



FINANCIAL MARKETS SYMPOSIUM “PROMOTING FINANCIAL INCLUSION THROUGH PUBLIC EDUCATION AND AWARENESS ”

THE ROLE OF DEPOSIT INSURANCE IN FINANCIAL INCLUSION

**August 29, 2013
Bank of Jamaica Auditorium
Kingston, Jamaica**

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Jamaica Deposit Insurance Corporation**



THE PRESENTATION WILL ADDRESS THREE AREAS:



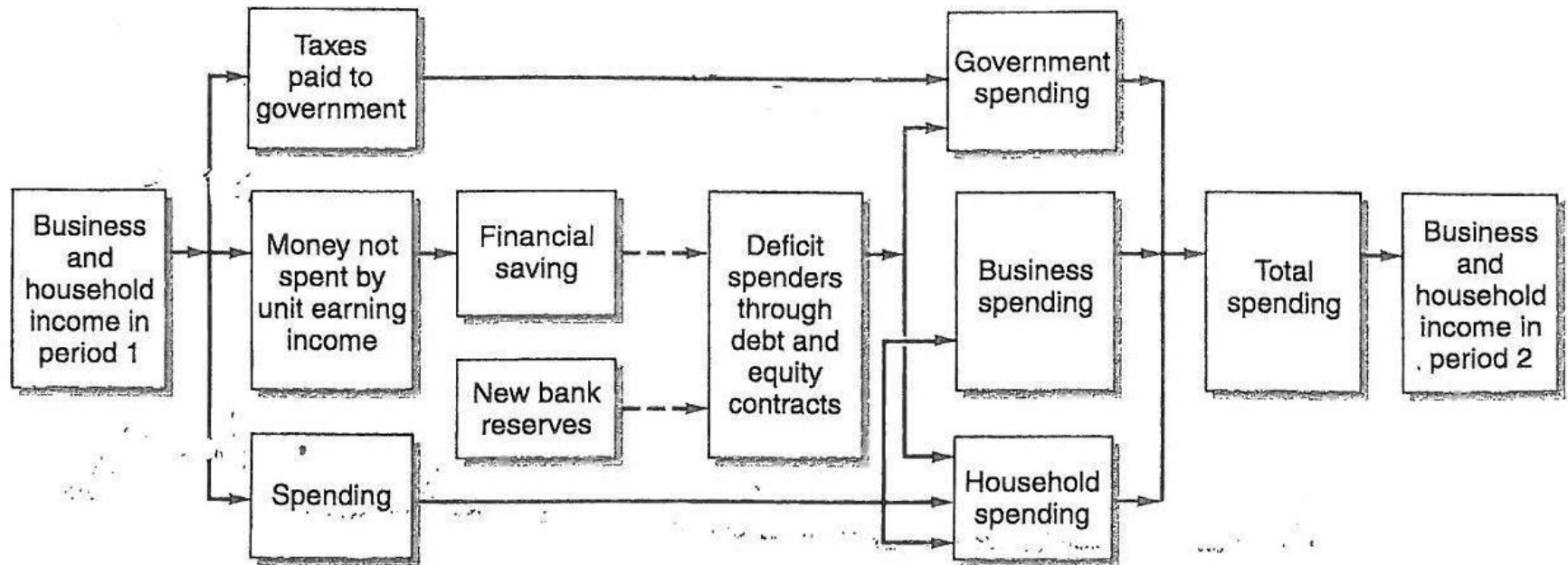
1. WHY DEPOSIT INSURANCE SCHEMES
 - FINANCIAL SYSTEM STABILITY AND CONFIDENCE
2. CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SCHEMES AND JDIC'S RESPONSIVENESS
 - PUBLIC EDUCATION AND AWARENESS
3. DEPOSIT INSURANCE AND FINANCIAL INCLUSION



WHY ESTABLISH DEPOSIT INSURANCE SCHEMES?



