

Banks must pay higher premium on the basis of lending riskiness: Brickworks Ratings

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Mumbai, Oct 9:

Rating agencies think the deposit insurance scenario in India is comfortable. They say there is no cause for alarm even if the proportion of insured deposits has come down over the years.

Mr Vivek Kulkarni, Managing Director, Brickwork Ratings, said, "If you look at 'Assessable deposits' – i.e., deposits which do not include inter-bank deposits/corporate deposits, then the insurance coverage in terms of number of deposit accounts is 90 per cent. If you take amount as the parameter, then deposit insurance coverage is about 60 per cent - which is not bad. The comparable number in the US is 78 per cent."

Elaborating on the rationale for fixing Rs 1 lakh limit for deposit account, Mr Kulkarni said, "If you look at the limit of deposit insurance - as a proportion of per capita income, the limit of Rs 1 lakh per account is roughly about 2.5 times the per capita annual income. This is comparable to what prevailed in the US where the limit was \$ 1 lakh per account earlier. That limit has since been revised by the FDIC to \$42.5 lakh per account. There is therefore an argument that the limit needs revision here also."

Should the limit be revised? Mr Kulkarni says that commercial banks are predictably opposed to it - because they feel they are subsidising the cooperative banks. They pay the premium - but the claims are made by cooperative banks and paid to their depositors.

So what is the solution? He says, "The solution is to charge banks higher insurance premium on the basis of the riskiness of their lending. For instance, lending to sectors like real estate/ capital market etc., or having an NPA level beyond a certain level could invite a higher premium. If this is not done, it will mean that reckless lending will be free riding on all others."

Mr Pawan Agrawal, Director, CRISIL Ratings said: "The availability of deposit insurance for the scheduled commercial banks in India, together with the ownership of large number of banks by GoI, has helped in building a strong depositor franchise and comfort for bank deposits in India. We expect that this will continue. In addition, a significant number of depositors hold small deposits in banks - therefore the coverage of the deposit insurance in terms of the number of depositors is much higher (estimated at more than 90% of deposit accounts), than the 35% coverage of the insurance as per the deposit amount (Rs.17 lakh crore under deposit insurance out of the total of Rs.49 lakh crore total deposits)."

Mr Agarwal added, " An increase in the limit of insurance coverage is required to adjust with the current purchasing power. This will also enhance the competitiveness and comfort of savers with banks deposits."

Keywords: [Brickwork Ratings](#), [deposit insurance](#), [premium](#), [banks](#), [Vivek Kulkarni](#)