



DICGC Bill, 2021

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Why in News

Recently, the Union Cabinet has cleared the **Deposit Insurance and Credit Guarantee Corporation (DICGC) Bill, 2021**.

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

Note

- **Deposit Insurance:** It is a protection cover against losses accruing to bank deposits if a bank fails financially and has no money to pay its depositors and has to go in for liquidation.
- **Credit Guarantee:** It is the guarantee that often provides for a specific remedy to the creditor if his debtor does not return his debt.

Key Points

- **Coverage:**
 - The bill will cover **98.3% of depositors and 50.9% of deposit value** in the banking system, **way above the global level of 80% and 20-30%**, respectively.
 - It will **cover all types of banks**, which also include **regional rural banks** and **co-operative banks**.
 - It will cover **banks already under moratorium** and those that **could come under moratorium**.

Moratorium is a legally authorized period of delay in the performance of a legal obligation or the payment of a debt.

- **Insurance Cover:**

- It will **provide funds up to Rs 5 lakh to an account holder within 90 days** in the event of a bank coming under the moratorium imposed by the **Reserve Bank of India (RBI)**.
 - Earlier, account holders had to wait for years till the liquidation or restructuring of a distressed lender to get their deposits that are insured against default.
 - The Rs 5-lakh deposit insurance cover was **raised from Rs 1 lakh in 2020**. **The Damodaran Committee** on 'Customer Services in Banks' (2011) had **recommended a five-time increase in the cap to Rs. 5 lakh** due to rising income levels and increasing size of individual bank deposits.
- 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** within a maximum of 90 days.

- **Insurance Premium:**

- It **permits raising the deposit insurance premium by 20% immediately, and maximum by 50%**.

The premium is **paid by banks to the DICGC**. The Insured banks pay advance insurance premiums to the corporation **semi-annually within two months from the beginning of each financial half year**, based on their deposits as at the end of previous half year.
- It has been **raised from 10 paise for every Rs 100 deposit, to 12 paise and a limit of 15 paise** has been imposed.
- This is **only an enabling provision** and the **determination of an increase in the premium payable would involve consultations with the RBI** and require government approval.

Deposit Insurance and Credit Guarantee Corporation

- **About:**

- It **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 RBI**.

- **Coverage:**

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.

- **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 due on account of any **deposit received outside India.**
- Any amount which has been **specifically exempted by the corporation** with the previous approval of the RBI.

- **Funds:**

- The Corporation maintains the **following funds :**
 - Deposit Insurance Fund
 - Credit Guarantee Fund
 - General Fund
- The **first two** are funded respectively by the insurance premia and **guarantee fees received and are utilised for settlement** of the respective claims.
- The **General Fund is utilised for meeting the establishment and administrative expenses** of the Corporation.

Source: TH