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RBI weighs deposit insurance scheme linked to risk profile of banks

By [Joel Rebello](#), ET Bureau | Dec 24, 2015, 02.24 AM IST [Post a Comment](#)

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MUMBAI: Reserve Bank of India is weighing a differential deposit insurance system which will be linked to the risk profile of banks on the lines of recommendations by various national committees and international experience, the central bank said in its bi-annual [Financial Stability Report](#) (FSR) released on Wednesday.



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Currently, deposits of only up to `1 lakh are insured and there have been calls by consumer groups to increase the minimum deposit insurance. However, RBI said increasing the insured amount without linking it to the risk may be counter-productive.

"The implementation of riskbased premium has not been operationalised due to various reasons. On the other hand, there has been a persistent demand from stakeholders and public representatives in the recent past for a hike in deposit insurance cover from the current level of `1 lakh.

"A hike in cover without calibrating premium rates to the risk profiles of insured banks may exacerbate moral hazards," RBI said, referring to the fact that a flat deposit insurance does not dissuade banks from taking more risk.

The central bank pointed to the US where The [Federal Deposit Insurance Corporation](#) (FDIC), introduced risk-based premiums in 1993 after which 26 of the 79 member jurisdictions of the International Association of Deposit Insurers (IADI) had adopted the system as on December 31, 2013.



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The run on banks in light of the global financial crisis in 2008 put deposit insurance back into prominence. Globally, there has been an increasing recognition among deposit

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insurance agencies that a flat deposit insurance forces well-run banks to subsidise the risky ones.

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