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THE IMPACT OF THE BANK DEPOSIT INSURANCE SYSTEM IN CAPITAL ADEQUACY AND PROFITABILITY INDICATORS FOR THE IRAQI BANKING SECTOR AND COMPARISON WITH THE JORDANIAN BANKING SECTOR

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A B S T R A C T

The aims of research to determine the extent impact of the banking deposit Insurance system that measured by deposit guarantee fees percentage in the Iraqi banking sector on two indicators, capital adequacy and bank profitability, and compare the same effect with the Jordanian banking sector. Accordingly, the research hypothesis was tested after selecting 10 private commercial banks, (5) of them are Iraqi listed in the Iraqi Deposit Insurance Institution and (5 others) from the Jordanian banking sector and listed in the Jordanian Deposit Insurance Institution for the period (2018-2021), and based on the EVIEWS13 statistical program, the researcher reached the conclusion that the deposit protection system does not affect on capital adequacy, nor does it affect bank profitability, and in both of the Iraqi and Jordanian sectors, the Deposit Insurance Institution more reflection on the individual dealers than on the performance of the banks themselves.

K E Y W O R D S

deposit Insurance system, capital adequacy, bank profitability, Deposit Insurance Institution.

Introduction

Achieving banking stability is a fundamental goal towards economic development that supports financial growth, competition, and improvement of banking efficiency and effectiveness, that it depends on confidence the ability of banks to perform their operations, commitment to customers, and effective response to their requirements. A crisis in the banking system and a crisis of confidence among customers, and the fact that bank deposits are a necessary element to support this stability and at the same time are debts payable by the bank, any risk to those deposits is a direct threat to the banking system, so there are mechanisms to protect depositors and protect banks from defaulting or bankruptcy,

and ensuring the general stability of the banking system. The role of the deposit protection system is to provide the possibility of compensating a class of depositors who have bank deposits because of bank's default. The research aims to determine the nature of the impact of the bank deposit protection system on some financial indicators, foremost of which is capital adequacy and profitability. In order to enhance confidence, deposit protection company have been activated, and this is reflected positively on the financial indicators, Indicated (Chernykh & Cole, 2011) in his study on the role of deposit protection in financial intermediation, that the protection system achieves great benefits for depositors, as well as (Roman & Danuletiu, 2013) the profitability of banks can be improved by improving quality management, increasing non-interest income, and increasing The size and branches of banks, and (Mohsen, 2016) indicated in his study to assist decision makers in the possibility of establishing and managing a system to guarantee deposits, that the safety net is an integral part of the basic financial environment. The demand for bank deposits is essential in this type of system, and (Al-Imam et al., 2017) believes that banking awareness is one of the most important factors that specifically affect banking., and (Fecht et al., 2019) indicated that heterogeneous insurance on bank deposits can lead to reallocation of deposits Suddenly, which threatens the stability of the banking sector.

Literary review

Banking institutions face multiple risks that threaten the sustainability of their work, the most important of which is the lack of financial stability, which leads to damage to the confidence of depositors in the bank, so it is necessary to find mechanisms that guarantee bank deposits to depositors, which is what bank deposit protection companies do, which help reduce the risk of bankruptcy and enhancing confidence in the banking system. Establishing a bank deposit protection system to protect depositors from the financial failure of banks that accept and lend deposits, and to enhance confidence in the banking system through the establishment of institutions dedicated to protecting and compensating depositors in the event of stopping payment by banks, as well as protecting the banks themselves from collapse due to the panic of depositors in crises unexpected (Zanoun,2017:445), and it fully or partially compensates the customer's deposit from the deposit insurance fund when the customer's deposit is in danger due to the default of the bank in which the deposits are placed, or in the event of bankruptcy, or stops paying, noting That the fund consists of the contributions of the participating banks and is paid in accordance with the obligations of the banks to provide financing through subscription or donation, which is usually a percentage of the size of the bank deposit (Anisa, 2019: 330). The mission of the deposit protection system may be limited to protecting small depositors, as it acts as an insurance policy in this case, but if it depends on supporting banks in a banking crisis, then its role in this case is symbiotic, but the difference here is the level of commitment to enhance public confidence in the system or sector The Banker (Mohsen, 2016: 83). The Deposit Protection Institution is represented by a mixed joint-stock company funded by the state, represented by the Central Bank. Although its nature is private, it is based on a system of public interest. In addition, participation in deposit insurance companies is mandatory, meaning that all legally established banks participate in the capital of deposit insurance companies, and the percentage of the capital of deposit insurance companies is determined by a decision (Awadi & Khazai, 2019:485). With regard to developing countries, you see the importance of securing and protecting deposits based on the government and its contributions to reviving this system to a greater extent than in developed countries. Banks for some in developing countries are impractical due to the limited markets and the impact of the problem of one bank on other banks, and the government's

