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Deposit Insurance System and Its Role in Enhancing Public Confidence in the Banking Sector in Order to Achieve Economic Development: An Iraq Case Study

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The main objectives of the Deposit Insurance System are to compensate depositors in the event of banks failing to fulfil their obligations. This mechanism is an important means to gain public confidence in the banking system and achieve financial and banking stability, which is one of the most important elements of economic development, especially in developing countries. The research deals with the mechanism of deposit guarantee institutions in Iraq and its role in reaching the public's trust in order to mobilise deposits and provide the necessary capital for economic development. In order to reach the goal of the research, a sample of Iraqi banks were covered. The research has concluded that the public's confidence in the banking sector is very sensitive towards deposit guarantee institutions. The more efficient and effective the deposit guarantee institutions are, the greater the public's confidence in the banking sector and achieving financial and banking stability, which is an essential pillar of economic development.

Keywords: *Deposit guarantee system, Public confidence in the banking system, Economic development, Bank failures, Customer opinions.*

Deposit Insurance System

The Deposit Insurance System is one of the most important topics on the banking scene from the past few years to the present. Banks face a set of challenges, the most important of which are to achieve the requirements of banking stability and enhance the public's confidence in the financial sector in general. It represents an advanced rank among economic development goals, that in turn will support economic growth and competition and increase efficiency and banking and economic efficiency. The rates of deposits in the banking system are one of the most necessary items. To support this stability, bank deposits are inherently debts owed by banks. It is evident that the integrity of the financial system, in general, is based on the integrity of its instruments of deposits, and that any risk to these deposits and confidence in them will constitute a threatened financial system. Therefore, the need arises to the existence of a system to ensure that the deposit is working to provide the possibility of compensation by categories of depositors of their deposits which are at risk, as a result of a faltering bank and cease payments.

The importance of deposit insurance and the protection of depositors has emerged recently. The deposit insurance system and the protection of depositors are effective elements in overcoming the problems facing financial institutions that accept deposits in general and commercial banks in particular, and for which we find that countries do not apply insurance systems. On deposits and the protection of depositors, I have begun to study the possibility of applying these systems due to their importance in treating problems and crises facing the financial sector. Most studies indicate that the Deposit Insurance System was established in 1930, as the first national system in the world in the United States of America, to restore the confidence of depositors in the American banking system because of the negative effects of the Great Depression (1929–1933). Since then, the system has become important for depositors, especially in times of financial crises, because in the absence of a deposit guarantee system, depositors will withdraw their money from the bank, which will threaten banks by withdrawing their assets and cash deposits (Nikolaj, et al., 2019).

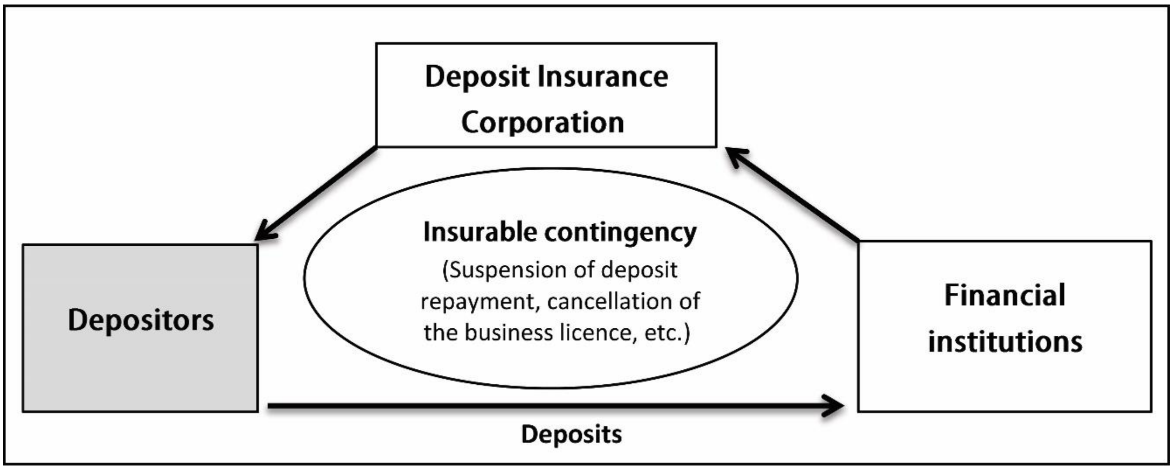
Definition of the Deposit Insurance System

It is a system established according to government laws and regulations recognised legally to protect the funds of the public deposited with banks. This system guarantees the payment of compensation to depositors in the event of failure or insolvency of the bank to pay financial obligations towards depositors (Ognjenovic, 2017). It has been defined (Jia and Zujie, 2011) as a system that governments use to protect the interests of depositors and maintain the financial system and financial stability in the country. This system was established according to a government legal model for paying debts when the situation arises of the bankruptcy of the bank. Thus, the Deposit Insurance System is a strong protection to protect the interests of depositors and maintain a financial system and stability. Furthermore, Zhang and Ren (2009) defined it as an important and essential system of financing in a market economy. Financial institutions that take deposits from banks participate in securing deposits by paying insurance deposits on deposits to insurance institutions, according to specific laws and procedures. Furthermore, insurance institutions pay depositors in the event of bankruptcy in accordance with the criteria required by law. The idea of this system is to establish a mechanism to compensate depositors about the risks on the basis of the market and according to reasonable limits of the loss, due to the collapse of the banks. Thus, this system will help to maintain the banking system and the stability of the financial market because in the event of a loss in one of the banks, this will also lead to the transmission of infection to the healthy banks.

