

Major Challenges in Operating a Deposit Insurance System and Responses

Indian Experience

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Challenges

Governance and
Corporation Structure

Operational

Sectoral

Taxes

Response

Working Group on
Reforms

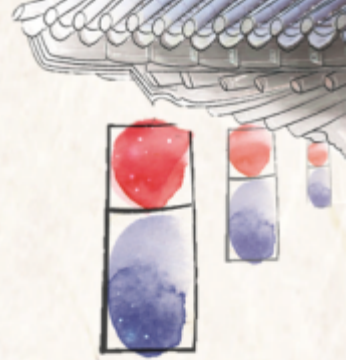
Financial Sector
Legislative Reforms
Commission (FSLRC)

Interim Measures and
Works in Progress

**IADI Asia-Pacific Regional Committee
11th Annual Meeting and International Conference**

“KEY ELEMENTS OF DEPOSIT INSURANCE AND CHALLENGES IN PRACTICE”

May 13 (Mon.) - 15 (Wed.) 2013, Lotte Hotel, Seoul, Korea



Challenges



Challenges from Governance and Structure



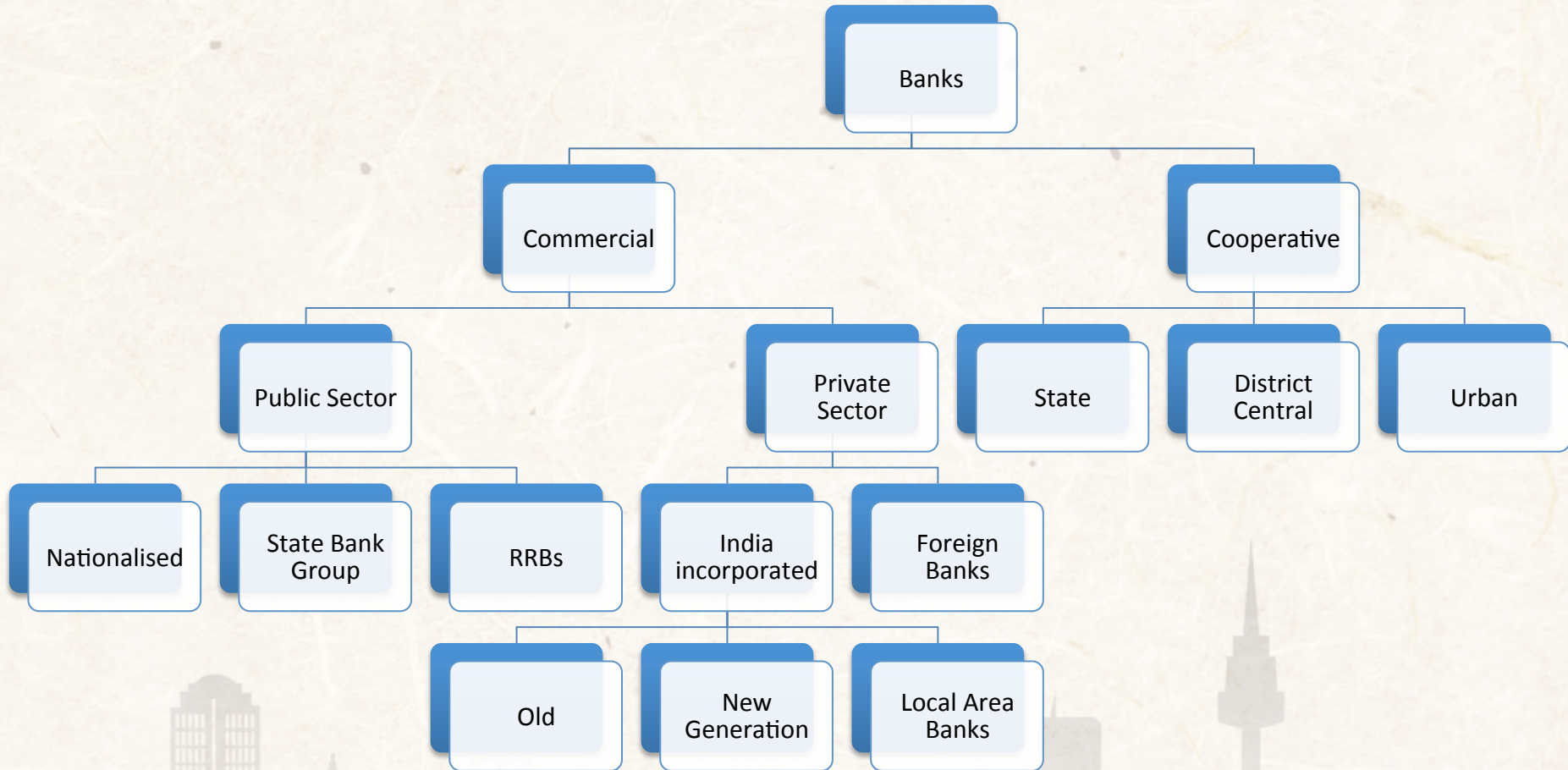
- Deposit Insurance and Credit Guarantee Corporation (DICGC) is established under an Act of Indian Parliament with its own Board
- A wholly owned subsidiary of Reserve Bank of India
- Granting Membership
- Mandate – Paybox
 - A tardy Resolution Process
 - Issues in Recoveries
- Coverage limit unrevised since 1993
 - Fully protected accounts: 92%
 - Insured Assessable Deposits: 33%
- Funding sources and back-up support

