

MINISTRY PAPER #5/010
**JAMAICA DEPOSIT INSURANCE CORPORATION
ANNUAL REPORT AND AUDITED FINANCIAL
STATEMENTS FOR YEAR ENDED MARCH 31, 2009**

INTRODUCTION

1. The matter for tabling in the Honourable House of Representatives is the Annual Report for Jamaica Deposit Insurance Corporation (JDIC) for the financial year ended March 31, 2009. The Corporation was established by an Act of Parliament on August 31, 1998. JDIC's principal activities comprise managing a scheme for the insurance of deposits against the risk of loss to depositors and the development of an effective Deposit Insurance Fund to promote public confidence and contribute to stability in the financial system.

OPERATING OVERVIEW

2. The 2008/09 financial year was particularly challenging for Deposit Insurers, as the financial market crisis brought increased attention to deposit insurance responses in helping to restore and maintain financial system stability. The Corporation's role as a participant in the Financial Systems Safety Net was also placed in the public spotlight as many sought information on and reassurance in respect of the Deposit Insurance Scheme and the JDIC's ability to compensate depositors. This is largely expected to contribute to the maintenance of confidence in Jamaica's financial system.

3. To achieve its mandate and ensure regulatory clarity and certainty, the Corporation remained committed to intensified monitoring of policyholders within the risk assessment framework, which continued to guide the Corporation's state of readiness and the level of intervention planning. Important to the process was the monitoring of member institutions' compliance with the Deposit Insurance Policy. This came against the background of higher levels of unemployment, high interest rates and increasing levels of past-due loans in the short-term.

4. During the review period, there was heightened surveillance of financial markets and economies. The tracking of international developments, the impact on the domestic economy and the implications for policyholder performance were key undertakings. In addition, the Corporation commenced dialogue with the Bank of Jamaica with a view to enhancing the Crisis Intervention Matrix, developed among the Safety Net Partners to ensure seamless monitoring and intervention.

5. In the execution of its objects to March 2009, the Corporation continued to place significant emphasis on refining its role as an insurer of deposits in certain financial institutions. In this regard, policy review and research on member admission, coverage, funding to facilitate resolution and intervention preparedness remained important functional areas and are at different stages of completion. In addition, the Corporation's Risk Assessment Framework (RAF) was well supported by information flowing from the Bank of Jamaica and other policyholders, which was utilized to inform on Fund adequacy, management and intervention readiness.

6. The Corporation heightened its intervention readiness programme and included shorter-term goals that would assure readiness in the event a policyholder was adversely affected. The programme included:

- Payout Contingency Planning- this exercise was undertaken in the areas of crisis communication, contingency funding, payout process management and ensuring that all information and communication technology systems were adequate.
- Payout Training and Simulation- two (2) such exercises were conducted in the areas of Media Communications in a payout activity as well as balancing and reconciliation with emphasis on cheque clearing operations.
- Business Process Documentation- the Corporation continued to develop and review business process documentation to ensure that it remained effective and relevant to the changes and emerging trends in its operating environment. The emphasis was on the record keeping requirements of policyholders. This is to mitigate the risk of inadequate record keeping.
- Public Education and Awareness – this was facilitated via advertising and increased participation in communities' expositions, training seminars, presentations and continued partnership with other safety net players.
- Human Resource Management- the Corporation identified several strategic initiatives including a new performance appraisal aimed at aligning employees work goals with the business strategies.
- Information and Communication Technology- a new payout application was developed which captured all the required system functionalities. The Corporation also forged relationships with regional counterparts in order to rationalize and standardize the payout functions and to foster the sharing of information. An information communication and support desk to handle information technology related issues was also launched.

FUND MANAGEMENT AND ADEQUACY

7. For 2008/09, the Corporation conducted its annual survey of insurable deposits with a view to capture greater details on the profile of deposits held in member institutions. The data revealed that insurable deposits in the banking system increased to \$4,416.87 million or 10.3% at December 2008 compared to the \$4,005.00 million in the previous year. Despite the challenging economic environment, the average insurable deposit account balances in each sub-sector increased, with the overall average growing by 7% at the end of 2008. The commercial bank sub-sector accounted for the major share of insurable deposits totaling \$3,339.36 million or 97.06% with an overall 97.54% of the total deposit accounts in the banking system being fully covered. The ratio of insurable deposits in the three sub-sectors was 76:21:3 moving from 75:21:4. As the number of insurable deposit accounts held in member institutions increased, the share of accounts fully covered at the \$600,000 coverage limited remained at a high level at 97.54%.

