



International Association  
of Deposit Insurers

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# Survey on Islamic Deposit Insurance: Results

**Prepared by the Islamic Deposit Insurance Group**

International Association of Deposit Insurers

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Islamic Deposit Insurance Group

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## **I. Introduction**

The importance of Islamic deposit insurance or protection for Islamic deposits is growing in tandem with the rapid growth of the Islamic financial industry, especially with new and innovative Islamic financial products and services being introduced. Against this backdrop, the Islamic Deposit Insurance Group (IDIG) of the International Association of Deposit Insurers (IADI) carried out the Survey on Islamic Deposit Insurance (Survey) to, among other things:

- (a) Identify countries that implement Islamic deposit insurance;
- (b) Obtain an overview of current Islamic deposit insurance practices in those countries;
- (c) Understand the issues and challenges facing countries in implementing Islamic deposit insurance; and
- (d) Gauge countries' interest in implementing Islamic deposit insurance.

The Survey was conducted in April 2009; it was sent to 41 organizations, comprising 25 members of IADI and 16 members of the Islamic Financial Services Board (IFSB). Most of the participants were selected based on either the existence of Islamic banking in their country or an interest in implementing Islamic banking and deposit insurance. The Survey received 28 replies, a response rate of 68.3%.

This paper analyzes the results of the Survey in order to provide useful information on the implementation of Islamic deposit insurance in the countries participating in the Survey. Where necessary, the interpretation of the IDIG is used based on the answers provided by the respondents.

## **II. Islamic Banking System**

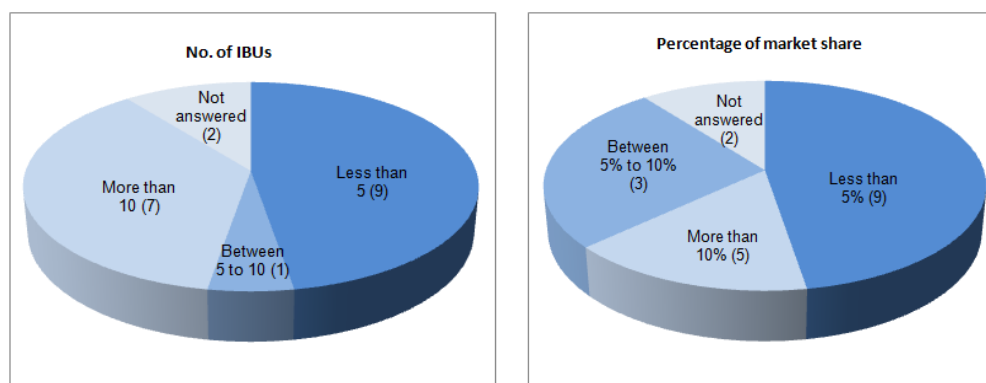
Islamic banking refers to banking activities that are consistent with the principles of Islamic law (Shariah). Generally, Islamic banking operations are similar to conventional banking as Islamic banking institutions also accept deposits and provide financing. However, they may differ in aspects such as the types of products offered and the risks involved.

Initially, Islamic banking was introduced in certain countries to meet the banking needs of their Muslim community. Subsequently, the landscape evolved dramatically as other countries started to introduce the system. Islamic banking now exists in over 75 countries around the world, with over 300 Islamic banking institutions.

In the Survey, 19 of the 28 respondents indicated that an Islamic banking system does exist in their country. As Islamic deposit insurance co-exists with Islamic banking, this statistic is important, and the Survey results also show how many of these countries have introduced Islamic deposit insurance.

The charts below show the number of Islamic banking units<sup>1</sup> (IBUs) and the share of Islamic banking assets as a percentage of total banking assets in the 19 countries.

**Chart 1: Number of respondents according to number of IBUs and market share of Islamic banking assets**



(The number of respondents is indicated in parentheses)

The Islamic banking systems that exist around the world are either fully fledged Islamic systems or dual systems in which an Islamic banking system operates alongside the conventional system. The Survey reveals that Sudan is the only country to have implemented a fully fledged Islamic banking system, while the rest have a dual banking system. In Malaysia, Brunei, Kuwait and Qatar, a significant market share (more than 10%)<sup>2</sup> is accounted for by Islamic banking operations.

