



# Management and Roles of Deposit Insurance Institution in Attracting Deposits for Jordanian Banking Sector (2000-2013)

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MANAGEMENT AND ROLES OF DEPOSIT INSURANCE INSTITUTION IN ATTRACTING DEPOSITS FOR JORDANIAN BANKING SECTOR 2000-2013

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## I. INTRODUCTION

Deposit Insurance Corporation aims to protect depositors at banks to guarantee their deposits under provisions of the Deposit Insurance Corporation Act 2000, in order to encourage savings and promote confidence in the banking system in the Hashemite Kingdom of Jordan. Therefor established in the Kingdom institution called Deposit Insurance Corporation that enjoys a legal personality with financial and administrative independence, and it has this capacity to carry out all legal actions including entering into contracts, borrow, possess movable and immovable property necessary to achieve its objectives and be the center of the institution in Oman, also may be open branches and offices across the Kingdom. (deposit Insurance Corporation Act No. 33/2000).

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The basic concept of the deposit insurance system in the countries that apply this system aims to protect small depositors in local currency for the state from risk of bank failure or stoppage of payment through the contribution of banks participating in system of the deposit insurance fund which fed under fees or subscriptions abide by these banks to repay or through the report of franchise rights to depositors on the bank's liquidation proceeds in event of bankruptcy within certain amounts of their deposits as the border paramount. In most cases, these systems are based on the capping of deposits per customer at the bank in order to uninsured and confirmation that the primary purpose of the system and protect small depositors. And discourses deposit insurance guarantee deposits in institutions seeks to achieve two goals (Indian, 1992, p 185):

- Increased confidence in financial institutions, and the financial system as a whole, thus to stabilize

these institutions where the banking system in most countries, the role of president in the brokerage. As a result of the fact that bank deposits, short-term, it is difficult to convert against which to critique in a short time it is necessary to help banks facing a liquidity crisis financial, that is the objective of the deposit insurance from viewpoint of the monetary authorities is to achieve stability of financial institutions as ensure greater confidence in the system financial and thereby reduce or avoid the economic crises that caused by the insolvency of banks.

- Increased competition among financial institutions to attract deposits and provide banking services better, as well as guaranteed equality in competition between banks at various sizes. In the absence of this system the large banks are the safest for small banks, and foreign banks in some developing countries may be considered safer than local banks, in the presence of insurance system for deposits less relatively differences between groups of different banks, especially in terms of the risks to the small depositor.

The functions of the Board of Directors Deposit Insurance Corporation (the Deposit Insurance Corporation Act No. 33/2000):

1. Put policy for the Deposit Insurance Corporation.
2. Approval of the general plan to invest the funds of the Deposit Insurance Corporation.
3. Put the organizational structure of the administrative system for the institution and the description of its functions , define its functions and responsibilities.
4. Approval of the regulatory, financial and administrative work required by the Deposit Insurance Corporation.
5. Approving the annual budget estimates for the Deposit Insurance Corporation.
6. Approve the annual reports and final accounts for the Deposit Insurance Corporation.
7. To approve the borrowing institution.
8. Overseeing the liquidation procedures accordance with the provisions of the Bank Act.
9. Appoint a certified auditor to audit the accounts of the Deposit Insurance Corporation.

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## II. THE EVOLUTION OF DEPOSITS IN THE BANKING SYSTEM JORDANIAN

Through (2006-2000) steady growth in volume of deposits in the banking system represented in Jordanian banks and branches of foreign banks operating in the Kingdom, the annual growth rate (11.8%) for the years (2006 to 2000), bringing total deposits in the banking system at the end of the year (2006) to amount 14.5918 billion dinars, which deposits in Jordanian Dinars be worth 8 9427. million dinars and the equivalent of 5.1648 billion dinars in foreign currencies, the average deposit in Jordanian Dinars 3492 and foreign currency equivalent to 15,387 dinars. (Annual report to the Deposit Insurance Corporation 0.2006).

