# Chapter VI
## Conclusions

Types of Deposits Covered
6.1.The Group recommends exclusion of CDs from the deposit insurance coverage. The Group also recommends that deposit insurance cover should not be extended to deposits taken as cash collaterals as also to deposits which are created by transferring subordinated liabilities, at least 6 months prior to a bank failure/moratorium, whichever is earlier(Para 4.10). The Group also recommends the continuation of deposit insurance cover to FCNR(B) deposits (Para 4.11).

Institutional Coverage
6.2.The Group recommends that while the deposit insurance cover for banks would continue to be compulsory, it would not be obligatory for the Corporation to provide it (Para 4.18).

6.3.Banks which at present enjoy the deposit insurance cover but do not meet the following criteria, should be excluded from the purview of deposit insurance: (i) Non-compliance with CRAR prescriptions (not mandatory for co-operative banks) and (ii) Entities with CAMEL rating of “C” or below consistently for three years. Besides, if the Corporation notices any deterioration the financial position of the weak banks within the stipulated three years, deposit insurance coverage may be withdrawn. Banks shall disclose in their Annual Reports their compliance or non-compliance with the above mentioned norms as additional disclosures. (Para 4.20).

6.4.The DFIs are not under the same regulatory regime as that of banks. As they transform themselves into either banks or NBFCs, as envisaged by the Khan Working Group, and would in the former case be covered under Deposit Insurance. (Para 4.21).

6.5.It is premature to extend deposit insurance cover to NBFCs. But denying them access to deposit insurance cover indefinitely may not be prudent. Once these entities are adequately regulated and supervised, and there is some degree of regulatory parity vis-à-vis banks, extension of deposit insurance to them could be considered. For this purpose, a review may be made after two years (Para 4.25).

6.6.The Group recommends that since funds mobilized by mutual funds do not exactly qualify under the term ‘deposits’ and as these funds do not come under the category of retail deposits and that of unsophisticated depositors, it is prudent to keep their deposit liabilities out of deposit insurance, as has been the practice elsewhere (e.g., FDIC) (Para 4.22).

Deposit Insurance Coverage
6.7. The Group recommends no change in the present deposit insurance coverage which, at present, is Rs.100,000 per depositor in the same right and capacity. But given the relatively high deposit coverage, a limited coinsurance for deposits between Rs.90,000 and Rs. 1 lakh with a cover of 90 per cent is recommended; deposits upto Rs. 90,000 will, however, continue to be covered at 100 per cent (Para 4.14).

6.8. The Group does not recommend migration from the “per deposit” to the “per depositor”

concept (Para 4.15).

Assessment Base for Deposit Insurance

6.9. At present, the premium is charged on the "assessable deposits" and not on the "insured deposits". Given the administrative complexities involved at the branch level to compute insured deposits, it would be appropriate to continue with the present arrangement of charging insurance premium on the basis of "assessable deposits" (Para 4.26).

Deposit Insurance Fund

6.10.Two deposit insurance funds may be instituted, one for the commercial banks and the other for the co-operative banks (Para 4.37). Maintaining a deposit insurance fund of 2 per cent of the insured deposits, in the beginning, for the commercial banks (including RRBs) and the co-operative banks is thought to be reasonably adequate. This ratio could be altered depending on the vulnerability of the banking sector (Para 4.38). As in the case of FDIC, whenever a particular fund falls below the threshold level, the premium for that segment will have to be altered in tune with the change in the risk profile. In the case of DIF exceeding the target level, insurance premium will have to be adjusted downwards (Para 4.38). To test the waters, the Corporation may explore possibilities of re-insuring 2.5 per cent of the insured deposits (Para 4.39).

Premium System

6.11.Risk-based pricing of the deposit insurance premium is recommended in lieu of the present flat-rate system. In fact, the introduction of risk-based pricing would minimize moral hazard. The risk-based pricing of deposit insurance should be set high enough to cover the expected reimbursement that would be needed in the event of one or more bank failures and vary with the riskiness of the individual bank - with weak or poorly capitalized banks being forced to pay more. It would be desirable to base pricing of risk-based premium on the latest available CAMELS rating. In the case of entities, which do not have a reliable CAMELS rating (like RRBs and co-operative banks), one may have to opt for flat-fee based deposit insurance till the CAMELS database becomes available. However, the flat-fee based premium will be higher than the lowest/best premium rate for the scheduled commercial banks (Para 4.33).

6.12.Banks which do not report data to the deposit insurance agency in time and thereby increase the asymmetry of information may be levied a penalty of 50 to 100 basis points more deposit insurance premium (Para 4.33).

Withdrawing Credit Guarantee Function

6.13.The function of credit guarantee on loans may be withdrawn from the Corporation and the DICGC renamed as "Deposit Insurance Corporation" (Para 4.51).

