# *Deposit Insurance in India - Journey; Milestones; Challenges**

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Shri Saurav Sinha, Dr. Deepak Kumar, Executive Directors, Reserve Bank of India, Shri Kamal Pattnaik, Regional Director, Jammu and Kashmir, Shri Anup Kumar Chief General Manager, DICGC, Team DICGC and colleagues from the Srinagar/Jammu office of the Reserve Bank of India.

At the outset, I thank you for inviting me to deliver the keynote address for this year's Annual Conference, which is being held after a gap of two years (last at Madurai in November 2019). I am particularly happy that you have chosen Srinagar as its venue, which Amir Khusrau called paradise on earth. I do not propose to stand between you and Srinagar with a boring speech. Instead, I hope to engage you with a short interactive presentation.

The DICGC has come a long way in the quest of its vision and mission. Today, it is widely recognised that deposit insurance is an important pillar of trust in the banking system. Global benchmarks have been established to assess the quality of deposit insurance – I refer to the Core Principles for Effective Deposit Insurance Systems of the International Association of Deposit Insurers (IADI). The Core principles are also used by the IMF and the World Bank in their assessments of financial stability in member jurisdictions under the Financial Sector Assessment Programs (FSAPs). By protecting the depositor's interests in accordance with best practices, institutions such as the DICGC maintain depositor confidence and preserve financial stability. The year 2021-22 just gone by has been a particularly eventful one, characterised by landmark events and challenges. You as a team have risen up admirably to these challenges, actually converting them into opportunities. The theme of my address today is the DICGC's journey from where you are to where you want to be and how you would actualise our vision and mission.

Let me start with where we are. In the interest of time, I am going to focus on some key achievements, but this does not in any manner diminish the importance of various other milestones that you passed in your journey. I have to say that Director Shri M. Ramaiah and Assistant Adviser Shri Avijit Joarder have painstakingly briefed me on each accomplishment and I found all of them very valuable. I will refer to them as I speak.

Although I do not present it here, the hike in deposit insurance cover to ₹5 lakh with effect from February 4, 2020 from the earlier level of ₹1 lakh after a gap of 27 years is a major achievement. As a result, about half the total assessable deposits[1] of the banking system are insured, up from only 29 per cent when the insurance cover was ₹ 1 lakh. 98 per cent of all accounts in the banking system are fully protected with deposit insurance. These ratios far exceed the global norms of 20-30 per cent of assessable deposits and 80 per cent of accounts.

In a landmark legislation in pursuance of the announcement made in the Union Budget 2021-22, the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act 1961 was amended on August 13, 2021. The amendments - which came into force on September 1, 2021 - empower the DICGC to pay deposit insurance to depositors of banks that

* Keynote Address delivered by Michael Debabrata Patra, Deputy Governor, Reserve Bank of India in the Annual Conference of Deposit Insurance and Credit Guarantee Corporation on May 22, 2022 at Srinagar. Valuable briefing and comments from M Ramaiah and Avijit Joarder and editorial assistance from Vineet Kumar Srivastava are gratefully acknowledged.

[1] Exclude inter-bank deposits, Central/State government deposits, deposits by foreign governments , deposits received outside India and deposits specifically exempted by the Corporation with the prior approval of the Reserve Bank.

are under all inclusive directions or AID of the RBI within 90 days from the date of the imposition of such directions. Such up-front payment to depositors with clear processing timelines is not observed in the cross-country experience. As of March 31, 2022 the DICGC sanctioned claims amounting to ₹3,455 crore to 2,64,142 depositors in respect of 22 urban co-operative banks placed under AID by the RBI. In order to commemorate this defining milestone in institutional reforms to secure depositor protection, enhance confidence and trust in our banking system, the Hon'ble Prime Minister, Hon'ble Union Finance Minister and Hon'ble Governor, RBI had addressed the depositors of select banks and handed over cheques to depositors across the nation in an event held on December 12, 2021 in New Delhi.

