How do we look at bank failure?

Silicon Valley Bank Failure is the biggest failure post 2008 and hence, becomes the area of study. In this article, we discussed the key takeaways and probable measures to reduce the impact on the economy.

Devastating, right! Increasing inflation disturbs the economy as a whole. Suddenly, the system start moving left and right. Revisiting the existing bank policy, re-vetting the health of the financial institutions and re-assuring the base of compulsory ratios (CAR, LR etc) comes forth. Series of interviews of the high officials becomes the headline of newspaper and news channels. Sometimes, even the government need step in.

Key take-away from Silicon Valley Bank Failure

1.Avoid concentration of industry-wise and group-wise funding

Apex bank shall build in the model where certain percentage of funding shall mandatorily be in general category and rest can be allocated to specialized sector eg. Tech sector, Automobile sector, Software sector etc.

Also, the norms shall be in place to stop funding the group beyond certain limit.

2.Investment policy of the Bank &/or NBFC shall include the flexible portfolio

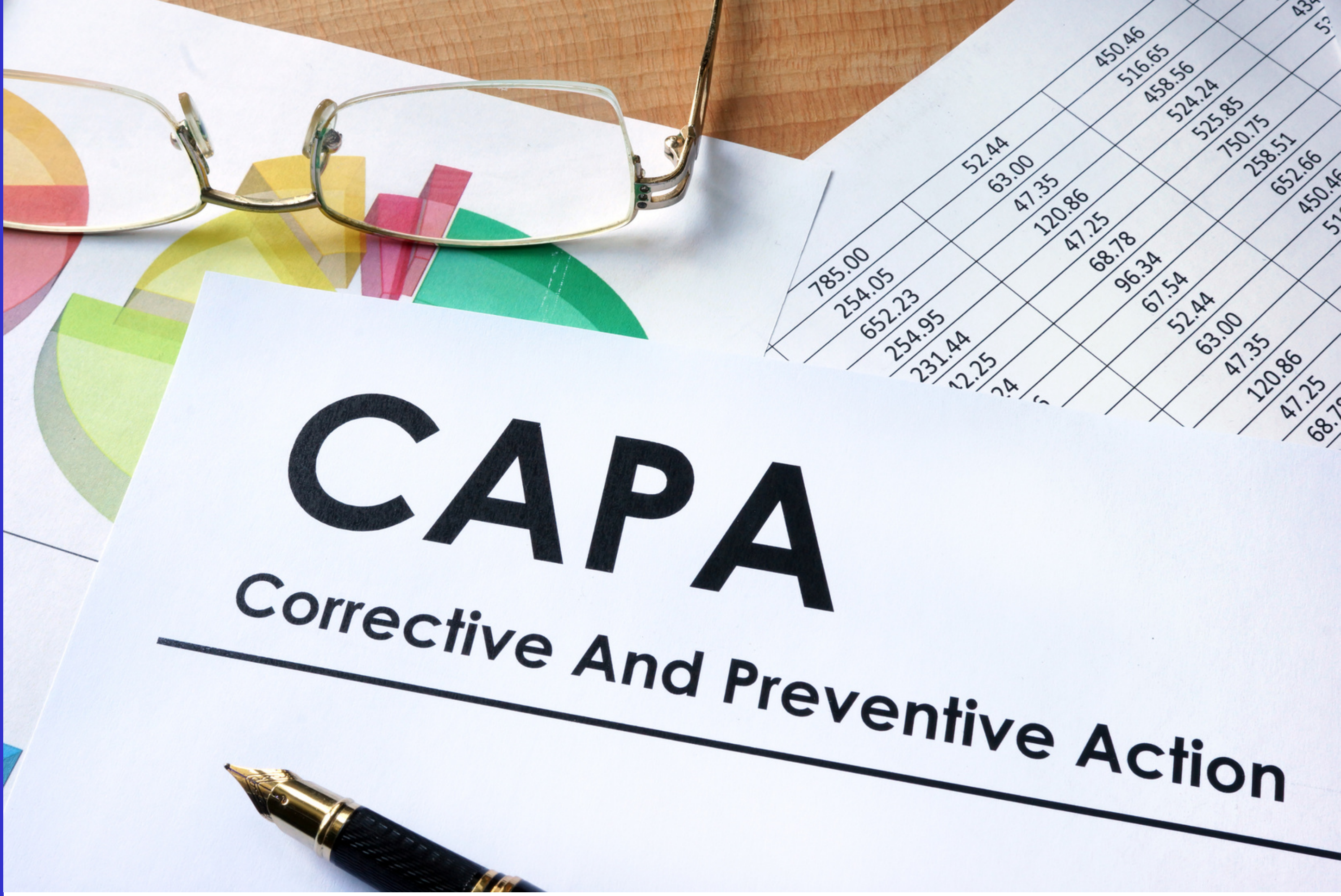
While deciding the investment policy, the inflation rate and the probable move of apex bank shall be considered. Investment policy shall be reviewed periodically as it depends upon external factors.

