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# Students' ECONOMIC FORUM

A monthly publication from South Indian Bank

*To kindle interest in economic affairs...*
*To empower the student community...*

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DICGC

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

MARCH 2020

Theme : 340

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29th Year of Publication

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STUDENTS' ECONOMIC FORUM

MARCH 2020

# Theme No: 340: Deposit Insurance and Credit Guarantee Corporation

> *"When learning is purposeful, creativity blossoms. When creativity blossoms, thinking emanates. When thinking emanates, knowledge is fully lit. When knowledge is lit, economy flourishes."*
>
> - DR. A.P.J. ABDUL KALAM

The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is **"D.I.C.G.C".**

**Introduction**

DICGC, Deposit Insurance and Credit Guarantee Corporation is a statutory body established on 15$^{th}$ July 1978. But it was introduced in India in 1962. India was the 2$^{nd}$ country to introduce this Scheme. The first country which introduced DICGC was USA in 1933. The prime purpose of DICGC is to provide insurance for the money deposited in all banks. The functions of the DICGC are governed by the provisions of 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961 (DICGC Act) and 'The Deposit Insurance and Credit Guarantee Corporation General Regulations, 1961 framed by the Reserve Bank of India.

**Background**

- Bank failure was a common phenomenon in the 19$^{th}$ & 20$^{th}$ century. Such instances triggered the need for banks to safe guard the money deposited by their customers.
- Post establishment of RBI in 1935, the failure of Travancore National Bank & Quilon Bank highlighted this issue.
- The next banking crisis occurred in 1948 at West Bengal. It was then that RBI felt the urgency to safeguard the depositors' money by way of insurance.
- Banking Companies Act, came into force in 1949 and comprehensive arrangements were made for the supervision and inspection of banks by the Reserve Bank.
- In 1960, failure of Laxmi Bank and the Palai Central Bank catalyzed the introduction of Deposit Insurance in India.
- The Deposit Insurance Corporation Bill was introduced in 1961 and The Deposit Insurance Corporation (DIC) commenced functioning in 1962.
- Initially 287 banks registered with it as insured banks. By the end of 1967, this number was reduced to 100 (largely as a result of the Reserve Bank of India's policy of the reconstruction and amalgamation of small and financially weak banks so as to make the banking sector more viable.)
- In 1968, the Deposit Insurance Corporation Act was amended to extend deposit insurance to eligible Cooperative Banks. In 1968 there were over 1000 Cooperative Banks as against the 83

Commercial Banks. As a result, the DIC had to expand its operations considerably.

- In 1971, the Credit Guarantee Corporation of India Limited (CGCI) was established. (The establishment of the Credit Guarantee Corporation was to ensure that the credit needs of the neglected sectors and weaker sections were met. The essential concern was to persuade banks to make available credit to not so credit worthy clients.)
- In 1978, DIC & CGCI were merged to form the Deposit Insurance and Credit Guarantee Corporation (DICGC). Consequently, the title of Deposit Insurance Act, 1961 was changed to the Deposit Insurance and Credit Guarantee Corporation Act, 1961.
- After the merger, the focus of the DICGC had shifted to Credit Guarantees. With the financial sector reforms undertaken in the 1990s, Credit Guarantees have been gradually phased out and the focus of the Corporation is back to its core function of deposit insurance with the objective of avoiding panic, reducing systemic risk, and ensuring financial stability.

**Management**

The authorized capital of the Corporation is Rs. 50 crore, which is fully issued and subscribed by the Reserve Bank of India (RBI).

**What are the Objectives of DICGC?**

Deposit insurance had been introduced in India,

- To protect depositors
- To ensure financial stability
- To infuse confidence in the Banking System and
- To help mobilize deposits

**Which are the banks insured by the DICGC?**

- ✓ All Commercial Banks including branches of Foreign Banks functioning in India, local area Banks and Regional Rural Banks are insured by the DICGC.
- ✓ All State, Central and Primary Co-operative Banks are covered.
- ✓ Primary Cooperative Societies are not insured by the DICGC.

**Types of Deposits Covered**

DICGC insures all bank deposits, such as Saving, Fixed, Current, Recurring, etc. except the following types of deposits.

- Deposits of Foreign Governments;
- Deposits of Central/State Governments;
- Inter-bank deposits
- Deposits of the State Land Development Banks with the State Co-operative Banks;
- Any amount which has been specifically exempted by the Corporation with the previous approval of the RBI.

**Features of Deposit Insurance System**

- The deposit insurance system is compulsory in India and no bank can remain unregistered with the Corporation except those Cooperative Banks where the State Governments/Union Territories are yet to pass the required legislation.
- The deposits mobilized by the Development financial institutions, Mutual Funds and Non-Banking Financial/Non-Financial companies do not come under the purview of the deposit insurance.

- At present, DICGC provides full protection to around 92% of number of accounts as against 78.5% in 1961. In terms of amount of deposits, around 28% of deposits are being covered, as against 23% in 1961.
- The Corporation operates on a forecasted Deposit insurance fund, which is built out of surplus generated by the Corporation. Premium collected from insured Banks is the main source of funds for the Corporation.
- DICGC does not have prudential regulatory or supervisory responsibilities or intervention powers. These functions are performed by RBI.
- The Corporation provides financial assistance to facilitate restructuring and merger of weak banks with a sound bank.

