



# **JODIC's Experience in Managing its Deposit Insurance Fund**

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# Scope of Presentation



- **Jordan Deposit Insurance Corporation (JODIC)**
  - **Mandate & Powers**
  - **Governance**
  - **Membership**
  - **Coverage Scope & Level**
  - **Funding Resources**
- **Administering Deposit Insurance Fund**
- **Prospective Strategic Initiatives**

# Jordan Deposit Insurance Corporation



- **Established in the year 2000 by virtue of the Law No.(33).**
- **Enjoys an autonomous corporate entity status with financial and administrative independence.**

# Mandate and Powers



## Mandate

### ➤ Insurer:

Reimburses insured depositors promptly.

### ➤ Liquidator:

- Legal representative.
- Settles bank proceeds.

## Powers

- premiums.
- Off-site inspection.
- On-site inspection.
- Internal Operations.
- Liquidation Procedures.
- Higher premiums on riskier banks.

# Governance



## Main Thrusts of Corporate Governance:

- ➔ The institutional legislative framework.
- ➔ Strategic objectives.
- ➔ JODIC's management; board of directors and administrative and functional apparatus.
- ➔ Disclosure and transparency.
- ➔ Core Principles for Effective Deposit Insurance Systems.

# Membership



## Compulsory

- Conventional Jordanian banks (13).
- Branches of foreign banks operating in Jordan (8).

## Voluntary

- Jordanian Islamic banks (3).
- Branches of foreign Islamic banks operating in Jordan (1).

# Coverage Scope and Level



## Scope

All types of deposits in local currency, excluding the following:

- ▶ Government deposits.
- ▶ Interbank deposits.
- ▶ Cash collaterals within the limits of the value of the extended facilities.

## Level

- ▶ Coverage limit is JD50,000 equivalent to \$70,500 effective January 1st 2011.
- ▶ Consistent with JODIC's public policy objectives.
- ▶ Limited but credible.
- ▶ Fully covers almost 97% of insured depositors.
- ▶ About 13 times the Per Capita GDP.