SIMPLIFIED GRAPH OF FINANCIAL FLOWS



IMPORTANCE OF BANKS TO THE ECONOMY

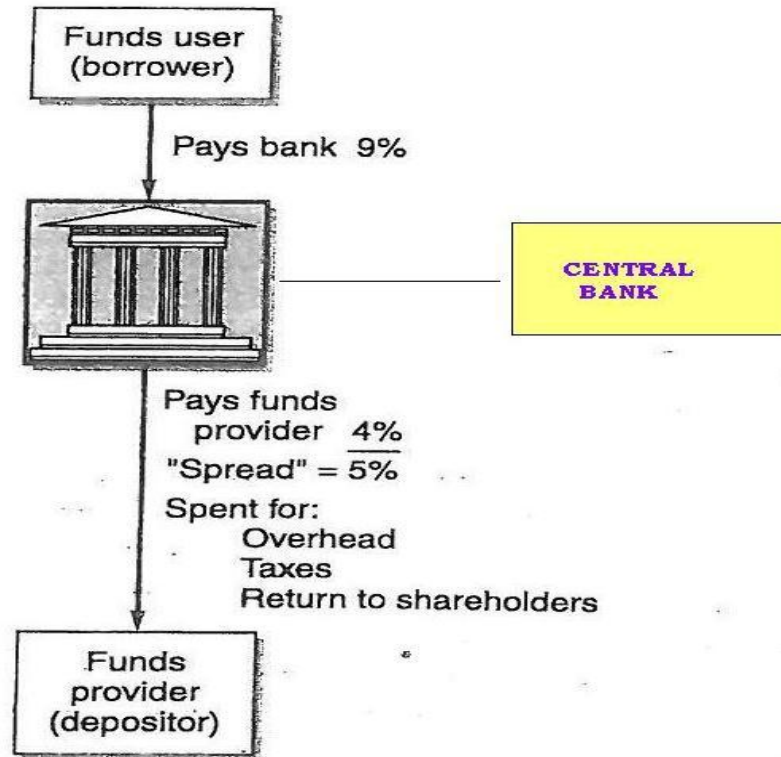


The role of banks in the payments system:

- (i) Intermediaries between savers and borrowers/investors; and
- (ii) in the transmission of monetary policy to keep prices stable. The intermediation process can be depicted simply



THE INTERMEDIATION PROCESS



ESTABLISHMENT OF JDIC - DEPOSIT INSURANCE SCHEMES AND THE FINANCIAL SYSTEM SAFETY NET



DEPOSIT INSURANCE

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THE DEPOSIT INSURANCE ACT

[31st August, 1998.]

Acts
3 of 1998,
36 of 1999.

PART I. Preliminary

1. This Act may be cited as the Deposit Insurance Act. Short title.
- 2.—(1) In this Act, unless the context otherwise requires— Interpreta-
tion.
 - “Bank” means the Bank of Jamaica established under the Bank of Jamaica Act;
 - “Board” means the Board of Directors of the Corporation appointed under the Schedule; Schedule.
 - “Corporation” means the Jamaica Deposit Insurance Corporation established under section 3;
 - “deposit” means—
 - (a) a sum of money paid on terms—
 - (i) under which the sum will be repaid, with or without interest or a premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it; and
 - (ii) which are not referable to the provision of property or services or to the giving of security, and for the purposes of this paragraph, money is paid on terms which are referable to the provision of property or services or to the giving of security if, and only if—
 - (A) it is paid by way of advance or part payment for the sale, hire or other provision of property or

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ESTABLISHMENT OF JDIC



- JDIC was established in 1998 as a critical part of financial system strengthening after the 1990's financial sector crisis.
- The Corporation was established to guarantee the protection of the deposits in the regulated deposit taking financial institutions.
- Protection of depositors is seen by national governments as one of the tools to engender depositor confidence and financial system stability.