**Insurance coverage**

Initially, the insurance cover was limited to ₹ 1,500 only per depositor(s) for deposits held by him (them) in the "same right and in the same capacity" in all the branches of the bank taken together. However, the Act also empowers the Corporation to raise this limit with the prior approval of the Central Government. Accordingly, the insurance limit was enhanced from time to time as follows:

- ₹ 5,000/- with effect from 1st January 1968
- ₹ 10,000/- with effect from 1st April 1970
- ₹ 20,000/- with effect from 1st January 1976
- ₹ 30,000/- with effect from 1st July 1980
- ₹ 1, 00,000/- with effect from 1st May 1993
- ₹ 5, 00,000/- with effect from 4th February 2020

**Who pays the cost of deposit's insurance and how much is the cost?**

Since 2001, the Corporation has had to settle claims for large amounts due to the failure of banks, particularly in the Co-operative Sector causing a drain on the Deposit Insurance Fund (DIF). While there is sufficient corpus in Deposit Insurance Fund for the present, it is necessary to build up a sound DIF in the long term to protect the interests of the banking system. The premium was raised to 8 paise per 100 of assessable deposits from the financial year 2004-05 and later to 10 paise per 100 of assessable deposits from the fiancial year 2005-06. The Corporation has revised the premium further to 12 paise per 100 of assessable deposits per annum from the half year beginning April 1, 2020 onwards with the objective of maintaining a strong DIF.

The premium paid by the insured banks to the Corporation is required to be absorbed by the banks themselves so that the benefit of deposit insurance protection is made available to the depositors free of cost. In other words, the financial burden on account of payment of premium should be borne by the banks themselves and should not be passed on to the depositors.

**What is the maximum deposit amount insured by the DICGC?**

Each depositor in a bank is insured up to a maximum of 5,00,000 (Rupees Five Lakhs) for both principal and interest amount held by him in the same right and same capacity as on the date of liquidation/cancellation of bank's licence or the date on which the scheme of amalgamation/merger/ reconstruction comes into force.

**Can you increase insurance cover by opening multiple accounts?**

- ✓ All funds held in the same type of ownership — name, identity details, etc, — at the same bank are added together before deposit insurance is determined.

- ✓ If an individual opens more than one deposit account in one or more branches of a bank, all these are considered as accounts held in the same capacity and in the same right. Therefore, the balances in all these accounts are aggregated and insurance cover is available up to rupees five lakh in maximum.
- ✓ If a person opens more than one account in his capacity as a partner of a firm or guardian of a minor or director of a company or trustee of a trust or a joint account, say with his wife, in one or more branches of the bank then such accounts are considered as held in different capacity and different right. Accordingly, such deposit accounts will each enjoy the insurance cover up to rupees five lakh separately.
- ✓ If more than one deposit account (Savings, Current, Recurring or Fixed deposit) are jointly held by individuals in one or more branch of a bank, say three individuals A, B & C hold more than one joint deposit account in which their names appear in the same order, then all these accounts are considered as held in the same capacity and in the same right. Accordingly, balances held in all these accounts will be aggregated for the purpose of determining the insured amount within the limit of 5 lakhs.
- ✓ If individuals open more than one joint account in which their names are not in the same order for example, A, B and C; C, B and A; C, A and B; A, C and B; or group of persons are different say A, B and C and A, B and D etc. then, the deposits held in these joint accounts are considered as held in different capacity and different right. Accordingly, insurance cover will be available separately up to rupees five lakhs for every such joint account where the names appearing in different order or names are different.

**Liability of DICGC to depositors**

- ➢ If a bank goes into the liquidation, DICGC is liable to pay to each depositor through the liquidator, the amount of his deposit up to Rs.5 lakhs within two months from the date of receipt of claim list from the liquidator.
- ➢ When a scheme of compromise or arrangement or re-construction or amalgamation is sanctioned for a bank by a competent authority, and the scheme does not entitle the depositors to get credit for the full amount of the deposits on the date on which the scheme comes into force, the Corporation pays the difference between the full amount of deposit and the amount actually received by the depositor under the scheme or the limit of insurance cover in force at the time, whichever is less. In these cases too, the amount payable to a depositor is determined in respect of all his deposits held in the same capacity and in the same right at all the branches of that bank put together, subject to set-off of his dues to the bank, if any.
- ➢ However, the payment to each depositor is subject to the limit of the insurance coverage fixed from time to time.

**Conclusion**

The occurrence of a financial crisis revealed the importance of effective deposit insurance scheme as a key element of the financial stability framework. The role of deposit insurance is undergoing important changes in the light of the financial crises, leading to a real thinking of the optimal design features of the deposit insurance system. Banks are supposed to uphold the ‘faith’ and ‘trust’ of the public in the banking system. In order to further motivate them to deposit their money in banks, DICGC plays a big role.

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