# Funding Resources



**Capital**

**Annual Premiums Ex-  
ante: 2.5 per thousand**

**Investments Returns**

**Back-up Funding**

**Funding  
Resources**

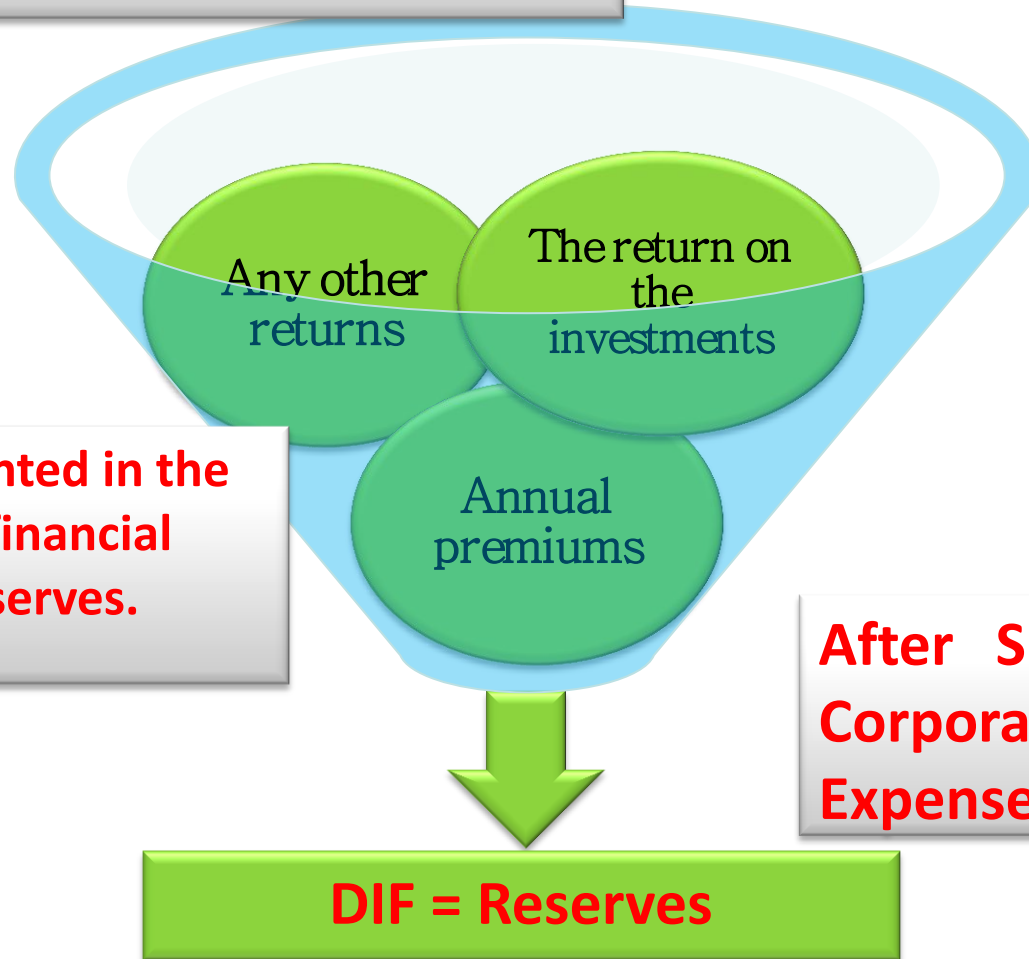




# Deposit Insurance Fund (DIF)



**Deposit Insurance Fund is defined as Corporation's Reserves.**



**The DIF presented in the statement of financial position as reserves.**

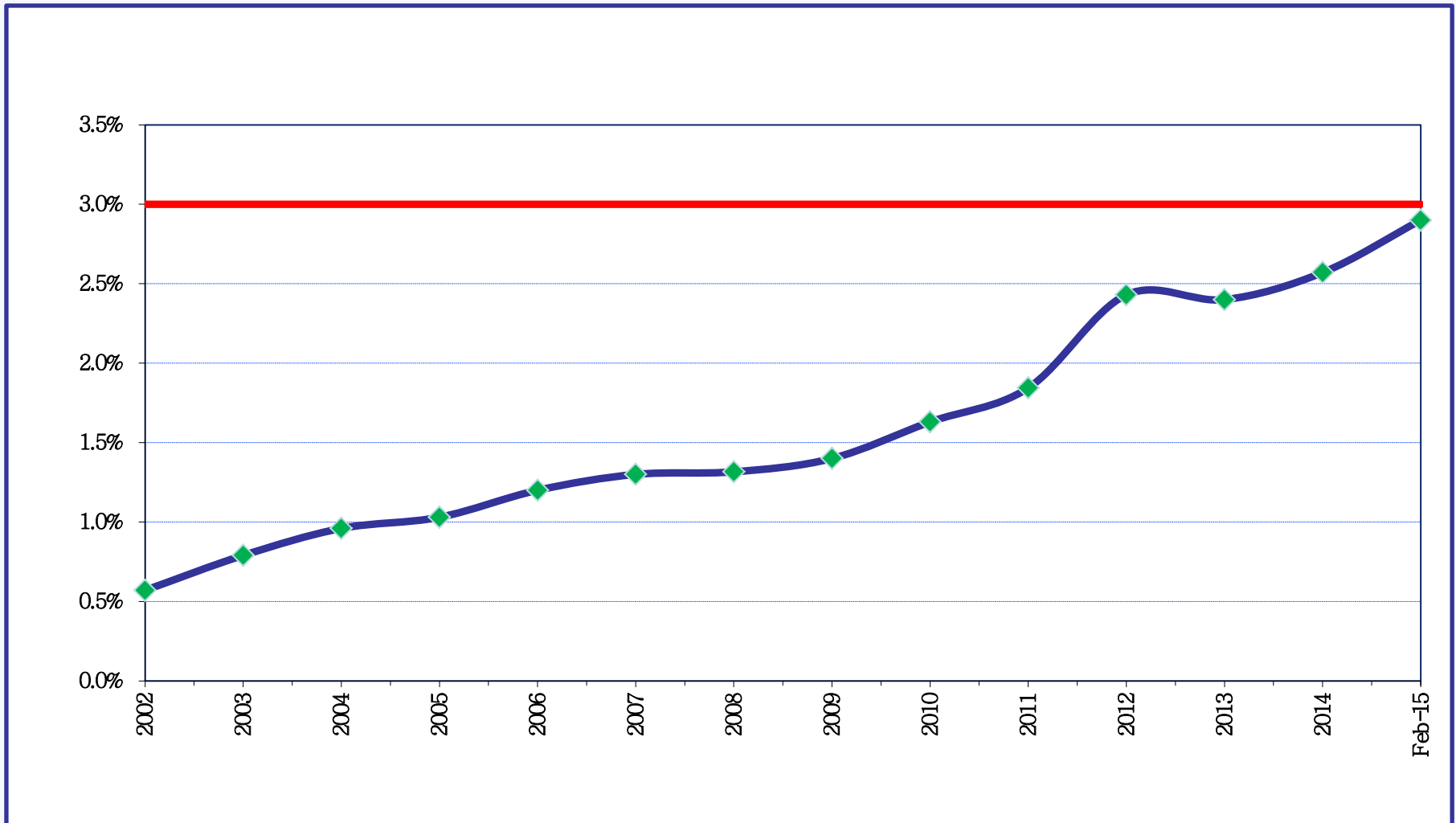
**After Subtracting the Corporation's Expenses.**