Capital of the Corporation

6.14.The capital of the Corporation may be fixed at Rs.500 crore and contributed fully by RBI. The capital increase should be in a phased manner and be done only after securing the income-tax exemption. Besides, it should also have a lender of last resort facility from the central bank or the Government. Ideally, it can have collaterised liquidity support form the Reserve Bank and financial support from the Government to meet any contingencies (Para 4.41).

Investment
6.15.The Corporation should be empowered by a suitable amendment to its Act to invest in instruments other than the central government securities. Then, the Corporation should have an “investment policy“ with the approval of its Board (Para 4.42).

Tax Concession
6.16.Keeping in view the social obligations served by the Corporation and also the position that the Corporation is not a company within the meaning of the Companies Act, 1956, the Corporation should be exempted from payment of income tax, as was the practice before December 1986. In fact, the FDIC and the Deposit Protection Board under FSA in U.K. are exempt from corporation tax (Para 4.43).

Board
6.17.The Corporation should not have any nominee from the insured entities in its Board. The Board should have representatives from supervisors of the commercial banks and co-operatives banks of fairly senior rank. Other nominees should be appointed by the Reserve Bank (Para 4.44).

Inspection and Supervision
6.18.The Group recommends that a model of FDIC sans supervision will be suitable for the Corporation. For this, a well-defined platform be statutorily mandated where periodical exchange of information between the Corporation and the Reserve Bank shall take place. The Corporation shall have access to inspection reports, post-inspection discussions, and to be actively involved in action plans for banks and in compliance with action plans (Para 4.45).

Human Resources
6.19.The Corporation has to function as a highly professionalised agency having core competence in the arena of insurance, liquidation, mergers and related fields. In this endeavour, the Corporation may have to re-look at the human resource requirements in the future. The reformed Corporation should be lean and have officer oriented staff of its own with a strong information technology base. In this endeavour, the Corporation should have the option to recruit its personnel from the market and also have the authority to screen officers who wish to be deputed to the Corporation from the Reserve Bank. If the Corporation has to perform specialized task in order to discharge its envisaged function, the salary structure of its staff should be in line with the market expectations so that it will have adequate response to its recruitment from the market (Para 4.46).

Further Enabling Provisions for DICGC
6.20.In order to play an effective role in the liquidation (swift and surgical closure) of weak banks, the Corporation must equip itself with adequate powers for this purpose. There is, therefore, a need to consider the scope for further enabling provisions which may be considered and drafted after a policy decision is taken with respect to the extent and scope of coordinated action of the regulatory/supervisory authorities in relation to banking companies/co-operative banks (Para 5.6).

Role of Liquidator and Receiver

6.21.As per the existing enactments, in certain circumstances, subject to the Reserve Bank and the Central Government agreeing to do so, the Corporation may also be appointed as a receiver or a liquidator (Sections 38(a) and 39 of the Banking Regulation Act, 1949). However, such appointment would not provide to the Corporation any better priority with respect to the realization of its dues than what is available to the Corporation today unless the Corporation is vested with a special power and position and is given priority over the debts of secured creditor, government dues/dues of revenue, by way of special legislation in this regard and amendment of the existing provisions of the Acts in relation thereto because the order of priority of dues as existing does not allow the Corporation to put its debt on top vis-à-vis Government or dues of revenue. Several existing legal frameworks, as mentioned under, will have to be taken into account for this purpose:

(a) DICGC Act, 1961
(b) Banking Regulations Act, 1949
(c) Regional Rural Banks Act, 1976
(d) State Bank of India Act, 1955
(e) State Bank of India Subsidiaries Act, 1959
(f) Co-operative Banks (State enactments)
(g) Act pertaining to appointment of Liquidator in the case of winding or reconstruction or amalgamation of such entities.

Therefore, the Group recommends that the aspect be examined, in detail, by a group of experts in banking laws and regulations (Para 5.9).

Amendments to the DICGC Act

6.22.With the acceptance of the risk-based pricing of the premium the cap on the premium rate that exists today will lose its relevance and, therefore, has to be abolished through a suitable amendment to the DICGC Act (Para 5.10). The Act should also recognize the need to define an optimum level of deposit insurance fund, as proposed, and specify exclusively its level in the relation to the insured deposits (Para 5.11). The Act may also be amended to enable the Corporation to impose fine on banks, which do not supply correct information and in time, depending on the type of error and length of the period for which the errors remain unreconciled (Para 5.12).

Public Awareness Programme

6.23. The general depositors, even sometimes the sophisticated ones, are not aware of the facility of deposit insurance in India. With the changing times, there arises a need for the deposit insurance agency to educate the people about the safety nets available for financial entities through various media. Secondly, branches of various banks should be advised to display clearly in the branches that the depositors' money is insured up to Rs.1 lakh to elucidate the point. Thirdly, the deposit insurance agency must develop a suitable logo, which would be displayed in the bank branches, account opening forms, etc., so as to exude necessary confidence among the depositors (Para 5.13).

Diversification of DICGC Functions

6.24.Over a period of time, DICGC may consider offering its services in the field of credit

derivatives, namely, assets securitisation, mortgage-backed securitisation, etc. (5.14).