

# Changing Mandate of Deposit Insurance Systems

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The views expressed herein are of the presenter  
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# Outline

- Building the Context
- Drivers of Mandate Change
- What has changed?
- Challenges
- Looking forward
- India's evolving landscape



# It is in the Nature .....

- ‘Evolution’ is natural – an outcome of changing environment
- Financial systems too have evolved
- The changing role and relevance of Deposit Insurance System is the response to the National and Cross Border evolution of the financial systems

# Building the Context



‘The Economist’ observes\* - Finance is not merely prone to crises, it is shaped by them

Five devastating slumps – starting with America’s first crash in 1792 through the world’s biggest of 1929 highlight two big trends in financial evolution:

# First .....

The institutions that enhance people's economic lives such as central banks, deposit insurance and stock exchanges are not the products of careful designs in calm times, but are cobbled together at the bottom of financial cliffs

# Second.....

Response to the crisis follows a familiar pattern - It starts with a blame. New parts of the financial system are vilified: a new type of bank, investor or asset is identified as a culprit and is then banned or regulated out of existence.



# Drivers of Mandate Change



# Drivers of Mandate Changes

- Financial Crises or failure of deposit taking institutions
- Improvements and enhancements in regulatory landscape
- Internationalisation of financial systems
  - Need for harmonisation of financial safety net across jurisdictions
- Experience
- Leveraging on inherent strengths

# What has changed?

- Institutional
- Systemic

# Institutional

- Implicit mandates have given way to explicit mandates
- Mandates have been upgraded and expanded in many jurisdictions
- Coverage enhanced
- From Blanket Guarantees to limited coverage
- Co-insurance disappeared

# Systemic

- Recognition of DI as a key Safety Net Participant is re-enforced
- DI as a System received an enhanced visibility and footage
- Emphasis on coordination – domestic as well as cross-border – has gone up
- May jurisdictions set up DIAs where not already in place

# Challenges

- .....around Effectiveness
- .....surrounding Operations
- .....around Moral hazard
- .....around International Coordination

# .....around Effectiveness

- Adequacy of DIS as an instrument in financial safety not yet fully tested
- Effectiveness of the DIS is vulnerable to the weaknesses of other safety net participants
- The risk of weaknesses in the safety-net not addressed adequately on the presumption that governments would rise to the large failures/ crisis situation

# .....at Operational Level

- Depositor Reimbursements
- Efficient pricing of risk
- Risks of under-funding the DIS; arrangement for back-up support
- Dealing with the requirement of ‘mandatory membership’ and ‘membership criteria’



# .....around Moral hazard

- Balancing the objectives : depositor confidence *versus* moral hazard
- Challenge in Restoring/Strengthening Market discipline
- The role of DIS in contributing to financial stability is not yet fully unquestioned

# ....around International Coordination

- Cross Border coordination
- Achieving harmonisation in mandates and locational coverage rules
- Integrating Safety Net elements

# The Future



# The Future.....

- Integrated consumer protection
  - Deposit Insurance in the context of evolving Resolution and Financial Safety Net rules
- Ex-ante Funding to emerge as an important element in enhancing credibility to Deposit Insurance System
- Cross Border coordination
  - empowering/enabling the DIAs
  - Achieving harmonisation
- More operational freedom and enhanced role in resolution
- Contingency Planning

# India's evolving landscape



# DICGC's journey

- 1961 - Deposit Insurance Corporation Act
  - Deposit Insurance for commercial banks
  - Mandate - Pay Box
- 1968 - Cooperative banks brought under deposit insurance
- 1978 - Credit Guarantee Schemes
  - Credit Guarantee Corporation of India integrated with Deposit Insurance Corporation



# DICGC's journey

- Deposit Insurance and Credit Guarantee Corporation is born
- Credit Guarantee function succumbs to huge moral hazard



# Reforms - FSLRC Thought Process

The Key

- Financial Sector Consumer Protection
- Financial Stability

To Avoid  
Disruptive  
Financial  
Failure

- Requires specialized body

The Gap

- DICGC does not deal with non-bank financial firms
- Is a Pay-Box



# Reforms road map

## *Financial Sector Legislative Reforms Commission Report 2013 – The approach*

- Align the laws with the evolving global financial system environment
- Three pillars of commission's work – Consumer Protection, Micro-prudential Regulation and Resolution
- Recommends Resolution Authority
- A Task Force working to draw implementation plan

# Working Group on FSB KAs

## *Report of the Working Group on Effective Resolution Regimes for Financial Institutions (2013)*

- Identified gaps vis-à-vis the FSB Key Attributes for Effective Financial Institutions Resolution Regimes and made recommendations

# What is on Anvil

## *Current State .....*

- Depositor in focus
- Pay-box
- No independent recovery powers
- No powers for international coordination
- Creditor of first priority among unsecured non-preference creditors

## *Future may look like.....*

- Consumer in focus
- Loss Minimizer with Resolution powers
- Full receivership powers
- Legally mandated and supported coordination set-up
- Empowered to enter into cross border coordination arrangements
- To be creditor of first priority

# Concluding.....

When a lion fails in its attempt to get its prey, the prey has saved himself, but has not won against the lion. The lion remains hungry, and the prey has merely saved his life - for another day.

# Qs & As

# Thank You



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