Among the core principles which I referred to earlier, jurisdictions are encouraged to levy insurance premiums on member banks so as to reflect their underlying risk profiles. This is expected to disincentivise excessive risk taking while rewarding well-managed ones, thereby eschewing moral hazard. The DICGC had set up a committee to recommend underlying principles. Based on its recommendations made in April 2020, a framework for risk-based insurance has been established. Drawing broadly on the CAMELS methodology, the framework is simple, operationally implementable and intuitively appealing. There is a dedicated panel discussion on the subject which I commend you to participate in. The risk profile of banks is regularly updated. In this area at least, the DICGC is aligned with the curve as only 50 percent of the IADI's membership has implemented risk-based insurance so far.

Let me now turn to another important milestone. The total collection of premium from insured banks was ₹19,490 crore during the year 2021-22 with no default. For operational convenience, the DICGC categorizes banks under four groups, that is, functioning banks, those under AID, merged entities and liquidated banks. Functioning banks and those under AID pay premiums regularly, while for merged banks, it is acquirer bank that maintains payment discipline. Premium payments start within 30 days of intimation of registration and reporting requirements follow a bi-annual cycle. In the case of non-payment of premium, penal interest at the rate of Bank Rate plus 8 per cent becomes applicable from the start date of premium payment (i.e 1st April and October) till the date of actual payment. The DICGC Act provides for cancellation of membership in case of non-payment of premium for three consecutive semesters. All in all, the premium collection process is a robust one, with punitive provisions for slips in compliance. Hence, the DICGC can rightfully boast of zero tolerance and full compliance.

During the year 2021-22, the DICGC has achieved remarkable progress in the settlement of claims for deposit insurance. With the amendment to the Act coming into force from September 01, 2021 claims amounting to ₹3,457 crore have been settled between December 2021 and March 2022 in the case of 22 UCBs under AID. As I mentioned earlier, this feat was commemorated by the Hon'ble Prime Minister in the Udyog Bhavan in Delhi. In the case of liquidated banks, claims settled amounted to ₹1,268 crore. Turning to mergers, a major achievement of the Corporation was the financial assistance of ₹3,791 crore it provided to Unity Small Finance Bank for making payments to depositors of the much-sensationalised Punjab and Maharashtra Cooperative Bank Ltd or PMC Bank. Overall, the claims settled under these three channels amounted to ₹8,517 crore, which is a commendable achievement when seen in comparison with the total of claims of ₹5,763 crore settled since the establishment of the DICGC up to 2020-21.

These notable achievements are reflected in the key parameters of the DICGC's operational performance. A steady rise in premium income as well as investment income has enabled the build-up of a robust deposit insurance fund, despite record levels of claim settlement and regular income tax payments. Besides, rigorous follow-up facilitated long pending income tax refunds amounting to ₹77.4 crore during the year as well as refund of ₹27 crore of service tax. Even in the case of the bread and butter of the DICGC's architecture which usually goes unnoticed and unsung, there has been noteworthy progress. Recoveries of ₹348.9 crore have been made during the year, by both legal processes and moral suasion. Banks under AID for which claims have been settled are required to make repayment in five equal instalments beginning March 31, 2022.

The DICGC has also leveraged on digital technology to secure efficiency gains in terms of payment of claims to the depositors using the Aadhar Enabled Payment system of the National Payment Corporation of India (NPCI) wherein the first such payment was made in 2021-22 to the depositors of Shri Anand Cooperative Bank Lts., Pune. Futhermore, spreading of awareness among depositors on receipt of claims and settlement of claims was achieved through bulk SMSes.

Last but by no means the least, the DICGC's treasury operations have been prudent and competent. There has been a steady expansion of the investment portfolio in terms of both book value and market value in spite of an all-time high claims outflow of over ₹8,500 crore during 2021-22. In order to ensure efficient liquidity management and simultaneously manage interest rate risk while not compromising on returns, the modified duration of the portfolio has been brought down from 7.96 years to 6.97 years by investing in the most liquid securities and parking funds in collateralised money market instruments.

