



Towards an Integrated Deposit Insurance System in Jordan (Conventional and Islamic)

**Conference on Recent Issues in Conventional and Islamic
Banking Current Situation, Challenges and Future Horizons**

AL-al Bayt University

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Scope of Presentation



Jordan Deposit Insurance Corporation (JODIC)

- **Public Policy Objectives**
- **Mandate & Powers**
- **Membership**
- **Coverage Scope**
- **Coverage Level**
- **Funding Resources**
- **Reserves**
- **Financial Safety-Net**

JODIC and Financial Crisis “Policy Responses“

Islamic Deposit Insurance (IDI)



Jordan Deposit Insurance Corporation (JODIC)

- Established in the year 2000 by virtue of the law no. (33).
- Autonomous entity that enjoys financial and administrative independence.
- JODIC is managed and supervised by a Board of Directors chaired by the Governor of the Central Bank of Jordan.



Public Policy Objectives

- Protecting less financial sophisticated depositors.
- Maintaining stability and contributing to public confidence in the Jordanian financial system.
- Encouraging savings and promoting economic growth.
- Instilling effective market discipline; sophisticated depositors are encouraged to assess their risks through making right investment decisions with respect to the bank's soundness.



Mandate & Powers

Insurer

Insuring depositors with banks by reimbursing their deposits.

Liquidator

The Sole Liquidator

Legal representative, of any bank whose liquidation has been decided.



Membership

Compulsory

**Conventional
Jordanian Banks
operating in Jordan.**
(13 banks)

**Branches of Foreign
Banks operating
in Jordan.**
(9 banks)

Voluntary

Islamic Banks.
(None!)



Coverage Scope

All types of deposits in local currency (Eligible Deposits)

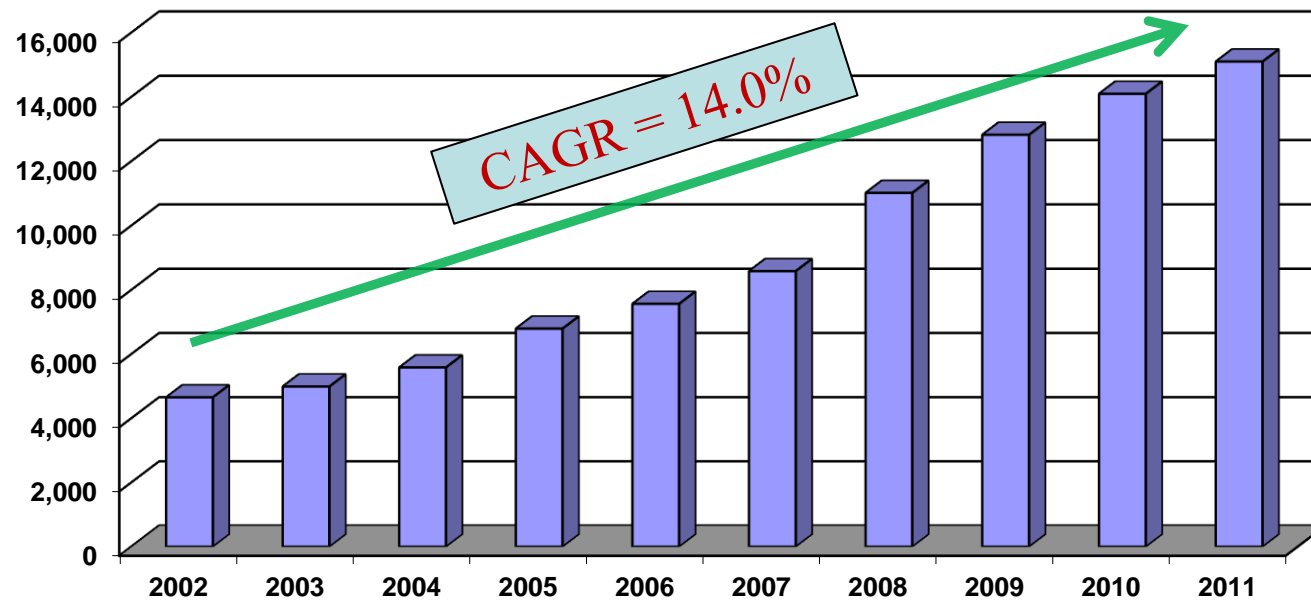
Excluding the following:

Government deposits

Interbank deposits

Cash collaterals within the limits of the value of the extended facilities

Eligible Deposits (in JD million)

