



## **Deposit Insurance and Credit Guarantee Corporation Golden Jubilee Year (2011)**

### **Address by Chairman (Shri Subir V. Gokarn)**



Deposit Insurance and Credit Guarantee Corporation (DICGC) enters 50<sup>th</sup> year of its operations on January 1, 2011. The Corporation came into existence on January 1, 1962. It was, at the time, the second deposit insurance corporation in the world, the first having been set up in the United States in 1933. The need for deposit insurance arose from frequent instances of bank failures that adversely impacted depositor confidence. Over time, financial stability and protection of small depositors have emerged as the primary reasons for spread of deposit insurance across the world, which gathered momentum in the 1980s.

The idea of insuring bank deposits emerged in India in 1948 after the banking crisis in Bengal. The issue came up for reconsideration a year later, but was held in abeyance till the Reserve Bank set up adequate arrangements for inspection of banks. In 1950, the Rural Banking Enquiry Committee supported the concept. Serious thought to insuring deposits was, however, given by the Reserve Bank and the Central Government after the failure of the Palai Central Bank Ltd., and the Laxmi Bank Ltd. in 1960. The Deposit Insurance Corporation (DIC) Bill was introduced in Parliament on August 21, 1961. After it was passed, the Bill got the assent of the President on December 7, 1961 and the Deposit Insurance Act, 1961 came into force on January 1, 1962.

The Corporation has traversed a long journey since its establishment. Initially, the deposit insurance cover was provided to commercial banks, but was later extended to co-operative banks. It is the depositors of co-operative banks that have turned out to be the major beneficiaries of the deposit insurance system as the instances of failure of commercial banks have been limited in India. The Corporation, which was entrusted with the function of providing deposit insurance cover to begin with, was also given the function of providing credit guarantee in 1978 to encourage the

commercial banks to cater to the credit needs of the hitherto neglected sectors. The credit guarantee schemes have, however, become obsolete as banks stopped subscribing to them.

As it turned out, the banking sector in India remained largely buffered from the recent global financial crisis. Yet, the crisis has taught us some important lessons. The crisis reinforced the thinking that deposit insurance cannot deal with situations of systemic failures of banks; it can only address a relatively small number of individual failures. As the crisis unfolded, lines of credit from central banks and governments became crucial for maintaining and restoring depositor confidence. The speed with which depositors can be disbursed claims also emerged as an important requirement. All these issues remain relevant in the Indian context.

An occasion like a Golden Jubilee invokes a feeling of pride, but it also provides an opportunity to introspect. I would like to use this opportunity to highlight a few key issues that are engaging our attention. Strengthening the deposit insurance fund of the Corporation is a critical prerequisite to increasing the coverage limit, which has remained static for many years now. Of course, other considerations like moral hazard must also be kept in mind. The Corporation is also looking into ways to expedite reimbursement to depositors. This requires technology upgradation and an effective interface between the Corporation and banks to develop computerised depositors' databases. Broadening the mandate of the Corporation to enable it to participate in various aspects of bank resolution is another challenging goal. In this context, I would like to mention that the International Association of Deposit Insurance has brought out Core Principles for Effective Deposit Insurance Systems. We will endeavour to undertake appropriate reforms aimed at ensuring compliance with these Principles.

On the occasion of the commencement of golden jubilee year of the Corporation, I want to re-emphasize our commitment to providing a safety net for bank depositors and contributing to financial stability by securing public confidence in the banking system.