In view of the rapid development of Islamic banking worldwide, many countries have indicated an interest in introducing the system. In the case of respondents whose countries do not currently have an Islamic banking system, the Survey sought feedback on their interest in introducing such a system. Three out of the nine respondents whose countries have not currently implemented Islamic banking expressed an interest in doing so; these are Kazakhstan, Morocco and Nigeria. The following table reflects their plans as regards the introduction of specific legislation for Islamic banking and the chartering of IBUs:

**Table 1: IBUs – plans for specific legislation and chartering**

No.	Country	Introduction of specific legislation	Type of IBU to charter
1	Kazakhstan	No	Fully fledged Islamic banks
2	Morocco	Not answered	Islamic banking windows
3	Nigeria	Yes	Both (banks and windows)

<sup>1</sup> "Islamic banking unit" refers to fully fledged Islamic banks and Islamic banking windows.

<sup>2</sup> The threshold of 10% is merely set for the purposes of the Survey.

### III. Islamic Deposit Insurance

As part of their safety net arrangement, some of the countries implementing the Islamic banking system also implement Islamic deposit insurance (IDI). IDI aims at protecting insured Islamic deposits if any Islamic banking unit which is a member of the system fails.

Of the 19 countries that have an Islamic banking system, 10 have set up an IDI scheme. The following table shows the countries and organizations that currently provide protection for their Islamic deposits:

**Table 2: IDI providers and year of establishment of IDI scheme**

(In alphabetical order by country)

No	Country	Organization	Year of establishment
1	Bahrain	Central Bank of Bahrain	1993
2	Bosnia and Herzegovina	Deposit Insurance Agency	2002
3	Indonesia	Indonesia Deposit Insurance Corporation	2005
4	Jordan	Jordan Deposit Insurance Corporation	2000
5	Kuwait	Central Bank of Kuwait	2008
6	Malaysia	Malaysia Deposit Insurance Corporation	2005
7	Singapore	Singapore Deposit Insurance Corporation	2006
8	Sudan	Bank Deposit Security Fund	1996
9	Turkey	Savings Deposit Insurance Fund	2005
10	United Kingdom	Financial Services Compensation Scheme	2001

Notes:

- Currently, the Central Bank of Bahrain implements a post-funded deposit protection scheme for both conventional and Islamic banking units.
- By virtue of its fully fledged Islamic banking system, the deposit insurance scheme in Sudan is also fully Islamic.
- In Turkey, the system was established in May 2001 among participation banks and managed by the Participation Banks of Turkey. As of December 2005, management of the fund was transferred to the Savings Deposit Insurance Fund.
- In Jordan, the deposit insurance system was established in the year 2000. Although the current provisions of the system are also applicable to Islamic deposits, no Islamic banking unit has decided to join the system.

As regards the governance structure for an IDI scheme, this may be set up by the regulators either with or without specific legislation, and is administered by a government-owned deposit insurer, central bank, existing government-owned entity or privately owned entity. Based on the Survey, the countries that implement the IDI adopt the following governance structures:

**Table 3: Governance structures**

No	Governance structure	Country
1	IDI is established under specific legislation and administered by a government-owned deposit insurer	Malaysia, Sudan
2	IDI is established under specific legislation and administered by a privately-owned entity	United Kingdom
3	IDI is established under specific legislation and administered by the central bank or an existing government-owned entity	Kuwait
4	IDI is not established under specific legislation and is administered by a privately-owned entity	-
5	IDI is not established under specific legislation and is administered by a government-owned entity	Bahrain, Indonesia, Singapore, Turkey

Note: Information on the governance structure of Bosnia and Herzegovina's and Jordan's IDI schemes is not available.

#### **IV. Salient Features of IDI**

The features of Islamic and conventional deposit insurance are generally similar. Nevertheless, some countries implemented a more comprehensive IDI scheme by ensuring that, in addition to protecting Islamic deposits, other operational aspects of the scheme are in line with Shariah principles.

