October 2023 – March 2024

SAFETY NET

Deposit Insurance and Credit Guarantee Corporation
(Wholly owned subsidiary of the Reserve Bank of India)

Issue 1

Inside This Issue

Editor's Note

Anup Kumar
Editor,
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DICGC

The Deposit Insurance and Credit Guarantee Corporation established in 1962 completes 62 years of service to the nation with the primary objective of securing public confidence in the banking system through deposit insurance. As an important financial safety net participant, the Corporation has played its role in achieving financial stability objectives of the nation.

During this journey, the Corporation has crossed many milestones and undertaken taken many initiatives. One of the initiatives this year is the launch of this semi-annual newsletter, with this first issue. This initiative forms part of the Corporation's Communication Policy and Strategy to inform all its stakeholders about recent developments in deposit insurance and the functioning of the Corporation.

From the Chairman's Desk

Dr. M. D. Patra
Deputy Governor
Reserve Bank of India

Deposit Insurance and DICGC: An Enduring Journey

Deposit insurance enhances public confidence in the banking system, thereby contributing to financial stability. India has been at the forefront in designing and implementing a deposit insurance (DI) framework for shielding small depositors of banks operating in the country. The idea of deposit insurance was being deliberated upon by the Government of India and the Reserve Bank of India (RBI) amidst intermittent bank failures between 1948 and 1960. Subsequently, the Deposit Insurance Corporation (DIC) was established on January 1, 1962, as a wholly owned subsidiary of RBI.

The DIC was merged with the Credit Guarantee Corporation of India and renamed as the Deposit Insurance and Credit Guarantee Corporation (DICGC) on July 15, 1978. DICGC is the second oldest deposit insurer in the world, after the Federal Deposit Insurance Corporation (FDIC), USA. With the credit guarantee scheme discontinued in April 2003, deposit insurance remains the principal function of the Corporation.

The DICGC is governed by the DICGC Act, 1961 and the DICGC General Regulations, 1961, framed by the RBI.

Mandate

The DICGC's mandate since its inception has been the reimbursement of insured amounts to depositors of failed banks. This mandate is termed the pay-box function, as per the 2014 Core Principles for Effective Deposit Insurance Systems framed by the International Association of Deposit Insurers (IADI). In recent times, the DICGC has assumed a 'pay-box plus' mandate, which in addition to reimbursement of insured deposits, includes additional responsibilities such as certain resolution functions in the form of financial support.

Institutional Coverage

The deposit insurance scheme, which was initially mandatory for all commercial banks operating in India (including branches of foreign banks) was extended to cooperative banks in 1968. All banks are required to be registered with the Corporation as insured banks. The number of insured banks increased from 276 at end-December 1962 to 1997 at end-March 2024.

Deposit Insurance Scope and Coverage

The DICGC insures all categories of deposits with banks except institutional deposits. The deposit insurance coverage limit has been enhanced six times since 1962, from ₹1,500 per depositor held in the same right and same capacity at all the branches of insured bank to ₹5,00,000 since February 04, 2020. At present, 97.8 percent of the total number of deposit accounts are fully protected. Of the remaining 2.2 percent of accounts, deposits are insured up to the limit of ₹500,000. In terms of value, 43.1 percent of the deposits were insured as of March 2024.

Deposit Insurance Premium

The Corporation collects insurance premium from insured banks to build the Deposit Insurance Fund (DIF) which is used for the administration of the deposit insurance scheme. Insured banks are required to pay the insurance premium, based on their eligible/assessable deposits at the end of March and the end of September, respectively.

The DICGC has adopted a flat rate premium since inception. The rate of insurance premium was ₹0.05 (i.e., 5 paise) per ₹100 of eligible deposit per annum at the time of inception and currently is 12 paise per ₹100 of assessable deposits per annum from April 1, 2020.

Deposit Insurance Fund (DIF)

The Deposit Insurance Fund with the Corporation is primarily built out of the premium paid by insured banks, interest income from investment in Government of India securities and recoveries from settled claims, net of income tax. The DIF as at and-March 2024 was ₹1,98,753 crore, recording an year-on-year growth of 17.2 percent. The fund is invested only in Government of India securities. The reserve ratio (i.e., ratio of DIF to insured deposits) increased to 2.11 per cent from 2.02 per cent a year ago.

