

A GUIDE TO THE DEPOSIT INSURANCE SYSTEM IN INDIA

Outline of the System and Q & A



**Deposit Insurance and Credit Guarantee Corporation of India
(A Wholly Owned Subsidiary of Reserve Bank of India)
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Part One :
An introduction to Deposit Insurance System

Outline of the System

(1) Roles and Functions of the Deposit Insurance System

Deposit Insurance plays a key role in maintenance of financial stability by sustaining public confidence in the banking system in India through protection of depositors, especially small and less informed depositors, against loss of deposit to a significant extent.

The deposit insurance system in India is subject to the Deposit Insurance Law (enacted in 1961). Deposit Insurance and Credit Guarantee Corporation (DICGC), which was established with funding from the Reserve Bank of India is the main body that operates the deposit insurance system, in India.

(2) Insured Banks

- (i) All commercial banks including the branches of foreign banks functioning in India, Local Area Banks and Regional Rural Banks are covered under the deposit insurance scheme.
- (ii) All eligible co-operative banks as defined in Section 2(gg) of the DICGC Act are covered by the Deposit Insurance Scheme. All State, Central and Primary co-operative banks functioning in the States/Union Territories which have amended their Co-operative Societies Act as required under the DICGC Act, 1961, empowering Reserve Bank to order the Registrar of Co-operative Societies of the respective States/Union Territories to wind up a co-operative bank or to supersede its committee of management and requiring the Registrar not to take any action for winding up, amalgamation or reconstruction of a co-operative bank without prior sanction in writing from the Reserve Bank, are treated as eligible Co-operative banks. At present all co-operative banks, other than those in the State of Meghalaya and the Union Territories of Chandigarh, Lakshadweep and Dadra & Nagar Haveli are covered under the System.

(3) Registration of new banks as insured banks

- (i) In terms of Section 11 of the DICGC Act, 1961, all new commercial banks are required to be registered with the Corporation soon after they are granted licence by the Reserve Bank under Section 22 of the Banking Regulation Act, 1949. Following the enactment of the Regional Rural Banks Act, 1976 all Regional Rural Banks are required to be registered with the Corporation within 30 days from the date of their establishment, in terms of Section 11A of the DICGC Act, 1961.
- (ii) A new co-operative bank is required to be registered with the Corporation soon after it is granted a licence by the Reserve Bank.
- (iii) When the owned funds of a primary co-operative credit society reaches the level of Rs. 1 lakh, it has to apply to the Reserve Bank for a licence to carry on banking business as a primary co-operative bank and is to be registered with the Corporation within 3 months from the date of its application for licence.
- (iv) A co-operative bank which has come into existence after the commencement of the Deposit Insurance Corporation (Amendment) Act, 1968, as a result of the division of any other co-operative society carrying on business as a co-operative bank, or the amalgamation of two or more co-operative societies carrying on banking business at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965 or at any time thereafter is to be registered within three months of its making an application for licence. However, a co-operative bank will not be registered, if it has been informed by the Reserve Bank, in writing, that a licence cannot be granted to it.
In terms of Section 14 of the DICGC Act, after the Corporation registers a bank as an insured bank, it is required to send, within 30 days of such registration, intimation in writing to the bank

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to that effect. The letter of intimation, apart from the advice of registration and registration number, gives details about the requirements to be complied with by the bank, the rate of premium payable to the Corporation, the manner in which the premium is to be paid, the returns to be furnished to the Corporation, etc.

(4) Scope of Insured Deposits, etc.

DICGC insures all bank deposits, such as savings, fixed, current, recurring, etc. except the following types of deposits.

- (i) Deposits of foreign Governments;
- (ii) Deposits of Central/State Governments;
- (iii) Inter-bank deposits;
- (iv) Deposits of the State Land Development Banks with the State co-operative banks;
- (v) Any amount due on account of any deposits received outside India;
- (vi) Any amount which has been specifically exempted by the Corporation with the previous approval of the Reserve Bank.

