BOOK REVIEW

Book: Safe and Sound Banking
Author: Dr. Manas Ranjan Das, Former Economist, State Bank of India
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Deposit insurance is aimed at protection of depositors against the loss of their insured deposits in the event that a bank is unable to meet its obligations to the depositors. Deposit insurance is one of the important pillars of the financial safety net, safeguarding financial stability as a public good. Deposit insurance was introduced in India in 1962. India was the second country in the world to introduce deposit insurance scheme - the first being the United States in 1933. Deposit Insurance Agencies (DIAs) played their due role in the aftermath of the global financial crisis either through increase in the limit of deposit insurance cover or blanket guarantees. In India, deposit insurance function is performed by the Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of Reserve Bank of India (RBI). Currently, DICGC acts as a 'Pay-Box' entity with a restricted mandate.

Dr. Manas R. Das in his book provides a comprehensive view of deposit insurance and resolution in terms of their significance, steps towards reform of deposit insurance in India in the late-1990s, limited mandate of DICGC as per the extant DICGC Act, deposit insurance and resolution in select countries, efforts towards setting up of a Resolution Authority in India, framing of global principles and norms for strengthening DIAs and resolution authorities by the International Association of Deposit Insurers (IADI) and the Financial Stability Board (FSB), and the constraints in the adoption of resolution tools in India.

The book consists of six parts. In part A, the key functions performed by banks, types of risks handled by banks, the imperative of maintaining a robust risk management system in banks, ramifications of bank depositors' run on banking crises and consequent financial instability, and finally the primacy of deposit insurance in the protection of interest of depositors as well as the prevention of bank runs are presented. The 'too-big-to-fail' bank concept is detailed in a box item.

In Part B, stylised facts about Deposit Insurance Systems (DISs) around the world have been portrayed based on the 2018 IADI Survey and IMF working paper on deposit insurance database (2014) by Asli Demirgüç-Kunt, Edward Kane and Luc Laeven. The key aspects that emerged in this section were: the highest number of DISs at 45 were established between 1997 and 2007 after the Asian financial crisis, while 34 DISs were set up in the aftermath after the Global Financial Crisis (GFC) around the world. Majority of the DISs (65%) were administered by the Government, followed by

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privately administered (21%), central bank (8%) and others (3%). The legal framework of DISs suggested that 76% were independent, followed by 'within the central bank' (10%), banks' associations (6%), 'within bank supervisor' (4%), Ministry of Finance (3%) and others (2%). With regard to mandates of DISs, 40% of DISs were 'pay-box plus', followed by 'pay-box' (31%), 'loss-minimiser' (15%)', 'risk minimiser' (14%) and others (2%). With regard to funding, majority of DISs from low to upper-middle income countries (85%) collected premium in advance (*ex ante*), while countries with high income adopted hybrid funding, i.e., had provision to levy *ex post* premium in addition to *ex ante* premium. All the DIAs followed 'per depositor per institution principle'. Majority of the DISs provided fixed deposit insurance cover while five (four in Canada and one in Uzbekistan) provided blanket unlimited cover. The deposit insurance cover was increased in DISs after the GFC. Based on the IADI survey, 47% of DISs charged premium on flat rate, followed by risk-based premium (34%) and a combination of both (19%).

In Part C, the author presents and analyses the key parameters of different bank-groups as at end-March 2018, different types of deposits mobilised by banks, regulations relating to deposits and depositors as per the Banking Regulation Act, 1949, ownership pattern of bank deposits and various risks associated with bank deposits.

In Part D, the evolution of deposit insurance in India, the progress of deposit insurance in terms of coverage of banks, extent of coverage of deposit insurance, limit of deposit insurance cover, premium rate over a period of time, outstanding amount under deposit insurance fund, settlement of claims of failed banks and repayments of settled claims received by DICGC and operational aspects are presented. IADI issued Core Principles (CPs) for effective DISs in November 2014 for DIAs to make an assessment about the effectiveness. The Core Principles, although voluntary in nature, are used by the IMF and the World Bank in the assessment of deposit insurance as part of Financial Sector Assessment Program. The author presents the rating of DICGC against all the 16 CPs.

The key recommendations relating to reform of DICGC suggested by various committees in the past constituted by the Government of India and RBI have also been provided in the book. The major one being the 'High Level Working Group Resolution Regime for Financial Institutions' (2014). It was recommended by the Working Group for setting up of a full-fledged resolution authority.

In part E, the significance of deposit insurance has been underscored particularly, from the point of view of retail depositors, in view of their increasing importance both on the assets and liabilities side of the balance sheet of banks in tune with the growing size of the economy. In this section, the thumb rules for increase in deposit insurance cover, viz., insurance cover should be two times of per capita GDP, and fully cover 80% of accounts but only 20% of

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value of deposits, also known as '80-20' rule, have been stressed for implementation. With regard to coverage of deposits, the author emphasises that the deposit insurance should be limited to deposits of household sector and non-residents only. With regard to charging risk-based premium, the central aspects of recommendations of committees constituted by the Government of India and RBI have been highlighted in the section. The adequacy of deposit insurance fund is vital for settlement of claims, especially at times of crisis. The author highlights that there is no comprehensive mechanism for resolution of financial sector entities in India, and there are gaps in resolution framework in terms of FSB Key Attributes (KAs). In this context, the key recommendations of the Financial Sector Legislative Reforms Commission regarding the setting up of Resolution Corporation have been analysed. The author mentions that the focus should be on resolution D-SIBs as India does not have G-SIFIs. In the short-term, there is no need for resolution funding, while it is imperative in the medium-term. The author envisages a new role for DICGC and suggests setting up 'Bank Deposit Insurance and Resolution Corporation' through changes in the DICGC Act, 1961, besides suitable amendments in the connected Acts.

In Part F, the gist of Financial Resolution and Deposit Insurance Bill 2016 (withdrawn on August 7, 2018) aimed at resolving the entire financial sector entities through setting up of Resolution Corporation has been analysed. The central aspect of FSB KAs in the resolution of financial sector entities in crisis situation is to avoid the use of public funds through the application of various resolution tools including bail-in. Bail-in involves imposition of losses on creditors by converting their claims into equity in the newly restructured institution, thereby reducing or eliminating the need for government recapitalisation funded by tax payers. The author is against the use of bail-in in the Indian context and at the same time avers that public funds should be used as a last resort for bail-out of institutions. Since there is an Insolvency and Bankruptcy Code for resolution of non-financial sector entities already in place, the setting up of a framework for the financial sector will complete the resolution mechanism for the entire economy thereby enabling the environment of ease of doing business. The author provides a comprehensive view of deposit insurance and resolution in India against the backdrop of recommendations of various committees constituted by the Government of India and the RBI and also global norms and initiatives particularly in the aftermath of the global financial crisis.

Overall, the book is excellent. Dr. Manas R. Das had written the first book on deposit insurance in India in 2010, which was an informative book. This book, which combines his theoretical research with practical insight, is much more analytical, comprehensive and policy-focussed. It will be quite useful to policymakers, academia and students.