

Deposit Insurance Scheme in Bangladesh

Introduction:

A Deposit Insurance Scheme (DIS) is designed to minimize the risk that the depositors suffer a loss out of placing funds with a bank. The purpose of DIS is to help to increase market discipline, reduce moral hazard in the financial sector and provide safety nets at the minimum cost to the public in the event of a bank failure. The direct rationale for deposit insurance is customer protection. The indirect rationale for deposit insurance is that it reduces the risk of a systemic crisis, involving, for example, panic withdrawals of deposits from sound banks and breakdown of the payments system. From global point of view, deposit insurance provides many benefits and, over the long term, appears to be an essential component of a viable modern banking system.

Membership:

All commercial banks including foreign banks and specialized banks operating in Bangladesh were brought under the Deposit Insurance Scheme. Membership is compulsory for all Banks as provided under Article of Bank Deposit Insurance Act 2000. Non-Banking Financial Institutions are still out of the purview of Deposit Insurance Scheme.

Operating Procedures:

The DIS has been introduced in Bangladesh in August 1984 to act as a safety net. It aims at minimizing the risk of loss of depositors' fund with banks. Deposit insurance in Bangladesh is now being governed by the "Bank Deposit Insurance Act 2000". In accordance with the provisions of the "Bank Deposit Insurance Act 2000" premium collected from the insured banks and all other receivables are deposited to an account called the "Deposit Insurance Trust Fund (DITF)" account maintained at the Bangladesh Bank. The Board of Directors of the Bangladesh Bank is the Trustee Board for the DITF which is now being administered and managed under the guidance of the Trustee Board. Bangladesh Bank is a member of International Association of Deposit Insurers (IADI).

Level of Coverage:

The present coverage of the deposits is *Taka One hundred thousand* per depositor per bank.

Deposit Insurance Premium Rates:

To enhance the effectiveness of market discipline, BB has adopted a system of risk based deposit insurance premium rates applicable for all scheduled banks effective from the half year January-June, 2007. According to new instruction regarding premium rates, problem banks are required to pay 0.09 percent and Private Bank's other than the "Problem Bank" and State Owned Commercial Banks are required to pay 0.07 percent.

The effectiveness of DIS in reducing systemic risk would be increased if the public is well aware of its existence and scope. With this end in view, BB has already advised the banks for bringing Deposit Insurance Scheme into the notice of the public through displaying the same in their display boards.

DEPOSIT INSURANCE TRUST FUND (DITF)

SUMMARY OF AUDIT REPORT AS OF 30-06-2007

▣ As per Audit Report of Deposit Insurance Trust Fund (DITF) as of 30-06-2007, the comparative scenario of the Balance sheet and Income Statement of the DITF is as under:

▣ Balance Sheet

As At 30 June 2007

<u>ASSETS:</u>	30-06-2007 (Amount in Taka)	30-06-2006 (Amount in Taka)
Investment		
Pratirakkha Sanchay Patra (at cost)	181,70,00,000.00	181,70,00,000.00
Bangladesh Treasury Bill (at cost)	107,53,44,776.00	107,53,44,776.00
Bangladesh Government Treasury Bond (at cost)	241,06,62,120.00	168,82,09,950.00
	530,30,06,896.00	458,05,54,726.00
Interest Accrued	203,95,58,036.00	169,68,16,033.00
Cash at Bank	34,01,58,238.00	9,01,10,906.00
TOTAL ASSETS	<u>768,27,15,238.00</u>	<u>636,74,81,665.00</u>

<u>LIABILITIES</u>		
Deposit Insurance Trust Fund Balance	768,27,15,170.00	636,74,73,665.00
Current Liabilities		
Audit Fees	8,000.00	8,000.00
TOTAL LIABILITIES	<u>768,27,23,170.00</u>	<u>636,74,81,665.00</u>

▣ Income Statement

For the year ended 30 June 2007

	30-06-2007 (Amount in Taka)	30-06-2006 (Amount in Taka)
Income		
Interest Income	54,42,70,202.00	52,46,36,803.00
Less: Expenditure		
Audit Fee	8,000.00	8,000.00
Annual Member's Fee and initial contribution for International Association of Deposit Insurer(IADI)	10,12,500.00	4,92,750.00
	10,20,500.00	5,00,750.00
Net income transferred to DITF	<u>54,32,49,702.00</u>	<u>52,41,36,053.00</u>