Settlement of Claims

In the event when the license of an insured bank is cancelled, every depositor is entitled to payment of an amount equal to the deposits held at all the branches of that bank put together in the same capacity and in the same right, as on the date of cancellation of registration (i.e., the date of cancellation of licence or order for winding up or liquidation), subject to set-off of his/her dues to the bank and subject to the limit of insurance coverage fixed from time to time.

A major development in this regard was the DICGC Act amendment in August 2021. As per this amendment, the Corporation is liable to make payment to depositors of the banks placed under All Inclusive Direction (AID) by the RBI up to the deposit insurance limit within 90 days from the date of imposition of AID. The insured bank has to submit the depositor list within 45 days of imposition of AID, and 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 any scheme of amalgamation or other scheme is under consideration by the authorities, this period could be extended by 90 days. In the case of liquidated banks and banks under AID, the DICGC has settled claims within the statutory time limit (90 days from the imposition of AID in the case of banks under AID and two months from the date of receipt of claim list in case of liquidated banks).

Recovery of Settled Claims

At present, banks under AID, to whom pay-out has been made under Section 18A of the DICGC Act, are required to repay in 5 yearly instalments.

Enhancing Public Awareness

Enhancing awareness about deposit insurance among depositors is key to enhancing confidence in the banking system. In this context, the communication strategy on public awareness is formulated by the DICGC in line with the recommendations of a Technical Advisory Committee.

The Corporation has also registered on a hyper-local social media platform that facilitates sharing of specific information with a targeted audience in a particular district/ward and currently has 30100 plus followers. Messages are also relayed in vernacular languages for wider dissemination of information.

Furthermore, the spreading of awareness among depositors on receipt of claims and settlement of claims is achieved through bulk electronic messages. All insured banks that have a website display the DICGC logo and QR Code prominently on their webpage, for focused dissemination of information on deposit insurance.

This debut issue of the Newsletter is another step in the direction of enhancing public awareness about deposit insurance, the activities of the DICGC and the access of the public to it, and the commitment of DICGC to public service in order to instill trust and confidence in India's banking system.

In conclusion, I congratulate DICGC on bringing out the first issue of the newsletter and wish the Corporation success in the future.

Message from Executive Director

Arnab Kumar Chowdhury
Executive Director
Reserve Bank of India

DICGC is constantly enhancing its efficiency and effectiveness to fulfil its mandate of deposit insurance. In recent years, the Corporation's endeavor has been on four thrust areas, namely, digital transformation of its operations, strengthening of compliance, claim settlement and recovery management, and augmenting public awareness campaigns.

The focus of digital transformation of the Corporation is on process optimization, business analytics, data management, and cyber security. The first project which is in the pipeline is the development of a new integrated application solution (NIAS) to streamline the day-to-day functioning with modules for each of the Corporation's operations, namely insurance operations, treasury, accounting, claims settlement, recovery, legal and customer grievance redressal.

Another initiative is the designing of a new website to make it more customer friendly in terms of content, search capability and customer interface. DICGC has developed a Claim Status Tracker (Dava Soochak) which will be hosted on DICGC's website for a near real-time tracking of claim status.

The Corporation is working on consolidation of all instructions on Deposit Insurance under a Master Direction; preparation of Analytics Dashboards to validate premium assessment and monitor the recovery process; conduct of a survey to identify roadblocks and streamline the claim settlement process, etc.

Public outreach campaign has been one of DICGC's focus areas targeted at wider dissemination of information on Deposit Insurance. This Newsletter is DICGC's latest attempt to reach out to a wider domestic and international audience.

