New Vistas in Deposit Insurance in India[1]

Good morning to you all!

I am deeply honoured to participate in the 79th meeting of the Executive Council (EXCO) of the International Association of Deposit Insurers (IADI). At the outset, I would like to express my profound appreciation for the IADI as a global standard-setter as well as an international forum for the cross-fertilisation of information and country experiences on practices and techniques relating to deposit insurance. The IADI is contributing significantly to building effective deposit insurance systems across the world, thereby strengthening public confidence in the banking system and ensuring financial stability.

Before I begin my talk, I am happy to inform you that the Deposit Insurance and Credit Guarantee Corporation (DICGC) of India, in collaboration with the IADI and the Asia Pacific Regional Committee (APRC), would be hosting an international conference with 'Evolving Financial Landscape: Emerging issues for deposit insurance and the importance of crisis preparedness' as its theme during August 12 to 14, 2024 in Jaipur in the western state of Rajasthan in India. Jaipur is a world heritage city and is also known as the pink city due to the dominant colour scheme of its buildings. On behalf of the DICGC, I extend our invitation to the conference

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[1] Keynote Address delivered by Michael Debabrata Patra, Deputy Governor, Reserve Bank of India (RBI) at the 79th Executive Committee Meeting of the International Association of Deposit Insures (IADI) on June 14, 2024 at Rome, Italy. Valuable comments received from Anup Kumar, Arun Vishnu Kumar, Aparna Bhatt Dwivedi, and editorial help from Vineet Kumar Srivastava are gratefully acknowledged.

to all members of IADI. We look forward to welcoming you to India and to Jaipur soon.

In the recent period, India has been in the forefront of designing and implementing a pro-active deposit insurance (DI) framework that shields small depositors of banks from financial distress on account of bank runs or failures. Accordingly, the theme of my address is the recent set of policy initiatives undertaken in India for designing a strong safety net for depositors. The subject assumes considerable importance and topicality in the context of the bank failures in some jurisdictions in March 2023 that have posed new challenges for the conduct of monetary policy as well as for prudential regulation and supervision. The swift and decisive responses of deposit insurers (DIs) and regulators to quell the turbulence and contain contagion are redefining the landscape for resolution and deposit insurance in the pursuit of financial stability.

II. **Deposit Insurance in India in a Cross-Country Setting**

Let me begin by providing a brief historical context for the establishment of the DICGC. The idea of deposit insurance was shaped by intermittent bank failures between 1948 and 1960. A Deposit Insurance Act was promulgated by Parliament in 1961 to set up the Deposit Insurance Corporation (DIC), a wholly owned subsidiary of the Reserve Bank of India (RBI), the country's central bank. It was merged with the Credit Guarantee Corporation of India and renamed as the Deposit Insurance and Credit Guarantee Corporation (DICGC) on July 15, 1978 with the mandate of "insurance of deposits and guaranteeing of credit facilities and for other matters connected therewith or incidental thereto".

III. Mandate

From its very inception, therefore, the Corporation was envisaged as a paybox plus[2] institution. The credit guarantee function was discontinued in April 2003 and deposit insurance became and remains the principal function of the Corporation. The resolution function resides with the RBI as the regulator of the financial sector. Currently, the paybox plus mandate is restricted to the provision of financial support in case of the mergers. More recently, however, this mandate has been strengthened with amendments to the DICGC Act in August 2021 which provides for up-front payouts within stipulated timelines. This provision is unique among deposit insurers. The Corporation is now liable to make payment to depositors of a bank facing solvency stress up to the deposit insurance limit within 90 days of the bank being placed under regulatory directions that restrict it from discharging its liabilities, i.e., even before liquidation and amalgamation. The insured bank has to submit the depositors list within 45 days. The Corporation has to get the genuineness and authenticity of the claims verified within 30 days and pay the depositors who have submitted their willingness to receive the same within the next 15 days. In case the RBI finds it expedient to bring a scheme of amalgamation/ compromise or arrangement/reconstruction, the liability of the Corporation will get extended by a further period of 90 days.

Globally too, the mandates of DIs have expanded significantly, with the share of paybox[3] entities shrinking. By 2023, it was down to 17 per cent. Increasingly, DIs have been vested with additional responsibilities, including for financing and resolution, in recognition of their crucial role as participants in the national financial safety net. Consequently, the share of

[2] Additional responsibilities in resolution beyond reimbursement such as contributing to financing, operationalising, and/or decision-making in resolution.
[3] Limited to premium levying and reimbursing depositors.

DIs with paybox plus mandate has risen to 48 per cent (a rise of 11 basis points in ten years), especially among advanced economies. The shares of loss minimisers[4] and risk minimisers[5] have remained broadly unchanged.

IV. Coverage

It may be apposite at this juncture to set out some stylised facts about deposit insurance coverage in India and how they compare with the global experience as recently profiled by the IADI[6]. In India, deposit insurance is mandatory for all banks, including foreign banks. Currently, 1,997 banks are covered, comprising 140 commercial banks and 1,857 cooperative banks, which are small financial institutions owned and controlled by their members and are community-focused in their operations. According to the IADI's latest deposit insurance survey[7], this is the largest number of deposit-taking institutions covered by deposit insurance in the world, second only to the US. The current insurance coverage limit is INR 500,000 (approximately US$ 6000) per depositor in a bank. Expressed as a multiple of nominal GDP per capita, this works out to 2.9 times as against the global median of 3.3, but it compares favourably with medians for paybox and risk minimiser DIs. On a by-account basis, the coverage ratio in India at 97.9 per cent is in line with the global median and a little below the latter – 44.2 per cent as against 47 per cent globally – in terms of value of deposits.