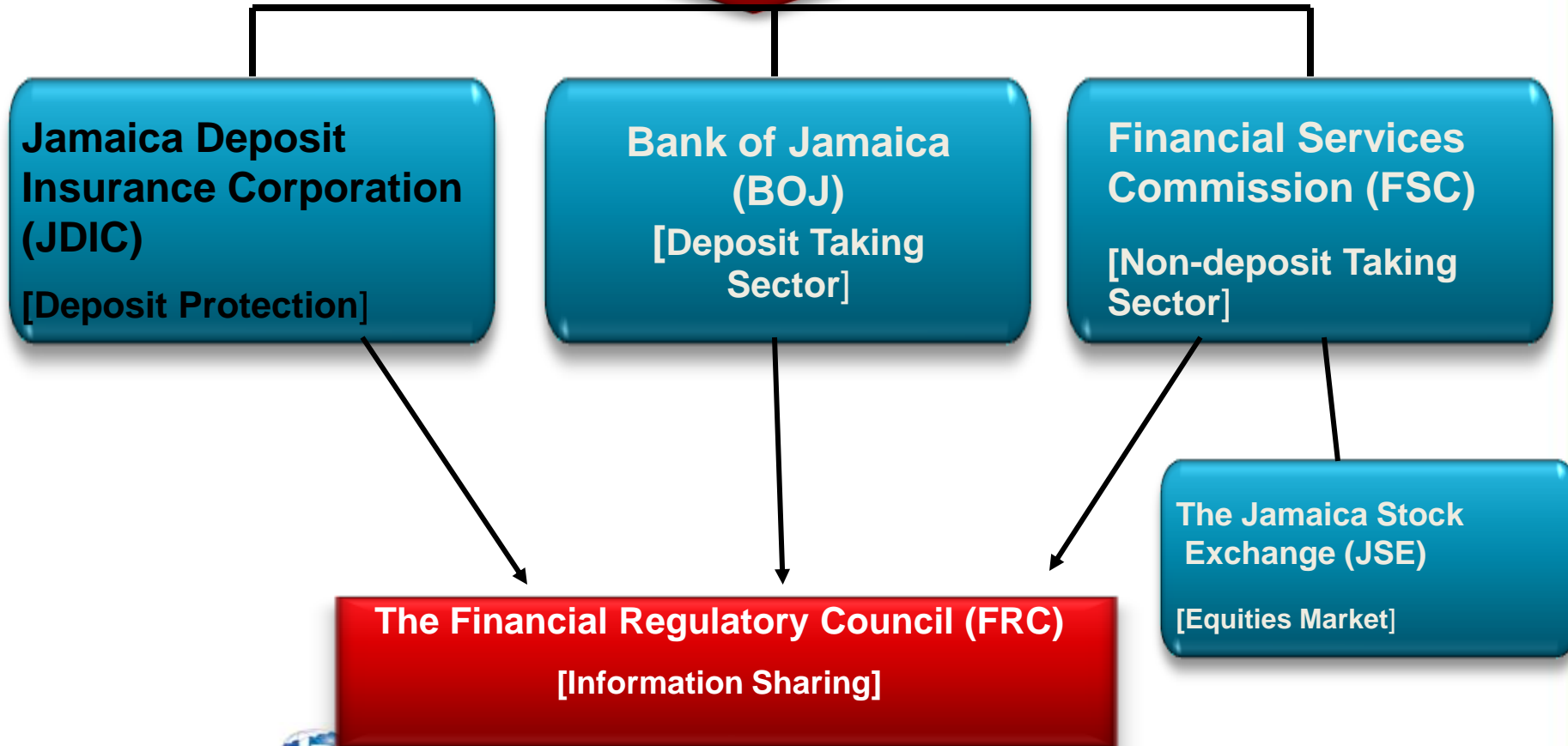
ESTABLISHMENT OF JDIC



FINANCIAL SYSTEM SAFETY NET (FSSN)



MINISTRY OF FINANCE AND PLANNING



FINANCIAL SYSTEM SAFETY NET



A safety net generally has four major objectives:

- First, bank regulation and supervision is designed to ensure that banks operate in a safe and sound manner.
- Second, the banking system must have access to a lender –of-last resort facility.
- Protection of depositors is seen by national governments as one of the tools to engender depositor confidence and financial system stability.
- Finally, a safety net provides depositor protection for small –scale and relatively vulnerable depositors.



HISTORICAL LESSONS ON DEPOSIT INSURANCE SCHEMES



The Establishment of the Federal Deposit Insurance Corporation (FDIC)

- The first deposit insurance scheme FDIC was established in 1933 under the Federal Deposit Insurance Act as part of the Federal Government's safety net to protect the public after the stock market crashed in 1929. Banks were closed because of loss of confidence and depositor runs on banks.



HISTORICAL LESSONS ON DEPOSIT INSURANCE SCHEMES



- Extracts from: President Franklin D. Roosevelt Address on the National Programme to Address the Banking Crisis in the United States - March 12, 1933

“First of all let me state the simple fact that when you deposit money in a bank the bank does not put the money into a safe deposit vault. It invests your money in many different forms of credit-bonds, commercial paper, mortgages and many other kinds of loans. In other words, the bank puts your money to work to keep the wheels of industry and of agriculture turning around....”