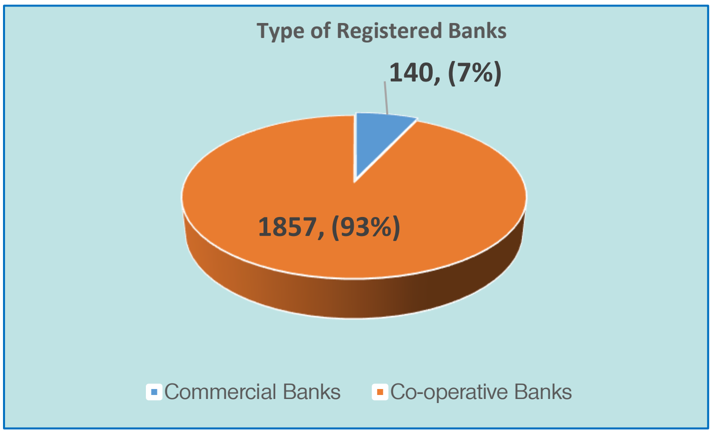
DICGC At a Glance

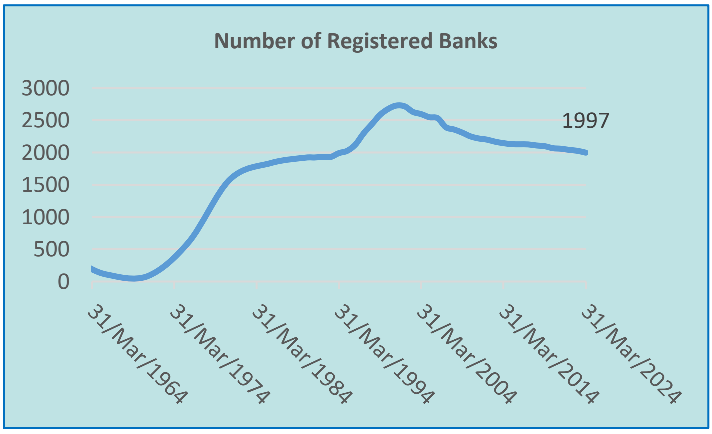
DICGC Milestones

Date	Policy/Event
1961	Deposit Insurance Corporation (DIC) Act, 1961 introduced in the Parliament on August 21; President's assent on December 7, 1961.
January 1, 1962	Deposit Insurance Act, 1961 comes into effect for commercial banks. Deposit Insurance Coverage is fixed at ₹1,500 per depositor for deposits held in "the same capacity and in the same right." The premium is fixed at ₹0.05 per annum per ₹100 of eligible deposits.
1968	Deposit insurance is extended to co-operative banks
July 15, 1978	Deposit Insurance Act, 1961 is amended and renamed as 'The Deposit Insurance and Credit Guarantee Corporation Act,1961'. DICGC comes into existence with the merger of Deposit Insurance Corporation (DIC) and the Credit Guarantee Corporation of India Ltd. (CGCI).
August 27, 2021	An Amendment to DICGC Act with the insertion of Section 18A by which the Corporation is liable to make payment to depositors, up to the deposit insurance limit, of the banks placed under All Inclusive Direction (AID) by RBI. An amendment to Section 15 (1) of the DICGC Act enabling DICGC to raise the insurance premium limit of 15 paise per annum per ₹100 of deposits with the prior approval of RBI.
September 1, 2023	All insured banks have been advised to display the DICGC logo and QR Code prominently on their web page for focused dissemination of information on deposit insurance.

Registered Banks

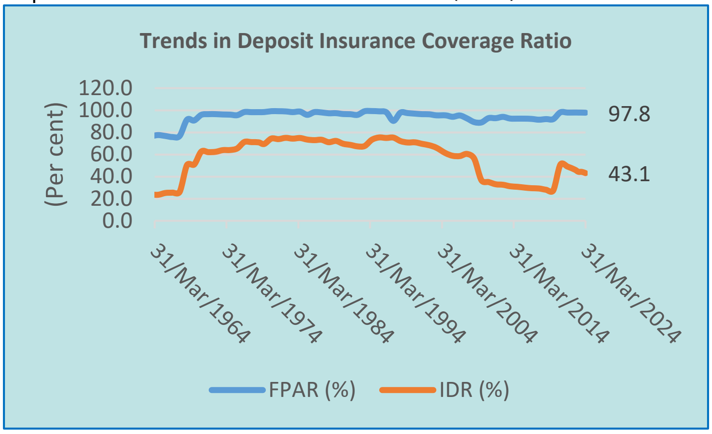
All banks operating in India are registered with DICGC for deposit insurance. The number of banks registered with DICGC was 1997 as of March 31, 2024, of which 140 were Commercial banks and 1857 were Co-operative banks.