Operational Challenges

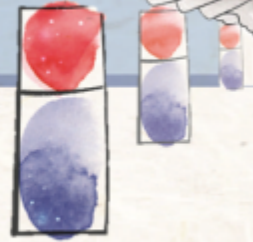
- Corporation in transition
- Inadequate Technology
- Flat Insurance premium
 - a source of Moral Hazard?
- Information access
- Skills development



Sectoral Challenges



Sectoral Challenges – Cooperative Sector



- Local Interests create governance issues
- Dual Regulation
 - Resolution process suffers
- Small scale operations – not technology driven
- Excessive regulatory forbearance
- Data integrity and authenticity and KYC problems
- MIS Reporting
- Key candidates for DICGC payouts

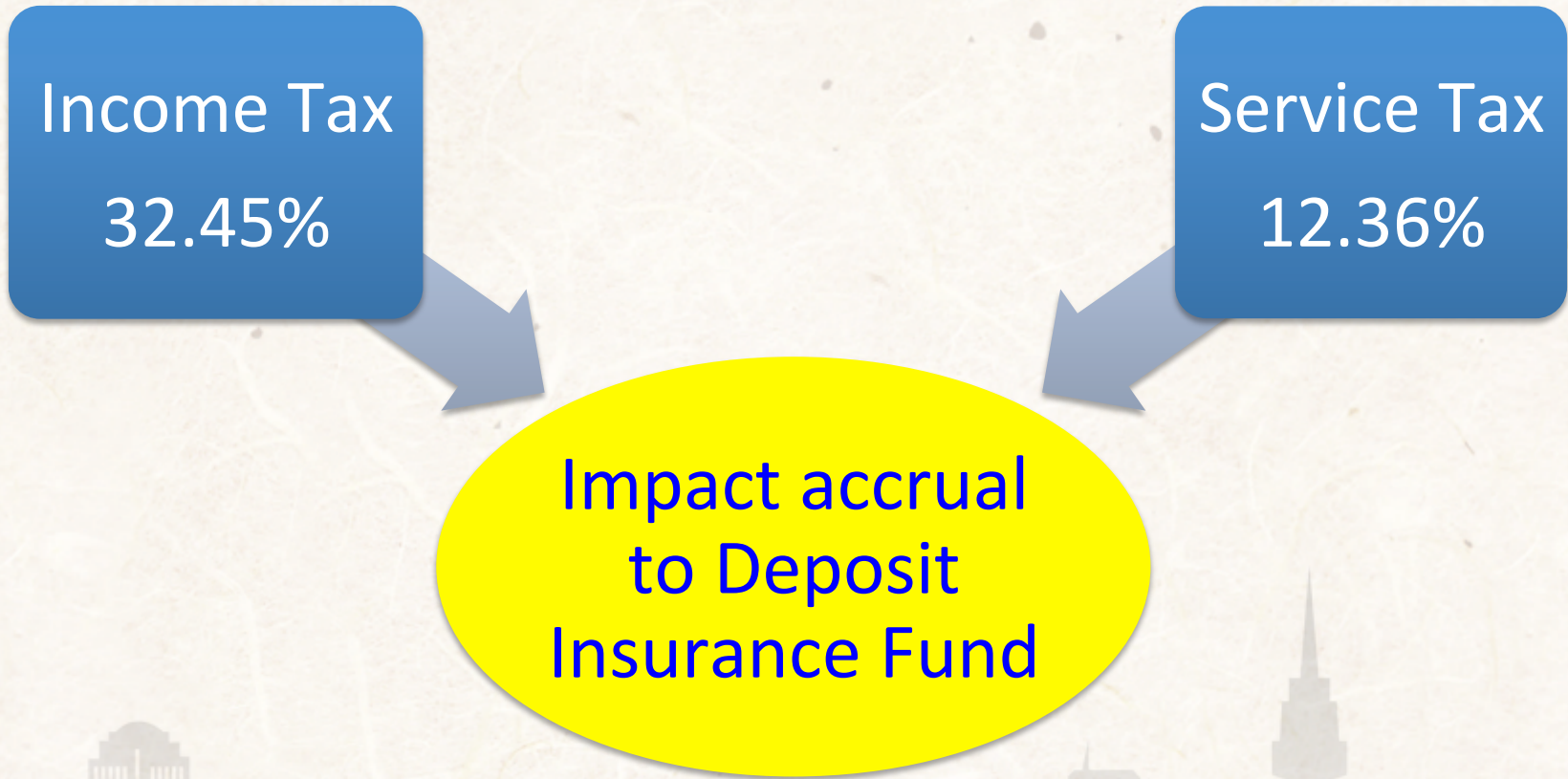
Interesting Payout Dimensions (2001-12 period)