participation in the ownership of banks made it a reason for its existence by guaranteeing deposits in a large way (Sabir, 2014: 19). And the deposit insurance system not only compensates depositors for losses resulting from bank failure, but it is also a preventive system in addition to its therapeutic function, so its existence is important (Kamal, 2012: 15), in conclusion the system encourages economic growth and reduces stagnation as it helps in Increasing the cash flow to banking institutions, and thus improving the ability of banks to engage in investment business, and contributes to the stability of the payments system: the process of depositing funds in the bank allows the public and institutions to move their accounts (withdrawals and deposits) unconditionally at any time until the payment system is running Efficiently, the public must make sure that the money they deposit in their banks is of the same level of security directed to cash and this feeling of security and guarantee through the deposit protection system, as well as enhancing public confidence in the banking system and providing the appropriate environment for competition between new and large small banks, and making the cost of liquidating troubled banks common Among all banks (Abboud & Attia, 826: 2021). It represents the central bank that directly controls the deposit guarantee institution, especially in the early stages of establishing the system, as it determines the financial institutions and banks that must participate in the deposit guarantee system, determines the percentage of banks' contribution as a banking sector and the contribution of the relevant government agencies, and determines the types of deposits covered by the guarantee Especially for the foreign sector in accordance with its monetary policy, determining the percentage and the upper limit of compensation according to the financial resources of the system, and then financial supervision and control over its financial situation, and it must be determined whether the bank has reached the level of insolvency and whether it has reached the level of bankruptcy and then It decides whether to compensate depositors through the authority or to bear it by the bank with temporary assistance from the Central Bank, and thus the Central Bank exercises supervisory duties over banks, and this is done by collecting and analyzing banking data that allows it to assess the condition of banks. (Qahtani, 596: 2020).

Capital adequacy: Defined it "the amount of capital that is sufficient to absorb the losses that occur from credit, investment and other ancillary works carried out by banks, that is, in short: absorbing the risks of investing money, in addition to allowing the bank to continue at work. And accordingly, capital It must be sufficient to provide safety and reassurance to depositors, to the supervisory authorities, provide loans, invest funds and provide financial services .

Ability of banks Resilience in the face of surprises and shocks, and therefore it is the least likely to collapse, or the least in need of government intervention. This fact is supported by the fact that the adequacy of bank capital the regulatory authorities and the public, depends mainly on its capital, but did not prevent the failure of some banks in some countries, as a result of the practice of basic errors in their operations that may crystallize in problems related of the loan portfolio, or defects in internal control as well as mismanagement and weak effectiveness of banking systems. (Fairlamb, 1994: 16-17)

