



# Deposit Insurance

## Why in News

Recently, the failure of the **Punjab and Maharashtra Co-operative (PMC) Bank** reignited the debate on the low level of insurance against the deposits held by customers in Indian banks.

- Currently, in case of a bank collapse, a depositor can claim an amount up to a **maximum of ₹ 1 lakh per account** as the insurance cover (even if the deposit in their account is greater than ₹ 1 lakh). This amount is termed '**deposit insurance**'- the insurance cover against the deposits of an individual in banks.
- The insurance cover is provided by the **Deposit Insurance and Credit Guarantee Corporation (DICGC)**.
- Recently, the issue of depositor protection was also in the news when the **Financial Resolution and Deposit Insurance (FRDI)** Bill was introduced in Parliament in 2017. The FRDI bill became controversial because of its suggestion that bank depositors be asked to share part of the cost of resolution of a failed bank.

## Deposit Insurance and Credit Guarantee Corporation

- DICGC came into existence in 1978 after the merger of Deposit Insurance Corporation (DIC) and Credit Guarantee Corporation of India Ltd. (CGCI) after passing of the **Deposit Insurance and Credit Guarantee Corporation Act, 1961** by the Parliament.
  - It serves as a deposit insurance and credit guarantee for banks in India.
  - It is a **fully owned subsidiary of** and is **governed** by the **Reserve Bank of India**.
- DICGC charges 10 paise per ₹ 100 of deposits held by a bank. The premium paid by the insured banks to the Corporation is paid by the banks and is not to be passed on to depositors.
- DICGC last revised the deposit insurance cover to ₹ 1 lakh on May 1, 1993, raising it from ₹ 30,000 since 1980. The protection cover of deposits in Indian banks through insurance is **among the lowest in the world**.
  - The **Damodaran Committee on 'Customer Services in Banks' (2011)** had recommended a five-time increase in the cap to ₹5 lakh due to **rising income levels and increasing size of individual bank deposits**.
- Banks, including regional rural banks, local area banks, foreign banks with branches in India, and cooperative banks, are mandated to take deposit insurance cover with the DICGC.

**Source: IE**