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[4] Deposit Insurers actively engage in a selection from a range of least-cost resolution strategies.

[5] Deposit Insurers have comprehensive risk minimisation functions that include risk assessment and management, a full suite of early intervention and resolution powers, and in some cases prudential oversight responsibilities.

[6] IADI: "Deposit Insurance in 2024 – Global Trend and Key Issues", IADI, April 2024.

[7] Global Survey on Deposit Insurance and Financial Safety Net Frameworks, IADI, 2022.

V. Funding

Funding for deposit insurance in India is in line with the global central tendency under which 96 per cent of DIs are funded by levying premiums on member institutions (64 per cent of pre-tax accretion to the fund). In addition, about 35 per cent of the accretion to the deposit insurance fund (DIF) came from investment income in fiscal 2022-2023. Unlike the growing practice worldwide of nearly half of deposit insurers levying differential premiums incorporating additional risk measures – up from 30 per cent in 2010 – a flat rate premium of 0.12 per cent per annum is levied in India which has been revised from time to time, keeping in view the adequacy of the Corporation's DIF. The size of the fund, measured by its ratio to insured deposits, at 2.02 per cent is comparable with the global median. The Corporation has targeted the achievement of a ratio of 2.5 per cent by March 2028.

VI. Reimbursement

Reimbursement of insured depositors is the core responsibility of a DI, with the IADI promoting a period of "within 7 days" as its Core Principle 15. There has been a significant improvement globally in the speed of reimbursement, although meeting the Core Principle has remained a challenge over the last decade. The global average period for reimbursement to depositors has reduced from 28 to 14 days[8]. Currently, the DICGC's reimbursement takes about a month on an average. Factors that usually impede fast reimbursement include data quality issues, identification of insured depositors and depositors lacking an alternative bank account.

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[8] The proportion of DIs starting reimbursement within seven days doubled to around 60 per cent, with 70 per cent of European and Americas DIs commencing pay-outs within seven days followed by almost 50 per cent of African DIs and 40 per cent of Asian DIs.

VII. New Vistas for Deposit Insurance in India

The March 2023 banking turmoil and its aftermath prompted policy makers to refocus on design features of deposit insurance processes. In India, this has led to prioritising risk management, especially during adverse market conditions, while benchmarking to best international practices. This involves revamping risk management and internal control systems, including contingency planning and crisis management frameworks, in alignment with the IADI's 2020 Guidance Paper on "Risk Management and Internal Control System of Deposit Insurers (DIs)". In the context of the DICGC's portfolio valued at US$ 24.5 billion, treasury operations are being reinforced with asset-liability management tools, real time monitoring of liquidity and concentration ratios, and periodic value-at-risk and scenario analyses at various confidence levels. A dedicated market risk reserve has also been created. Some risk management measures like market borrowing, liquidity support from central bank/government, etc., may necessitate changes in statutory provisions.

Simultaneously, public awareness campaigns are being refashioned and stepped up. Driven by a Board approved communication policy, public awareness about deposit insurance is being nurtured through continuous dissemination of deposit insurance related information. All insured banks are required to display the DICGC Logo and QR code linked with the DICGC's website on their own websites and internet banking portals. The Corporation has also registered on a hyper-local social platform which facilitates sharing of specific information on claim payments. Messages are also relayed by structured mobile phone text. The website itself is being overhauled to make it more customer-friendly in terms of search capability, information architecture, improved user interface/experience, content strategy and user engagement, a progressive Web App and the like.

Digital transformation of all operations is underway with a focus on data management, process optimisation, business analytics and cyber security with best-in-class market technologies. Straight through processing without manual intervention and seamless integration of various modules are on the anvil alongside use of application programming interfaces (APIs), and artificial intelligence. A standalone single customer view application (SCVA) will reduce time lags in the submission of claims. An in-house recovery dashboard enables tracking compliances, and authentication of asset details and payments by liquidators.

VIII. Conclusion

Looking ahead, the evolution of the deposit insurance function is likely to confront more complex challenges amidst heightened uncertainty. For instance, climate change is emerging as an overarching risk to the global economy and financial systems. According to the IADI's surveys, 60 per cent of DIs have formalised Environmental, Social, and Governance (ESG) policies and some are members of the Network for Greening the Financial System (NGFS). This is what is keeping us awake in India – framing a comprehensive ESG policy incorporating elements of climate sustainability, investment in sovereign green bonds, measuring the impact of climate change on default risk and contingency planning for climate related extreme events *via* actuarial analysis. We are exploring appropriate coverage for green deposits, climate risk based differential premiums and ex ante funding needs for climate sustainability. These new challenges will inevitably require effective coordination and information sharing between DIs and other national safety net participants as well as with those in other jurisdictions. Forums like this one will be the incubators of global coordination. The time to act is now.

Thank You.

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