The issue of defining capital adequacy standards is of interest to both the supervisory authorities and bank managements together, given the role played by these standards in strengthening the credibility of the financial system, as the purpose of these standards is to ensure that The bank maintains a minimum of its own funds to face the risks it is exposed to, in order to absorb any expected losses, while giving bank owners and managers an incentive to manage the bank properly. And that the effective measurement of the adequacy of bank capital requires a sound assessment of the assets of banks, and

until this is achieved, the analysis of the adequacy of bank capital must be done with great caution. In addition, data problems make (ratios) of bank capital adequacy vulnerable to manipulation in many cases, that is, when the quality of data is poor, or the condition of the bank tends to deteriorate, then (ratios) of capital adequacy are usually late indicators of the existence of banking problems. . Even when conditions improve, the capital in itself prevents the bank from facing difficulties, but of course the more capital the bank has, the greater its ability to solve its problems (Ben Sengour et al., 1995: 85). It is worth noting that it is difficult to ensure the integrity of the financial positions of banks and avoid failure by paying attention to capital adequacy standards alone, despite their importance in this field. Many studies have shown that large banks in the world had high capital adequacy, but they failed for reasons Others, the most prominent of which was the lack of liquidity in meeting unexpected withdrawals of depositors, and the failure of the monetary authorities to play the role of the last lender as required (Gardener, 1981:45). In fact, the important supervisory role exercised by the monetary authorities in ensuring the safety of the financial positions of banks must go beyond ensuring compliance with capital adequacy standards. . There is no doubt that such criteria and others are difficult to express in certain proportions, as is the case in capital and liquidity ratios, which are generally no less important than measurable criteria (Nabulsi, 1990: 102). Accordingly, it is necessary to be guided by several criteria through which it is possible to identify the appropriate amount or the minimum amount of bank capital sufficient to protect depositors' funds and the safety of the banking system.

Profitability: expresses the relationship between the results achieved during a certain period of time and the means used to achieve those results. (Mustafa and Murad, 2013: 35) The importance of profitability lies in the survival and continuity of the bank, as it is a source of confidence for every depositor, lender, and creditor of the bank, and it represents an important measure of the efficiency of the use of available resources. Merchants are encouraged to invest in banks. In addition, profitability allows development and expansion in the field of providing banking services and the development of new services. And it is a clear sign of the bank's competitive position in the banking market, where confidence in management efficiency increases and the market strengthens the bank's position by retaining existing customers and attracting potential customers (Muhammad, 2014:541). The importance of profitability is also reflected in the stability of the financial system, because the banking system Al-Saleem is built on the shoulders of profitable banks, and the profitable banking sector is considered more capable of withstanding negative shocks and the consequent great shocks. and significant changes that accompany the banking environment (Ayanda, et al., 2013: 155).

1. Methodology

1.1 The research sample

The study population consisted of the Iraqi Deposit Insurance Institution and the Jordanian Deposit Insurance Institution with a group of private Iraqi and Jordanian commercial banks The sample of the study included private Iraqi banks listed in the Iraq Stock Exchange, which are (Bank of Baghdad, Iraqi Middle East Investment Bank, Al-Ahly Bank of Iraq, Ashur International Bank for Investment, International Development Bank for Investment and Finance), while Jordan's private banks listed in the Amman Financial Market are (Bank of Jordan, Jordan Commercial Bank, Arab Investment Bank, Arab Banking Corporation Bank, Investment Bank) in addition to the Iraqi Deposit Insurance Corporation and the Jordanian Deposit Insurance Corporation, and the financial and statistical analysis approach

was used by collecting data from the financial statements of the banks under study and analyzing them according to 13 EVIEWS program during the period (2018-2021).

1.2 measure variables

The following ratio was adopted in measuring the research variables, as shown in the following table(1):

Table (1) Measuring tools

variable	type	Symbol	The measurement tool	source
Deposit Insurance system	Independent	X	= Deposit Guarantee Fee/Total Bank Expenses	)Anisa, 2019: 330(
Capital Adequacy	Dependent	Y1	=Level 1 Capital + Level 2 Capital + Level 2 Capital) / Risk Weighted Assets	(Fatima,2014:773)
profitability	Ddependent	Y2	return on investment = net income / total assets	(Stiroh,2004:143)

1.2.1 Iraqi banks

The results of measuring the percentage of deposit guarantee fees showed a general average of (0.0052). At the level of the research sample banks, the Middle East Bank recorded the highest average of (0.015) and a standard deviation of (0.016), while the Ashur Bank recorded the lowest average of (0.0015) and a deviation of (0.0015). Normative (0.0003), while at the level of research years extending from (2018-2021), the year 2021 recorded the highest average (0.0085) and a standard deviation (0.0105), while the year 2018 recorded the lowest average by (0.0018) and a standard deviation (0.0012). Table (2) Results of calculating the deposit guarantee fee percentage.