(Amounts in Billion INRs)

	Commercial Banks	Cooperative Banks
Premium collected	268.16	23.97
(contribution %)	(91.8)	(8.2)
Claims settled	1.23	39.57
(as % of premium contributed)	(4.6)	(165.1)
Recoveries	0.71	6.41
(Recovery percentage)	(57.7)	(16.2)

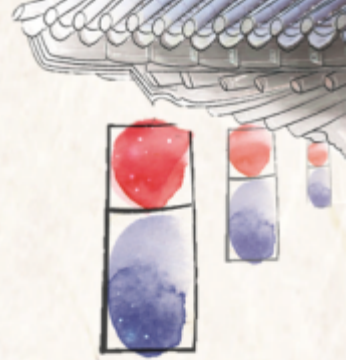
Taxes



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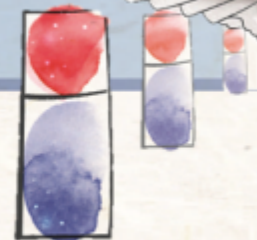
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Response



Thought Process on Reforms



Working Group on Reforms in Deposit Insurance

Recommendations:

- Aimed at improving functioning and efficiency: Introduction of Risk Based Premium; Enhancing statutory ceiling on premium rate; altering priority of the Corporation; a accountability regime in the system; qualification criteria for membership
- Aimed at improving Financial Strength: Enhancement in authorised capital; income tax exemption; robust back-up funding support; advance collection of premium

Thought Process on Reforms



Working Group on Reforms in Deposit Insurance

Recommendations:

- Enhancing Scope: Loss minimiser; winding up powers for cooperative banks; information access;
- Improving Depositor Protection: Coverage; timeliness in payments; public awareness

