

Deposit insurance cover will continue: Centre

AM JIGEESH

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RBI suggests adding new provision to ensure the Rs. 1-lakh limit remains

New Delhi, January 11:

The existing deposit insurance coverage of Rs. 1lakh will continue till it is revised, the Centre has assured the Joint Committee of Parliament on the Financial Resolution and Deposit Insurance (FRDI) Bill.

This was in response to queries by stakeholders, including the RBI, during their interactions with the members on the panel. The Centre is learnt to have told the panel that Clause 29(1) of the Bill gives scope for enhancement of the deposit insurance level of a depositor. The Clause says that the proposed Resolution Corporation (RC) shall, in consultation with the appropriate regulator, specify the total amount payable by the Corporation with respect to any one depositor, as to his deposit insured under this Act.

The Bill replaces the Deposit and Credit Insurance and Credit Guarantee Corporation (DICGC) Act of 1961 and the proposed RC will subsume the powers of the DICGC.

The RBI, it is learnt, told the members that the DICGC was an extended arm of the RBI and there was a high level of coordination between the two in cases of merger, acquisition, liquidation, etc., of banks. The RBI said that when the RC takes over this role, there should be proper harmonisation of roles and responsibilities between the RBI and the RC.

The RBI also suggested that a new provision should be added to the FDRI Bill to ensure that the Rs. 1 lakh limit continues. The RBI pointed out that there is no clarity in the Bill on the time up to which a service provider will be required to pay resolution fee.

LIC's concern

LIC said the basis of premium calculation has not been provided in the Bill and felt this will increase the expenses and affect the returns and investment of the insurance company. It said there should be a distinction between insurance companies that follow stringent investment norms and other financial institutions.

SBI warned that including non-banking financial companies in deposit insurance may adversely impact commercial banks deposit franchise.

The bank demanded that considering the overall strength and low-risk profile of SBI, the fee or premium payable should be at the lowest end. Union Bank of India complained about the provision for steep penalty of eight per cent for delay in payment of deposit premium. It said there is an anomaly that the RC, which is a super regulator for insurance firms, may end up being regulated by the Insurance Regulatory and Development Authority of India (IRDAI) as there is nothing in the FRDI Bill that exempts the RC from the applicability of the Insurance Act of 1938.

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