Table (2) the results of calculating the percentage of bank deposit guarantee fees for a sample of Iraqi banks

Banks	**2018**	**2019**	**2020**	**2021**	**Avr.**	**Std.**
Baghdad	0.0020	0.0022	0.0031	0.0035	0.0027	0.001
The Middle East	0.0014	0.0310	0.0011	0.0267	0.0151	0.016
Al Ahly	0.0006	0.0012	0.0018	0.0041	0.0019	0.002
Ashur	0.0016	0.0013	0.0012	0.0018	0.0015	0.0003
Al Tanmya	0.0039	0.0044	0.0070	0.0101	0.0063	0.003
Avr.	0.0018	0.0079	0.0024	0.0089	**0.0052**	
Std.	0.0012	0.013029	0.00255	0.0105		

The results of measuring the general capital adequacy ratio showed an amount of general average (142.32). At the level of the research sample banks, the Development Bank recorded the highest average of (207.2) and a standard deviation of (2.7), while the National Bank recorded the lowest average of (69.6) and a standard deviation of (32.5). As for the years of research extending from (2018-2021), the year 2019 recorded the highest average (162.2) and a standard deviation (83), while the year 2021 recorded the lowest average by (128.8) and a standard deviation (84). Table (4) shows The results of calculating the capital adequacy ratio.

Table (4) The results of calculating the capital adequacy ratio for a sample of Iraqi banks

Banks	2018	2019	2020	2021	Avr.	Std.
Baghdad	116	127	64	75	95.5	30.6
The Middle East	133	110.2	111.2	106.2	115.1	12.1
Al Ahly	106.6	82.8	58.2	30.9	69.6	32.5
Ashur	116	287	271	222	224	77.1
Al Tanmya	206	204	209.13	210	207.2	2.7
Avr.	135.5	162.2	142.7	128.8	**142.32**	
Std.	40.5	83	93.8	84		

The results of measuring the rate of return on investment showed a general average of (0.03). At the level of the banks of the research sample, the Middle East Bank recorded the highest average of (0.071) and a standard deviation of (0.139), while the Ashur Bank recorded the lowest average of (0.0015) and a deviation Normative (0.0003), while at the level of research years extending from (2018-2021), the year 2021 recorded the highest average (0.0085) and a standard deviation (0.0105), while the year 2018 recorded the lowest average by (0.0018) and a standard deviation (0.0012). Table (4) Results of calculating the deposit guarantee fee percentage.

Table (4) the results of calculating the return on investment for a sample of Iraqi banks

Banks	2018	2019	2020	2021	Avr.	Std.
Baghdad	0.0086	0.0048	0.0095	0.0181	0.0103	0.005
The Middle East	0.0007	0.0024	0.28	0.0024	0.0714	0.139
Al Ahly	0.0616	-0.010	0.0181	0.0273	0.0241	0.029
Ashur	0.0408	0.0134	0.0166	0.0406	0.0278	0.014
Al Tanmya	0.0039	0.0044	0.007	0.0101	0.0063	0.002
Avr.	0.0231	0.0029	0.0662	0.0197	**0.03**	
Std.	0.0268	0.0086	0.1195	0.0149		

1.2.2 Jordanian banks

The results of measuring the percentage of deposit guarantee fees showed a general average of (0.0011). At the level of the research sample banks, the investment bank recorded the highest average of (0.00142) and a standard deviation of (0.00018), while the Jordan Investment Bank recorded the lowest average of (0.0007) and a standard deviation. (0.00015), while at the level of research years extending from (2018-2021), the year 2018 recorded the highest average (0.0016) and a standard deviation (0.0004), while the year 2021 recorded the lowest average (0.0008) and a standard deviation (0.0003). (5) The results of calculating the percentage of deposit guarantee fees.