The Basic Mechanism of the Deposit Insurance System

Under the deposit guarantee system, financial institutions that receive money from depositors pay insurance premiums for the deposit insurance company, so that the company in turn determines a certain amount of payments to secure it and to protect depositors in the event that the financial institution fails to pay obligations to depositors. Figure 1 shows the mechanism of the deposit guarantee system. From Figure 1, it can be seen that when depositors deposit their money with the financial institution that operates the deposit guarantee system, an insurance relationship is automatically created between the depositor and the financial institution and the deposit insurance company based on the deposit. In other words, a triple trust relationship is established between the three parties.

Figure 1. Basic mechanism of the Deposit Insurance System



Reference: Yoshino, Naoyuki & Hesary, Farhad & Nili, Farhad, "Optimal premiums for the deposit insurance system: an empirical work on the deposit insurance system of Japan." KESDP, No. 1, 2013, pp3.

Objectives of the Deposit Insurance System

The system aims to achieve two main goals. The first goal is to ensure that depositors will not lose their deposits and savings held with the bank if the bank becomes insolvent. Therefore, depositors place their money with the bank based on their wishes on the basis of trust in the bank (Malaki, 2003). A majority of the depositors may not know the actual performance of the bank's management under this system, and they only deposit their money to the bank because they believe that they can access their money when they need to withdraw it or whenever they want to. The second goal so the system is to contribute to financial stability. Financial stability is a summary of the various financial activities of the financial sector. If there are inappropriate activities by one financial sector, such as the bank, this may cause financial losses, and this may affect not only the bank itself, but it may also affect the total financial activity and the country's gross domestic product (GDP). The bankruptcy of the bank greatly affects the large depositors in the bank, which causes them to lose confidence in it. Thus, this causes financial instability in general. The main objective of the Deposit Insurance System is to protect depositors, whether big or small, or the individuals or companies who deposited their money, and this will contribute significantly to the financial stability of the country (Marlowe, 2010).

Requirements for establishing a Deposit Insurance System

In order to implement the deposit, guarantee system, a set of basic requirements are essential (Bernet and Susanna, 2009):

a) **Financial stability:** The Deposit Insurance System cannot properly perform its role unless it has the financial capacity to do so. Therefore, the capital base also leads to an important function in assessing the credibility of the repayment of debts and thus increasing the confidence of depositors.
b) **Fair competition:** contributions from depositors must be organised fairly between all, and not aligned to one department, leaving the other section at risk of loss.
c) **Guiding principle:** contribution payments must be organised according to the risks of the insured's claim, i.e. the risk must be directly correlated with the amount of the individual's contribution.
d) **Regulating powers:** The Deposit Insurance System requires a broad authority to ensure the payment of contributions to depositors to achieve stability and to ensure full and prompt payment of the covered deposits.
e) **Simplicity and transparency**: the system must be credible in persuasive communication with individuals and deal with them simply and transparently in organisational structures and processes because it is the key to this system.
f) **Cost efficiency**: all transactions must be rational and cost-effective.

g) **Independence:** The Deposit Insurance System must be organised by a national government agency independently of the exercise of external influence by stakeholders, as much as possible (Kahn, 2017).
h) **Responsibility**: independence must be associated with responsibility for capital, returns, and costs for the government and the public.
i) **Rationality:** The Deposit Insurance System must also look at the specific circumstances of each country. Furthermore, their specific design features must correspond mainly to the economic conditions, ensuring that costs do not increase over deposits (Garcia and Garcia, 2000).

Deposits not Covered by the Deposit Insurance System

There are specific types of deposits that are usually excluded from the Deposit Insurance System and that are not eligible for protection because they do not meet the goal of protecting small depositors. They may include the following (IADI, 2013):

a) Deposits between banks due to the belief that extending coverage to include inter-bank deposits can reduce the incentive to supervise other banks and thus, weaken discipline in the market.
b) Deposits from government departments, regional and local governments, and other public bodies.
c) Deposits from individuals who are responsible for the bank's failure, such as deposits affiliated with the Board of Directors, major shareholders, and bank auditors.
d) The money that is related to money laundering and terrorist financing.