And the total deposits in the banking system, the Jordanian dinar and foreign currencies reached amounted to 15.9881 billion dinars at the end of the year (2007), an increase of 1.3962 billion dinars for the year (2006) represented 9.6% that note the annual growth rate of these deposits for the last five years amounted to 12.6%. The shape of the total deposits in Jordanian dinars amounted to 10.6181 billion dinars, or 66.4 per cent of the total deposits in the banking system. Comparing the percentages its level in 2006)) notes that the proportion of deposits in dinars was at 64.6% compared with 35.4% for foreign currency deposits, which reflects the confidence evident in Jordanian Dinars currency savings compared with foreign currencies. (Annual report to the Deposit Insurance Corporation, 2007).

Moreover, the total deposits in the banking system, the Jordanian dinar and foreign currencies amounted to 18.1026 billion dinars at the end of the year (2008), an increase of 2.1148 billion dinars for the year (2007)) and the rate of 13.2% note that the annual growth rate of these deposits for the last five years amounted to 12.7% on average . The shape of the total deposits in Jordanian dinars amounted to 13.3484 billion dinars, or 73.7 per cent of the total deposits in the banking system. Comparing the percentages its level in 2007)) notes that the proportion of deposits in dinars was at 66.3% compared with 33.6% of deposits in foreign currency, which clearly reflects the increasing confidence in Jordanian Dinars currency savings compared with foreign currencies. (Annual report to the Deposit Insurance Corporation, 2008).

While the total deposits in the banking system, the Jordanian dinar and foreign currencies amounted to 20.2984 billion dinars at the end of the year (2009), an increase of \$ 2194 million dinars for the year (2008) that represented 12.1% that note the annual growth rate of these deposits for the last five years amounted to 11.5%. The shape of the total deposits in Jordanian dinars amounted to 1.15865 million dinars, or 78.2 per

cent of the total deposits in the banking system. Comparing the percentages its level in 2008) notes that the proportion of deposits in dinars was at 73.7% compared with 26.3% for foreign currency deposits, which indicates the continuation of the growing confidence in Jordanian Dinars currency savings compared with foreign currencies. (Annual report to the Deposit Insurance Corporation, 2009).

And reached the total deposits in the banking system, the Jordanian dinar and foreign currencies amounted to \$ 225.7.7 million dinars at the end of the year (2010), an increase of 2.2093 billion dinars for the year 2009) percentage (10.9%) noted that the annual growth rate of these deposits for the last five years amounted to 11.4 % on average. The shape of the total deposits in Jordanian dinars amounted to 17.6201 billion dinars, or 78.3% of total deposits with the banking system. Comparing the percentages its level in 2009) notes that the proportion of deposits in dinars was at 78.2% compared with 21.8% for foreign currency deposits, which indicates the continuation of confidence in Jordanian Dinars currency savings compared with foreign currencies. (Annual report to the Deposit Insurance Corporation, 2010).

The total deposits in the banking system, the Jordanian dinar and foreign currencies amounted to 24.3887 billion dinars at the end of 2011, compared to 22.5077 billion dinars at the end of 2010, an increase of 1.881 billion dinars, and the rate of 8.4% note that the annual growth rate of these deposits for the last five years amounted to 11.1% on average. The shape of the total deposits in Jordanian dinars amounted to 19.1277 billion dinars, or 78.4 per cent of the total deposits in the banking system, while the total deposits in foreign currencies amounted to 5.261 billion dinars or accounted for 21.6% of total deposits in the banking system at the end of 2011). Comparing these percentages its level at the end of 2010, notes that the proportion of deposits in dinars was at 78.3% comparing with 21.7% of deposits in foreign currencies, which enhances the continued confidence in Jordanian Dinars currency savings compared with foreign currencies. (Deposit Insurance Corporation, 2011).

