News: With the failure of the Punjab and Maharashtra Co-operative (PMC) Bank reigniting the debate on the low level of insurance for deposits held by customers in banks in India, the central government now plans to raise the cover. A legislation in this regard is likely in the ongoing Winter Session of Parliament.

Prelims focus: About Deposit Insurance and its regulation

Mains focus: The need for reforms in the banking sector

About deposit insurance an its regulation in India

- 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.

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.

Procedure for depositors to claim the money on bank’s liquidation

The DICGC does not deal directly with depositors.

1. The RBI (or the Registrar), on directing that a bank be liquidated, appoints an official liquidator to oversee the winding up process.
2. 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.
3. 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.

The DICGC does not include the following types of deposits:

1. Deposits of foreign governments.
2. Deposits of central/state governments.
3. Inter-bank deposits.
4. Deposits of the state land development banks with the state co-operative bank.
5. Any amount due on account of any deposit received outside India.
6. Any amount specifically exempted by the DICGC with previous approval of RBI.

Necessary reforms

1. Enhance the insurance cover and the insured amount.
2. Allow private players to provide insurance cover.
3. Reduce the time delay in settling claims.