3.Panic Sailing - Ceiling of withdrawal on deposits shall be well planned

Panic behavior from the depositors rapidly changes the situation of the financial institution. Ceiling may give the breathing time to bank and the regulators to control the worsening situation. However, while deciding the ceiling the DICGC funding limits shall be re-reviewed.

4.Insurance policy terms for KMP

It shall be reviewed and due consideration shall be given for enough inclusion in case of collapse.



Measures to safeguard the stake-holders

Bank failure impacts the economy as a whole. Under the volatile situation, the safeguarding the stake-holders will reduce the impact on economy as a whole.

1.Employees

Salary of the employees for at least one month shall be insured. The apex bank can throw more light on this. Absolutely, deep study is needed but it is possible.

2.Investors

Investors are the big market players. Growth of the economy is possible because of the risk they carry by investing in others' business. It is important to secure the funds obtained from them. Though it is a matter of serious study, insuring the investors funds is quite possible with the joint role of IRDA and RBI.

To begin with partial insurance of the investors money can attract more business opportunities as well.

3.Depositors

Financial Institutions are considered as the trust-worthy channel to safeguards the funds. Stringent rules in terms of Capital Adequacy ratio, Liquidity Ratio and different policies w.r.t stringent internal controls, depositors hard earned money can be safeguarded.

4.Borrowers

Measures shall be designed to recover the funds from different business segments (i.e. especially borrowers) to whom funding is done. Some measures shall be framed for the quick recovery in case of bank failure. Here also the insurance will play the key role.

In simple words, take care of stakeholder, they will not let you down.

Expected outcome of above measures

1.The apex bank will be able to balance the trust at national and international level.

2.Measures from the apex body will help to reduce the impact on capital market

3.Insurance industry will have the additional business against the risk they are carrying.

4.Overall, the measures will help to stabilize the economy and may help to grow as well.

Disclosure:

This article is the personal analysis of SVB case.

What is the situation in India?

- DICGC permits the withdrawal up to Rs.500,000/- within 90 days (i.e. under the moratorium imposed by RBI).
- The withdrawal is permitted against saving accounts, FDs, RDs, current accounts etc.
- There are few deposits like deposits of foreign governments, central/state governments, the state land development banks with a state co-operative bank, inter-bank deposits, any amount due on account of and deposit received outside India and any amount, which has been specifically exempted by the corporation with the previous approval of the Reserve Bank of India (RBI) are excluded.
- The limit of Rs.500,000/- to include both principle and interest.

In short, the commercial banks including branches of foreign banks functioning in India, local area banks, regional rural banks and co-operative banks are insured by the DICGC. But, the primary cooperative societies, NBFCs, HFCs and Corporate entities are not insured by the DICGC.

How can account holder safeguard own financial interest?

- Deposit in one bank shall not exceed Rs.500000/- & Interest shall be credited to bank account at regular intervals.
- Deposits upto Rs.500,000/- with one bank can be kept in different capacity as –
  - Joint holding with relatives (viz. mother, father, spouse, children etc.)
  - Partner of the Partnership Firm
  - Director of the company

Highlights of Social Security Measures in India

1. Pradhan Mantri Jeevan Jyoti Bima Yojana
   - Applicable Age – 18 To 50 years
   - Nature – Life Insurance
   - Annual Premium – Rs.330
   - Coverage Amount – Rs.200,000/-

2. Pradhan Mantri Suraksha Bima Yojana
   - Applicable Age – 18 To 70 years
   - Nature – Accident Insurance
   - Annual Premium – Rs.12
   - Coverage Amount – Rs.200,000/-(in case of death) or Rs.100,000/- (in case of partial disability)

Profile: Kush Tapas | Facebook & CA Kush Tapas | LinkedIn
Website: www.ykttalentica.com & www.tapasca.com
Mo. No. 9405304345, 9657011560

About Author: CA Kush Tapas is a experienced consultant for Insurance, NBFC, Automobile, Manufacturing, Software and Service Industry. He is notably working in Internal Audit, Internal Controls, Risk Management and mitigation with Fintech and Insurance companies. He is a strategic advisor to YKT Talentica India Private Limited and Partner at Tapas & Co. Chartered Accountants.