



# Islamic Deposits Insurability In Sudan

– *“Preparing for Discussion”*





Bank Deposit Security Fund

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- The major shift for the Banking Sector in the Sudan took place in 1983, when a decision was made to convert all the financial transactions to Islamic tools. Since then Banks began to utilize the Islamic Modes of Finance i.e. *Murabahah, Musharakah, Mudarabah, Bay Al Salam and others*
- *But was quite difficult to transform all the financial transactions in the economy at once*

- In fact, Since 1992 the financial sector is built entirely on Islamic principles and any financial transaction that is not compatible to *Shariah* is not allowed.
- With the facilities and advices by the Central Bank of Sudan and High *Sharia* Advisory Board banks convert their transactions to the Islamic tools

# **Islamic Modes of Finance**

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Sudanese Islamic banks have mainly implement **four** types of contracts in their financial instruments namely,

■ *Murabahah*

■ *Musharakah*

■ *Mudarabah*

■ *Salam*

## ***Murabahah***

- The customer informs the bank of his desire to acquire a service or purchasing a specified product. The profit margin is then negotiated between them. The total cost is usually paid in installments

## ***Musharakah***

### **(Equity participation)**

- The bank enters into an equity partnership agreement with one or more partners to jointly finance an investment project. Profits (and losses) are shared strictly in relation to the respective capital contributions.

## *Mudarabah*

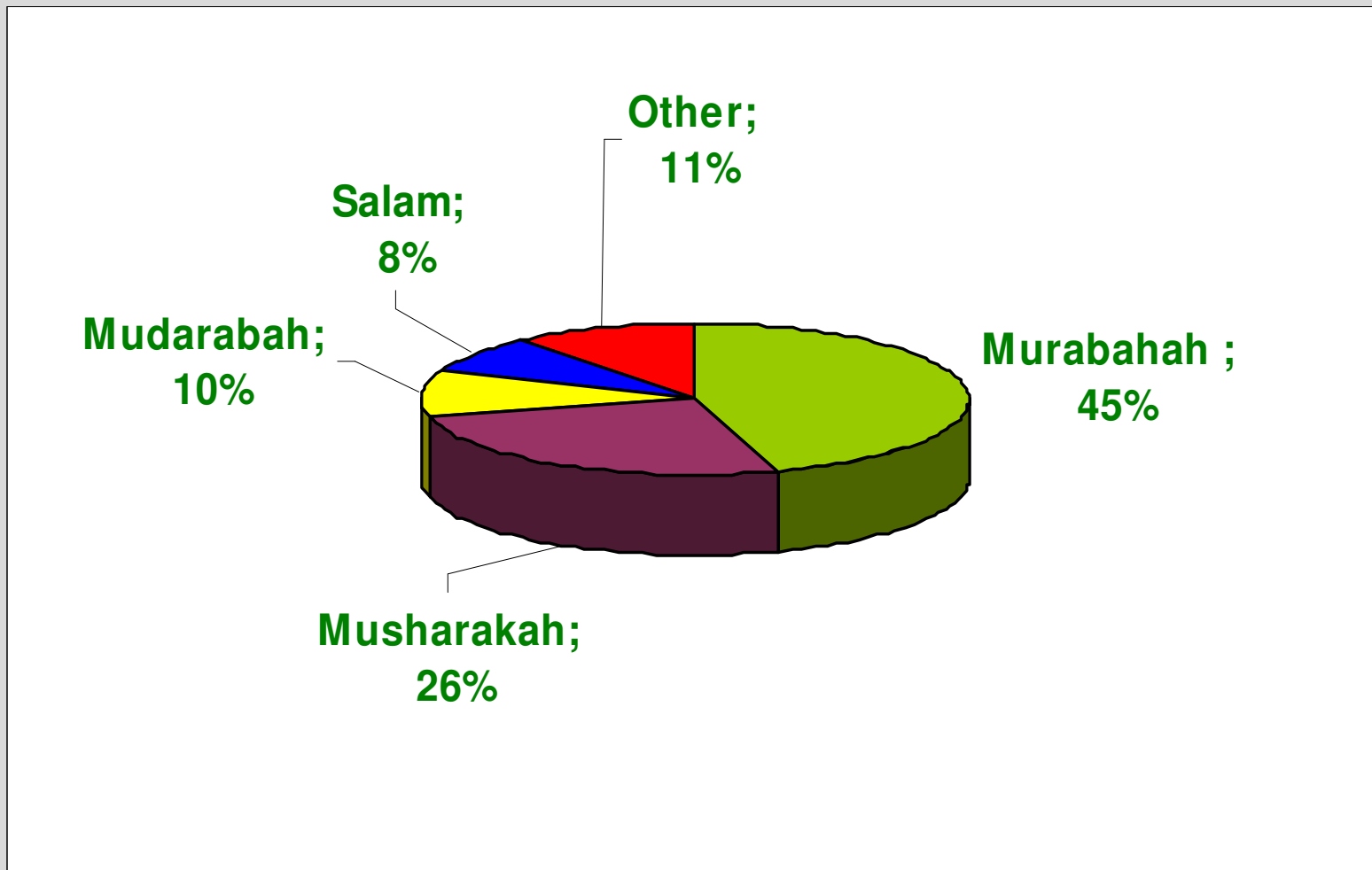
- *Rabb-ul-mal* (capital's owner) provides the entire capital needed to finance a project while the entrepreneur offers his labor and expertise. Profits are shared between them at a certain fixed ratio agreed upon, whereas financial losses are exclusively borne by *Rabb-ul-mal* (**Bank**). The liability of the entrepreneur is limited only to his time and effort. Only in case the loss is due to gross negligence and misuse the entrepreneur will be held responsible.