# JODIC's DIF Target Ratio:



- **Statutory stipulated in the law.**
- **Three percent (3%) of eligible or insurable deposits.**
- **JODIC is obligated to boost its reserves to reach the defined TRR within a time frame of 10 years from its establishment.**

# Reserves / Eligible Deposits Ratio:



# Estimation method used to set DIF Target Ratio



- ➔ The model used for estimating TRR was straightforward, based on the average rate of growth of eligible deposits at the level of premiums specified to be accumulated over a period of 10 years.
- ➔ Expert Opinion.

# Factors were considered in setting the DIF target ratio in Jordan



- **Macroeconomic conditions.**
- **Number and size of insured banks.**
- **Size of insured deposits.**
- **Composition of the banking sector.**
- **Types of Currencies insured.**
- **Structure of the deposits.**
- **Deposit insurer's risk exposure.**
- **Probability of failure.**
- **Loss experience .**
- **Effective supervision and Resolution.**
- **Prudential regulation.**

# Assessing the adequacy of fund



- ➔ Periodic follow up for the current DIF ratio and compare it with the target DIF ratio stipulated in JODIC's law.
- ➔ Projection for the expected time at which the DIF will hit the target ratio.
- ➔ The target ratio (3%) is projected to be achieved at the end of the year **2017** based on JODIC's internal financial program.
- ➔ The projection process is periodically updated in terms of the growth rate of eligible deposits and return on investments.
- ➔ Calculating the coverage ratio of exposures of banks.

# Striking Target Ratio



- JODIC is obligated by law to boost its reserves to reach the defined TRR within a time frame of 10 years from its establishment.
- At the end of the year 2011, after 10 years from JODIC's establishment, the DIF ratio was only (1.8%) of the eligible deposits.
- Why DIF ratio did not achieve the target and what actions triggered?



