising during the implementation of these rules shall be dealt with under the rules and regulations of SAMA and the applicable laws of the Kingdom of Saudi Arabia

Depositors Protection Fund(DPF): Frequently Asked Questions(FAQs)

Q.1: What is the Depositors Protection Fund(DPF)

Ans.: The DPF is a fund established to protect eligible depositors. All banks including the branches of foreign banks licensed under the Banking Control Law that conduct banking business in Saudi Arabia are members of the DPF. The DPF will provide full protection to depositors having deposits of up to SAR 200,000, including principal and accrued commission/return, with a member bank. For example, if a person had a deposit in a member bank with a principal balance of SAR 194,500 and accrued commission/return on this deposit of SAR 5,000 on the cut-off date, the full SAR 199,500 would be insured, since principal plus commission/return did not exceed the SAR200,000 protection limit for a single depositor.

Q.2: Why the coverage under DPF is restricted to SAR 200,000?

Ans.: The objective of the DPF is to provide adequate protection to eligible depositors. The protection limit of SAR 200,000 would fully insure more than 97% of depositors of banks. This is a high level of coverage and exceeds international norms of 80% to 90%.

Q.3: Why is the DPF established? I thought Saudi Arabia's banking system is very safe?

Ans.: Yes, Saudi Arabia's banking system is safe and sound. SAMA has a regulatory framework in place to ensure the safety and soundness of individual banks as well as the overall Banking System. SAMA also ensures that banks are well managed, well capitalized and have enough liquidity to meet their obligations to depositors. The DPF is a financial safety net and layer of protection for depositors. The objective is to build up a protection fund in good times rather wait for a crisis to happen.

Q.4: How does the DPF work?

Ans.: In the unlikely event of a member bank failure, SAMA will require the DPF to make compensation payments to eligible depositors. The DPF will make the compensation payments from premiums paid by member banks and other resources available with it.

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Q.5: Who is covered under the DPF?

Ans.: Individuals and other non-bank depositors with accounts in member banks are covered. Non-bank depositors include sole proprietorships, partnerships, companies, unincorporated entities, etc. However, the following are not covered:

- a) members of the board of directors and senior management of Bank (including its chief executive officer and Key Executives) as well as their Family Members;
- b) other Banks or financial institutions;
- c) shareholders holding in excess of 5% shares in the Bank
- d) Saudi government or quasi-government institutions; or
- e) Persons acting on behalf of any of the Persons mentioned in a) through c) above;

Q.6: What types of deposits are covered for protection under DPF?

Ans.: All types of deposits whether in local or foreign currency with member banks including current accounts, savings accounts, time deposits, inheritance accounts, unclaimed accounts, escrow accounts, client accounts, trust accounts, structured deposits, etc. are covered except the following:

- a) a deposit that is not payable in Saudi Arabia;
- b) an inter-bank deposit;
- c) a negotiable instrument of deposit and any other bearer deposit;
- d) a repurchase agreement; and
- e) any other deposit or financial instrument as may be specified by SAMA.

Q.7: If I have deposits in several member banks, will all my deposits be added up for deposit protection purposes?

Ans.: No. Your deposits in different member banks are protected separately. The SAR200,000 deposit protection limit is applicable per depositor per member bank.

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Q.8: If I have deposits in different branches of the same member bank, will all my deposits be protected separately?

Ans.: No. Deposits held in different branches of the same member bank will be consolidated for deposit protection purposes.

Q.9: As foreign currency deposits also enjoy protection under the DPF, are they separately protected from Saudi Riyal deposits?

Ans.: No. Saudi Riyal and foreign currency deposits are not separately protected if they are placed in the same member bank. Foreign currency deposits will be converted to Saudi Riyals and aggregated with local currency deposits for protection of up to SAR200,000.

Q.10: Do I need to sign up or pay a premium to be covered by the DPF?

Ans.: No action is needed from you as a depositor as all premiums and costs relating to coverage under the DPF are borne by member banks.

Q.11: In the event that a compensation is to be claimed from a failed bank, do I need to file a claim with the DPF or the bank?

Ans.: The DPF will provide details on how the compensation will be made. You do not need to file any claims. The DPF will make announcements for payment of compensation to eligible depositors through the public media and at the affected bank and its branches. If your deposit exceeds the compensation from the DPF, you can file a separate claim with the liquidator of the affected bank for the difference but you cannot claim what has already been compensated under the DPF.

Q.12: How the DPF will affect credit rating of a bank?

Ans.: The DPF is a regulatory financial safety net and should have a positive impact on credit ratings of member banks. The statement earlier issued by the Supreme Economic Council in October 2008 stating that the Saudi authorities continued to ensure the safety of local banks and bank deposits, has not been withdrawn. As the protection provided by the DPF is a designated layer of protection for the eligible depositors, it should provide additional comfort to the external rating agencies.
