

199.8

1

MINISTRY PAPER # 16

THE DEPOSIT INSURANCE SCHEME

1. Explicit deposit insurance schemes now exist in almost all developed countries, and an increasing number of developing countries. They serve a number of important economic and social objectives, the principal being the provision of protection to small unsophisticated depositors, the maintenance of confidence in and stability within the financial sector and the acceleration of the process of depositor redress in the case of institutional failure.

2. Deposit insurance is a guarantee that all or a limited amount of the principal and interest accrued on deposit accounts will be paid in the event that a financial institution fails. The guarantee may be either explicitly given in law or regulation, offered privately without government backing, or may be inferred implicitly from the verbal promises and/or past actions of the authorities.

3. The Government's decision to establish an explicit deposit insurance scheme with limited coverage via legislation seeks to achieve the following objectives:

- (i) to restore and maintain confidence and stability of deposit taking institutions and in so doing, reduce the probability of contagious deposit runs.
- (ii) to provide a formal mechanism for protecting depositors (especially the smaller ones) who are not in a position to undertake assessment of risk; and

- (iii) in conjunction with supervisory and regulatory authorities, provide the Government with a more formal mechanism for dealing with problem financial institutions, with a view to protecting depositors.

4. In September 1995, the Government established a Task Force to identify the main policy issues and legislative requirements and to make recommendations for the introduction of an explicit Deposit Insurance Scheme in Jamaica. This initiative came against the background of difficulties in the financial sector, the increased vulnerability of banks in a liberalized economic environment and the recognition of the need to provide some form of protection to depositors, especially the smaller ones.

5. The Task Force completed its assignment and reported its findings to the Government in April 1996. Following Cabinet approval, a Bill entitled "**The Deposit Protection Act**" was tabled in the House of Representatives on April 29, 1997. The Bill was subsequently referred to a Joint Select Committee of Parliament for detailed examination. However, the Committee was unable to complete its work before Parliament adjourned in December 1997.

6. The Bill was reintroduced in the House on February 3, 1998, and approved by the House of Representatives and the Senate in March 1998, incorporating 60 amendments which emanated from the deliberations of the Joint Select Committee.

7. The provisions of the revised Bill (Jamaica Deposit Insurance Act) reflect some of the earlier recommendations of the Task Force and the deliberations of the Joint Select Committee.

The significant highlights of the Bill are summarized as follows:

- (1) The definition of "**deposit**" is similar to that in the Banking Act, the Financial Institutions Act and the Bank of Jamaica (Building Societies) Regulations, 1995 and includes interest payable on the sum of money deposited. "**Insurable deposit**" is defined as total deposits less interbank and Government deposits while "**insured deposit**" is that portion of an insurable deposit which is covered by insurance.
- (2) There will be an independent statutory body known as the Jamaica Deposit Insurance Corporation (JDIC) whose main objectives are to establish and manage the deposit insurance scheme to facilitate the insurance of deposits or part thereof against risk of loss.
- (3) The major powers of the Corporation are: to manage and administer the Deposit Insurance Fund; to levy premiums for the Fund; to make enquiries of a policyholder as to the conduct of its affairs and to act as receiver, liquidator, or judicial manager of any policy holder, subject to the approval of the Minister.

- (4) The Deposit Insurance Fund will be financed mainly by an initial and annual premiums from member institutions, sums borrowed by the Corporation and proceeds from investments made out to it. The bulk of the charges against the Fund are expected to be payments to depositors when policyholders fail. The resources of the Fund must be conservatively invested, that is, in assets that have relatively little risk and are fairly liquid.
- (5) The Corporation will work in close collaboration with the Bank of Jamaica in order to avoid any duplication of activities and in so doing will receive copies of the Bank's on-site examination reports. In return, the Corporation must make available to the Bank any information to enhance the development of sound financial practice in Jamaica.
- (6) All deposit-taking institutions are required to hold a valid policy of deposit insurance. These include commercial banks, licensed deposit taking institutions, building societies and institutions designated as specified financial institutions under the Bank of Jamaica Act.
- (7) The Act provides for payment out of the Deposit Insurance Fund up to a maximum of \$200,000 in Jamaica currency, per depositor, in the case of insolvency. This includes both principal and interest due. The limit of \$200,000 is based on a survey of the size and distribution of deposit accounts in

commercial banks, merchant banks and building societies which has established that 97% of deposit accounts would be covered at this level.

- (8) Provision is made for the cancellation of an insurance policy in certain circumstances - e.g. when the Corporation and the Bank of Jamaica are of the opinion that the policyholder is or about to become insolvent or when the policy holder has ceased to accept deposits because of insolvency.
 - (9) Where the Deposit Insurance Corporation makes a payment in respect of any depositor with a policyholder that is being or has been wound up, it will rank **pari passu** with other unsecured creditors.
9. The Deposit Insurance Act, 1998 will come into effect shortly, after which the Scheme can become fully operational.

Omar Davies
Minster of Finance & Planning
April 16, 1998