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What is deposit insurance cover, and how will raising it help you?

The deposit insurance cover is offered by the Deposit Insurance and Credit Guarantee Corporation (DICGC), a specialised division of the Reserve Bank of India (RBI).

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The government is considering increasing the insurance cover for bank deposits from the current limit of Rs 5 lakh, Financial Services Secretary M Nagaraju said on Monday.

The deposit insurance cover is offered by the Deposit Insurance and Credit Guarantee Corporation (DICGC), a specialised division of the Reserve Bank of India

(RBI).

What has the government said on deposit insurance?

Asked what the government was doing in the matter of the New India Co-operative Bank against which the RBI took action last week, Nagaraju said that a proposal on "increasing (deposit) insurance" was "under active consideration", and "as and when the government approves, we will notify it".

What actions has RBI taken in the New India Co-operative Bank case?

RBI has imposed several restrictions on the Mumbai-based bank, including superseding its Board of Directors for 12 months, citing supervisory concerns and "poor governance standards".

The RBI has directed the loss-making bank to not grant or renew any loans and advances; make any investment; incur any liability including borrowing funds and accepting fresh deposits; or disburse or agree to disburse any payment without prior written approval. The restrictions came into effect after close of business on February 13, and will be in force for six months.

The bank has 30 branches in Mumbai, Thane, Navi Mumbai, and Pune, and in Surat in Gujarat. At the end of March 2024, the bank had a deposit base of Rs 2,436 crore, and it had posted losses of Rs 22.78 crore in 2023-24 and Rs 30.74 crore in 2022-23.

How are the deposits of customers insured against failure of the bank?

The objective of the DICGC is to protect "small depositors" from the risk of losing their savings in case of a bank failure. The insurance cover of Rs 5 lakh per depositor is for all accounts held by the depositor in all branches of the insured bank.

DICGC insures all commercial banks, including branches of foreign banks functioning in India, local area banks, regional rural banks, and co-operative banks. However, primary co-operative societies are not insured by DICGC.

Savings, fixed, current, and recurring deposits are insured. The DICGC does not provide insurance for deposits by foreign, central, and state governments, and for inter-bank deposits.

The premium for deposit insurance is borne by the insured bank. DICGC collects premiums from member financial institutions at a flat or differentiated rate based on the bank's risk profile.

How can depositors of New India Co-operative Bank apply for the DICGC's insurance?

DICGC has said it will make payments to eligible depositors of the bank as per Section 18A of the DICGC Act, 1961, subject to submission of a claim list by the bank within the statutory timeline of 45 days.

Depositors have been asked to submit deposit insurance claims to the bank, along with an official proof of identity, a "willingness declaration" to receive the amount lying in their accounts up to a limit of Rs 5 lakh, and details of a second account where this amount can be credited. The money can also be credited to their Aadhaar-linked bank account.

The last date for submission of claim or willingness declaration to New India Co-operative Bank is March 30. DICGC will make the payment to all eligible depositors by May 14.

How does the limit for DICGC's coverage work?

In 2021, a new Section 18A was inserted in the DICGC Act, 1961, which enabled depositors to get interim payment and time-bound access to their deposits to the extent of the deposit insurance cover through interim payments by DICGC, in case of imposition of restrictions on banks by the RBI.

At present, DICGC offers insurance cover on bank deposits up to Rs 5 lakh within 90 days of imposition of such restrictions. Since DICGC insures both the principal and interest amount held by a depositor in a bank, this is how the cover works:

Say, a depositor has Rs 4,99,800 in her account, which includes the principal amount of Rs 4,90,000 and Rs 9,800 as interest accrued on it. In this case, DICGC will provide insurance for Rs 4,99,800, which means the depositors will get Rs 4,99,800, if their bank fails.

However, if the principal amount is Rs 5,00,000 (or more), and the interest accrued is, say, Rs 10,000, the interest accrued will not be covered, as the depositor would have exhausted the cover limit of Rs 5 lakh.

If the bank goes into liquidation, DICGC is liable to pay to the liquidator the claim amount of each depositor up to Rs 5 lakh within two months from the date of receipt of the claim list from the liquidator.

The liquidator will have to disburse the right claim amount to each insured depositor.

Has the depositor's insurance ceiling always been Rs 5 lakh?

The cover was raised from Rs 1 lakh to Rs 5 lakh from February 4, 2020, after RBI took action against Punjab and Maharashtra Co-operative Bank Ltd.

Deposit insurance was introduced in India in 1962, and coverage has thus far been enhanced six times — from Rs 1,500 per depositor held in the same right and same capacity at all the branches of the insured bank to Rs 5 lakh now.

The deposit insurance scheme was started with 287 banks in 1962; the number of insured banks was 1,997 as of March 31, 2024.

What is the case for revising the deposit insurance upwards?

According to RBI Deputy Governor M Rajeshwar Rao, as of March 31, 2024, fully protected accounts were 97.8% of the total, higher than the international benchmark of 80%.

However, challenges were likely going forward, Rao cautioned, given that a growing and formalising economy such as India's can be expected to see a sharp increase in both primary and secondary bank deposits.

An increase in cover will not only protect to a greater extent the interest of depositors in case of a bank failure such as that of New India Co-operative Bank, it will likely also strengthen their trust and confidence in the banking system.

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