Table (5) results of calculating the percentage of bank deposit guarantee fees for a sample of Jordanian banks

Banks	2018	2019	2020	2021	Avr.	Std.
Jordan	0.0020	0.0014	0.0004	0.0005	0.0011	0.000759
Jordanian Commercial	0.0018	0.0013	0.0012	0.0012	0.00141	0.000295
Jordanian investment	0.0009	0.0006	0.0006	0.0007	0.0007	0.000157
Arab Banking Corporation	0.0014	0.0010	0.0010	0.0010	0.0011	0.000214
Investment	0.0017	0.0014	0.0014	0.0013	0.00142	0.000182
Avr.	0.0016	0.0011	0.0009	0.0008	**0.0011**	
Std.	0.000406	0.00035	0.000395	0.000339		

The results of measuring the general capital adequacy ratio showed an amount of general average (22.69). At the level of the banks of the research sample, the Bank of Jordan recorded the highest average of (39.07) and a standard deviation of (6.744), while the Jordan Investment Bank recorded the lowest average (14.52) and a standard deviation of (1.214).), As for the years of research extending from (2018-2021), the year 2019 recorded the highest average (23.3) and a standard deviation (11.78), while the year 2020 recorded the lowest average (21.36) and a standard deviation (7.29). Table (6) shows The results of calculating the capital adequacy ratio.

Table (6) results of calculating the capital adequacy ratio for a sample of Jordanian banks

Banks	2018	2019	2020	2021	Avr.	Std.
Jordan	45.4	44.4	32.9	33.6	39.07	6.744
Jordanian Commercial	18.2	19.5	20.2	21	19.72	1.187
Jordanian investment	15	16	13.3	13.8	14.52	1.214
Arab Banking Corporation	16.3	16.6	17.1	19	17.25	1.212
Investment	20.2	25	23.3	23	22.87	1.988
Avr.	23.02	24.30	21.36	22.08	**22.69**	
Std.	12.66	11.78	7.43	7.29		

The results of measuring the rate of return on investment showed a general average of (0.0088). At the level of the banks of the research sample, the Bank of Jordan recorded the highest average (0.0143) and a standard deviation of (0.0015), while the Arab Foundation Bank recorded the lowest average (0.0048) and a deviation of (0.0048). while at the level of research years extending from (2018-2021), the year 2020 recorded the highest average (0.01) and a standard deviation (0.0046), while the year 2020 recorded the lowest average (0.0058) and a standard deviation (0.0043). Table (7) show results of calculating the percentage of return on investment.

جدول (7) نتائج حساب العائد على الاستثمار لعينة المصارف الاردنية

Banks	2018	2019	2020	2021	Avr.	Std.
Jordan	0.016	0.015	0.013	0.013	0.0143	0.0015
Jordanian Commercial	0.005	0.008	0.005	0.005	0.0058	0.0015
Jordanian investment	0.008	0.008	0.005	0.008	0.0073	0.0015
Arab Banking Corporation	0.008	0.002	0.001	0.008	0.0048	0.0037
Investment	0.014	0.014	0.005	0.014	0.0118	0.0045
Avr.	0.010	0.0094	0.0058	0.0096	**0.0088**	
Std.	0.0046	0.0052	0.0043	0.0037		

1.3 Hypothesis test results

Because of the research variables, the number of banks included in the research sample, and the research time period that cover, this type of data was sorted by panel data, which combines cross-sectional data that describes the behavior of specific observations or items during one specific period of time, and time series that describe the behavior of a single item. One over multiple time periods, and data that were not normally distributed were tested, and accordingly, the Random Effects Model was used, which requires that the error limit be distributed normally by a mean of zero, and this requires that the variance be constant for all observations, and there is no linear multiplicity between observations :

$$y_{it} = \beta_{0(i)} + \sum_{j=1}^{k} \beta_j x_{j(it)} + \in_{it}$$

$$\beta_{0(i)} = \mu + V_i$$

The research aims to test the main hypotheses:

