MINISTRY PAPER 73/08
JAMAICA DEPOSIT INSURANCE CORPORATION ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED MARCH 31, 2008

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, 2008.

OVERVIEW

2. The JDIC was established by an Act of Parliament on August 31, 1998 to manage a credible scheme for the insurance of deposits against the risk of loss to depositors. This is largely expected to contribute to the maintenance of confidence in Jamaica's financial system. To achieve its mandate and ensure regulatory clarity and certainty, the Corporation obtained Cabinet's approval for amendments to its governing statutes to preserve and enhance depositor entitlements under the Act. This was also desireable in light of challenges in the Jamaican economy that were compounded by problems associated with unregulated financial "schemes".

In the execution of its objects to March 2008, 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 JDIC took the necessary steps to minimize exposure by undertaking risk assessment and monitoring functions within an internally developed Risk Assessment Framework (RAF). The RAF utilizes operational and financial performance data and market information to inform on Fund adequacy, management and intervention readiness.

3. During 2007/08, policyholders complied with all statutory reporting requirements in accordance with the Deposit Insurance Policy. The provision of periodic updates on operational changes, support for research projects and the annual Policyholders' Forum continued to provide invaluable information for the Corporation.

FUND MANAGEMENT AND ADEQUACY

4. During the review period, the Corporation conducted its annual survey of Insurable Deposits to ascertain the profile of deposits held in the insured system. Arising from research on specific coverage, the Corporation recommended a doubling of the coverage limit to $600,000 per depositor per institution. This became effective on July 1, 2007. The survey also revealed that an estimated 97.64% of the total deposit accounts in the banking system were fully covered, compared to 95.67% in 2006/07. This level was on par with international practices in other deposit insurance regimes. JDIC's total insurable deposits also grew by 16.3% to $3,964 million at December 31, 2007 compared to $3,376 million in 2006. The ratio of Insurable Deposits in the three sub-sectors remained unchanged at 75:21:4

5. The 2007 Fund Evaluation determined the Fund to be adequate to cover the assessed levels of liabilities and potential liabilities for the 1-year period to December 2008. At December 2007 the Deposit Insurance Fund was valued at $3,690 million representing 1.9% of total insured deposits, which compared negatively to 2.17% in 2006. This slippage was due to the doubling of the coverage limit to $ 600,000 during 2007. Of note, the Fund balance registered a further increase of $231 million or 6.3% to $3,921 million at March 31, 2008. The Corporation's policyholders remained at fourteen (14) at the close of the review period.

6. The proposed regulation of co-operative societies by the Bank of Jamaica remained under review during the year. Policy review and research remained an important functional area for the Corporation and in this regard, projects were conducted in relation to member admission, coverage, funding and resolution as well as intervention preparedness. Efforts also continued on the legislative framework for an enhanced Payment and Settlement System. The Bill is expected to cover areas such as the effect of insolvency on payments in the system and the finality of payments.

DISCLOSURES

COMPENSATION TO SENIOR EXECUTIVES

7. 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 attached to the Annual Report. Individual packages ranged from $4.36 million to $8.64 million and totaled $27.45 million or 30% of total staff costs of $88.73 million.

AUDITORS' REPORT

8. The independent audit performed by PriceWaterHouseCoopers resulted in the JDIC receiving an unqualified report. The auditors indicated that the financial statements of the company as at March 31, 2008 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	**2007/08**	**2006/07**	**Change**	
Income:	**$M**	**$M**	**$M**	**%**
Insurance premiums	484.12	437.73	46.39	10.59
Interest earned	477.47	374.41	103.06	27.52
Foreign exchange gain/(loss)	3.27	3.18	0.09	2.80
Other income	-	0.93	-0.93	100
Total income	**964.86**	**816.26**	**148.61**	**18.20**
Less expenses	148.97	126.48	-22.49	-17.78
Net surplus	**815.89**	**689.78**	**126.12**	**18.28**

9. The review period to March 2008 indicated that the JDIC realized a net surplus of $815.89 million from operations, an increase of 18.28% or $126.12 million over the $689.78 million in 2006/07. This was attributed directly to an improvement of $148.61 million in total revenues that fully offset a growth of $22.49 million in operating costs.

10. The JDIC's major income streams (insurance premiums and interest income) recorded actual increases of 10.59% and 27.52% respectively over the prior year. Administrative costs rose by $22.49 million to $148.97 million at March 2008. The major contributors were staff costs of $88.73 million and public education expenses of $18.78 million. Notably, actual staff costs represented an increase of $25.52 million or 40% over 2006/07 and resulted from local and overseas training opportunities utilized to enhance staff competence and efficiency.

SOLVENCY AND LIQUIDITY

11. At March 2008, an increase in investment securities as well as receivables resulted in the Corporation's net worth rising by $792.02 million to $3,922.75 million compared to $3,130.73 million at the end of 2006/07. This change resulted in an improvement in the solvency ratio to 13.20 times compared to 11.94 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 asset base also rose to $4,244.28 million compared to $3,416.80 million in 2006/07. This was primarily attributable to the investment of premium income in diversified government securities and reinvestment income.

12. JDIC's liabilities totalled $321.52 million, an increase of 12% or $35.46 million over the $286.06 million recorded in the previous period and comprise accounts payable and unearned premium income. The Corporation's net surplus of $815.89 million resulted in the Deposit Insurance Fund's balance increasing to $3,920.79 million and represented growth of 26% over the past year which improved the JDIC's available resources in the event of a failure in the financial system.

CONCLUSION

13. The Deposit Insurance Fund continued on a steady growth path and achieved an increase of 26% to $3,920 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, asset base and net worth. JDIC's operational and financial capacity to determine and manage its risk exposure and readiness levels to address potential problems in the financial system were also increased. During future periods, the Corporation expects to continue to focus on selected targets and key business initiatives including research and legislative amendments to improve operational efficiency.

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Minister of Finance and the Public Service
September 17, 2008