

## BANK DEPOSIT COVER SET FOR INCREASE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

**Safety net:** The final call on the extent of deposits that will be insured would be taken by the government. Reuters

Following the recent incidence of fraud at the Punjab and Maharashtra Cooperative Bank (PMC Bank), which caused panic among some sections of the depositors, the government is vetting a proposal from the Deposit Insurance and Credit Guarantee Corporation (DICGC) to increase the deposit insurance limit.

Sources in the know of the development said, the DICGC — a subsidiary of the Reserve Bank of India (RBI) — had sent a proposal to the government for increasing the deposit insurance cover to between Rs. 3 lakh and Rs. 5 lakh. At present, deposits up to Rs. 1 lakh are insured by the DICGC. Sources said the decision was taken after consultation with the RBI. The final call on the extent of deposits that will be insured would be taken by the government.

For deposit insurance to increase, the DICGC Act needs to be amended, for which Cabinet approval is required. Sources indicated that it would take some time before the Act was amended.

The last time the insurance cover was increased was in May 1993, when it was raised from Rs. 30,000 to the current Rs. 1 lakh. Since its inception in January 1968, when the cover was Rs. 5,000, the amount insured has been increased on four occasions — first in April 1970, then in January 1976, subsequently in July 1980 and lastly, in May 1993.

The demand for increase in deposit insurance grew stronger after the RBI imposed various restrictions, including a cap on deposit withdrawal, for accounts held with the PMC Bank in the last week of September due to financial irregularities. This caused panic among depositors and there were rumours about the safety of the banking system.

This prompted the RBI to issue statements twice in the last three months, assuring that the Indian banking system was 'safe and stable.'

The RBI also increased the deposit withdrawal limit of PMC Bank in several phases to Rs. 50,000. With the withdrawal cap raised to Rs. 50,000, more than 78% of the depositors of PMC Bank would be able to withdraw their entire account balance, the RBI had said.

The DICGC insures all bank deposits, such as savings, fixed, current and recurring, but not deposits of foreign governments and of central/ State governments, deposits of State Land Development Banks with the State co-operative banks, inter-bank deposits, deposits received outside India and those specifically exempted by the Corporation with the prior approval of the banking regulator.

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