1.What is Differential Premium System (DPS) / Risk-Based Premium Model?

It is a premium calculation model that seeks to differentiate the premium paid by banks based on their risk profile.

2.Will depositors be required to pay premiums?

No. The payment of premiums is borne by banks.

3.Will any additional premium be passed to depositors?

No. premium payment is wholly borne by the banks as allowable business costs.

4.What is coverage limit and how much is it?

This is the maximum payout amount payable to a depositor by KDIC from its Fund when a bank is closed for liquidation.
The current limit is KES 500,000. This means in the event a bank is closed by Central Bank, depositors can immediately be paid by KDIC their deposit up to KES 500,000.

17th Floor
UAP Towers,
UpperHill Road,
Nairobi

0709043000

customercare@kdic.go.ke
www.kdic.go.ke

5.What if the depositor has more than KES 500,000?

When a bank is closed, those depositors with KES 500,000 and below will be fully paid by KDIC their deposits. For those with amounts exceeding KES 500,000, the Corporation first pays them KES 500,000 and the balance is paid as and when assets of the closed bank are sold through a process called liquidation.

6.When will the model be rolled out?

The model will be implemented beginning 1st July 2021.

7.What benefit will depositors receive upon implementation of the model?

The model will instill discipline in the banks as they will have to pay higher premiums for their higher risk appetites. In taming the banks' risk appetites, bank failures will be reduced and this ensures that no depositor loses their money.

8.Has risk based premium assessment system been applied elsewhere in the world?

Yes. The model has been applied in other countries including Nigeria, USA, Colombia, South Korea and Malaysia, among others. Risk based premium assessment system is used worldwide as best practice to instill market discipline in risk management.

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9.How often are premiums assessed?

Premiums are assessed and paid once every year.

10.What are the benefits of the model to the banks?

The model will ensure that banks that practice sound risk management (with low risk appetite) are rewarded by paying low premiums while those that a high risk appetite pay a risk premium for their decisions.

11.Will premiums paid by banks increase?

The premium paid by banks will depend on the risk profile of the bank.

12.How often will the model be reviewed?

The model will be reviewed annually.

13.Does the model cater for macro-economic changes e.g. The Covid-19 Pandemic?

Yes. The model is very dynamic and takes into account the impact of macro-economic changes on operations of banks.

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