

DEPOSIT PROTECTION FUND BOARD KENYA: A PRESENTATION BY KIMANI MWEGA

Investment Management for
Deposit Insurance Agencies



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MUMBAI, INDIA



निक्षेप बीमा और प्रत्यय गारंटी निगम

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

(भारतीय रिज़र्व बैंक की संपूर्ण स्वामित्ववाली सहयोगी Wholly owned subsidiary of the Reserve Bank of India)

INTRODUCTION

- Deposit Protection Fund Board (DPFB)-Kenya was established in 1985, under Section 36 of the banking act
- This followed a number of bank failures in Kenya
- Its mission is to build confidence in the banking sector through the provision of an effective deposit insurance scheme.
- Currently operates administratively as a department of Central Bank of Kenya
- A new Kenya Deposit Insurance Act has established Kenya Deposit Insurance Corporation which will be independent and autonomous

MEMBERSHIP AND FUNDING

Total membership is 52 institutions:

- 43 Banks
- 1 Mortgage Company
- 8 DTMs

Sources of investable funds

- Assessed premiums
- Investment income
- Moneys borrowed from Central Bank of Kenya

Funding is Ex-ante

TREND OF FUND GROWTH

Years - Ending 30 th June	Opening Fund Balance in Kshs '000	Surplus for the year – in Kshs '000	Closing Fund Balance in Kshs '000	Annual Growth Rate in %	Growth Target
2006	12,008,686	1,800,465	13,809,151	14.99%	
2007	13,809,151	1,913,685	15,722,836	13.86%	
2008	15,722,836	2,245,480	17,968,316	14.28%	15%
2009	17,968,316	2,771,049	20,739,365	15.42%	15%
2010	20,739,365	3,407,461	24,146,826	16.42%	15%
2011	24,146,826	3,941,343	28,088,169	16.32%	15%
2012	28,088,169	5,196,412	33,284,581	18.50%	15%

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LEGAL FRAMEWORK

Moneys constituting the Fund shall be placed in an account with the Central Bank to be invested by the Board:

- In treasury bills, treasury bonds or other securities issued by the Government
- Any other securities as may be prescribed in the Gazette by the Minister from time to time
- Flat Rate Premium
- Current Rate 0.15% but Minister can increase it up to 0.4%
- Tax Exemption- has indirectly enhanced growth of the Fund

INVESTMENT POLICY

- Investment of DPFB resources vested on investment committee
- The committee is appointed by the Chief Executive Officer
- Responsibilities of the committee are:
 - Safety and preservation of the Fund's value and optimal returns.
 - To meet the annual growth targets of the Fund.
 - Liquidity to meet fund's cash flow requirements.
 - Risk management
 - Regular reports to the Board on investment performance of the Fund.

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INVESTMENT POLICY (CONT)

Investment guidelines:

- Investment activities must consistent with the broad mandate and objectives of the Board.
- Funds will be invested in Treasury Bills, Treasury Bonds and other securities issued by the Government of Kenya.
- Investment Policy approved by the Board: 70-30 Rule
- Maximize returns on investment to keep pace with the Board's monthly exposure and other cash flow requirements.
- Manage the investment portfolio in a manner that minimizes the Board's exposure to operational, market and other risks.

DPFB INVESTMENT PERFORMANCE

	Interest Income			Implied yield (%)			Assessed premium	Surplus
	T/Bills	Tbonds	Total	T/Bills	Tbonds	Total		
	Kshs'M'	Kshs'M'	Kshs'M'	Kshs'M'	Kshs'M'	Kshs'M'	Kshs'M'	Kshs'M'
2008	859	619	1,478	7.31	9.98	8.23	919	2,246
2009	1,094	662	1,756	8.93	7.83	8.48	1,111	2,771
2010	678	1,538	2,216	13.25	8.09	9.18	1,359	3,407
2011	89	2,413	2,502	9.93	8.88	8.91	1,622	3,941
2012	484	2,939	3,423	13.91	9.87	10.29	1,973	5,196

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CHALLENGES

- Restriction on Investment avenues
- Fund size in relation to DPFB Mandate, in case of systematic risk
- Fund growth in view of low-yielding, long-term Government Securities
- Current law permits borrowing from CBK only
- Technological Challenges –ICT systems
- No target funding set