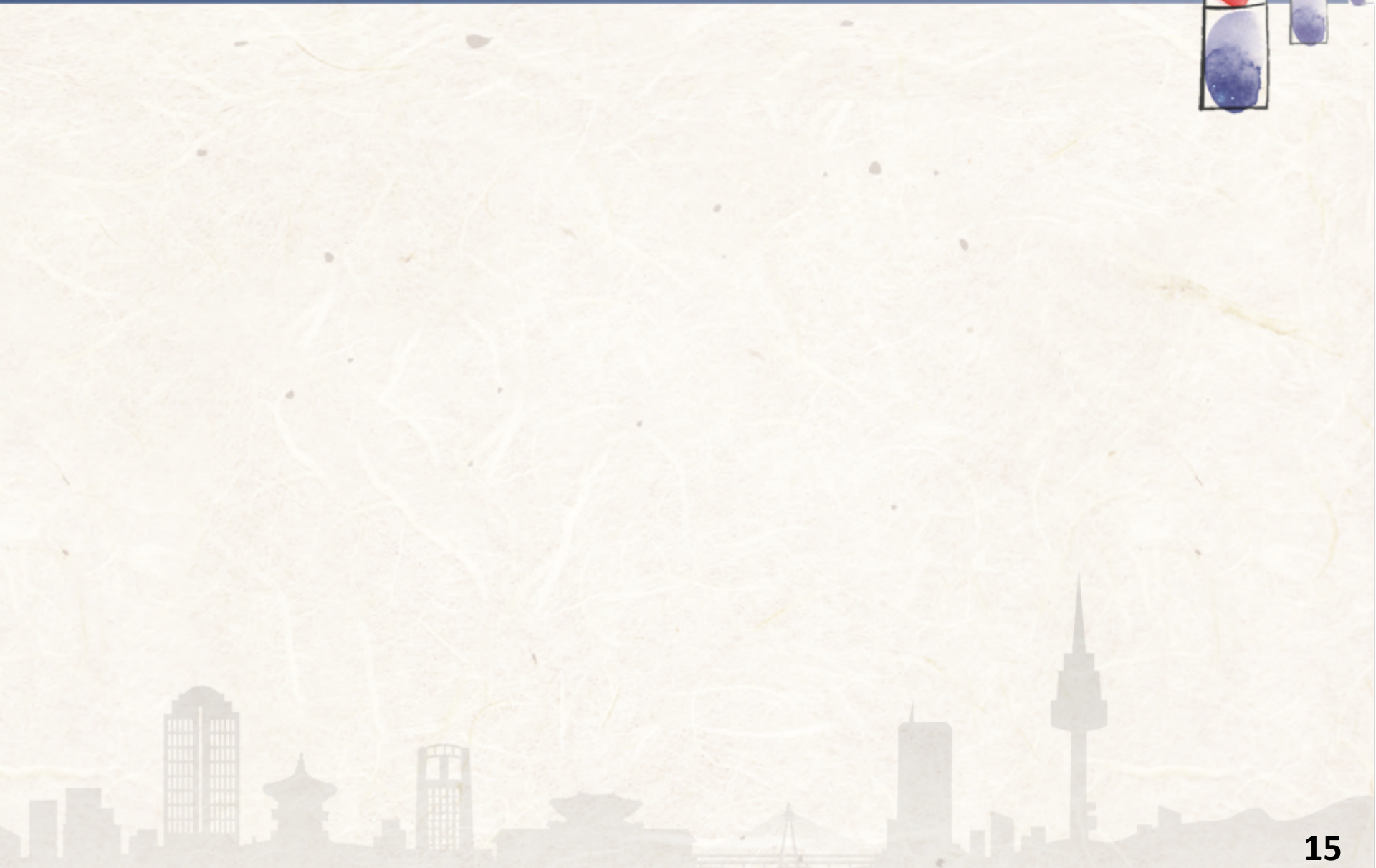
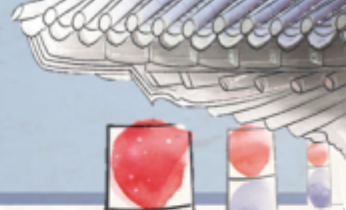


- Resolution Corporation
 - Enhanced Mandate: Equivalent of a Loss Minimiser
- Expanded Scope
 - Banks, Insurance firms, defined pension benefits funds, payment and settlement systems, SIFIs – any financial firm that makes intense promises to consumers
- DICGC may be subsumed in the proposed Corporation

Interim Measures and Works in Progress



- Shortening steps in payouts
- Contact Programmes
- Promoting Technology adoption among member institutions
- Making Corporation's seniority rights more acceptable
- Risk – differentiated premium system
 - Would weak banks weather out the burden?
- Increase in coverage limit
- MOUs on Information Sharing
- Integrating Operations with an IT Solution





Thank You

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