Domestic Systemically Important Insurers

January 27, 2021

In News: The Insurance Regulatory and Development Authority of India (IRDAI) has identified the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and The New India Assurance Co. as Domestic Systemically Important Insurers (D-SIIs) for 2020-21.

What is the Domestic Systemically Important Bank (D-SIB)?

- According to the RBI, some banks become systemically important due to their size, cross-jurisdictional activities, complexity and lack of substitute and interconnection.
- The banks whose assets exceed 2% of GDP are considered part of D-SIB group
- The RBI stated that should such a bank fail, there would be significant disruption to the essential services they provide to the banking system and the overall economy.
- The too-big-to-fail tag also indicates that in case of distress, the government is expected to support these banks.
- All the banks under D-SIB are required to maintain a higher share of risk-weighted assets as tier-I equity.

How are they classified?

- To identify such insurers and put them to enhanced monitoring mechanisms, IRDAI has developed a methodology for identification and supervision of D-SIIs.
- The parameters, as per the methodology, include:
  - Size of operations in terms of total revenue, including premium underwritten and the value of assets under management.
  - Global activities across more than one

jurisdiction.

Significance of Domestic Systemically Important Bank (D-SIB)

- The SIBs are seen as ‘too big to fail (TBTF)’ which helps them to create an expectation of government support for them in times of financial distress.
- The SIBs also enjoy certain advantages in funding markets which implies that these banks have a different set of policy measures regarding systemic risks and moral hazard issues.
- Too big to fail is a phrase used to describe a bank or company that’s so entwined in the economy that its failure would be catastrophic.
- In case a foreign bank having branch presence in India is a global systemically important bank (G-SIB):
    - It has to maintain additional CET1 capital surcharge in India as applicable to it as a G-SIB, proportionate to its risk weighted assets (RWAs) in India.
    - The bank has to maintain an additional CET1 buffer prescribed by the home regulator multiplied by India RWA as per consolidated global group books divided by total consolidated global group RWA.
- Whether the bank is in the D-SIB list or not, the fixed deposits are insured up to Rs1 lakh under the Deposit Insurance and Credit Guarantee Corporation (DICGC).