

Concerns about Role of DICGC

Why in news?

\n\n

About 19 Public sector banks have declared net loss for the year ended March 31,2018.

\n\n

What are the recent happenings in the Public sector banks?

\n\n

\n

- 19 PSBs have declared net loss for the year ended March 31, 2018. Only two banks could declare net profit during this period.

\n

- Depositors were much concerned about this fact and rumours about the safety of deposited money in Public sector banks.

\n

- To address this issue Union Finance minister declared that government stands fully behind public sector banks and the deposits in PSBs are 100 per cent safe.

\n

- Though people are aware that the government is there to rescue PSBs, this reassurance is required as all sorts of rumours are being floated by vested interests.

\n

\n\n

What is deposit insurance scheme all about?

\n\n

\n

- Deposit insurance does not cover 100 per cent value of all the deposits, however, the same comfort level cannot be there for private sector and cooperative banks.

\n

- Deposit Insurance and Credit Guarantee Corporation (DICGC), a wholly

owned subsidiary of Reserve Bank of India was in operation since 1962 for this purpose.

\n

- The Corporation insures all bank deposits, such as savings, fixed, current, and recurring.

\n

- There are some exceptions like deposits of foreign governments, deposits of Central/ State Governments, deposits of State Land Development Banks with State co-operative banks, and inter-bank deposits.

\n

\n\n

What was the role of DICGC?

\n\n

\n

- Originally, the DICGC was providing coverage for small loans as well and it was using the premium collected for deposit insurance to settle claims under small loans for many years.

\n

- But as no credit institution was participating in any of the credit guarantee scheme administered by the Corporation, the scheme was discontinued in April 2003 and deposit insurance remains the principal function of the Corporation.

\n

\n\n

Why the role of DICGC need to be reviewed ?

\n\n

\n

- DICGC stipulates that only banks should pay the insurance premium and it cannot be collected from depositors.

\n

- From various reports it is clear that the insurance premium collected from PSBs is being utilised to settle the claims of cooperative banks.

\n

- It is a known secret how funds of cooperative banks are misused by politicians across States with immunity.

\n

- Apart from this the major ownership of PSBs is with the government, which has got the capacity to enable banks to repay the deposits, here the

role of DICGC's deposit insurance scheme is dubious.

\n

\n\n

What measures needs to be taken?

\n\n

\n

- Making PSBs to have their deposits covered is similar to getting some other guarantee for the currency notes issued by the RBI.

\n

- When the government can pay all the depositors, there is no need for any deposit insurance for PSBs.

\n

- The DICGC should not be allowed to take from PSBs and give to co-operative banks.

\n

\n\n

Source: Business Line

\n