# Reasons and Actions Triggered



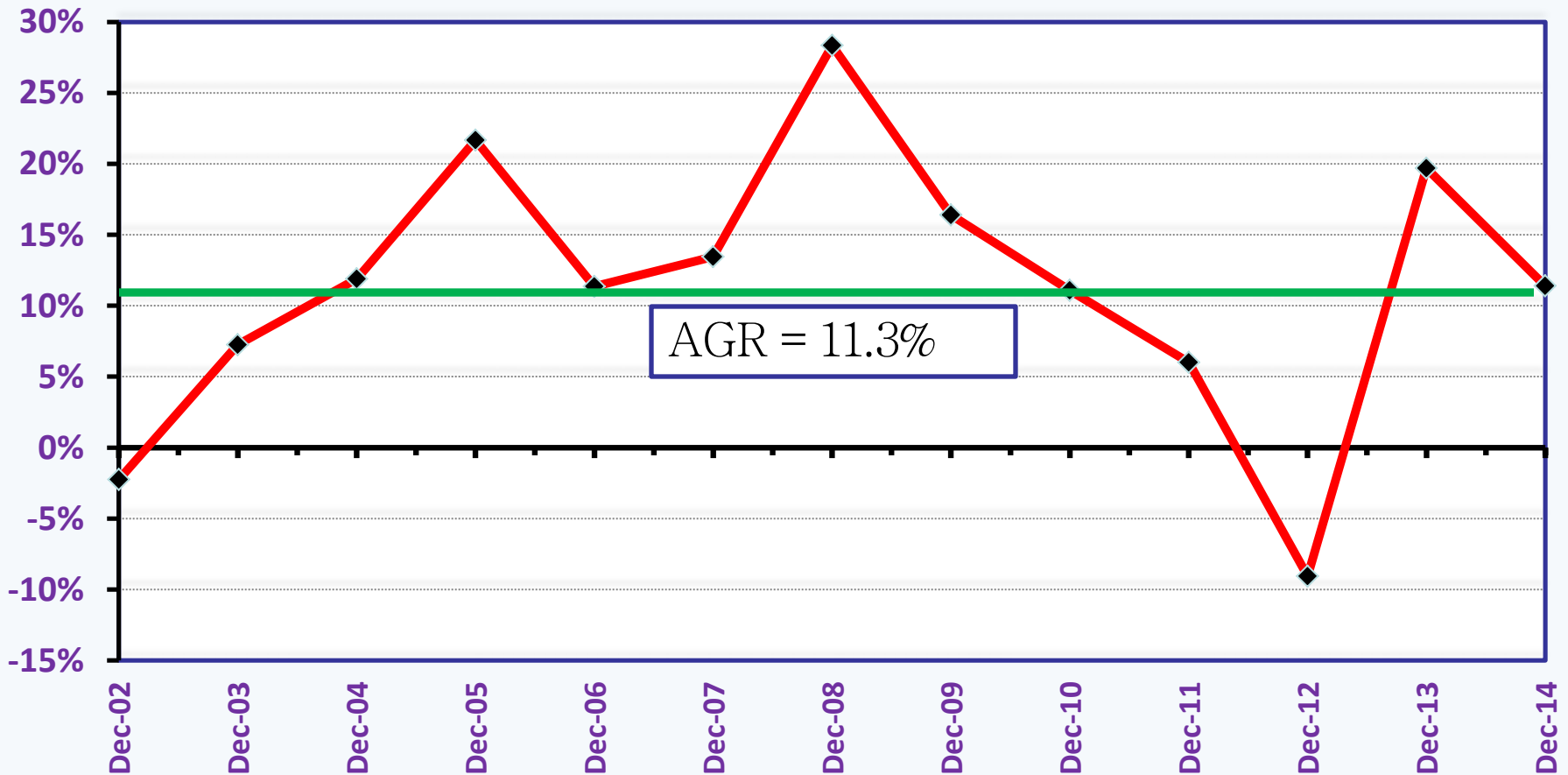
- **Growth in eligible deposits is at a faster rate than reserves growth:**
  - **Exceptional hike in eligible deposits growth in the years 2005 (23%) and 2008 (28%).**
  - **Declining rates of return on invested portfolio in the years 2002-2005, 2011 and 2014;**
  - **JODIC's reserves investments are restricted in Government Bonds only.**

# Reasons and Actions Triggered



- No incremental premiums were imposed on banks by Board due to:**
  - **Global crisis and regional uncertainties.**
  - **Sufficient level of reserves.**
  - **Soundness of banking system.**
  - **Prudential regulations and supervision.**

# Annual Growth Rate of Eligible Deposits



# Additional Approaches to Fund Evaluation



**What policy responses to address shortfall or surplus in fund target ratio are in place?**

# Administration of the Fund Target Ratio



➤ **The Corporation's board may increase the bank's annual membership fee to no more than double the annual membership fee for banks (Adjustment in premium rates). When?**

# Administration of the Fund Target Ratio



## If the Corporation's fund:

- ▶ Doesn't reach the limit established under the law within (10) years of the law's effective date,
- ▶ Or Fall short of the said limit after having reached it,
- ▶ If a liquidation of a bank is decided before the Corporation's fund reaches the said limit.