Principles of Establishing a Deposit Insurance System

Empirical research has shown that in countries that have already established an explicit Deposit Insurance System or are currently working on establishing this system, there are six common principles for good design, which cannot be neglected. Even in strong institutional environments, poor design of the Deposit Insurance System can increase the fragility of the financial situation and reduce the discipline that banks receive to control. The following are required to control these negative influences (Demirguc & Kane, 2006):

a) **The First Principle:** the system must emphasise its effectiveness and its proper management. To accomplish this, the system must be designed and managed in a way that convinces the public of depositors, debt holders, and correspondent banks that their money is safe and removed from any risks.
b) **The Second Principle:** making membership in the Deposit Insurance System mandatory. This leads to an increase in the size and breadth of the guarantee base and prevents strong

institutions from leaving this membership, especially when the fund is in need of new capital or in need of additional financing.

c) **The Third Principle**: making the public and private sectors together bear the responsibility for overseeing the system. The public-private partnership leads to the establishment of checks and balances that ultimately improve its administrative performance.
d) **The Fourth Principle**: reducing the system's ability to transfer the loss to taxpayers. This principle relates that whether the system maintains sufficient funds or not, it is clear that the coverage of any bank's losses is covered mainly from the funds available with the Deposit Insurance System. They are mainly contributions that have been paid by all banks. However, with regard to resorting to the assistance of taxpayers, this must be determined legally and through legal provisions ensuring that this is done only in abnormal or exceptional circumstances and through the implementation of exceptional procedures.
e) **The Fifth Principle:** the necessity of pricing deposit guarantees services appropriately. Several studies and research have shown that there are different ways of pricing deposit insurance in an accurate and ideal way.
f) **The Sixth Principle**: it is based on the fact that the Deposit Insurance System must participate in making decisions about the timing and how to solve the problems of bankruptcy because the guarantee system is responsible for compensating depositors in the event of bankruptcy. The Deposit Insurance System is also more efficient, given that bank officials have a better understanding of the nature of bank risks and how to address them.

Public Confidence in the Banking Sector

Research and studies have proven that public confidence in the banking sector affects a set of economic variables related to the behaviour of individuals, such as savings, investment, and investment portfolio formation in the stock market. Empirical evidence for behavioural biases indicates that weak banking sectors need to gain public confidence that can be reached by various means, including bank deposit guarantee institutions. Also, this type of banking sector usually needs a periodic evaluation to measure the public's confidence in it, and often these measures are based on a survey of a sample of commercial banks. The banking system's loss of public confidence can lead to a major financial crisis that spans the entire national economy, because the failure of one bank leads to undermining the public's confidence in the entire banking sector. Thus, economic policy makers work to find various means to gain and preserve public confidence. The issue of banks' failure and their inability to fulfil their obligations towards depositors has aroused a lot of interest in recent decades. This is particularly due to economic crises, such as the Asian crisis of 1997–1999, that afflicted most of Asia and created fear surrounding the transition to a global crisis, as well as the global financial crisis in 2008, in the United States of America. Despite the efforts made by commercial banks in providing the necessary liquidity and adequate capital, there is difficulty in restoring confidence because it is linked to a set of social, cultural, and demographic factors, such as education, income level, gender, and age, as well as religious and political values (Lucy, 2019).

Defining Audience Confidence

Public confidence can be defined as public belief in the policies taken by the central bank and financial decision makers. It can also be defined as customer satisfaction in establishing a secure relationship with the bank (Malyavko, 2003). The Basel Committee on Banking Supervision also defined reputation risks as "the risk arising from a negative perception by customers, counterparties, shareholders, investors or regulators that could negatively affect the bank's ability to maintain banking activities, or create new business transactions, as well as continued access to financing sources through financial markets or between commercial banks" (Bank for International Settlements, 2009). Often governments are keen to provide confidence requirements in the banking sector through legal legislation and agreements in order to achieve financial stability and support economic development steps. There are four elements that must be available to enhance public confidence in the banking sector, as follows (Andrew & Primrose, 2016):

a) The citizen's easy access to his or her money for other banking services.
b) Maintaining the security and confidentiality of bank accounts.
c) Commercial banks are subject to direct regulation and supervision by the supervisory bodies of the Central Bank.
d) To fulfil the necessary guarantees for borrowers to prevent their delay, which would spread fear among depositors and result in the withdrawal of their money.

Commercial banks with the Central Bank alike can contribute to the stability of the banking system, as the failure of the former to perform its duties has a major role in losing confidence, just as the procedures and regulatory policies followed by the central bank play a major role in that as well. It stands out that there is a lack of public confidence in the banking sector through the transformation of citizens and dealing with the informal sector. It should be noted that the level of trust can be measured through a number of indicators, most notably the increase in the volume of deposits, the number of people who own bank accounts, as well as the quality and duration of deposits in banks.