(5) Amount of Coverage (Protection)

Under the Scheme, in the event of liquidation, reconstruction or amalgamation of an insured bank, every depositor of that bank in all branches is entitled to repayment of his deposits held by him in the same capacity and right in that bank upto a monetary ceiling of Rs.1,00,000/-.

(6) Deposit Protection Scheme

There are two methods of protecting deposits by DICGC when an insured bank fails: (i) a method of transferring business to another sound bank (merger or amalgamation) and (ii) a method where the DICGC pays insurance proceeds to depositors (insurance pay-out method).

(7) Insurance Premium

The consideration for extension of insurance coverage to banks is payment of an insurance premium. The premium is collected in advance at half yearly intervals at the rate of 10 paise per annum per hundred rupees with effect from the year 2005-06.

The premium paid by the insured banks to the Corporation is required to be borne by the banks themselves so that the benefit of deposit insurance protection is made available to the depositors free of cost.

(8) Interest Charged due to Default / Delay in Payment of Premium

An insured bank is required to remit premium not later than the last day of May (for half year ending March) and November (for half year ending September) each year. If it does not pay on or before the stipulated date the premium payable by it or any portion thereof, it is liable to pay interest at the rate of 8% above the Bank Rate on the default amount of such premium or on the unpaid portion thereof, as the case may be, from the beginning of the half-year till the date of payment.

(9) Cancellation of Registration

In terms of Section 15A of the DICGC Act, the Corporation has the powers to cancel the registration of an insured bank if it fails to pay the premium for three consecutive half-year periods. However, the Corporation may restore the registration of the bank, which has been de-registered for non-payment of premium, if the concerned bank makes a request in this behalf and pays all the amounts due by way of premium from the date of default together with interest. Registration of an insured bank stands cancelled if the bank is prohibited from receiving fresh deposits; or its licence is cancelled or a licence is refused to it by the Reserve Bank; or it is wound up either voluntarily or compulsorily; or it ceases to be a banking company or a co-operative bank within the meaning of Section 36A(2) of the Banking Regulation Act, 1949; or it has transferred all its deposit liabilities to any other institution; or it is amalgamated with

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any other bank or a scheme of compromise or arrangement or of reconstruction has been sanctioned by a competent authority and the said scheme does not permit acceptance of fresh deposits. In the case of a co-operative bank, its registration also gets cancelled if it ceases to be an eligible co-operative bank.

In the event of the cancellation of registration of a bank, other than for default in payment of premium deposits of the bank as on the date of cancellation remain covered by the insurance scheme.

(10) Settlement of claims

- (i) In the event of the winding up or liquidation of an insured bank, every depositor of the bank is entitled to payment of an amount equal to the deposits held by him in the same capacity and in the same right at all the branches of that bank put together, standing as on the date of cancellation of registration as insured bank (i.e. the date of cancellation of licence or order for winding up or liquidation) subject to set-off of his dues to the bank, if any [Section 16(1) and (3) of the DICGC Act]. However, the payment to each depositor is subject to the limit of the insurance coverage fixed from time to time.
- (ii) 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 or the limit of insurance cover in force at the time, whichever is less, and the amount actually received by the depositor under the scheme. In these cases also 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 the set-off of his dues to the bank, if any, [Section 16(2) and (3) of the DICGC Act].
- (iii) Under the provisions of Section 17(1) of the DICGC Act, the liquidator of an insured bank which has been wound up or taken into liquidation, has to submit to the Corporation a list showing separately the amount of the deposit in respect of each depositor and the amount set off, in such a manner as may be specified by the Corporation and certified to be correct by the liquidator, within three months.
- (iv) In the case of a bank in respect of which a scheme of amalgamation/ reconstruction, etc. has been sanctioned, a similar list has to be submitted by the Chief Executive Officer of the concerned transferee bank or insured bank as the case may be, within three months from the date on which the scheme of amalgamation/reconstruction, etc. comes into effect [Section 18(1) of the DICGC Act].
- (v) The Corporation is required to pay the amount payable under the provisions of the Act in respect of the deposits of each depositor within two months from the date of receipt of such lists.
- (vi) The claim lists are to be prepared in accordance with the guidelines issued by the Corporation and got certified by the Chartered Accountants appointed for the purpose.
- (vii) The Corporation generally makes payment of the eligible amount to the liquidator/Chief Executive Officer of the transferee / insured bank, for disbursement to the depositors. However, the amounts payable to the untraceable depositors are held back till the liquidator/chief executive officer is in a position to furnish all the requisite particulars.