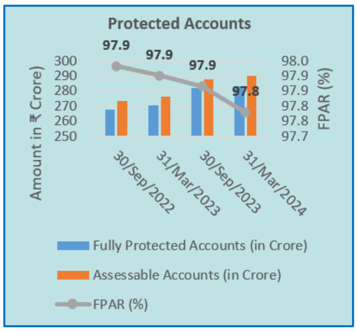


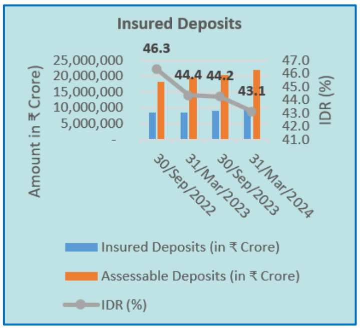


Deposit Insurance Coverage Ratios

Under the extant coverage limit of ₹5,00,000, the share of fully protected accounts in the total eligible deposit accounts (FPA ratio) was 97.8 per cent as at end-March 2024. The share of insured deposit to assessable deposits, termed as the Insured Deposit Ratio (IDR) was 43.1 per cent (44.4 per cent as at end-March 2023). The insured deposits ratio was higher for cooperative banks (63.2 per cent) followed by commercial banks (42.0 per cent). Within commercial banks, Public Sector Banks (PSBs) had a higher insured deposit ratio vis-à-vis Private Sector Banks (PVBs).

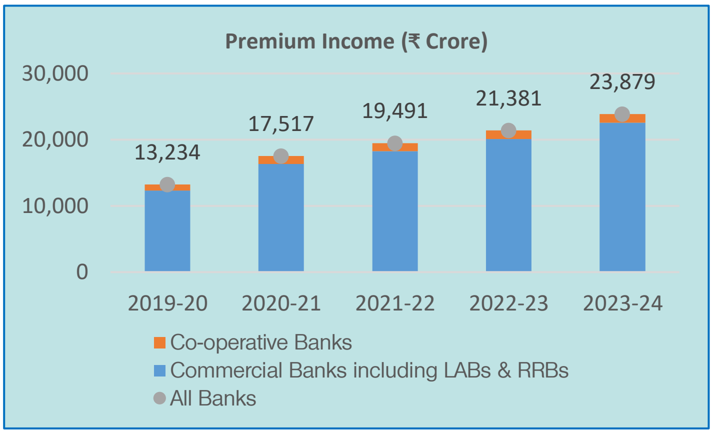






Premium

The total premium received by the Corporation during 2023-24 stood at ₹23,879 crore, with commercial banks contributing 94.4 percent and cooperative banks accounting for the remaining 5.6 per cent.



Claims Paid and Recovery

In the case of liquidated banks and banks under the Reserve Bank's All-Inclusive Directions (AIDs), the DICGC settled claims amounting to ₹1,432 crore during 2023-24.

During the year, the Corporation received repayments of ₹900.73 crore, of which ₹760.83 crore was from liquidated/transferee banks and ₹139.90 crore from banks under AID.

Role of IADI

The International Association of Deposit Insurers (IADI) was formed in May 2002 to enhance the effectiveness of deposit insurance systems by promoting the sharing of knowledge and expertise, international cooperation, and guidance. As a not-for-profit organisation, IADI is a forum for deposit insurers from around the world that engages with other financial safety net participants and international financial institutions to promote best practices in the areas of depositor protection, bank resolution and financial stability. IADI currently has 98 deposit insurers as members, 11 associates (central banks and other national authorities) and 17 partners (not-for-profit national and international organizations). IADI provides training and educational programs and produces research and guidance on matters related to deposit insurance for the benefit of those jurisdictions seeking to establish or improve a deposit insurance system. IADI is governed by the General Assembly and the Executive Council. The Executive Council has established five Council Committees and eight Regional Committees for Africa, Asia-Pacific, the Caribbean, Eurasia, Europe, Latin America, the Middle East and North Africa, and North America.

