

1 Management and Roles of Deposit Insurance Institution in 2 Attracting Deposits for Jordanian Banking Sector (2000-2013)

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6

7 **Abstract**

8 Introduction-Deposit Insurance Corporation aims to protect depositors at banks to guarantee
9 their deposits under provisions of the Deposit Insurance Corporation Act 2000, in order to
10 encourage savings and promote confidence in the banking system in the Hashemite Kingdom
11 of Jordan. Therefor established in the Kingdom institution called Deposit Insurance
12 Corporation that enjoys a legal personality with financial and administrative independence,
13 and it has this capacity to carry out all legal actions including entering into contracts, borrow,
14 possess movable and immovable property necessary to achieve its objectives and be the center
15 of the institution in Oman, also may be open branches and offices across the Kingdom.
16 (deposit Insurance Corporation Act No. 33/2000).The system is known deposit guarantee that
17 the system works to provide the possibility of compensation categories of depositors owners of
18 certain types of deposits by less or too much of their deposits that are exposed to danger as a
19 result of the faltering bank deposited these deposits has ceased payment accordingly. (Indian,
20 1992, p 83).

21

22 *Index terms—*

23 **1 Introduction**

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

31 The system is known deposit guarantee that the system works to provide the possibility of compensation
32 categories of depositors owners of certain types of deposits by less or too much of their deposits that are exposed
33 to danger as a result of the faltering bank deposited these deposits has ceased payment accordingly. (Indian,
34 1992, p 83).

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

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

49 Increased competition among financial institutions to attract deposits and provide banking services better, as
50 well as guaranteed equality in competition between banks at various sizes. In the absence of this system the
51 large banks are the safest for small banks, and foreign banks in some developing countries may be considered
52 safer than local banks, in the presence of insurance system for deposits less relatively differences between groups
53 of different banks, especially in terms of the risks to the small depositor. And the total deposits in the banking
54 system, Jordanian dinar and foreign currencies reached amounted to 15.9881 billion dinars at the end of the year
55 (2007), an increase of 1.3962 billion dinars for the year (2006) represented 9.6% that note the annual growth rate
56 of these deposits for the last five years amounted to 12.6%. The shape of the total deposits in Jordanian dinars
57 amounted to 10.6181 billion dinars, or 66.4 per cent of the total deposits in the banking system.

58 2 Global

59 Comparing the percentages its level in 2006)) notes that the proportion of deposits in dinars was at 64.6%
60 compared with 35.4% for foreign currency deposits, which reflects the confidence evident in Jordanian Dinars
61 currency savings compared with foreign currencies. (Annual report to the Deposit Insurance Corporation, 2007).

62 Moreover, the total deposits in the banking system, the Jordanian dinar and foreign currencies amounted to
63 18.1026 billion dinars at the end of the year (2008), an increase of 2.1148 billion dinars for the year 2007)) and
64 the rate of 13.2% note that the annual growth rate of these deposits for the last five years amounted to 12.7%
65 on average . The shape of the total deposits in Jordanian dinars amounted to 13.3484 billion dinars, or 73.7
66 per cent of the total deposits in the banking system. Comparing the percentages its level in 2007)) notes that
67 the proportion of deposits in dinars was at 66.3% compared with 33.6% of deposits in foreign currency, which
68 clearly reflects the increasing confidence in Jordanian Dinars currency savings compared with foreign currencies.
69 (Annual report to the Deposit Insurance Corporation, 2008).

70 While the total deposits in the banking system, the Jordanian dinar and foreign currencies amounted to 20.2984
71 billion dinars at the end of the year (2009), an increase of \$ 2194 million dinars for the year (2008) that represented
72 12.1% that note the annual growth rate of these deposits for the last five years amounted to 11.5%. The shape of
73 the total deposits in Jordanian dinars amounted to 1.15865 million dinars, or 78.2 per cent of the total deposits
74 in the banking system. Comparing the percentages its level in 2008) notes that the proportion of deposits in
75 dinars was at 73.7% compared with 26.3% for foreign currency deposits, which indicates the continuation of the
76 growing confidence in Jordanian Dinars currency savings compared with foreign currencies. (Annual report to
77 the Deposit Insurance Corporation, 2009).