Apart from Sudan, where all deposits are Islamic and the IDI scheme is a fully fledged Islamic system, the remaining nine countries have implemented IDI alongside the conventional deposit insurance scheme, by virtue of the dual banking system. Of these nine, Malaysia is the only country that has established a separate system for its IDI, with a separate Islamic deposit insurance fund managed in accordance with Shariah principles. The remaining countries operate their IDI scheme as part of a single deposit insurance fund.

The following table summarizes the salient features of IDI as practiced by the 10 countries:

**Table 4: Salient features of IDI**

No	Characteristics	Country		
		Yes	No	No answer
1	Mandatory membership	Bahrain, Indonesia, Malaysia, Singapore, Sudan, Turkey, United Kingdom	Jordan	Bosnia and Herzegovina, Kuwait
2	Separation of Islamic premiums from non-Islamic premiums <sup>a</sup>	Malaysia	Bosnia and Herzegovina, Indonesia, Singapore, Turkey, United Kingdom	Kuwait
3	Management of fund according to Shariah principles <sup>b</sup>	Malaysia, Sudan	Bosnia and Herzegovina, Indonesia, Singapore, Turkey, United Kingdom	Kuwait
4	Similar coverage limit for Islamic and conventional deposits <sup>c</sup>	Bahrain, Indonesia, Jordan, Kuwait, Malaysia, Singapore, Turkey, United Kingdom	-	Bosnia and Herzegovina
5	Similar premium rates for Islamic and conventional deposits <sup>d</sup>	Indonesia, Malaysia, Singapore, Turkey, United Kingdom	-	Bosnia and Herzegovina, Kuwait

**Notes:**

<sup>a</sup> Bahrain, Jordan and Sudan are excluded since Bahrain and Jordan have yet to collect Islamic premiums and Sudan collects only Islamic premiums.

<sup>b</sup> Bahrain and Jordan are excluded since they have yet to collect Islamic premiums.

<sup>c</sup> Sudan is excluded since all deposits are Islamic.

<sup>d</sup> Bahrain, Jordan and Sudan are excluded since Bahrain and Jordan have yet to collect Islamic premiums and Sudan collects only Islamic premiums.

(See notes to Table 2)

With respect to the coverage limit, all countries implementing dual deposit insurance set similar coverage limits for their Islamic and conventional insured deposits, so as to provide equal treatment and preserve the competitiveness of both Islamic and conventional deposit products. As regards the types of Islamic deposits, Sudan is the only country that sets a different coverage limit for its investment deposits (Islamic deposits accepted under a profit-sharing contract).



The following table shows the coverage limits for the respective countries:

**Table 5: Coverage limits**

(In alphabetical order by country)

No	Country	Coverage Limit
1	Bahrain	75% up to a maximum of BHD 15,000 (USD 39,800)
2	Indonesia	IDR 100 million (USD 10,000)
3	Jordan	JOD 10,000 (USD 14,085)
4	Kuwait	100%
5	Malaysia	MYR 60,000 (USD 17,150)
6	Singapore	SGD 20,000 (USD 14,000)
7	Sudan	SDG 4,000 (USD 2,000) for investment deposits and SDG 3,000 (USD 1,500) for current deposits
8	Turkey	TRY 50,000 (USD 30,000)
9	United Kingdom	GBP 35000 (USD 56,000)

Note: Information on the coverage limit for Bosnia and Herzegovina's IDI scheme is not available.

## V. Issues and Challenges Facing Countries Implementing IDI

There are several issues and challenges facing countries that implement IDI. These relate mainly to Shariah, infrastructure and skills.

In terms of Shariah, while the regulators or deposit insurers have to ensure that the IDI scheme can function effectively, they also have to ensure the Shariah compliance of the operational aspects of the scheme. The issue arises, for example, when:

- (a) The IDI scheme operates within the conventional regime, which does not allow or limit compliance to such principles; and
- (b) When there is no Shariah governance to issue Shariah rulings and monitor compliance of IDI scheme operations.

The countries also face challenges such as determining the insurability of Islamic deposits (particularly investment deposits) and the priority of payment for various types of Islamic deposits if failure of a Islamic banking unit occurs.

