Changes to the Deposit Insurance Laws

Why in news?

- The Union Cabinet has cleared changes to the deposit insurance laws.
- The Centre plans to introduce the Deposit Insurance & Credit Guarantee Corporation (Amendment) Bill 2021 soon.

What is deposit insurance?

- Currently, in an unlikely event of a bank failing in India, a depositor has a claim to a maximum of Rs 5 lakh per account as insurance cover.
- [In 2020, the government raised the insurance amount to Rs 5 lakh from Rs 1 lakh.]
- The cover of Rs 5 lakh per depositor is provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC).
- Depositors having more than Rs 5 lakh in their account have no legal recourse to recover remaining funds in case a bank collapses.

What is the new provision and why?

- Despite the safety on funds parked with banks, there is an element of risk for the deposits in case a bank collapses.
- Depositors had troubles recently with access to their funds in banks such as Punjab & Maharashtra Co-operative (PMC) Bank, Yes Bank and Lakshmi Vilas Bank that faced RBI's actions.
- The changes made now would provide funds up to Rs 5 lakh to an account holder within 90 daysif a bank comes under RBI moratorium.
- Currently, depositors normally end up waiting for 8-10 years before they are able to access their deposits in a distressed bank.
- They receive it only after complete liquidationor restructuring of a distressed lender.
- With the changes being proposed now, depositors will get insurance money within 90 days.
- This will cover banks already under moratorium and those that could come under moratorium.
- Within the first 45 days of the bank being put under moratorium, the DICGC would collect all information relating to deposit accounts.
- In the next 45 days, it will review the information and repay depositors closer

to the 90th day.

How does it work?

- The premium for this insurance is paid by banks to the DICGC, and not be passed on to depositors.
- Banks currently pay a minimum of 10 paise on every Rs 100 worth deposits to the DICGC as premium for the insurance cover.
- It is now being raised to a minimum of 12 paise.

Source: The Indian Express

Quick Fact

DICGC

- DICGC - Deposit Insurance and Credit Guarantee Corporation
- DICGC is a fully owned subsidiary of the Reserve Bank of India.
- It covers public and private sector banks, local area banks, small finance banks, RRBs, cooperative banks, Indian branches of foreign banks and payments banks.
- The functions of the DICGC are governed by the provisions of:
    i. 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961' (DICGC Act)
    ii. 'The Deposit Insurance and Credit Guarantee Corporation General Regulations, 1961
- These were framed by the RBI.
- The DICGC Act provides for the establishment of a Corporation for the purpose of insurance of deposits.
- It is also intended for guaranteeing of credit facilities and for other matters connected therewith or incidental thereto.