IADI is the global standard-setter for deposit insurance systems with the objective of strengthening these systems and contributing to the stability of financial systems. Towards this end, IADI designed the 'Core Principles (CPs) for Effective Deposit Insurance Systems' in 2014 in association with the BIS. The CPs have been incorporated by the Financial Stability Board (FSB) into the global Compendium of Standards for stable financial systems. Further, the CPs are used by the International Monetary Fund, the World Bank and the FSB to assess the stability frameworks of jurisdictions around the world.
DICGC is a member of IADI and the Asia Pacific Regional Committee (APRC) and actively engages with both in various forums. Officials of the Corporation participate in the meetings, seminars/webinars, workshops, and international conferences organised by IADI and APRC. DICGC also regularly does an internal assessment of its compliance with the CPs.

2023 Bank Failures: Potential Implications and emerging policy issues for Deposit Insurance

After some bank failures in the US and Europe in March 2023, the IADI did an analysis of potential implications and emerging policy issues for deposit insurance systems and also took stock of the actions undertaken by deposit insurers. The findings were published in a report titled "The 2023 banking turmoil and deposit insurance systems: Potential Implications and Emerging Policy Issues".

As per this report, the banking turmoil ignited debates on its potential implications for deposit insurance system. To be effective, the deposit insurance systems must work in synergy with the frameworks for prudential regulation, supervision, and resolution, as well as the lender of last resort and public backstop functions. The use of long-term subordinate debt can help strengthen market discipline and reduce the burden on deposit insurance funds. The failures have reiterated the importance of cross-border cooperation in the failure management of non-G-SIB banks as well.

Countries are re-evaluating coverage options, including limited, unlimited, and targeted reforms, to enhance depositor confidence and financial stability. There is a need for early intervention and timely and effective management of bank crises. The ubiquity of social media and payment innovations may mean that bank runs are both more likely to occur and to happen more quickly when they do. Public awareness of deposit insurance contributes to decreasing the risk of bank run. Several deposit insurers are currently investigating the potential technological innovation in reimbursement practices.

In the aftermath of the bank failures, many deposit insurers have taken several steps, including monitoring bank liquidity, deposits, and exposures to distressed banks; stress testing and crisis simulations, social media usage to increase public awareness about deposit insurance; and improving coordination between financial safety net participants.
Source: IADI (https://www.iadi.org/en/)

IADI Policy Brief

The IADI published a policy brief titled "Uninsured Deposits: Relevance and Evolution over time" authored by Bert Van Roosebeke, Ryan Defina, and Tri Wahyuni. Some of the major observations in the policy brief are:
(i) Deposit insurance coverage levels vary significantly across G20 economies, both in nominal size and when expressed as a share of domestic GDP per capita; (ii) Globally, deposit insurers fully cover the deposits of a very high share of depositors. This ratio has been consistently high since 2015; and (iii) Deposit insurers cover approximately 41 per cent of the value of eligible deposits globally. Conversely, 59 per cent of deposits are uninsured. Generally speaking, the more advanced an economy, the higher the coverage ratio per value of deposits covered by deposit insurance.
Source: IADI (https://www.iadi.org/en/)

High Level Delegates from Ethiopian Deposit Insurance Fund visit DICGC

A high-level delegation from the newly established Ethiopian Deposit Insurance Fund (EDIF) visited DICGC on November 7-8, 2023 to understand the functioning of the Corporation. The delegation was led by Mr Solomon Desta, Chairman of EDIF and Vice Governor of the National Bank of Ethiopia. Board members of EDIF and its Chief Executive Officer were also part of the delegation.

Edited and published by Anup Kumar for Deposit Insurance and Credit Guarantee Corporation (Wholly owned subsidiary of the Reserve Bank of India)