

1. Deposit Insurance Cover to be Raised?

Prelims Level: Insurance

Mains Level: GS-III Effects of Liberalization on the Economy, Changes in Industrial Policy and their Effects on Industrial Growth.

Why in News?

- The central government now plans to raise the cover of deposit insurance after the failure of the Punjab and Maharashtra Co-operative (PMC) Bank on the low level of insurance for deposits held by Customers in Banks.

About Deposit Insurance:

- Currently, in the event of a bank going bust in India, a depositor has claim to a maximum of Rs 1 lakh per account as insurance cover — even if the deposit in their account far exceeds Rs 1 lakh. This amount is termed ‘deposit insurance’.
- Depositors holding more than Rs 1 lakh in their account have no legal remedy in case of the collapse of the bank.
- The cover of Rs 1 lakh per depositor is provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC), a fully owned subsidiary of the Reserve Bank of India.
- The Rs 1 lakh-cover is for deposits in commercial banks, regional rural banks (RRBs), local area banks (LABs), and cooperative banks.

How Depositors Claim the Money from the Failed Bank?

- The DICGC does not deal directly with depositors. The RBI (or the Registrar), on directing that a bank be liquidated, appoints an official liquidator to oversee the winding up process.
- Under the DICGC Act, the liquidator is supposed to hand over a list of all the insured depositors (with their dues) to the DICGC within three months of taking charge.
- The DICGC is supposed to pay these dues within two months of receiving this list.
- In FY19, it took an average 1,425 days for the DICGC to receive and settle the rest claims on a de-registered bank.

What is the Issue?

- As per DICGC data, over the years the level of insured deposits as a percentage of assessable deposits has declined from a high of 60.5% in 2007-08 to 28.1% in 2018-1.
- At the end of March 2019, the number of registered insured banks with DICGC stood at 2,098 — comprising 103 commercial banks, 1,941 cooperative banks, 51 RRBs, and three LABs.

- DICGC last revised the deposit insurance cover to Rs 1 lakh on May 1, 1993 — raising it from Rs 30,000, which had been the cover from 1980 onward.
- DICGC charges 10 paise per Rs 100 of deposits held by a bank. The premium paid by the insured banks to the Corporation is required to be borne by the banks, and not be passed on to depositors.
- As per DICGC data, commercial banks paid a total premium of Rs 11,190 crore in 2018-19, while cooperative banks paid a premium of Rs 850 crore to cover deposits against the risk of default.
- As for cooperative banks, only 44.5% of their assessable deposits were covered in 2018-19, while for commercial banks this ratio was 25.7%.
- Commercial banks account for the largest share of bank deposits in India.