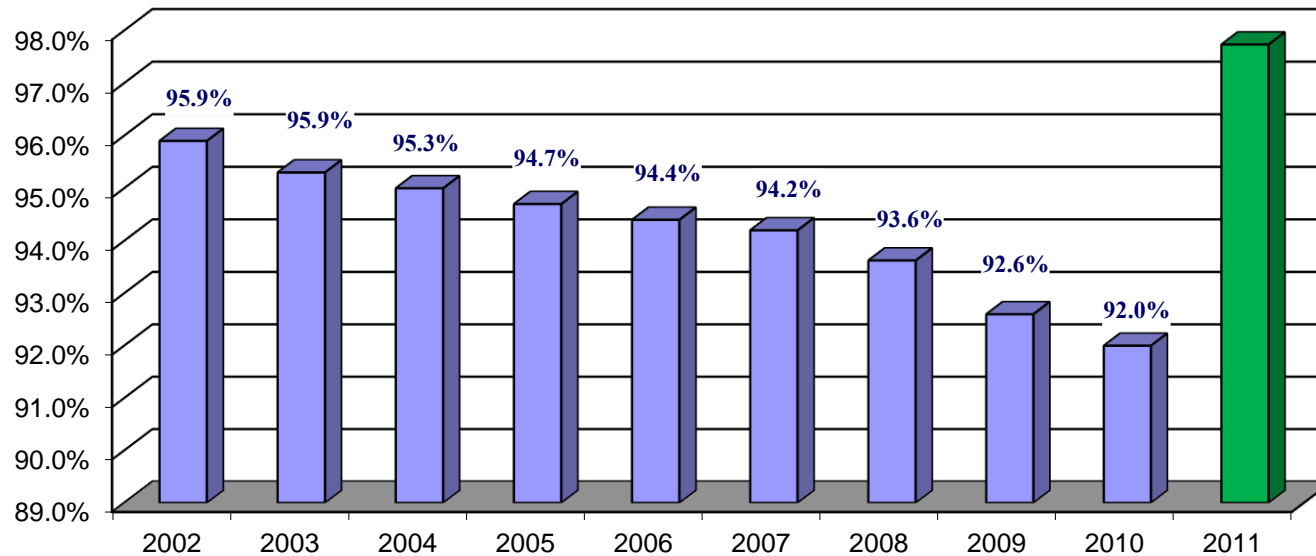




Coverage Level

- Deposit insurance coverage limit is **JD 50,000**.
- Consistent with the public policy objectives.
- Limited but credible.
- Fully covers almost 98% of insured depositors.

Percentage of Fully Insured Depositors



Coverage limit has been increased from **JD 10,000** to **JD 50,000** effective January 1st, 2011.



Funding Resources

Capital: One million paid by the Government and a non-refundable initiation fee of JD 100,000 paid by each member bank.

Ex-ante: The annual membership fee paid by banks is 2.5 per thousand of the total deposits subject to the law.

Investments: Derived from investing the reserves in bonds issued or guaranteed by the Jordanian Government.

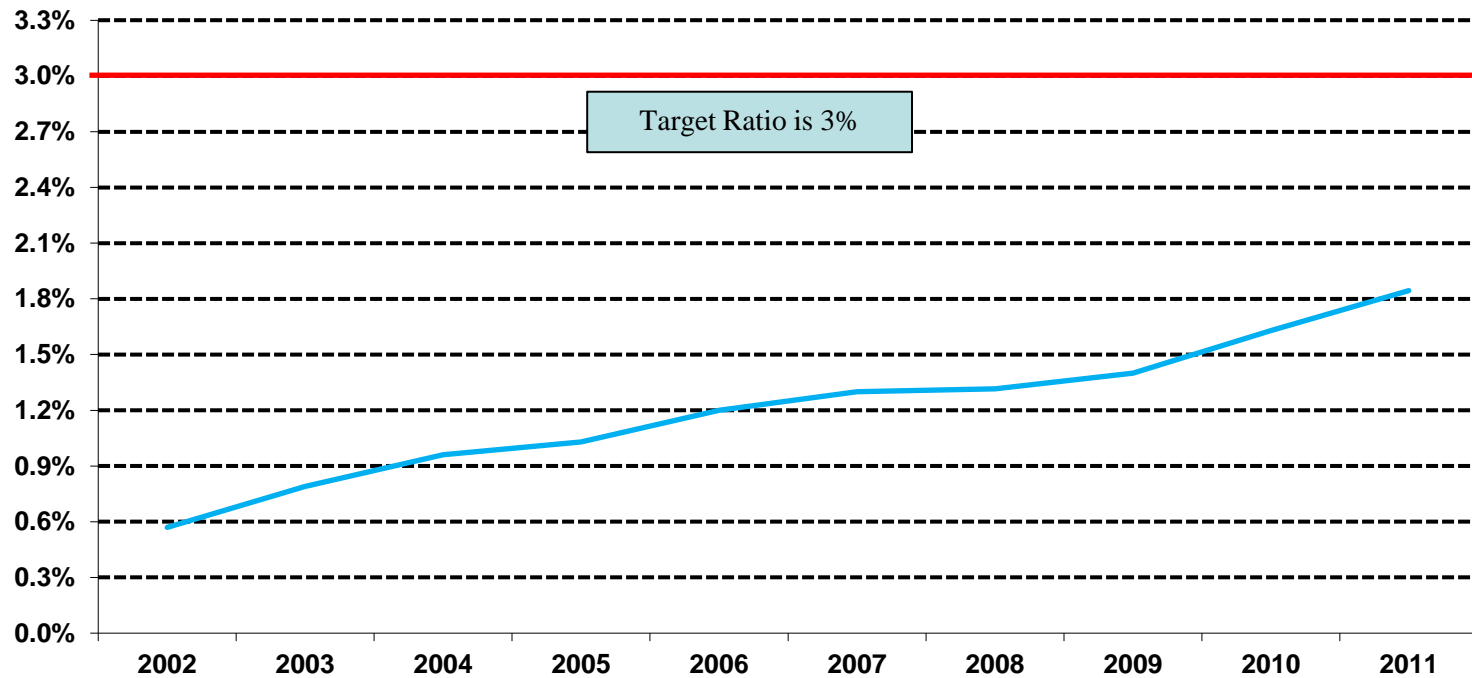
Ex-post: JODIC is empowered to borrow directly or through issuing bonds.