The total deposits in Jordanian Dinars with the banking system amounted to 19.1277 billion dinars at the end of the year (2011 (compared to 17.6201 billion dinars at the end of the year (2010), an increase of 1.5076 billion dinars, and the rate of 8.6% and were distributed among these deposits between retail deposits at \$ 12.6545 billion dinars accounting for 66.2% of total deposits in dinars with the banking system, deposits and companies amounting to 5.842 billion dinars at a rate of 30.5% and deposits the government for \$ 631.2 million dinars at a rate of 3.3% and formed deposits in Jordanian Dinars and owned by individuals accounted for 6.2% of total deposits

Jordanian Dinars with the banking system at the end of the year 2011)). (Deposit Insurance Corporation, 2011) It also increased the total deposits with the banking system, Jordanian Dinars and foreign currencies amounted to 24.9696 billion dinars at the end of 2012) compared to 24.3887 billion dinars at the end of 2011), an increase of 580.9 million dinars, and the rate of 2.4% note that the annual growth rate for this deposits for the last five years amounted to 8.4% on average. The shape of the total deposits in Jordanian dinars amounted to 17.711 billion dinars, or 70.9% of total deposits with the banking system, while the total foreign currency deposits amounted to 7.2586 billion dinars, or a rate of 29.1% of the total deposits in the banking system at the end of 2012). which formed deposits in Jordanian Dinars accounted for 70.9% of total deposits in the banking system at the end of the year, 2012). (Deposit Insurance Corporation, 2012)

### III. DEPOSIT INSURANCE CORPORATION IN JORDAN

Established Deposit Insurance Corporation on September 17 of the year 2000 under Law No. 33 of 2000 as a public institution financially and administratively independent aims to protect depositors in banks to guarantee their deposits have, so the event of a decision to liquidate the right of any bank by the Central Bank of Jordan, a maximum of 50,000 JD . the institution enjoy under its broad powers to enable it to carry out its functions as a guarantor of deposits and liquidator of banks, in addition to the regulatory powers granted them by law , the inspection teams in conjunction with the Central Bank to see final accounts and results of operations of existing banks with the central bank.

The Foundation funds mainly through annual subscription fees collected from its member banks and investment activities, the institution may be able to borrow to pay its obligations legally. The Foundation seeks constantly to develop its infrastructure and its human resources to be able to carry out its functions efficiently and effectively to achieve its mission and objectives of institutional especially regarding the protection of small depositors and maintain the rights of older depositors and educate citizens about the role of the institution in the protection of their deposits and savings banks. The Foundation is the sole guarantor and the liquidator estoppel any bank decides to liquidate the Central Bank. (Deposit Insurance Corporation, 2011)

Most striking features of the deposit guarantee system in Jordan (Deposit Insurance Corporation, 2012)

#### a) Membership

Membership is mandatory for all Jordanian banks and branches of foreign banks that operating in

the Kingdom with the exception of the branches of Jordanian banks operating outside the Kingdom, and optional for Islamic banks licensed to operate in the Kingdom.

1. Roof Warranty: immediate compensation maximum 50,000) JD).

2. Scope of coverage:

#### b) Insured Deposits

Organization includes all deposits in Jordanian dinars belonging to institutions and individuals resident and non-resident banks Members including:

- a) Current accounts and demand.
- b) Savings deposits.
- c) Deposits and subject to the notice.
- d) Certificates of deposit issued by banks member.

#### c) Unsecured Deposits

- Government deposits.
- Interbank deposits.
- Performance of monetary limits of the facilities granted against.

#### d) Currency Secured

Organization includes the amounts deposited in the currency of the Jordanian dinar.

### IV. FEE

Consequent Bank Lists annual subscription fee by two and a half thousand of the total deposits subject to the provisions of the law. As may be modified by the proportion of subscription fee and change the rules of calculated decision of the Ministers Council upon the recommendation of the board of directors of the institution after the classification of banks and foundations according to the classification applied by the central bank. The idea of deposit insurance in that each commercial bank to pay a certain percentage of the total deposits, which has to a particular destination established by the Central Bank or participate in its management, in case you find the bank in response deposits to their owners take the response of deposits within the limits of the insured amounts (Abdul Hamid, 2002, p 79), and the guarantee of bank deposits is based on the philosophy of integration between two presidents what the banking system, thus depositors who will receive fewer benefits on their deposits for the disposal of risk and power, thus the national economy whole, where all citizens in benefits resulting from real resources to be allocated to the management of security systems. (Tayeb, 2003). Shaheen and GIMP (2013) noted that the stability of the banking and financial system is essential to the flow of economic activity and protect it from the economic and social consequences, given the important role of the banking system in the modern economy. Where is the deposit insurance