# ***Bay Al Salam***

**(Usually for Agricultural Finance)**

- **The bank pays the customer (farmer) the full negotiated price of the agricultural product that the customer in the future promises to deliver.**

# *Finance Composition according to the Islamic Modes of Finance*



# Others

## Islamic modes of Finance:

### ■ *Mugawalah*

*(type of contract Between a contractor, who perform some work, and the owner of the project “the borrower”)*

# Islamic Deposit Insurance

**Bank Deposit Security Fund**

**BDSF, Was established in a complete Islamic environment with a mandate to guarantee Islamic Deposits**

**{ Current Account , Savaging and Investment }**

- The Bank Deposit Security Fund (BDSF) of the Republic of the Sudan was established in February 1996 in accordance with the Bank Deposit Security Fund Act as an independent association having corporate personality. It commenced operations in the same year.
- So the BDSF Act depends on *Shariah* principles and all its member banks are Islamic Banks.

- Islamic deposit insurance is a type of insurance policy but differs from other insurance policies in that it is not a commercial system and has no profit motive. In this respect it is a typical *Takaful* system. In Islamic societies *Takaful* is not only an economic practice, but also a religious virtue. People in different societies whether work places or residential areas form *Takaful Funds* to help members in case of financial crisis or abnormal events.

- The Islamic deposit insurance is therefore a *Takaful* practice. Member banks pay premiums to Deposit insurance in order to protect deposits. By protecting deposits banks protect themselves because banks depend mainly on deposits for their working capital.

- The initial capital of (BDSF) was paid by the Central Bank, Ministry of Finance. Each member should - pay once and for all - initial contribution (membership fees).
- Membership is compulsory for all deposit-taking institutions (Banks and financial institutions), which also includes foreign banks Branches.

- (BDSF) is responsible for protecting depositors, promoting savings and enhancing the stability and safety of the financial system. It is a pay-box funded ex-ante. Premiums are assessed on insured deposits and a flat rate system is applied. Accordingly the banks shall pay premiums at the assessment rate of two and half per thousand (0.0025); annually on average of total insured deposits. This flat rate is changeable in the light of accumulated resources of BDSF besides the general economic and social development.

