

Deposit Insurance System in Bangladesh

Introducing Deposit Insurance:

Deposit Insurance System (DIS) is an institutional initiative by Bangladesh Bank for the protection of the commercial banks deposits maintained by small depositors in Bangladesh. The system works among deposit owners. In Bangladesh, deposit insurance was introduced in August, 1984 as a scheme in terms of the provisions of the legal framework called "The Bank Deposit Insurance Ordinance, 1984" promulgated by the Government on August 11, 1984. In July, 2000 the Ordinance was repealed by an Act of the Parliament called the "Bank Deposit Insurance Act, 2000". Deposit Insurance in Bangladesh is now being administered by the said Act. Bangladesh Bank has taken the membership of International Association of Deposit Insurers (IADI) in 2006.

Membership/Member Institution:

All scheduled banks including foreign banks operating in Bangladesh were brought under the Deposit Insurance Scheme by the Bangladesh Bank with effect from 11 August, 1984. Membership is compulsory for all Banks (47 banks) as provided in Bank Deposit Insurance Act, 2000.

Deposit Insurance Trust Fund (DITF) and Investment procedure:

In accordance with the provisions of the Bank Deposit Insurance Act, 2000, premium collected from the insured banks and all other receivables are deposited in to an account called Deposit Insurance Trust Fund (DITF) maintained by Bangladesh Bank. The premium collected and kept in the DITF which is invested in the Government Securities and the income derived from such investments is also credited to the DITF account to strengthen and enhance the overall insurance coverage.

Coverage under Deposit Insurance Scheme:

According to "The Bank Deposit Insurance Act, 2000", in case of winding up of an insured bank, Bangladesh Bank shall pay to every depositor of that bank an amount equal to the amount of his/her deposit in that bank but not exceeding Taka one hundred thousand. Eligible compensation up to the coverage cap Taka one hundred thousand would be on per depositor per bank basis.

Management of Scheme:

As per provisions of the Act, The Board of Directors of the Bangladesh Bank is the Trustee Board is responsible for administration and management for the DITF.

Deposit Insurance Premium Rates:

According to Deposit Insurance Act, 2000, every member bank is to be treated as insured bank and premium from the member banks were required to contribute half yearly premium, prescribed from time to time, and based on the total insured deposits held by a member bank as of preceding 30 June or 31 December. Before 2007, the premium were determined at a flat rate, now risk based deposit insurance premium rates have been introduced since January, 2012, as follows:

Sl. No.	CAMEL Rating/Category	Premium Rate
1	Private Commercial Banks under Problem Bank category.	0.10%
2	Private Commercial Banks under Early Warning Bank category.	0.09%
3	Private Banks outside the Problem & Early Warning Bank category.	0.08%
4	State owned Commercial Banks (SCBs)	0.08%

Conclusion:

If the scheme introduces without being accompanied or preceded by improved regulation and supervision by Bangladesh Bank authorities, then moral hazard would arise in the banking sector. Towards this end, the presence of deposit insurance system will complement the existing supervisory framework in promoting stability and soundness of the financial system. The effectiveness of DIS in reducing systemic risk would be increased if the public is well aware of its existence and scope. For this view, Bangladesh Bank has already advised the banks for bringing Deposit Insurance Systems 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 30-06-2012

As per Audit Report of Deposit Insurance Trust Fund (DITF) as of 30-06-2012, the comparative scenario of the Balance Sheet and Income Statement of the DITF is as under:

Balance Sheet

As at 30 June 2012

	2012 Taka	2011 Taka
<u>Assets</u>		
Cash & Cash Equivalents	141,384,677	155,257,739
Investment	21,714,059,177	17,724,920,115
Other Assets (receivable)	456,593,506	403,646,943
Advance Annual Members Fee(IADI)	767,401	722,896
Total Assets	22,312,804,761	18,284,547,693

Fund & Liabilities

Funds

Deposit Insurance Trust Fund	22,309,195,359	18,282,182,992
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Liabilities

Annual Member Fees (IADI)	0	0
Premium Received in Advance	3,594,402	2,349,701
Provision for Audit Fees	15,000	15,000

Total Funds & Liabilities

	22,312,804,761	18,284,547,693
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Income Statement

For the year ended 30 June 2012

	2012 Taka	2011 Taka
<u>Income</u>	1,914,272,518	1,584,828,729
Interest income	1,894,806,843	1,548,344,081
Discount on BGTB	15,944,675	35,693,398
Commission	3,521,000	791,250
<u>Expenditure</u>	2,238,397	1,865,410
Audit fees	15,000	15,000
Premium Expenses	1,244,701	888,019
Annual member's fees(IADI)	978,696	962,391
Net income transferred to Trust Fund	1,912,034,121	1,582,963,319