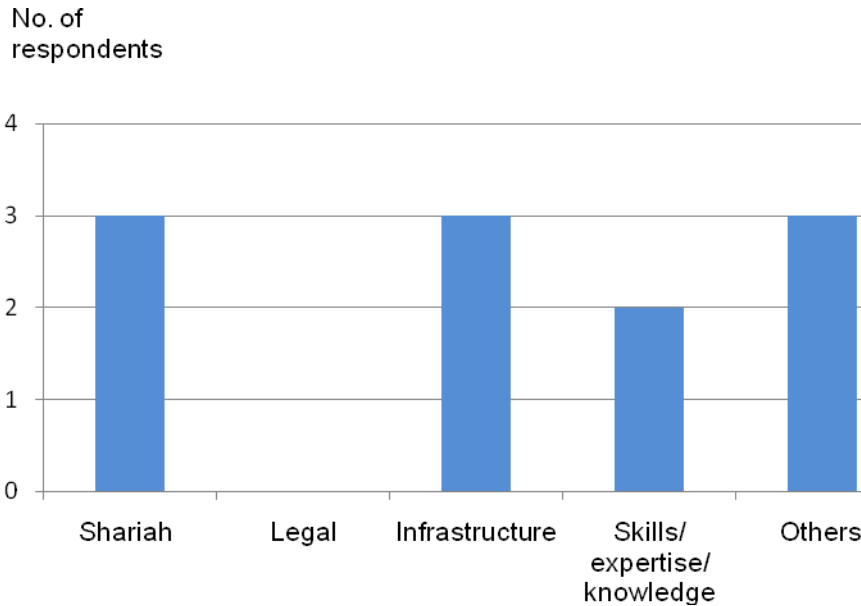
In terms of infrastructure, no guidance is available for countries that have set up an IDI scheme. As such, the design and operation of the scheme tend to emulate those of conventional schemes, with minor adjustments.

The issue of the scarcity of knowledgeable and skilled resources in the area of IDI operations is due to the fact that IDI is relatively new and the countries that have implemented IDI are still in the process of developing such resources. With respect to

other issues, deposit insurers face difficulties in investing surplus deposit insurance funds, as there are limited Islamic instruments.

Graph 1 shows the issues and challenges facing the 10 countries that have implemented IDI

**Graph 1: Issues and challenges facing countries that have implemented IDI**



None of the countries that have set up an IDI scheme are currently facing legal issues. As indicated in the previous section, the countries have either issued specific legislation for their IDI scheme, or are applying the existing legislation to provide for the protection of Islamic deposits.

## VI. Interest in Introducing IDI

With the development of the global Islamic banking industry, and with more countries expected to implement Islamic banking, the number of countries setting up an IDI scheme is also expected to rise. The potential increase in numbers may be boosted by countries that have already implemented Islamic banking but have yet to set up an IDI scheme, and countries that are planning to implement Islamic banking. Additionally, there is a growing global awareness of the importance of equal protection for Islamic deposits in preserving global financial system stability.

The Survey revealed that, of the nine countries that have implemented Islamic banking but have yet to set up an IDI scheme, seven indicated their interest in doing so, i.e. Brunei, Djibouti, Kenya, Pakistan, Palestine, Qatar and Syria. Hong Kong and Lebanon, on the other hand, did not indicate any interest.

Of the three countries that are planning to introduce Islamic banking, only Kazakhstan and Nigeria indicated their interest in implementing IDI. Morocco, on the other hand, does not plan to introduce IDI.

The following table shows the time frames for the countries that are interested in implementing IDI:

**Table 6: Time frames for implementing IDI**

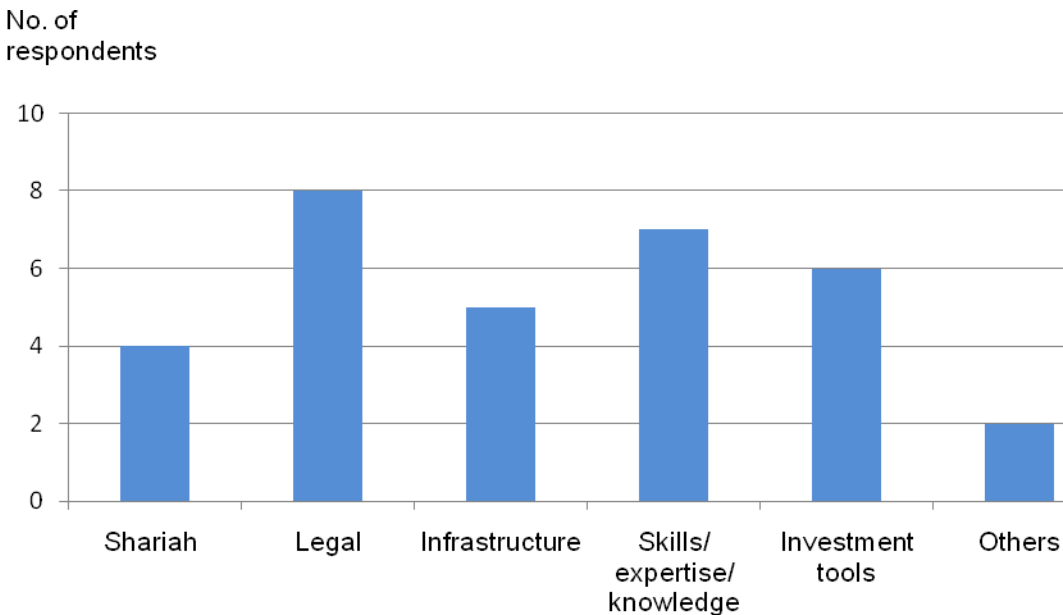
(In alphabetical order by country)

No.	Country	Time frame
1	Brunei	Within 2 to 5 years
2	Djibouti	Within 2 to 5 years
3	Kazakhstan	Within 2 to 5 years
4	Kenya	Within 2 to 5 years
5	Nigeria	Within 1 to 2 years
6	Pakistan	Within 1 to 2 years
7	Palestine	Within 2 to 5 years
8	Qatar	More than 5 years
9	Syria	More than 5 years

## VII. Issues and Challenges Facing Countries Interested in Introducing IDI

Graph 2 shows the issues and challenges facing these countries.

**Graph 2: Issues and challenges facing the countries planning to introduce the IDI**



The graph shows that legal issues are the main concern for most of the countries planning to introduce IDI. Other issues are those related to skills/ expertise/ knowledge, investment tools, infrastructure and Shariah. One respondent indicated that it needed time to study the advantages and disadvantages of IDI before introducing it.

## **VIII. Other Feedback on IDI**

IDI is a relatively new concept, with the first IDI scheme reported to have been set up by Bahrain in 1993 (a post-funded scheme). With the increasing number of countries introducing Islamic banking, the significance of IDI started to be recognized. Nevertheless, the guidance on implementing IDI is minimal, if not inexistent, which to a certain extent has dampened its development. As such, most respondents take the view that guidance would be useful for establishing or ensuring an effective IDI scheme.

The respondents take the view that, for IDI to be effective, a country should put in place the following critical elements:

- (a) Shariah framework and approach;
- (b) Compatibility with existing conventional deposit insurance;
- (c) Equal treatment for Islamic deposits;
- (d) Legal framework;
- (e) Non-commercial system (no profit motive);
- (f) Explicit and limited coverage;
- (g) Government-owned and managed system;
- (h) Sufficient premiums;
- (i) Access to liquidity;
- (j) Consumer awareness;
- (k) Separate entity;
- (l) Coverage, including types of Islamic deposits covered and coverage limit;
- (m) Elimination of moral hazard through appropriate basis for premiums;
- (n) Appropriate model;
- (o) Experience, skills and expertise;
- (p) Investment tools;
- (q) Infrastructure;
- (r) Participation by all Islamic banking units; and
- (s) Accounting standards for Islamic banks.

The Survey also sought the respondents' views on recent trends and emerging issues in the financial sector that might have an impact on IDI. At the macro level, the respondents generally share the view that the recent US-based financial crisis has had an impact on Islamic finance and IDI globally. Although Islamic finance operates based on real asset and profit- and loss-sharing, Islamic financial institutions (IFIs) may still be

exposed to potential risks due to the increased globalization of the Islamic financial market and its integration with the global financial system.

Given the potential exposure for the IFIs, the respondents agree that protection for Islamic deposits has become increasingly important. This has put pressure on the regulators to set up IDI schemes in their respective countries so as to instill confidence in the depositing public and promote the stability of their financial systems.

