MINISTRY PAPER 24/16

JAMAICA DEPOSIT INSURANCE CORPORATION
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

1.0 INTRODUCTION

1.1 The matter for tabling in the Honourable Houses of Parliament is the Annual Report for the Jamaica Deposit Insurance Corporation (JDIC) for the financial year ended March 31, 2015.

2.0 OPERATING OVERVIEW

2.1 JDIC was established in accordance with the Deposit Insurance Act (DIA), 1998 and commenced operations on 31st August 1998. The Corporation is one of the safety net partners and its specific statutory objectives are to provide insurance against the loss of depositors' funds up to a prescribed maximum ($600,000). Deposit accounts (foreign[1] and local) covered by the Deposit Insurance Scheme (DIS) include savings account, chequing accounts, Certificates of Deposit, Time Deposits and Shares in Building Societies. In pursuing its objectives, JDIC seeks to minimize its exposure to loss and manages the Deposit Insurance Fund[2] (DIF).

2.1.1 In accordance with the requirements of the DIA, JDIC continued to collect premiums from policyholders (based on the premium assessment rate of fifteen basis points) to cover deposit accounts held in different ownership categories by member institutions. During the year, membership in the Deposit Insurance Scheme (DIS) was reduced to eleven - 11 (2013/14: 12) due to the acquisition by Sagicor Group Jamaica Limited (Sagicor) of the Jamaican operations of RBC Financial (Caribbean) Limited. Accordingly, the Scheme now comprises six (6) (2013/14: 7) commercial banks, three (3) building societies, a merchant bank and a trust company.

2.1.2 The JDIC's compliance with the Basel Committee on Banking Supervision and the International Association of Deposit Insurers Core Principles for Effective Deposit Insurance Systems (Core Principles) was assessed with the support of the United States Department of Treasury, Office of Technical Assistance. The Corporation was deemed compliant with most of the sixteen (16) Core Principles, and efforts are ongoing to ensure compliance in areas where there is non-compliance.

2.1.3 The Corporation worked on the development of its Financial Crisis Management Plan (FCMP) precursory to the establishment of a National Financial Crisis Management Plan with the Financial System Safety Net (FSSN) partners. These developments are consistent with the Memorandum of Economic and Financial Policies (MEFP) and international best practices arising from lessons learned from the global financial crisis of 2007. Through the development of proposed policy prescriptions, which will be finalized after consultations with stakeholders in the 2015/16 financial year, the Corporation will seek to further enhance its resolution capacity.

2.1.4 The annual simulation exercise was conducted to test the readiness of the Corporation to pay out depositors, if the need were to arise. Work was undertaken on the business process

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[1] Payments on foreign currency accounts are in Jamaican dollars.
[2] The DIF was established to pay depositors of failed but insured financial institutions and to offer financial help to policyholders.

development for the full automation of depositor payout compliant with international best standard timelines, with projections for completion of the development work in early 2018.

2.1.5 There was significant improvement in the framework for Policyholder prudential regulation with the passage of the Banking Services Act (BSA). The BSA will serve to strengthen the oversight of the deposit-taking financial sector and achieve greater conformity with internationally established and accepted core principles of banking supervision. Also there was the tabling of the Deposit Insurance (Joint, Trust and Nominee Accounts) Regulations. These Regulations will facilitate the preservation of the commercial expectations of depositors, as it provides a framework for deposit insurance coverage up to the maximum limit to the beneficial owners (not previously addressed by current DIA and Regulations).

3.0 FUND MANAGEMENT AND ADEQUACY

3.1 Over a five-year period to 2014/15, increased insurance premium and investment income facilitated Fund balance growth of $4,279.94 million. Accordingly, at March 31, 2015, the DIF was valued at $12,169.89 million and was $1,828.38 million or 17.68% above the $10,341.51 million recorded at March 31, 2014. There were significant earnings, which more than offset the level of administrative costs, while there was no requirement for a payout.

3.1.1 The review of the DIF is used to determine the exposure of the Fund to policyholders' risk, the adequacy in relation to expected and potential liabilities, as well as to estimate the short-term liquidity funding requirement. The DIF Ratio[3] which was 4.0% at December 31, 2013 increased to 4.5% by December 31, 2014. The annual review of the DIF concluded that the Fund was adequate to cover expected and potential liabilities that may arise during the year from policyholders' exposure[4].

3.1.2 At December 31, 2014, the value of total estimated insured deposits increased by 5.7% to $259,716.50 million (December 2013: $245,616.12 million). Commercial banks continued to record the largest percentage (70.5%) followed by building societies (29.0%) and FIA Licensees (0.5%). The number of fully insured accounts remained at 96.8%[5] of total insurable account, while the ratio for the dollar value of fully insured deposits was 28.2% (2013/14: 28.7%). Building societies continued to record the largest ratio for covered accounts (97.5%) followed by commercial banks (96.1%) and FIA Licensees (86.5%).

4.0 COMPENSATION TO SENIOR EXECUTIVES AND BOARD MEMBERS

4.1 In accordance with the Second Schedule of the Public Bodies Management and Accountability Act, details of the compensation packages for the executive management and directors are enclosed. Emoluments paid to senior executives totalled $40.82 million, an increase of $2.10 million, or 5% above the $38.72 million in 2013/14. The increase was due mainly to increment and gratuity payments. The compensation package for the five (5) senior managers ranged from $5.78 million to $14.20 million and accounted for 35.37% of total staff costs of $115.42 million.