Reputational Risk in the Banking Sector

The monetary authorities have realised over the past few years that the loss of public confidence in the banking sector constitutes a threat to the banking stability of most developed and developing economies alike. Enhancing confidence guarantees sustainability and achieving the goals of the banking sector. Studies have shown that 95 per cent of financial analysts make their investment decisions based on the reputation of the managers of banks or companies (Francois, 2010). Therefore, banks are often keen to ensure the appointment of managers with capabilities and skills that can gain a good reputation in the banking sector. Several studies attempted in the eighties and nineties of the last century to determine the impact of reputation on banks and companies through stock prices, as it is known that there is a sensitivity between the share price and the reputation of the company. These studies concluded that the company's reputation is related to a group of factors across stock prices. Among the most prominent factors that are affected by the company's reputation includes (Ingo, 2006):

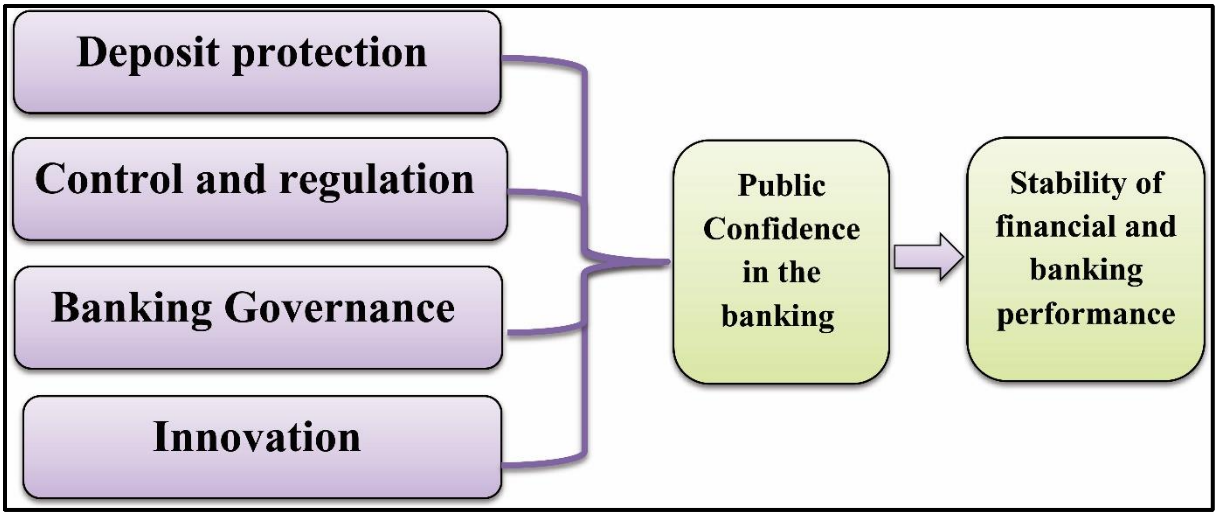
a) Decreased dividend for shareholders.
b) Increase in costs associated with regulatory fines, legal settlements, and compliance costs arising from a reputation-damaging event.
c) High costs of financing, contracting, and opportunity cost.
d) Increasing the irregular risks facing the bank or the company.

In 2006, Lewis and Wei undertook a typical study of operational events related to reputation and public confidence for 49 reputation-sensitive events and the size of losses resulting from these events using three-factor discretionary models, in terms of abnormal and cumulative returns and the number of trading days in stocks, before and after announcing the event. The study found that reputation losses constitute 66 per cent of the incurred juvenile losses, three per cent of the fines, six per cent of the collective litigation settlements, and 25 per cent of the accounting write-offs.

The Importance of Public Confidence in the Banking Sector

The performance of the Commercial Bank reflects the way in which the bank uses financial resources to achieve the goals set. There are a set of indicators that reflect the bank's financial position and the extent of its efficiency and ability to achieve these goals. Most notably, the availability of capital and the ability to attract customers, and the size of deposits compared to competitors. Naturally, the public’s confidence in the banking sector in general and the Commercial Bank in particular, also directly affects attracting customers and increasing the volume of deposits, as the bank’s failure to gain public confidence leads to the leakage of deposits and an imbalance in the bank’s financial performance. The monetary authority can play a role through activating deposit protection, regulation and control systems, as well as applying governance and management systems in the banking sector. The current bank can gain public trust by adhering to regulations and specifically those imposed by the monetary authority, and by protecting deposits and maintaining their security, as well as through innovation and the introduction of information and communication technology in the provision of banking services (Caleb, 2015). Figure 2 shows the relationship of factors affecting public confidence and the stability of financial and banking performance.

Figure 2. Relationship of factors affecting public confidence in financial and banking performance



Reference: Caleb Phiri: An Assessment of the Factors Determining Public Confidence and its impact on the Financial Performance and Stability of banks in Zimbabwe, Master Thesis in Business Administration, Graduate School of Management University of Zimbabwe, 2015, p-33.