Reserves

- JODIC targets a rate of 3% of total eligible deposits within 10 years of its establishment.
- Currently, the ratio stands at 1.9% after 12 years of establishment.
- Reserves recently mounted to JD 319 million as of the end of February 2012.

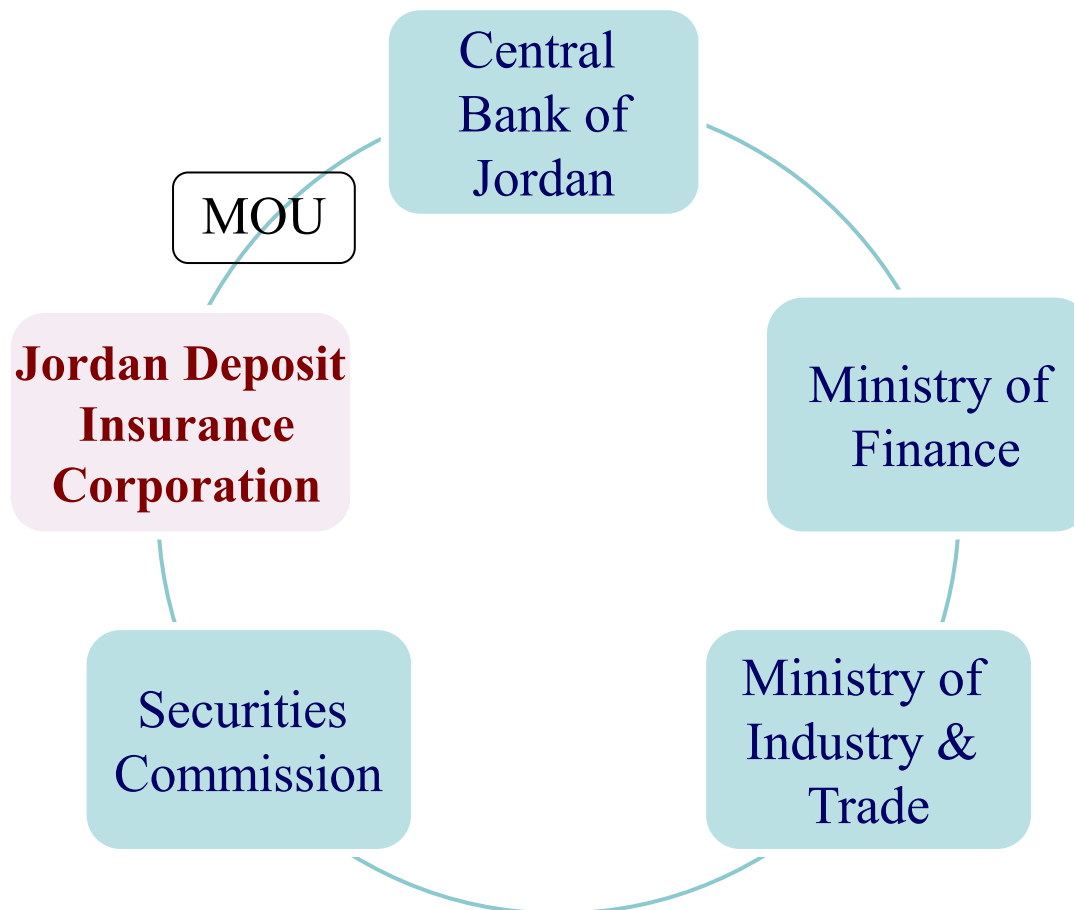
JODIC's Reserve Ratio: Reserves / Eligible Deposits



Compound Annual Rate of Growth (CARG) = 13.9%



Financial Safety-Net





JODIC and Financial Crisis "Policy Responses"

- At the end of 2008, the Government announced the full guarantee of all deposits till the end of 2009.
- At the end of 2009, the Government announced the renewal of its blanket guarantee till the end of 2010.
- At the end of 2010, the Cabinet decided upon the recommendation of JODIC's Board of Directors to increase the deposit insurance coverage limit from **JD 10,000** to **JD 50,000**.