HISTORICAL LESSONS ON DEPOSIT INSURANCE SCHEMES



The success of our whole great national program depends, of course, upon the cooperation of the public - on its intelligent support and use of a reliable system....

“...One more point before I close. There will be, of course, some banks unable to reopen without being reorganized. The new law allows the Government to assist in making these reorganizations quickly and effectively and even allows the Government to subscribe to at least a part of new capital which may be required.



HISTORICAL LESSONS ON DEPOSIT INSURANCE SCHEMES (CONT'D)



“I hope you can see from this elemental recital of what your government is doing that there is nothing complex, or radical in the process....”



CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS



DEPOSIT INSURANCE SCHEME DESIGN FEATURES



INTERNATIONAL ASSOCIATION OF DEPOSIT
INSURERS/BASLE COMMITTEE ON BANK
SUPERVISION (IADI/BCBS) CORE PRINCIPLES
FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS.

- *Developed in 2009 consequent on 2008 Financial Stability Forum Report on Enhancing Market and Institutional Resilience*



THE CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

The Pre-Conditions

- *The development of the Principles should also take close account of the broader characteristics of safety-net arrangements, including those of the regulatory and supervisory framework and of resolution procedures for failing institutions.*



THE CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS



The Benefits of Deposit Insurance

- *“A deposit insurance system clarifies the authority’s obligation to depositors, limits the scope for discretionary decisions, can promote public confidence, helps contain the costs of resolving failed banks and can provide countries with an orderly process for dealing with bank failures and a mechanism for banks to fund the cost of failures.”*



THE CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS



- “ A deposit insurance system is not intended to deal by itself with systemically significant bank failures for a “systemic crisis”. In such cases all financial system safety-net participants must work together effectively. In addition, the cost of dealing with systemic failures should not be borne solely by the deposit insurance system but should also be dealt with by the state.



THE CORE PRINCIPLES AND THE JDIC

- CP 1 **Public Policy Objectives** - *in adopting or reforming a deposit insurance system appropriate public policy objectives must be formally specified and integrated into the DIS.*



THE CORE PRINCIPLES AND THE JDIC

- CP 2 **Mitigating Moral Hazard** - *Moral hazard should be mitigated by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety net.*



THE CORE PRINCIPLES AND THE JDIC

- CP 3 **Mandate** - *Clear and formally specified mandate*
- CP 4 **Powers** - *Have all the powers necessary to fulfil that mandate and these should be formally specified.*
- CP 5 **Governance** - *The DI should be operationally independent, transparent, accountable and insulated from undue political and industry influence.*



THE CORE PRINCIPLES AND THE JDIC



- CP 6 **Relationships with other safety-net participants** - *There should be a framework in place for close coordination and information sharing on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety net participants. Information sharing and coordination arrangements should be formalized.*



THE CORE PRINCIPLES AND THE JDIC



- CP 8 **Membership** – Membership in the DIS should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (eg. retail and small business depositors to avoid adverse selection). This prevents the opting in by higher risk banks and opting out by lower risk banks.



THE CORE PRINCIPLES AND THE JDIC



- CP 9 **Coverage** – *The level of the deposit insurance coverage should be clearly defined in law. The level should be a limited amount that is credible and be capable of quick determination. It should adequately cover the large majority of depositors to meet the public policy objectives of the system.*



THE CORE PRINCIPLES AND THE JDIC



- CP 12 **Public Awareness** - *In order for a deposit insurance system to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of a deposit insurance system.*
- Public awareness of deposit insurance, its existence and how it works (including the level and scope of coverage and how the claims process operates), plays a significant role in underpinning a sound deposit insurance system.



THE CORE PRINCIPLES AND THE JDIC



- All deposit insurers should promote public awareness about the deposit insurance system on an ongoing basis to maintain and strengthen public confidence



PUBLIC FORUMS



CONFERENCES ON SELECTED ISSUES



DECALS FOR POLICYHOLDERS BUSINESS PLACES



POLICYHOLDER FORUMS AND TRAINING SESSIONS



ADVERTISING ON BUSES



ADVERTISING ON BILLBOARDS



Jamaica Deposit Insurance Corporation

Covered Institutions:

- Commercial Banks
- Trust & Merchant Banks
- Building Societies



Protecting Deposits
For You And Me

Toll Free: 1-888-991-JDIC(5342)



SCHOOLS ESSAY COMPETITIONS



NEWSPAPER CARTOONS



"BETTER SAFE THAN SALT."



