

Dire need to revisit deposit insurance coverage, says SBI report

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The current upper limit of ₹1 lakh per depositor has outlived its shelf life, and there is a need to revisit it, says the report.

There is a dire need to revisit the insurance coverage of the bank deposits as over the years the percentage of assessable deposits has declined from a high of 75 per cent in FY82 to 28 per cent in FY18, according to a study by State Bank of India's economic research department.

The recent Punjab and Maharashtra Co-operative bank crisis has again raised the question of deposit insurance in India, the study said.

“In particular, the current upper limit of ₹1 lakh per depositor, we believe, has outlived its shelf life and there is a need to revisit it. Further, over the years, the composition of the Bank deposits has undergone massive changes in India,” as per the Bank's Ecowrap report.

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In this backdrop, the report suggested that the DICGC (Deposit Insurance and Credit Guarantee Corporation) coverage should be revised and bi-furcated into two categories: 1) desirable coverage of at least ₹1 lakh for Savings Bank (SB) deposits (around 90% of the total SB accounts) and 2) advisable coverage of at least ₹2 lakh for Term Deposits (about 70 per cent of the total TD accounts). There should also be a separate provision for senior citizens.

This revision in DICGC coverage becomes all the more desirable in the Indian context, where senior citizens / retired people have no social security in place and mostly keep fixed deposits for earning interest income, said Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI.

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Apart from this, it is also suggested that depositors should get an incentive to spare a part of their total deposits to buy Bank Bonds that provide guaranteed coupon rates on a half-yearly basis and are tax-free.

Ghosh emphasised that this will herald a new paradigm in the Indian deposit banking sphere since tax-free and guaranteed payments of a certain income will do much to encourage depositors to come forward with offers to provide a part of their savings in exchange for the shares in the banks.

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Referring to the Government introducing “The Financial Resolution and Deposit Insurance (FRDI) Bill” in the Parliament in 2017 but withdrawing it in 2018 due to the bail-in clause and mass protest across the country, the report said: “We believe that Government should again promulgate the FRDI bill without the “bail-in” clause since, in India, the average income of a vast majority of depositors is modest.”

NCLT like a framework for NBFCs

As far as the currently persisting problems in the NBFC (non-banking finance company) sector are concerned, the time has now come to think of an NCLT (National Company Law Tribunal) like the framework to enhance the investor confidence and thereby provide the much-required fillip to the lending to the NBFCs, the report said.

However, this must be done in conjunction with identifying NBFCs with a weak balance sheet and working on a quick resolution. This could be by facilitating an ownership change or bringing in a financially stable promoter.

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