system of the topics that are gaining importance heavily on the banking arena given the financial crises that taking place in many countries, which led to the faltering of many banks, where the purpose of deposit insurance is to achieve stability of financial institutions as ensure greater confidence in the financial system, thus to reduce the aggravation of the economic problems caused by the insolvency of banks. The establishment of a deposit insurance system has a positive impact on the degree of confidence in the banking system, as it works to reduce the negative impact of the circumstances and prevailing economic conditions, which promotes a means of early warning and cautionary instructions. The establishment of a deposit insurance system increases the degree of stability of deposits and attract more savings, and contributes to the reduction of risks to depositors in critical conditions, and increases the demand for deposit money, as well as its role in reassuring depositors, and the development of awareness of savings. Another aspect related to designing systems guarantee deposits (Blinder, 2001, p1):

1. Deposit guarantee system should prevent the occurrence of the bankruptcy of many banks.
2. Deposit guarantee system should reduce as much as possible of the economic distortions in the state.
3. Deposit guarantee system should not receive either financial support or taxes from the banking system that the premiums paid subscriptions that belong only.
4. Deposit guarantee system must be reduced to the maximum extent of risk for taxpayers.
5. Deposit guarantee system must be thrown the weight of the burden of depositors monitor and control their banks. that the deposit guarantee system may lead to increase the ability of banks to get deposits at lower cost. This was expressed by Alan Greenspan, "Federal Reserve Chairman American saying," The institutions covered system of deposit insurance receive government support in the form of government guarantees allow it to attract deposits at the benefits of less than the necessary level in the absence of deposit insurance and allow them also to assume higher levels of risk without fear of loss of funding sources across the deposit. And formulate other, deposit insurance contributes to the misallocation of resources by breaking the relationship between the level of risk and return for a class competitors in the market "(Greenspan, 2003, p.2). And see Ansari (1992) it must be to the Deposit Insurance Corporation supervisory role of the institutions that fall under its banner must be buying financial assets from banks and financial institutions approved in order to facilitate mergers and must have a clear role in the process of ending

the banks if it continues where it is in violation that allow failure institutions to continue its operations while it is working tragically practically insured deposits of the institution. This supervisory role requires that the institution be in a position to issue instructions concerning lending , control , inspection continuous and comprehensive, as well as processes to identify banks that do not comply with the levels of capital and deposits required. And build a system so that it is straight premiums certain percentage of the total deposits reduced from one bank to another, this system contains a set of indicators and criteria that are used to differentiate between the quality of each bank .These indicators reflect the following:

- Fit with a straight-management efficiency.
- Fit with a straight errors encountered by each institution.
- Has identified these indicators and criteria, including the following:
  - Adequacy of the bank's capital.
  - The volume of bank deposits.
  - Ratio of bad debt to total portfolio.
  - The proportion of overdue debt payments for a certain period and not three months.
  - Cooperate and not violate the rules of the bank and the Central Bank.
  - The size of the bank (large, medium, small).
  - The proportion of deposits insured and non-insured in each bank.

These indicators give points for each bank as evaluated by management Security Corporation. Whenever the bank well in maintaining these standards got higher points and whenever the bank is well earned points less. This system makes it fairer insurance premium, so that reduces the likelihood of bearing the brunt of the burden Foundation. This is determined by the insurance premium for each bank based on total points total for each previous indicators obtained by the Bank. Thereby determining premiums for large banks that get weak points and premiums for banks less good insurance, no matter what the size of the bank, where the premium will reflect the degree of risk for each bank according to the actual achievements compared to previous standards.

