

4. Insurance Cover on Bank's Deposit

Prelims Level: Banking

Mains Level: GS-III Government Budgeting.

Why in News?

- Finance Minister has recently proposed to increase the limit of insurance cover in case of Bank Failure on deposits to ₹5 lakh from ₹1 lakh.

What is Deposit Insurance?

- Deposit insurance is **Providing Insurance Protection to the Depositor's Money** by receiving a premium.
- The government has set up **Deposit Insurance and Credit Guarantee Corporation** (DICGC) under RBI to protect depositors if a bank fails.
- Every insured bank pays premium amounting to 0.001% of its deposits to DICGC every year.
- This scheme insures all types of bank deposits including savings, fixed and recurring with an insured bank.

What happens to Depositors' Money when a Bank Fails?

- When a bank is liquidated, depositors are entitled to receive an insurance amount of ₹1 lakh per individual from the **Deposit Insurance and Credit Guarantee Corporation of India (DICGC)**.
- The ₹1 lakh insurance limit includes both principal and interest dues across your savings bank accounts, current accounts, fixed deposits and recurring deposits held with the bank.
- Now this 1 lakh amount has been proposed to 5 lakhs recently.

How the Depositors claim the Money from a 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 first claims on a De-Registered Bank.

Who are insured by the DICGC?

- The corporation covers all commercial and co-operative banks, except in Meghalaya, Chandigarh, Lakshadweep and Dadra and Nagar Haveli.
- Besides, only primary cooperative societies are not insured by the DICGC.
- Primary Cooperative Credit Societies are formed at village or town level.
- A primary credit society refers to any cooperative society other than a primary agricultural credit society. It is basically an association of members residing in a particular locality. The members can be borrowers or Non-Borrowers.

What Kind of Depositors is not included in DICGC?

- Deposits of foreign governments. However, foreign banks in India are excluded.
- Deposits of central/State Governments.
- Inter-bank Deposits.
- Deposits of the state land development banks with the state co-operative bank.
- Any amount due on account of any deposit received outside India.
- Any amount specifically exempted by the DICGC with previous approval of RBI.

What are the Benefits of this Move?

- **Guaranteed Returns:** Investors can rest assured that his investments are safe and he will be getting back a guaranteed amount at the end of the tenure.
- **Encourages Saving Habit:** This encourages the saving habit of an individual. He will not be tempted to spend the money and find a way to manage his finances more efficiently.
- **Increases Bank Accounts:** It also increases the banking habits of the people.