H1-1: There is a statistically significant effect of deposit guarantee fees on capital adequacy in the Iraqi banking system. An effect coefficient (-0.141) was recorded with a significant significance (0.04), which indicates the existence of an inverse effect relationship between deposit guarantee fees and capital adequacy. The explanatory coefficient was (R2 = 0.07), which means that changes in capital adequacy are explained by changes in the deposit guarantee fee rate of (7%), while the rest of the changes (93%) are explained by other variables, and thus the results confirm the first alternative hypothesis. Increasing the percentage of deposit fees will lead to a decrease in the adequacy of the bank's capital, as a result of the increase in the costs of the guarantee and the bank's.

H1-2: There is a statistically significant effect of deposit guarantee fees on profitability in the Iraqi banking system. An effect coefficient of (-0.453) was recorded with a significant significance of (0.62). It indicates that there is no effect relationship between deposit guarantee fees and profitability, which recorded a coefficient of Explanatory (0.081 = R2), and thus the results confirm the zero hypothesis and negate the second alternative hypothesis, the increase in the percentage of deposit fees will not lead to a change in bank profitability. The nature of the Iraqi banking environment, which suffers from a gap of confidence among individuals in the Iraqi banking system, as well as the volume of non-performing debts that the sector suffers from, and thus low profitability.

H1-3: There is a statistically significant effect of deposit guarantee fees on capital adequacy in the Jordanian banking system. An effect coefficient (-0.140) was recorded with a significant significance (0.14), which indicates that there is no effect relationship between deposit guarantee fees and capital adequacy. In the Jordanian banking system, changes in capital adequacy cannot be explained by changes in the deposit guarantee fee ratio, and thus the results confirm the zero hypothesis and negate the third alternative hypothesis, and accordingly, an increase in the deposit fee rate will not lead to an increase in the bank's capital adequacy.

H1-4: There is a statistically significant effect of deposit guarantee fees on bank profitability in the Jordanian banking system. It recorded an effect coefficient (0.933) with a significant significance (0.35), which indicates that there is no effect relationship between deposit guarantee fees and profitability, which means that Changes in bank profitability are explained by changes in the profitability ratio, which are not explained by the deposit guarantee fee rate. Thus, the results confirm the zero hypothesis and negate the fourth alternative hypothesis. profitability.

1.4 Discussion

Despite the great difference in the nature of the Iraqi banking system from the Jordanian one, as the latter enjoys relative stability and the use of advanced banking operations and the existence of a strict supervision system and old experience in its performance, in contrast to the Iraqi banking system that is going through a period of radical performance transformation and the repercussions of the nature of the economy on its operations, financing and even methods of granting loans Which made it go through many bumps, but it is noticeable from the results of hypothesis testing that there is a complete match for the results of testing the two hypotheses in both the Iraqi banking system and the Jordanian banking system. It is recognized that it will leave an impact on the performance of banks and individuals who deal with it, ensuring that individuals are not exposed to the possibility of losing their deposits as a result of various crises or accidents, and thus enhances the confidence of individuals in the banking system and can motivate them further to expand their operations and deposit their savings in the system, which provides sufficient liquidity It allows banks to expand credit and the package of services they provide in quantity and quality.

2. Conclusion

2.1 There is no effect of bank deposit guarantee fees on capital adequacy in the Iraqi and Jordanian banking environment.

2.2 There is no effect of bank deposit guarantee fees on banking profitability in the Iraqi and Jordanian banking environment.

2.3 The results of the hypothesis test for the Iraqi banking sector are consistent with the Jordanian banking sector.

2.4 The results of testing the hypotheses of the research contradict with many of the previous studies results. This may be due to the nature of the banking system in Iraq and Jordan and the size of the state's intervention.

2.5 The repercussions of the presence of the Bank Deposit Insurance Institution could be psychological on individuals dealing with banks in both countries more than its impact on the performance of the banks themselves.

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