Economic Development

The first step in the concept of economic development is to distinguish between it and economic growth. The latter deals with the economy as a function whose inputs are the four elements of production and their outputs. The change in production and income, and the concept of economic development has evolved in recent decades significantly. After it was seen in the forties and the fifties of the last century, the rate of increase in national income and per capita share of GDP has evolved to include a set of development goals that have been identified by global institutions, emanating from the United Nations. The concept began to be used, which includes radical changes in society and the development of capacity and skills at a rate that ensures continuous improvement in the lives of individuals and communities' image, involving the satisfaction of human needs renewable and multiple, as well as to achieve justice in the distribution of proceeds and the optimal utilisation of resources (Maryann, et al., 2014).

The Concept of Economic Development

The traditional economy is concerned primarily with the allocation of economic resources and the effective reduction of production costs, while economic development is concerned with broader areas of that, as it deals with economic, social, and political variables. At the level of public and private institutions alike, one of the most prominent axes that focus on economic development is the continuous and widespread improvements in the living standards of all societies, especially the poor ones. Thus, F. Perraux defined economic development as coordination between economic and social variables to develop and maximise. (Maryann, et al., 2014) Individuals have increased production in various sectors and improved the standard of living **(**Francois, 2010). There is a need to form a basic perspective and a practical definition of economic development, in order to agree on a unified criterion for measurement, by which to determine the path of countries achieving actual economic development without the other. On this basis, Michael P. Todaro believes that economic development is achieving sustainable growth rates per capita of national income, and enabling the state to expand its production at faster rates of population growth (Caleb, 2015). It is possible to compensate for the per capita share of national income by measuring the level of economic well-being and per capita share of consumer and investment goods and services that it obtains according to its monetary income. Furthermore, this is known with real income. Economic development can also be seen through a change in production structures and employment, such as the contribution of the agricultural sector to GDP, compared to the manufacturing and services sector. It is known that modern strategies for economic development focus on the shift towards rapid industrialisation at the expense of agricultural and rural production, as well as progress made in the area of poverty, unemployment, and equality (Michael, 2014).

Financing of Economic Development

All member states of the United Nations have realised that mobilising sufficient resources to support the development strategy constitutes a major challenge to achieving the set development goals. Furthermore, national funding sources are one of the most prominent forms of financing that help in making correct and effective decisions in the short term, as well as allowing the exploitation and management of financing. Away from the risks related to the debt problem and the accompanying various political and economic obstacles, many countries suffer from a lack of financial resources in a manner that is not sufficient to carry out the necessary tasks required to accomplish the process of economic development. The nature of the financial system plays a major role in financing the expenditures necessary to achieve economic development, as the financial system constitutes an important means for providing public goods and services and sets incentives for the actors' behaviour and directs them towards the development sectors. It also contributes to achieving justice and equality among members of society. An efficient financial system contributes to achieving economic stability at the macro level. Taxes are one of the most important sources of financing for development in most developed and developing countries alike, but avoiding and evading tax remains a major obstacle to efforts to mobilise domestic resources around the world (United Nations, 2019).

The banking system is one of the agencies that provides the business sector with the financial resources necessary to raise productivity and create conditions for economic development. Banks and other financial institutions take the role of mediator between those who have a surplus of money (savers) and who have a deficit in funds (investors), and transfer bank deposits to credit. Banking systems are the focus of economic activity and its effective tool in achieving economic transformations and access to economic development (Peter, 2008).

Bank credit is the ability of commercial banks to provide funds to individuals and governments in the form of loans that help in setting up and expanding the scope of business. Industrial companies obtain the funds needed to purchase machinery and equipment, and farmers receive credit for the purchase of fertilisers, pesticides, and seeds, and to build the necessary buildings for the production process. The government can use bank credit to cover government expenditures that promote economic development. The banking sector can contribute to financing economic development through the following (Yakubu & Affoi, 2014):

a) Raising the efficiency of financial markets and financial intermediation operations.
b) Increase the national saving rates at the macro level.
c) Promote a culture of credit and provide legal frameworks in order to guarantee the rights of depositors.