**Issues and Challenges: Future Agenda**

Clearly, the DICGC has traversed considerable ground in pursuit of its goals. With the dynamic actions of the year gone by, it has established strong credentials as a depositor protector and an anchor of financial stability. Going forward, it must reap the benefits of this reputational bonus and cement its future agenda in the credibility it has earned.

First, the DICGC needs to be completely aligned with the IADI's 16 core principles that define global standards today. This may require some substantive legislative changes while others can be achieved through Board approvals. Currently, there are gaps in this desired alignment which your own internal assessment has revealed. I do hope that the panel discussions will shed light on the way forward in this endeavour.

Second, a large number of deposit insurance agencies around the world target the reserve ratio through enabling legislation or through Board resolutions in order to maintain adequate level of funds commensurate with their payment obligations. I understand that a few years ago when the insurance cover was ₹1 lakh, the Board of the DICGC set an internal target ratio of 4.0 per cent to be attained by 2034-35. At present the ratio stood at 1.81 per cent. There is a need to raise the reserve ratio from its current level, based on clear, consistent and transparent criteria (Core Principle 9 of IADI). With insurance cover of ₹5 lakh and the observed patterns of premium, investment and recovery income net of claims and income tax, it is feasible to increase the reserve ratio to at least 2.5 per cent by 2027-28 with a 95 per cent confidence interval. Progress towards this objective needs to be periodically reviewed so that you stay the course steadfastly.

Third, the IADI has prescribed an indicative period of settlement of claims within 7 working days between liquidation and settlement. It is highly commendable that the DICGC reduced this time interval to only 3 days between receipt of claims from the liquidator and claim settlement during 2021-22. It should not, however, rest on its laurels. You must now train your energies on reducing the time interval between deregistration of a bank and payment of claims, which was as high as 184 days in 2021-22. Although this represents a significant improvement over 2020-21 when it was 500 days, you have miles to go before you sleep. This may even require legislative changes for powers of liquidation in consultation with the RBI.

Fourth, as monetary policy authorities across the world engage in front-loaded normalisation of policy rates and quantitative tightening, interest rates are expected to head northwards and financial conditions more generally will tighten. This will prove to be a challenging environment for the Corporation's treasury as it strives to balance interest rate and liquidity risks. This will require nimble-footedness and a proactive approach in reading market signals into the future, including an effective strategy for the Corporation's investment portfolio that is marked to market.

Fifth, information security requirements have become paramount in ensuring the integrity and resilience of the operations of the Corporation. In this direction, this needs upgrade to the IT infrastructure to safeguard stored data, return flows and the entire gamut of operations. Migration from physical servers in data centres to clouds appears to be a minimum or a starting point. Upgradation of IT existing solutions and improving the overall infrastructure on par with or better than other leading deposit insurers, is the way to go.

In closing, it is important to closely monitor the impact of financial innovations like e-money and digital products on the scope and coverage of deposits and constantly recalibrate definitions and parameters of deposit insurance cover. Public awareness about the actions of the DICGC need to be given sufficient coverage in the public domain through different channels of regular communication. I have always wondered why an institution like the DICGC with strong fund positions still resides in RBI premises and does not have an office of its own. I am sure such an independent office will boost morale and pride in the institution to which you belong. Furthermore, why does the DICGC with so many achievements under its belt need to be staffed almost exclusively by the RBI? I would look for a healthy mix that includes lateral hires of domain experts. There is also a pressing need to regularly upgrade knowledge and skill exposures through deputations to leading deposit insurers around the world, secondment programmes and technical agreements for knowledge sharing. Upgradation of IT infrastructure on a continuous basis for integrated solutions is a minimum in today's fast changing technological environment.

Thank you.

I wish the Conference every success.