On another note, IDI may influence customers' preference as to where they save or invest their money. In terms of the safety of their money, insured IFIs are more preferable than uninsured ones. One respondent considers that IDI is an important means for some countries that rely on external funds to attract surplus petro-dollars from the Middle East.

At the micro level, one respondent foresees that issues could arise as regards determining the insurability of Islamic deposit products offered under various Shariah-based contracts, the liquidation process for a bank with an Islamic banking window, and the treatment of new deposit products in relation to priority of payments.

With the recent trends and emerging issues, the respondents agree that cooperation among regulators is crucial in developing an effective IDI scheme.

IDI-related issues on which the respondents would like to see more research are:

- (a) Islamic deposit contracts and their suitability for IDI;
- (b) Shariah stand and insurance mechanism of Islamic investment deposits;
- (c) Coverage and premium assessment;
- (d) Apportionment of premiums between bank and depositors;
- (e) Segregation of Islamic transactions;
- (f) Resolution and liquidation techniques for Islamic banking units;
- (g) Priority of payments for Islamic deposits under various Shariah-based concepts;
- (h) Operations of Islamic banks and their financial statements;
- (i) Supervision of member institutions of the IDI scheme;
- (j) Islamic fund management;
- (k) The capacity of the fund to restore market confidence during a crisis; and
- (l) Appropriate measures in responding to a financial crisis.

## **IX. Conclusion**

Global Islamic finance has reached another milestone with the introduction of IDI by countries that have implemented Islamic banking. IDI aims to protect Islamic deposits and promote the stability of the financial system. However, the number of countries setting up IDI schemes is still small in relation to the number of countries implementing Islamic banking, as shown by the results of the Survey.

In light of the rapid growth of the global Islamic banking industry and the greater awareness of the importance of equal protection for Islamic deposits, IDI is expected to flourish, with an increase in the number of countries implementing it. To facilitate such development, there is a need for proper guidance to assist those countries in setting up an IDI scheme. In this respect, IADI has taken a huge step by establishing the IDIG, whose mandate includes recommending guidance on issues relating to IDI. To fulfill its mandate, the IDIG cooperates with other organizations such as the IFSB and central banks in conducting research and developing guidance on IDI.

Through this Survey, the IDIG has obtained valuable responses on subjects such as the critical elements needed for an IDI scheme, and the issues and challenges facing countries in implementing IDI. The IDIG will assess this input, and plan its initiatives according to the priority of issues and challenges reported.

## LIST OF RESPONDENTS

(In alphabetical order of their countries)

No	Country	Organization
IADI members		
1	Albania	Albanian Deposit Insurance Agency
2	Bosnia and Herzegovina	Deposit Insurance Agency
3	Canada	Canada Deposit Insurance Corporation
4	Hong Kong	Hong Kong Deposit Protection Board
5	India	Deposit Insurance and Credit Guarantee Corporation
6	Indonesia	Indonesia Deposit Insurance Corporation
7	Jordan	Jordan Deposit Insurance Corporation
8	Kazakhstan	Kazakhstan Deposit Insurance Fund
9	Kenya	Deposit Protection Fund Board
10	Lebanon	National Institute for the Guarantee of Deposits
11	Malaysia	Malaysia Deposit Insurance Corporation
12	Morocco	Bank Al Maghrib
13	Nigeria	Nigeria Deposit Insurance Corporation
14	Singapore	Singapore Deposit Insurance Corporation
15	Sudan	Bank Deposit Security Fund
16	Turkey	Savings Deposit Insurance Fund
17	United Kingdom	Financial Services Compensation Scheme
18	United States	Federal Deposit Insurance Corporation
Non-IADI members		
19	Bahrain	Central Bank of Bahrain
20	Brunei	Brunei Ministry of Finance
21	China	People's Bank of China
22	Djibouti	Banque Centrale de Djibouti
23	Egypt	Central Bank of Egypt
24	Kuwait	Central Bank of Kuwait
25	Pakistan	State Bank of Pakistan
26	Palestine	Palestine Monetary Authority
27	Qatar	Qatar Central Bank
28	Syria	Central Bank of Syria