The Practical Analysis of the Bank Deposit Insurance System in Iraq

The Iraqi banking sector today is considered the mainstay of building the national economy and is one of the main pillars supporting the State, through which economic growth and stability is achieved. It constitutes the main financing link for investment activities, as there are a large number of financial companies, government, and private and foreign banks in Iraq. This is a good indicator for the application of a bank deposits guarantee system. In the Iraqi law issued Law No. 3 of 2016, the first paragraph states the authority of the Central Bank of Iraq is to grant a licence to practise bank deposits guarantee to a joint stock company established in accordance with the Companies Law No. 21 of 1997. In this way, the legislator has determined the nature of the institution that exercises the guarantee of protection of bank deposits. In addition to the presence of a large number of savers who have the desire to deposit their money with banks, they do not have high confidence in the banking sector in paying their financial dues. This is what called for the establishment of a system of guarantee of deposits banking, which will motivate savers to deposit more money with banks. Furthermore, it will increase the amount of capital in banks and reflect positively on achieving economic development. On the basis of this law, a company was established in the name of the "Iraqi Deposit Insurance Corporation", and the Board of Directors of this company consists of seven member banks: The Bank Al-Rafidain, Industrial, Investment and Development, Al-Ahly Al-Iraqi, Ashur, and the Guarantees Company. In this part of the study, the statistical methods that will be used in the analysis of the data obtained by the questionnaires distributed in the study sample will be discussed, and the results of the statistical analysis will also be presented. To achieve this, a questionnaire was prepared to collect data from the study sample. This form consists of two parts. The first is personal and functional information about the study sample, including gender, job position, age group, educational level, and the number of years of service. The second section of the questionnaire included a set of questions based on the Likert scale to measure the answers of the study sample according to the following grades, which gave five degrees representing the answer field 'agree strongly', four degrees to the field 'agree', three degrees to the field 'neutral', two degrees to the field 'do not agree', and one degree to the field 'do not strongly agree'. Subsequently, the repetitive distribution schedule for the variables adopted in the study was made to obtain the weighted mathematical mean and the standard deviations, with the aim of identifying the extent of consistency of the responses of the sample examined. This was followed by the relative importance of the arithmetic mean, that shows the extent of agreement with the question that is extracted. As it relied on the hypothetical mean of three degrees, as a standard for measuring the degree of responses, the hypothetical mean represents the average between the highest score on the scale and the lowest score.

The Level of Public Confidence in the Study Sample in the Banking Sector

A random sample was chosen from the clients of the member banks of the Iraqi Company for the Guarantee of Deposits, represented by the Rafidain Bank, the Investment Bank, the Development Bank, and the Ashur Bank. In order to measure the public's confidence in the banking sector, 115 questionnaires were distributed randomly to the customers of the aforementioned banks. One hundred questionnaires or 86 per cent were returned and found to be valid for analysis. The sample size (N=100) was subjected to statistical analysis.

Demographic Information

The demographic information collected from respondents comprised gender, age, and profession. The analysis and results of this data are shown in Table 1.

Gender

From Table 1, it is clear that there is a discrepancy between the study sample population (N=100), where the number of males was 65 and consisted of 65 per cent of the study sample. Meanwhile, the number of females was 35, with a percentage of 35 per cent.

Age

From Table 1, it is clear that there is a disparity between ages, as the category of 31–40 years was the highest between ages at 43 per cent.

Profession

It is evident from Table 1 that the private sector achieved the first rank with a percentage of 40 per cent, from which we infer that the majority of the depositors of funds are from private professions.

Table 1: Personal data to the public study sample

	Variables	Target Group	Number	Importance Ratio
1	**Gender**	Male	65	0.65
		female	35	0.35
2	**Age**	21–30 years	30	0.30
		31–40 years	43	0.43
		41–50 years	19	0.19
		51–60 years	8	0.08
		61 years or more	0	0.00
3	**Profession**	Government employee	27	0.27
		Private sector	40	0.40
		I do not have work	18	0.18
		Student	9	0.09
		Retired	6	0.06

Reliability

The data collected from the respondents was tested to ensure its reliability and to determine the primary relationships between variables. The reliability was calculated using the Alpha Kronbach method. Table 2 shows the results of the reliability tests. The results showed that the test value of 0.832, is greater than the standard index of 0.60 (Saunders, 2009). It is close to the number one for all 13 items tested, and this indicates that its reliability is high.

Table 2: Data reliability

Cronbach's Alpha	Number of Items
0.832	**13**

Testing the Level of Public Confidence in the Banking Sector Considering the Existence of a Deposit Insurance System

This part aims to identify the public confidence in the banking sector. To verify this, the percentage of respondents' responses were found on all paragraphs, as well as the arithmetic mean of responses, in order to compare with the degree of impartiality of three, as well as the standard deviation to identify the extent of the dispersion of answers among the public. It is observed from Table 3 that there is agreement, with 82.3 per cent of the study sample audience having a high confidence in the banking sector, in light of applying the Deposit Insurance System in banks. The study sample has an average of 4.116, exceeding the hypothetical mean of three, which indicates the question is clear to the public, and with a standard deviation of 0.823. We can note that the following three factors were among the most important factors in the effect of the Deposit Insurance System on public confidence in the Iraqi banking system. which were ranked according to the highest approval of the question. First, the Deposit Insurance Corporation contributes to encouraging the public to deposit more money with banks, where the average answer was 4.220, which is higher than the hypothetical mean of three, according to the scale used, and with a standard deviation of 0.416. This indicates a strong and positive approval of the application of the deposit guarantee system, which will lead to the flow of more savings to banks. Second, the bank takes corrective measures continuously to solve the problems facing customers in dealing with the bank, where the average answer was 4.260, which was higher than the hypothetical mean of three, according to the scale used, and with a standard deviation of 0.579. This indicates that these procedures of corrective action will have an effective impact on increasing public confidence in the banking sector, which will also contribute to increasing deposits with banks. Third, the bank deals with the personal information of customers completely confidentially, with an account average of 4.380, which is higher than the hypothetical medium of three, according to the scale used and with a standard deviation of 0.528, which also indicates an increase in confidence in the banking sector, because confidentiality in banking transactions is the basis of the success of the banks, and consequently, will increase customers' appetite for depositing savings with the bank.