Although the features of such a system will pay the banks and encourage them to develop their performance to reduce insurance premiums on deposits, also to attract depositors, fearing escape the banks in the best performance. This will be a reality as far as the system is available from the publication of information about the real position of each bank. what we call that is available and accessible in the Deposit Insurance Corporation;, it is necessary to have the insurance premium variable depending on the work , the

risk portfolio of loans and investments insured institutions. In spite of the financial conditions difficult witnessed by the Kingdom of Jordan in the year 2011), showed the key financial indicators for member banks for year 2012, of the 22 bank out of 26 bank workers in the Kingdom, which constitute the assets of 87% of the total assets of the Jordanian banking sector, improvement evident in the performance indicators compared with those indicators for the year 2011, thanks to the actions and decisions taken by the central bank in 2012, which led in turn to maintain monetary stability in the Kingdom, as well as system FAQ regulatory and robust procedural adopted by the central bank according to international best practices, which enabled banks to strengthen and improve their financial positions, in particular, reinforced the strength and stability of the banking system in general.

## V. CAPITAL AND PRIVATE DEPOSITS IN BANKS

The term expresses the capital adequacy of the capacity and efficiency of commercial banks, guide and control the risks faced, in order to be scaled , control and make decisions that are consistent with the strategy , policy and to strengthen its competitiveness. The benefit of capital adequacy in the pricing of banking services is to maximize the returns banks' operations, in addition to the development of policies due to process is necessary for the prevention of various types of risks, which arise as a result of technological development and the increasing complexities and mail in banking operations and intense competition.

The importance of capital and deposits is the important functions carried out by the foremost of banks to absorb losses resulting from the operation and strengthen confidence , the regulatory authorities in the bank's ability to cope with problems, as it signifies the bank's capital and its deposits on the degree of solvency enjoyed in bank, that given the importance of capital adequacy and deposit for institutions guarantee deposits to put many of the standards to be measured, as well as to ensure the adequacy capital to each of the deposits, assets, and risk assets, as they intervene in determining the increasing to reserves or retained earnings, and impose sometimes increase capital and deposits by increasing the new cash from shareholders to provide loan support. (HSL 0.2009) Jordan's banking system has witnessed remarkable progression during the past six decades, represents the evolution of the device is limited in size and resources of its institutions and quality, to a sophisticated device and processions to the latest global financial institutions. Jordan's sector apply the standard of capital adequacy; the aim strengthening the capacity of Jordanian banks and help them to continue working effectively to meet the global

developments coming, the creation of financial institutions capable of confrontation and , in front of any potential risks and overcome them safely, as well as to encourage mergers banking boosted the financial positions of banks. (Good and Shahatit 0.2011, S358-366)

Banks play a major role in the economies of all countries in the global economy, a role increasingly important in small countries like Jordan and their monetary authorities have a responsibility to large in maintaining monetary and financial stability, even individuals can exercise their economic activity, the search for opportunities rewarding them for production and development, it is necessary to provide an atmosphere of financial , banking stability to avoid the crises of confidence that leads to the demand for the withdrawal of deposits from banks, then that offer sufficient guarantees to build confidence in the banking system is the cornerstone of reassuring depositors, and that the existence of a specialized institution to guarantee deposits beyond the depositary bank itself increases the confidence of depositors relieves to deposit holders. The existence of an independent institution to guarantee deposits increases the cooperation between the central bank and banks operating under his supervision because it increases the willingness of the central bank to exercise the role of the financier. (Cranium 0.2005).

## VI. CONCLUSION

The establishment of a system of deposit insurance works as an early warning before the occurrence of financial crises in banks, and increases the stability of the deposits and attract savings , capital and deposits with banks . The stability of deposits in the banking system, each bank to pay a certain percentage of the total deposits, which has the Deposit Insurance Corporation in the Central Bank deposits in response to these owners assume the deposits in response to the amounts insured In addition to confidence in financial institutions , the financial system as a whole, and thus achieve stability, and increased competition among financial institutions (banks) to attract deposits and provide banking services better.

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