8. The 2008 evaluation of the Fund indicated that it was adequate to cover the assessed levels of existing liabilities and potential liabilities for the 1-year period to December 2009. At March 2009 the Deposit Insurance Fund was valued at \$5,129.49 million representing an increase of 30% over the

\$3,920.8 million in the previous year. This represented 2.66% of estimated insured deposits and was within the international benchmark of 2-2.5%. The Corporation's policyholders remained at fourteen (14) at the close of the review period.

9. The proposed regulation of co-operative societies by the Bank of Jamaica remained under review. The Corporation focused on and advanced its admissions framework and readiness, given the expectation for compulsory membership of the group to the Deposit Insurance Scheme. In conjunction with the credit union league, stakeholder dialogue was undertaken to promote greater understanding and information sharing between the Corporation and the credit unions.

DISCLOSURES

COMPENSATION TO SENIOR EXECUTIVES

10. Pursuant to the Second Schedule (Part 1) of the Public Bodies Management and Accountability Act, 2001, details of the compensation packages for the five (5) executive managers are included in the Annual Report. Individual packages ranged from \$5.17 million to \$9.62 million and totaled \$31.83 million or 29.73% of total staff costs of \$107.05 million.

AUDITORS' REPORT

11. The independent audit performed by PricewaterhouseCoopers resulted in the JDIC receiving an unqualified report. The auditors indicated that the financial statements as at March 31, 2009 give a true and fair view of the financial position of the Company and accords with the requirements of International Financial Reporting Standards and the Deposit Insurance Act 1998.

FINANCIAL HIGHLIGHTS

Extract from Profit & Loss Statement
Figure 1

Particulars	2008/09	2007/08	Change	
			\$ m	%
Income:				
Insurance premiums	553.44	484.12	69.32	14%
Interest earned	693.96	477.48	216.48	45%
Foreign exchange gain/(loss)	132.63	3.27	129.36	3956%
Total Income	1,380.03	964.87	415.16	43%
Expenses				
Staff costs	107.05	88.73	18.32	21%
Professional fees	13.64	8.88	4.76	54%
Public education	17.74	18.78	(1.04)	-6%
Utilities	5.82	4.69	1.13	24%
Other administrative costs	27.09	27.89	(0.80)	-3%
Total Expenses	171.34	148.97	22.37	15%
Net Surplus	1,208.69	815.90	392.79	28%

12. For the review period to March 31, 2009, the JDIC realized a net surplus of \$1,208.7 million from operations, an increase of \$392.79 million or 28% over the \$815.90 million in 2007/08. This was attributed directly to an improvement of \$415.16 million in total revenues that fully offset a growth of \$22.37 million in operating costs.

13. The JDIC's major income streams (insurance premiums and interest income) recorded actual increases of 14% and 45% respectively over the prior year. Administrative costs rose by \$22.37 million to \$171.34 million at March 2009. The major contributors were staff costs of \$107.05 million, professional fees of \$13.64 million and public education expenses of \$17.74 million. Notably, actual staff costs represented an increase of \$18.32 million or 21% over 2007/08 and resulted from the application of the provisions of the memorandum of Understanding 111.

SOLVENCY AND LIQUIDITY

14. At March 2009, an increase in investment securities as well as receivables resulted in the Corporation's net worth rising by \$1,216.62 million to \$5,139.37 million compared to \$3,920.79 million at the end of 2007/08. This change resulted in an improvement in the solvency ratio to 14.83 times compared to 13.20 times in the prior year and was a positive indicator of the entity's ability to cover its liabilities if there was a need. The Corporation's assets base also rose to \$5,510.94 million compared to \$4,244.28 million in 2007/08.

CONCLUSION

15. In light of the global financial crisis, the JDIC remained committed to its mandate and intensified the monitoring of policyholders within the ambit of the risk assessment framework. JDIC also implemented an intervention readiness programme with shorter-term goals which assured readiness in the event a policyholder was adversely affected. In addition, the Corporation maintained its presence in the public domain via direct and indirect communication given the global financial crisis, as the public was particularly keen on obtaining deposit insurance information.

16. The Deposit Insurance Fund continued on a steady growth path and achieved an increase of 30.81% to \$5,129.49 million at the close of the financial year. This was due to prudent investments and other strategies which also resulted in improvements in the net surplus, solvency and net worth. JDIC increased its operational and financial capacity to determine and manage its risk exposure and readiness levels to address potential problems in the financial system.



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Minister of Finance and the Public Service
August 31, 2009