## **BDSF covers all types of deposits in local currency, with the exception of:-**

- The deposits attached as a guarantee, or security against banking operations;
- The deposits of the chairman and members of the board of directors, and the general manager of any guaranteed bank and the deposits of their spouses and minor children;

- The deposits of any such shareholders , as it may transpire, to the BDSF , that they bear any responsibility with respect to the non-soundness of the conditions of the bank concerned;
- The deposits of the chartered accountants to audit the accounts of the bank concerned and the deposits of their spouses and minor children;
- Any such deposits, as the Board may decide that they have been obtained by illegal means;

- Any company in which the bank holds the largest number of the shares number of the shares thereof;
- Any such other deposits, as the Board may deem fit the exception thereof.

# Maximum Coverage Limit

(1) Demand And Saving Deposits

(2) Investment Deposits

- Maximum coverage limit with respect to current and saving deposits is 3000 Sudanese pound (1500 US Dollar) per depositor per bank and the maximum coverage limit with respect to investment deposits is 4000 Sudanese Pound (2000 US Dollar) per depositor per bank. The Maximum coverage limit can be revised by the Board of directors, and it increases with the growth of BDSF resources.

**The following Table reflects the development of the Maximum coverage limit:-**

year	Maximum limit		
	Type of deposits	In Sudanese Pound	In U.S Dollar
1996 - 2002	<b>Current &amp; Saving</b>	<b>1000</b>	<b>500</b>
	<b>Investment</b>	<b>250</b>	<b>125</b>
2003 - 2006	<b>Current &amp; Saving</b>	<b>1500</b>	<b>750</b>
	<b>Investment</b>	<b>2000</b>	<b>1000</b>
2006 - 2008	<b>Current &amp; Saving</b>	<b>3000</b>	<b>1500</b>
	<b>Investment</b>	<b>4000</b>	<b>2000</b>

- The Bank Deposit Security Fund has powers to access deposit information directly from member institutions and from the Central Bank.
- The **BDSF** has no power to serve as receiver and liquidator of failed member banks. Upon closure, liquidation, consolidation or merger of any member bank, the BDSF, pays within sixty days the entire amount necessary to make deposit reimbursement up to the maximum coverage limit or the deposit balance whichever is less.

- The **BDSF** has no powers to adopt Failure Resolution Options. But it adopts new tools to help banks with financial problems to overcome their critical situations by keeping adequate investment deposit as preventive role.

## **BDSF manage the following three Mutual Support Funds (*Takaful*):-**

- The Mutual Support Fund, for the Guarantee of Current and Saving Deposits (Non- Mudarabah deposits such as Qard, Wadiah and Amanah). Assessable amounts thereto shall only be paid by the Banks, the Governments and the Bank of Sudan

- The Mutual Support Fund, for the remedy of the cases of Final Financial Insolvency. Assessable amounts thereto shall only be paid by the Banks, the government and the Bank of Sudan.

- The Mutual Support Fund, for the Guarantee of investment Deposits (**Mudarabah Deposits**) Assessable amounts thereto shall only be paid by the owners of investment deposits themselves complying with the Islamic principle of sharing profit or loss (**Al Ghunm bil Ghurm**). Therefore the banks and the government pay the annual assessment for the Non-Mudarabah deposits since its not profit earning and do not pay for the Mudarabah investment deposits because its profit earning and this also explain the reason that investment deposits in some conventional insurance systems is not covered.

## The main features of IDI system are:-

- Non – commercial and owned by the government;
- Membership is mandatory;
- Funded ex-ante with flat rate premium since this is in line with *Takaful* principles;
- Investment deposits contribute in the payment of premium according to *Mudarabah* contract.
- Funds of IDI should be invested in accordance with Islamic rules



*Many thanks*

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