Jamaica Deposit Insurance Corporation. Protecting Deposits For You And Me

30 Grenada Crescent, Kingston 5, Jamaica W.I. Tel:926-5225, 968-8382, 968-7398 •Fax-920-9393 •Toll-Free (Local) 1-888-991-5342 •email:jdic@cwjamaica.com•website:www.jdic.org



PUBLIC EDUCATION



- Case: Northern Rock Bank run - August 2007 - UK
- One of the lessons learned - Public Education is Important



THE CORE PRINCIPLES AND THE JDIC



- CP17 **Reimbursing Depositors** - *The deposit insurance system should give depositors prompt access to their insured funds.*
- CP18 **Recoveries** - *The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank.*



DEPOSIT INSURANCE AND FINANCIAL INCLUSION



THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)



The OECD defines financial education as:

“The process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and /or objective advice develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well being”.



OECD (Cont'd.)

Financial literacy of adults is defined as “a combination of awareness, knowledge, skills and behaviours and attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing” (*Atkinson and Messy, 2012*)

It would seem that this coincides very closely with the objective of the Financial System Safety Net on the one hand and with those of the financial service providers on the other hand.



THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

CAUSES OF FINANCIAL EXCLUSION

1. SUPPLY SIDE CONSTRAINTS INCLUDE:

- ✓ Regulatory Constraints
- ✓ Availability of competing financial services with no, or limited, financial consumer protection requirements
- ✓ Prohibitive market factors
- ✓ Geographical/physical barriers
- ✓ Infrastructure and connectivity barriers



THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

2. DEMAND SIDE CONSTRAINTS INCLUDE:

Several demand side factors can lead to or prolong exclusion. These include:

- ✓ Financial vulnerability caused by personal circumstances
- ✓ Low Level of Financial Literacy
- ✓ Reduced social and technological inclusion
- ✓ Cultural and psychological barriers - Linguistic or educational barriers



THE G-20 FINANCIAL INCLUSION ACTION PLAN



- The G-20 has reiterated its strong commitment to financial inclusion and recognition of the benefits of universal access to financial services.
- The G20 notes the overarching and cross-cutting nature of financial inclusion and therefore has included financial inclusion as one of the main pillars of the development agenda for strong and balanced growth and the eradication of poverty building, an agenda for G20 and non-G20 countries including developing countries.



INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS

In March of this year the International Association of Deposit Insurers through its Research and Guidance Committee and Financial Inclusion and Innovation Sub-Committee put out a Research Paper titled *“Financial Inclusion and Deposit Insurance”*.



INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS



The Summary of the Financial Inclusion and Deposit Insurance Literature Review covers these areas:

- Financial Inclusion and Microfinance
- Financial Inclusion and Economic Growth
- Financial Inclusion and Financial Stability
- Financial Inclusion and Deposit Insurance



FINANCIAL INCLUSION IN THE PARTICULAR CONTEXT OF ANTI-MONEY LAUNDERING/COUNTER TERRORISM FINANCING (AML/CFT)



- Pierre Laurent Chatain Lead Financial Sector Specialist (Financial Systems) The World Bank in a 2011 presentation to a World Bank Forum in Lima Peru in defining financial inclusion and its importance noted as follows:
- “Financial Inclusion brings the excluded population that is currently in the informal, undocumented, unmonitored and unregulated system into the formal, transparent, and protective financial system - **A crucial AML/CFT objective**”



FINANCIAL ACTION TASK FORCE (FATF)



- The FATF in June 2011 published Guidance which provided support to their countries and their financial institutions in designing Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) measures that meet the national goal of financial inclusion, without compromising the measures that exist for the purpose of combating crime.



CONCLUSION

In the context of the generally accepted definitions of financial inclusion the Corporation's public education programme as designed, together with the programmes of other safety net participants, go somewhat toward promoting financial inclusion in Jamaica.