An Integrated Deposit Insurance
Scheme
(Conventional & Islamic)
WHY & HOW?



Islamic Deposit Insurance (IDI)

- Provides protection to depositors against the loss of their insured deposits placed with Islamic banking institutions (IBIs) in the event of an IBI's failure.
- Instils public confidence.
- Promotes competitiveness of the Islamic deposits and the banking system.



Islamic Deposit Insurance (IDI)

- Islamic deposit insurance has become more relevant of late due to the development of Islamic finance.
- The industry is supported by more than 300 Islamic financial institutions in over 75 countries.
- Islamic financial institutions assets are projected to grow to USD 1.6 trillion globally by 2012.
- Attention has been given to Islamic finance as a potential alternative following the global financial crisis that has seen the collapse of several giant conventional financial institutions.



Islamic Deposit Insurance Around the World

Country	Year of Establishment
Bahrain	1993
Sudan	1996
Turkey	2001
Malaysia	2005
Indonesia	2005



Islamic Deposit Insurance Around the World

Countries providing protection for Islamic deposits under the conventional deposit insurance scheme:

- Kuwait.
- Yemen.
- Bosnia and Herzegovina.
- Singapore.
- United Kingdom.



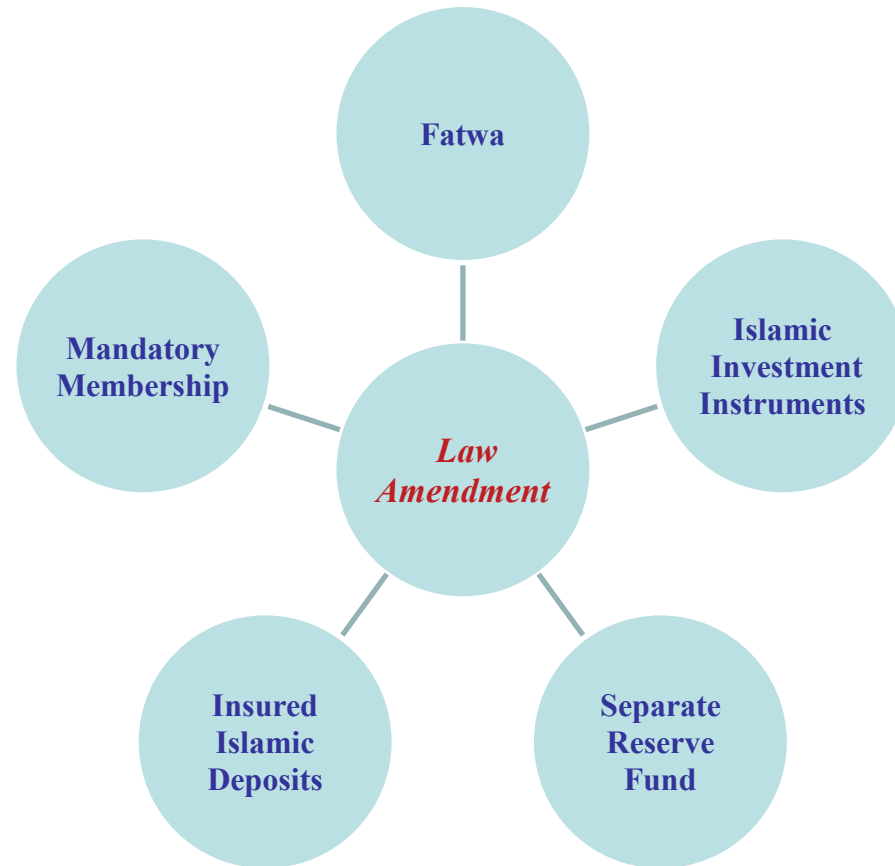
Distribution of Deposits and Depositors among Conventional and Islamic Banks in Jordan

Item	Conventional Banks	Islamic Banks	Total
Deposit Size	JD 15,680 M	JD 3,447 M	JD 19,127 M
Percentage	82%	18%	100%
Number of Depositors	1,706,980	968,940	2,675,920
Percentage	64%	36%	100%



Key Issues for adopting an Islamic Deposit Insurance System in Jordan

- Shariah framework and approach (Fatwa).
- Mandatory membership.
- Insured Islamic deposits.
- Segregation of reserve fund.
- Management of Islamic insurance fund.





Thank You
For Your Attention