# Administration of the Fund Target Ratio



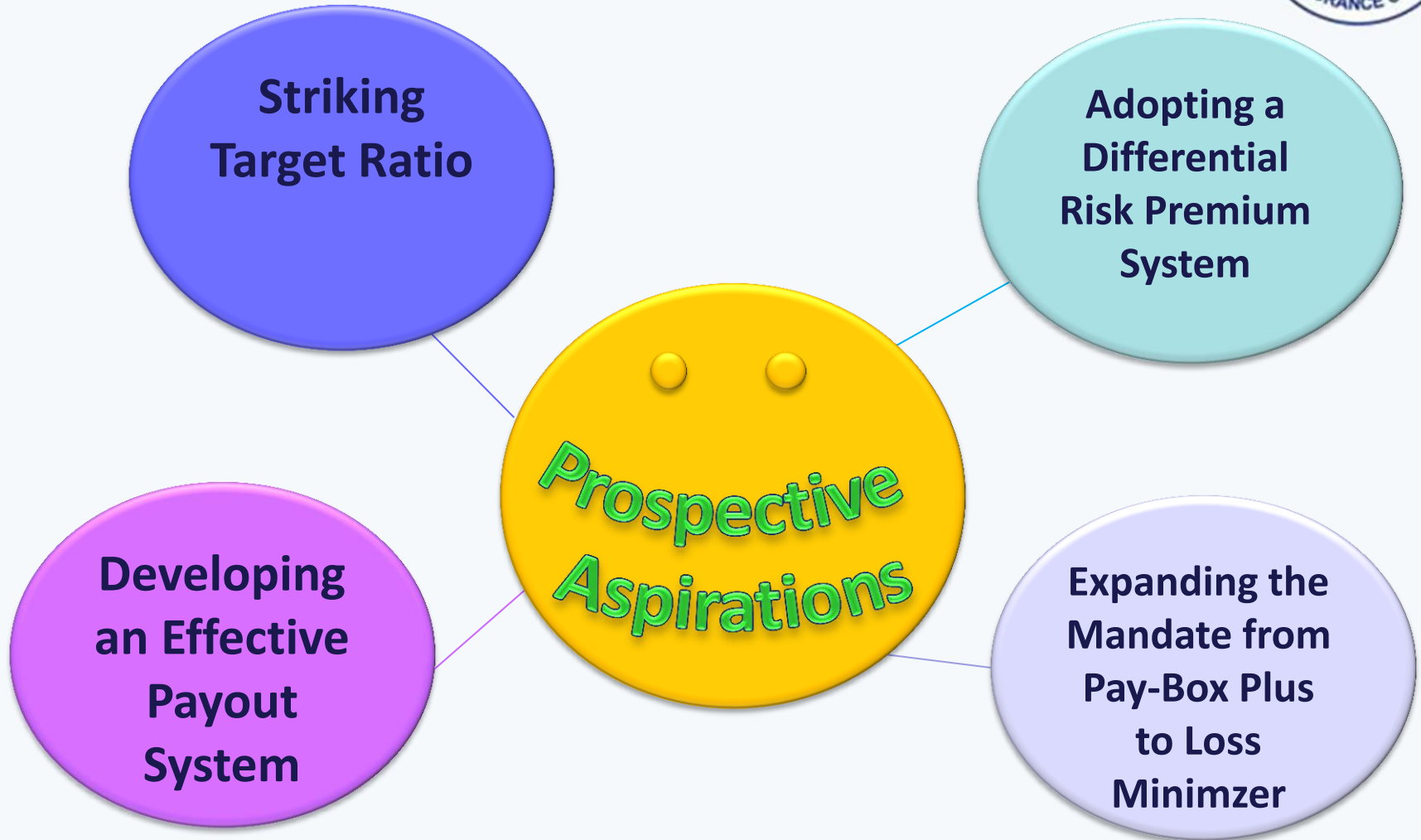
- If the Corporation's fund exceed the said limit (3%) then the Board may lower the annual membership fee,
- **Or** exempt banks from paying same for at least one year as the circumstances require.



# Challenges Ahead



# Challenges Ahead





**Thank You**