78 And reached the total deposits in the banking system, the Jordanian dinar and foreign currencies amounted
79 to \$ 225.7.7 million dinars at the end of the year (2010), an increase of 2.2093 billion dinars for the year 2009)
80 percentage (10.9%) noted that the annual growth rate of these deposits for the last five years amounted to
81 11.4 % on average. The shape of the total deposits in Jordanian dinars amounted to 17.6201 billion dinars, or
82 78.3% of total deposits with the banking system. Comparing the percentages its level in 2009) notes that the
83 proportion of deposits in dinars was at 78.2% compared with 21.8% for foreign currency deposits, which indicates
84 the continuation of confidence in Jordanian Dinars currency savings compared with foreign currencies. (Annual
85 report to the Deposit Insurance Corporation, 2010).

86 The total deposits in the banking system, the Jordanian dinar and foreign currencies amounted to 24.3887
87 billion dinars at the end of 2011, compared to 22.5077 billion dinars at the end of 2010, an increase of 1.881
88 billion dinars, and the rate of 8.4% note that the annual growth rate of these deposits for the last five years
89 amounted to 11.1% on average. The shape of the total deposits in Jordanian dinars amounted to 19.1277 billion
90 dinars, or 78.4 per cent of the total deposits in the banking system, while the total deposits in foreign currencies
91 amounted to 5.261 billion dinars or accounted for 21.6% of total deposits in the banking system at the end of
92 2011). Comparing these percentages its level at the end of 2010, notes that the proportion of deposits in dinars
93 was at 78.3% comparing with 21.7% of deposits in foreign currencies, which enhances the continued confidence
94 in Jordanian Dinars currency savings compared with foreign currencies. (Deposit Insurance Corporation, 2011).

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

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104 **4 C**

105 Jordanian Dinars with the banking system at the end of the year 2011)). (Deposit Insurance Corporation, 2011)
106 It also increased the total deposits with the banking system, Jordanian Dinars and foreign currencies amounted
107 to 24.9696 billion dinars at the end of 2012) compared to 24.3887 billion dinars at the end of 2011), an increase of
108 580.9 million dinars, and the rate of 2.4% note that the annual growth rate for this deposits for the last five years
109 amounted to 8.4% on average. The shape of the total deposits in Jordanian dinars amounted to 17.711 billion
110 dinars, or 70.9% of total deposits with the banking system, while the total foreign currency deposits amounted
111 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
112 formed deposits in Jordanian Dinars accounted for 70.9% of total deposits in the banking system at the end of
113 the year, 2012). (Deposit Insurance Corporation, 2012)III.

114 **5 Deposit Insurance Corporation in Jordan**

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

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

129 **6 Fee**

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

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

156 1. Deposit guarantee system should prevent the occurrence of the bankruptcy of many banks. 2. Deposit
157 guarantee system should reduce as much as possible of the economic distortions in the state. 3. Deposit guarantee
158 system should not receive either financial support or taxes from the banking system that the premiums paid