Table 3: Repetitive distributions, percentages, mean values, standard deviation, and severity of response for the public confidence axis in the banking sector under the deposit guarantee system

	Results / Questions	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Arithmetic mean	Standard deviation	Relative importance
1	**The Deposit Insurance System has increased your confidence that your bank is able to pay your money at all times.**	**42**	**55**	**3**	**0**	**0**	**4.390**	**0.549**	**0.878**

2	**Financial innovation and modern financial services enhance your confidence in the financial banking sector.**	**39**	**56**	**5**	**0**	**0**	**4.340**	**0.572**	**0.868**
3	**You have confidence in the efficiency and integrity of bank executives.**	**45**	**50**	**5**	**0**	**0**	**4.400**	**0.586**	**0.880**
4	**The Deposit Guarantee Corporation encourages you to deposit more money with the bank.**	**22**	**78**	**0**	**0**	**0**	**4.220**	**0.416**	**0.844**
5	**Fast and easy transactions with the bank increases your confidence to deal with the bank.**	**38**	**43**	**15**	**3**	**1**	**4.140**	**0.853**	**0.828**
6	**The geographical location of the bank is stable, which is reflected in your confidence in the bank.**	**37**	**48**	**11**	**4**	**0**	**4.180**	**0.783**	**0.836**
7	**The services provided by Iraqi banks compete with banks in other countries.**	**15**	**37**	**38**	**8**	**2**	**3.550**	**0.914**	**0.710**
8	**The bank treats your personal information completely confidentially.**	**40**	**58**	**2**	**0**	**0**	**4.380**	**0.528**	**0.876**
9	**The bank imposes high fees on the services it provides to you.**	**15**	**19**	**47**	**19**	**0**	**3.300**	**0.948**	**0.660**
10	**The bank takes corrective measures on an ongoing basis to solve the problems that you face in dealing with the bank.**	**33**	**60**	**7**	**0**	**0**	**4.260**	**0.579**	**0.852**
Total average							**4.116**	**0.673**	**0.823**

Source: prepared by the researcher, using the Microsoft excel program.

Analysing the Responses of Employees in Banks to Show the Role of the Deposit Insurance System in Achieving Economic Development

The sample of the member banks of the Iraqi Company for Deposits Insurance was chosen and was represented by the Rafidain Bank, the Investment Bank, the Development Bank, and the

Ashur Bank. Sixty forms were distributed to the managers and employees of the aforementioned banks, in order to measure the extent of the deposit guarantee system's contribution to achieving economic development. All forms were recovered with a perfect percentage of 100 per cent.

Demographic Information

The demographic information collected from respondents was gender, age, the number of years of service, and job position. The analysis and results of this data is given in Table 4.

Gender

From Table 4, it is clear that there is a slight variation in terms of the gender between workers in banks, where the number of males was 35 with a percentage of 58 per cent, meanwhile there were 25 females, comprising 48 per cent.

Age

With regard to the variable of the age group, it was from the share of the 41–50 years category, at a rate of 35 per cent.

Number of Years of Service

Regarding the variable of the number of years of service, it was part of the category of 11–15 years, with a percentage of 27 per cent. This indicates that the workers in these banks have the skill and management experiences in managing the bank.

Functional

Regarding the job position, we notice from Table 4 that ordinary employees issued the highest category at a rate of 78 per cent from the size of the study sample.

Table 4: Personal data of employees in banks study sample

	Variables	Target Group	Number	Importance Ratio
1	**Gender**	Male	35	0
		Female	25	0.42
2	**Age**	21–30 years	8	0.13
		31–40 years	20	0.33
		41–50 years	21	0.35
		51–60 years	9	0.15

		61 years or more	2	0.03
3	**Number of years of service**	1 year or less	2	0.03
		2–5 years old	8	0.13
		6–10 years	14	0.23
		11–15 years	16	0.27
		16–20 years	13	0.22
		21–25 years	5	0.09
		26 years and over	2	0.03
4	**Job position**	Manager	4	0.07
		Head of the Department	9	0.15
		Ordinary employee	47	0.78

Reliability

The data collected from the respondents was tested to ensure its reliability and to determine the primary relationships between variables. The reliability was calculated using the Alpha factor in Kronbach. Table 5 shows the results of the reliability tests. The results showed that the test value of 0.735, is greater than the standard index of 0.60 (Saunders, 2009), and is close to the correct number one and for all 14 items that have been tested. This indicates that its reliability is high.

