

MINISTRY PAPER

#79/07

JAMAICA DEPOSIT INSURANCE CORPORATION ANNUAL REPORT FOR YEAR ENDED MARCH 31, 2007

INTRODUCTION

1. The matter for tabling in the Honourable Houses of Parliament is the Annual Report of the Jamaica Deposit Insurance Corporation (JDIC) for the financial year ended March 31, 2007.

OVERVIEW

2. The JDIC was established by an Act of Parliament on August 31, 1998 to manage a scheme for the insurance of deposits against the risk of loss to depositors, consequent on a series of failures in the financial sector. The limited coverage policy protects the deposits of the vast majority of Jamaicans who utilise the nation's deposit taking institutions and is critical in restoring public confidence in the financial sector.

3. In the execution of its objectives, the Corporation has implemented strategic business policies, systems and procedures to ensure continued growth and stability. These included research capabilities, fund management structures, risk assessment framework and payout systems consistent with international standards.

FUND MANAGEMENT AND ADEQUACY

4. During the 2006/07 financial year, the Corporation continued its programme of risk assessment of the Deposit Insurance Fund to determine its adequacy and level of risk exposure. The highlights from the tests and monitoring activities pursued, indicated that:

- The Fund was sufficiently resilient with respect to changes in the Corporation's recurrent expenses as well as to interest rate movements.
- The Fund was adequate in the medium-term based on the current macro-economic climate and the risk levels of individual institutions.
- The financial system was generally sound and there was no need to call on JDIC's resolution machinery.

5. The annual survey of Insurable Deposits in the banking system was also conducted. The survey concluded that there was continuing growth in system deposits both in number of accounts and dollar value. This was in addition to a high level of protection enjoyed by depositors for their savings as an estimated 95.7% of accounts were fully covered under the insurance scheme.

6. At December 31, 2006¹, total Insurable Deposits amounted to \$3,376.6 million representing an increase of 10% over the December 2005 level. The ratio of Insurable Deposits in the sub-sector remained unchanged at 75:21:4 for commercial banks, building societies and merchant banks respectively. However, as shown in Table 1 below, all three groups reported larger growth in Insurable Deposits for 2006 over 2005.

PERCENTAGE GROWTH IN INSURABLE DEPOSITS

Table 1

Sub-sector	Year 2006	Year 2005
Commercial Banks	9.24%	7.30%
Merchant Banks	17.25%	14.60%
Building Societies	11.30%	9.30%

¹

Data from the financial institutions are collated on a calendar year basis.

7. The number of policyholders declined from fifteen (15) to fourteen (14), with the exit of Citimerchant Bank Limited under a scheme to transfer the assets and liabilities of the Merchant Bank to the parent entity, Citibank N.A., Jamaica Branch with effect from October 31, 2006. The pending full supervision of credit unions by the Bank of Jamaica, and their subsequent introduction to the Deposit Insurance Scheme is expected to increase the number of policyholders and bring them in line with other deposit taking institutions.

8. In the context of sector stability and no need to payout, the Fund continued its trend of growth and recorded a closing balance of \$3,104.89 at the end of the year. This was equivalent to 2.31% of Insured Deposits at the \$300,000 coverage limit; up from 1.72% at the end of the previous year.

9. Research undertaken on the adequacy of the coverage limit resulted in the recommendation and subsequent approval by the former Minister of Finance and Planning for an upward adjustment from \$300,000 per depositor per institution to \$600,000, with no accompanying hike in the premium assessment rate charged to policyholders. This is expected to result in the coverage of approximately 50% of Insurable Deposits compared with less than 40% at the \$300,000 level.

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 Corporation's four (4) executive managers are included in the Annual Report. Individual packages ranged from \$4.46 million to \$8.13 million and totaled \$21.81 million or 28% of total staff costs of \$71.67 million.

AUDITORS' REPORT

11. The independent audit performed by PriceWaterHouseCoopers resulted in the JDIC receiving an unqualified report. The auditors indicated that the financial position of the Company as at March 31, 2007 accords with the requirements of International Financial Reporting Standards and the Deposit Insurance Act 1998.

FINANCIAL HIGHLIGHTS

Extract from Profit & Loss Statement

Table 2

Particulars	2006/07	2005/06	Change	
Income:	\$M	\$M	\$M	%
Insurance Premiums	437.73	388.75	48.98	12.60
Interest Earned	374.41	331.68	42.73	12.80
Foreign Exchange Gain/ (Loss)	3.18	4.09	-0.91	22.25
Other Income	0.93	-	0.93	100.00
Total Income	816.26	724.52	91.73	12.60
Less Expenses	126.48	101.01	25.46	25.20
Net Surplus	689.78	623.51	66.27	10.60

12. During the review period to March 2007, JDIC realized a net surplus of \$689.78 million from operations, an increase of 10.6% or \$66.27 million over the \$623.51 million in 2005/06. This was directly attributed to an improvement of \$91.73 million or 12.60% in total revenues as compared to 25.46 million or 25.2% increase in expenses.

13. The JDIC's major income streams (insurance premiums and interest income) recorded actual increases of 12.6% and 12.8% respectively over the prior year. This was due to the increase in the amount of insurable deposits held by member institutions and favourable interest rates on investment securities. The major contributors to the increase of \$25.46 million in administrative expenses were office expenses (\$6.43 million) and professional fees (\$8.72 million). These higher expenses were due to additional resources employed in carrying out staff training and research as part of the Corporation's ongoing business strategy. Actual staff costs were \$71.67 million, \$8.72 million or 13.8% over 2005/06.

SOVENCY AND LIQUIDITY

14. An increase in investment securities as well as receivables resulted in the Corporation's net worth rising by \$701.70 million to \$3,130.74 million compared to \$2,429.04 million at the end of 2005/06. This positive change resulted in an improvement in the solvency ratio that increased to 11.94 times compare to 10.21 times in the prior year. This was a positive indication


of the entity's ability to cover its liabilities if there was a need. The Corporation's assets also rose to \$3,416.80 million over the \$2,692.87 million in 2005/06. This was directly related to the investment of premium income in diversified Government securities and reinvestment income. At year end the JDIC's liabilities totaled \$286.07 million (which largely represented unearned premium income), an increase of \$22.24 million over the previous year.

15. The Corporation's net surplus of \$689.78 million resulted in the Deposit Insurance Fund's balance increasing to \$3,104.89 million at March 31, 2007, which represented growth of 28% over the previous year. This effectively improved the JDIC's ability to respond to any subsequent failure in the financial system.

CONCLUSION

16. A review of the JDIC's Annual Report for 2006/07 indicated that a number of selected targets and key business initiatives were achieved. Prudent financial management resulted in the growth of the Deposit Insurance Fund by 28%. Growth in investment securities resulted in a higher assets base and improvement in the Corporation's ability to adequately manage the Deposit Insurance Fund to provide insurance against the risk of loss of deposits.

17. These overall initiatives resulted in the continued strong performance by the Corporation and hence improved confidence in the financial system by the public.



Audley Shaw, M.P.
Minister of Finance and the Public Service
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