159 subscriptions that belong only. 4. Deposit guarantee system must be reduced to the maximum extent of risk
160 for taxpayers. 5. Deposit guarantee system must be thrown the weight of the burden of depositors monitor
161 and control their banks. that the deposit guarantee system may lead to increase the ability of banks to get
162 deposits at lower cost. This was expressed by Alan Greenspan, "Federal Reserve Chairman American saying,"
163 The institutions covered system of deposit insurance receive government support in the form of government
164 guarantees allow it to attract deposits at the benefits of less than the necessary level in the absence of deposit
165 insurance and allow them also to assume higher levels of risk without fear of loss of funding sources across the
166 deposit. And formulate other, deposit insurance contributes to the misallocation of resources by breaking the
167 relationship between the level of risk and return for a class competitors in the market" ??Greenspan, 2003, p.2).
168 And see Ansari (1992) it must be to the Deposit Insurance Corporation supervisory role of the institutions that
169 fall under its banner must be buying financial assets from banks and financial institutions approved in order to
170 facilitate mergers and must have a clear role in the process of ending the banks if it continues where it is in
171 violation that allow failure institutions to continue its operations while it is working tragically practically insured
172 deposits of the institution. This supervisory role requires that the institution be in a position to issue instructions
173 concerning lending , control , inspection continuous and comprehensive, as well as processes to identify banks
174 that do not comply with the levels of capital and deposits required. And build a system so that it is straight
175 premiums certain percentage of the total deposits reduced from one bank to another, this system contains a set
176 of indicators and criteria that are used to differentiate between the quality of each bank .These indicators reflect
177 the following:

178 Fit with a straight-management efficiency. Fit with a straight errors encountered by each institution.
179 Has identified these indicators and criteria, including the following: Adequacy of the bank's capital. The
180 volume of bank deposits. Ratio of bad debt to total portfolio. The proportion of overdue debt payments for a
181 certain period and not three months.

182 Cooperate and not violate the rules of the bank and the Central Bank. The size of the bank (large, medium,
183 small). The proportion of deposits insured and non-insured in each bank. These indicators give points for each
184 bank as evaluated by management Security Corporation. Whenever the bank well in maintaining these standards
185 got higher points and whenever the bank is well earned points less. This system makes it fairer insurance premium,
186 so that reduces the likelihood of bearing the brunt of the burden Foundation. This is determined by the insurance
187 premium for each bank based on total points total for each previous indicators obtained by the Bank. Thereby
188 determining premiums for large banks that get weak points and premiums for banks less good insurance, no
189 matter what the size of the bank, where the premium will reflect the degree of risk for each bank according to
190 the actual achievements compared to previous standards.

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

196 8 Global Journal of Management and Business Research

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

206 V.

207 9 Capital and Private Deposits in Banks

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

214 The importance of capital and deposits is the important functions carried out by the foremost of banks to
215 absorb losses resulting from the operation and strengthen confidence , the regulatory authorities in the bank's
216 ability to cope with problems, as it signifies the bank's capital and its deposits on the degree of solvency enjoyed in
217 bank, that given the importance of capital adequacy and deposit for institutions guarantee deposits to put many
218 of the standards to be measured, as well as to ensure the adequacy capital to each of the deposits, assets, and risk

219 assets, as they intervene in determining the increasing to reserves or retained earnings, and impose sometimes
220 increase capital and deposits by increasing the new cash from shareholders to provide loan support. (HSL
221 0.2009) Jordan's banking system has witnessed remarkable progression during the past six decades, represents
222 the evolution of the device is limited in size and resources of its institutions and quality, to a sophisticated device
223 and processions to the latest global financial institutions. Jordan's sector apply the standard of capital adequacy;
224 the aim strengthening the capacity of Jordanian banks and help them to continue working effectively to meet the
225 global developments coming, the creation of financial institutions capable of confrontation and , in front of any
226 potential risks and overcome them safely, as well as to encourage mergers banking boosted the financial positions
227 of banks. (Good and Shahatit 0.2011, S358-366)

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

238 **10 VI.**

239 **11 Conclusion**

240 The establishment of a system of deposit insurance works as an early warning before the occurrence of financial
241 crises in banks, and increases the stability of the deposits and attract savings , capital and deposits with banks
242 . The stability of deposits in the banking system, each bank to pay a certain percentage of the total deposits,
243 which has the Deposit Insurance Corporation in the Central Bank deposits in response to these owners assume
244 the deposits in response to the amounts insured In addition to confidence in financial institutions , the financial
245 system as a whole, and thus achieve stability, and increased competition among financial institutions (banks) to
attract deposits and provide banking services better. ^{1 2}



Figure 1:

246

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11 CONCLUSION

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248 research presented to the Deposit Insurance Corporation in Jordan)

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