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[3] The DIF expressed as a percentage of the total insured deposits; current target range is 8% to 10%. Generally, data for insured deposits relate to calendar year performance.

[4] The Corporation's assessment of policyholders' risk during the year showed that none posed a threat and that no resolution was expected.

[5] The percentage of insurable deposit accounts compared favourably to the International Association of Deposit Insurers (IADI) International best practice recommendation of 90% - 95% of deposit accounts in the system.

4.2 Fees for the seven (7) Board members (including the chairman) amounted to $0.12 million. The Board consisted of three (3) sub-committees namely, Audit, Investment, and Corporate Governance.

5.0 AUDITORS' REPORT

5.1 KPMG conducted an independent audit of JDIC's financial statements and issued an unqualified report. The auditors' expressed opinion is that the financial statements give a true and fair view of the state of the Corporation's affairs as at March 31, 2015 and have been properly prepared in accordance with the requirements of the International Financial Reporting Standards and outline information as required by the Deposit Insurance Act.

6.0 FINANCIAL HIGHLIGHTS

6.1 Income and Expenses

Table 1: Extract from Profit & Loss Statement ($'m)

Particulars	2014/15	2013/14	Change	
			$ m	%
Income:				
Insurance premiums	870.05	809.25	60.80	8%
Interest earned	1,100.03	922.90	177.13	19%
Foreign exchange gain/(loss)	59.61	83.64	(24.03)	-29%
Other Inome	4.77	9.98	(5.21)	-52%
Total Income	**2,034.46**	**1,825.77**	**208.69**	**11%**
Expenses				
Staff costs	115.42	122.31	6.89	6%
Management remuneration	14.20	14.15	(0.05)	0%
Professional fees	7.23	10.19	2.96	29%
Public education	5.51	27.18	21.67	80%
Utilities	8.44	8.40	(0.04)	0%
Other administrative costs	23.19	27.05	3.86	14%
Total Expenses	**173.99**	**209.28**	35.29	**17%**
Impairment loss on securities	32.09	-	(32.09)	
Net Surplus	**1,828.38**	**1,616.49**	**211.89**	**13%**
Other Comprehensive Income/(Expense)				
Revaluation of property, plant & equip	16.14	-	(16.14)	
Fair Value Loss	(13.70)	(1.63)	**(12.07)**	**740%**
Total Comprehensive Income	**1,830.82**	**1,614.86**	**215.96**	**13%**

6.1.1 JDIC recorded a $208.69 million growth in income which totalled $2,034.46 million (2013/14: $1,825.77 million), along with decline of $35.29 million or 17% in operating overheads to $173.99 million (2013/14: $209.28 million). Accordingly, the Entity recorded a net surplus of $1,828.38 million (2013/14: $1,616.49 million). Specifically, the improvement was influenced primarily by net increases in interest earned ($177.13 million) and insurance premiums ($60.80 million - associated directly with the increase in the amount of insurable deposits held by policyholders). However, the impact of the aforementioned was offset partially by reduced ($24.03 million) foreign exchange gains due to a lower rate of decline in the value of the Jamaican dollar relative to its United States counterpart. JDIC's revaluation profit ($16.14 million) and fair value loss ($13.70 million) on assets resulted in total comprehensive income of $1,830.82 million.

6.1.2 Major contributors to the reduced expenses were public education ($21.67 million) and staff costs ($6.89 million). As it relates to public education costs, financial markets symposium and fair which was held in the prior year was not hosted in 2014/15 as planned, while overall, costs were lower. The reduction in staff costs was influenced primarily by the employment of one (1) less staff (25), and lower vacation leave expense. In addition, interest rate subsidy declined as balances on some staff loans were lower due to separation, repayment and loan restructuring.

7.0 Balance Sheet

7.1 The assets associated with the Fund balance were represented by cash and investment securities, which impacted significantly, the Corporation's asset base. In alignment with the increased DIF balance, JDIC's asset base increased by $1,806.44 million or 16% above the $11,028.47 million recorded at March 31, 2014. Specifically, the level of investment securities increased by $1,873.21 million. However, this was partially countered, chiefly as accounts receivable declined by $60.89 million below the $406.77 million recorded at March 31, 2014; withholding tax recoverable was $53.02 million less.

7.1.1 Total liabilities decreased by $24.39 million or 4% to $591.48 million (2013/14: $615.87 million), particularly since unearned premium, fell by $27.20 million. Unearned premium income represents the portion of insurance premiums received from policyholders in March 2015 and relating to financial year 2015/16. JDIC continued to demonstrate its ability to cover its obligations and showed no other immediate exposure.

8.0 CONCLUSION

8.1 As a safety net player, the Corporation remained committed to its mandate to provide insurance against the loss of depositors' funds and continued to participate in activities to enhance financial system confidence and stability. For the 2014/15 financial period, JDIC recorded an improvement in its operations and remained profitable. The Corporation also achieved an increase in the DIF, which is a continuation of the prior year's improvement.

Audley Shaw, MP
Minister of Finance and the Public Service
March 14, 2016