Table 5: Data reliability

Cronbach's Alpha	**N of Items**
0.735	**14**

The Contribution of the Deposit System to Achieving Economic Development

We observe from Table 6 that there is a total agreement at 86.1 per cent from the banks of the study sample that the Deposit Insurance System contributes significantly to achieving economic development. It achieved an arithmetic mean of 4.305, and the hypothetical average of three has been exceeded which indicates clarity of the questions with banks, with a standard deviation of 0.567. It can be noted that the following three factors were among the most important factors of the impact of the Deposit Insurance System on economic development, and which are arranged according to the approval of the question. First, the existence of the Deposit Insurance System gave the bank greater flexibility in financing various major economic sectors, where the average answer of 4.250, was higher than the hypothetical mean of three, according to the scale used, and with a standard deviation of 0.850. This indicates that the operational activity of the various economic sectors has increased due to the increase in funding from banks and this is a positive indicator towards achieving economic development. Second, the Deposit Insurance System led to encouraging the bank to enter into long-term financing grant operations of more than five years to achieve economic development. The average answer was 4.233, which is higher than the hypothetical mean of three, according to the scale used, and with a standard deviation of 0.465. This is also a positive indicator for achieving long-term economic development. Third, the Deposit Insurance System attracts the deposits of customers who keep them with banks outside Iraq, which increases the volume of economic activity of the State. The average answer of 4.300, is higher than the hypothetical mean of three, according to the scale used, and with a standard deviation of 0.462. This indicates that the volume of deposits with banks will increase and thus, the volume of banking activity and the processes of granting loans and other banking services, which will be reflected in the development of the level of the economic activity of the State.

Table 6: Repetitive distributions, percentages, mean values, standard deviation, and severity of response to the axis of the Deposit Insurance System in achieving economic development

	Results / Variable	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Arithmetic mean	Standard deviation	Relative importance
1	The Deposit Insurance System contributes to developing savings awareness for the public, which is reflected in the bank's ability to attract more new deposits.	24	34	2	0	0	4.367	0.551	0.873
2	The Deposit Insurance System attracts the deposits of customers who keep them with banks outside Iraq, which increases the volume of the economic activity of the country.	18	42	0	0	0	4.300	0.462	0.860
3	The presence of legislation and laws regulating the operation of the Deposit Insurance System leads to providing a safety factor for depositors.	25	30	5	0	0	4.333	0.629	0.867
4	The presence of a Deposit Insurance System contributes	26	29	5	0	0	4.350	0.633	0.870

	to reassuring depositors and not withdrawing deposits in crisis situations.								
5	**The Deposit Insurance System has achieved a great competitive advantage for banks in attracting deposits.**	**29**	**25**	**6**	**0**	**0**	**4.383**	**0.666**	**0.877**
6	**The Deposit Insurance System has increased depositors' demand to deposit their money with the bank, refraining from hoarding it, and depositing it with unofficial entities.**	**19**	**32**	**7**	**2**	**0**	**4.133**	**0.747**	**0.827**
7	**The Deposit Insurance System is based on imposing fines and penalties on the bank when violations occur that put the depositors' money at risk.**	**27**	**31**	**2**	**0**	**0**	**4.417**	**0.561**	**0.883**
8	**The existence of a Deposit Insurance System gave the bank more flexibility in financing various major economic sectors.**	**15**	**45**	**0**	**0**	**0**	**4.250**	**0.437**	**0.850**
9	**The Deposit Insurance System has encouraged the bank to enter into long-term financing grant operations (more than 5 years) to achieve economic development.**	**15**	**44**	**1**	**0**	**0**	**4.233**	**0.847**	**0.465**
10	**The existence of a Deposit Insurance System encouraged the bank to attract deposits and enter into financing vital projects with huge sums.**	**19**	**39**	**2**	**0**	**0**	**4.283**	**0.524**	**0.857**
Total average							**4.305**	**0.861**	**0.567**

Source: prepared by the researchers using the Microsoft excel program.

Conclusions

1. The Deposit Insurance System increases the degree of stability of deposits and attracts more savings in the banking sector. This system contributes to reducing the dangers threatening depositors in critical circumstances, and increases depositors' appetite for depositing their money with banks, as well as its great role in reassuring depositors to refrain from withdrawing their deposits in crisis situations. Furthermore, it works to develop the savings awareness of the public.
2. The stability of the banking and financial system is today necessary for the flow of economic activity and its protection from economic and social consequences, given the important role of the banking system in the modern economy.
3. The establishment of a Deposit Insurance System affects the flexibility of credit policies in the banking sector, as this system leads to an increase in the level of credit limits granted by banks. It also encourages banks to enter into financing projects with large amounts, as well as entering into long-term financing grant operations.
4. The Deposit Insurance System works to prevent any financial crisis from spreading and to prevent its transmission from one bank to another. In addition, its role in ensuring that banks adhere to an adequate base of capital, which strengthens the supervisory role, and has a significant impact on increasing confidence in the banking sector.
5. The Deposit Insurance System contributes greatly to achieving economic development by mobilising financial resources and revitalising the banking system that is capable of financing the development process, especially in developing countries.
6. The Deposit Insurance System aims to increase confidence in the financial institutions and the financial system as a whole and thus, achieve stability for these institutions, as it has a dual preventive and curative role.

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