(11) Recovery from Settled Claims

As per DICGC Act the liquidator or the insured bank or the transferee bank as the case may be, is required to repay to the Corporation out of the amounts realised from the assets of the failed bank and other amounts in hand after making provision for the expenses incurred, as soon as such amounts are sufficient to pay to each depositor one paisa or more in a Rupee.

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Part Two :

Q & A

Q1

Which banks are insured by the DICGC?

Commercial Banks: All commercial banks including branches of foreign banks functioning in India, local area banks and regional rural banks are insured by the DICGC.

Cooperative Banks: All State, Central and Primary cooperative banks, also called urban cooperative banks, functioning in States / Union Territories which have amended the local Cooperative Societies Act empowering the Reserve Bank of India (RBI) to order the Registrar of Cooperative Societies of the State / Union Territory to wind up a cooperative bank or to supersede its committee of management and requiring the Registrar not to take any action regarding winding up, amalgamation or reconstruction of a co-operative bank without prior sanction in writing from the Reserve Bank are covered under the Deposit Insurance System. At present all co-operative banks other than those from the State of Meghalaya and the Union Territories of Chandigarh, Lakshadweep and Dadra and Nagar Haveli are covered under the deposit insurance system of DICGC.

Primary cooperative societies are not insured by the DICGC.

Q2

What does the DICGC insure?

In the event of a bank failure, DICGC protects bank deposits that are payable in India. The DICGC insures all deposits such as savings, fixed, current, recurring, etc. except the following types of deposits

- (i) Deposits of foreign Governments;
- (ii) Deposits of Central/State Governments;
- (iii) Inter-bank deposits;
- (iv) Deposits of the State Land Development Banks with the State co-operative bank;
- (v) Any amount due on account of any deposit received outside India
- (vi) Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India.

Q3

What is the maximum deposit amount insured by the DICGC?

Each depositor in a bank is insured upto a maximum of Rs.1,00,000 (Rupees One Lakh) for both principal and interest amount held by him in the same capacity and same right 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.

Q4

How will I know whether my bank is insured by the DICGC or not?

The DICGC while registering the banks as insured banks furnishes them with printed leaflets for display giving information relating to the protection afforded by the Corporation to the depositors of the insured banks. In case of doubt, depositor should make specific enquiry from the branch official in this regard.

Q5

What is the ceiling on amount of Insured deposits kept by one person in different branches of a bank?

The deposits kept in different branches of a bank are aggregated for the purpose of insurance cover and a maximum amount upto Rupees one lakh is paid.

Q6

Does the DICGC insure just the principal on an account or both principal and accrued interest?

The DICGC insures principal and interest upto a maximum amount of Rs. One lakh. For example, if an individual had an account with a principal amount of Rs.95,000 plus accrued interest of Rs.4,000, the total amount insured by the DICGC would be Rs.99,000. If, however, the principal amount in that account was Rs. One lakh, the accrued interest would not be insured, not because it was interest but because that was the amount over the insurance limit.

Q7

Can deposit insurance be increased by depositing funds into several different accounts all at the same bank?

No. All funds held in the same type of ownership at the same bank are added together before deposit insurance is determined. If the funds are in different types of ownership or are deposited into separate banks they would then be separately insured.

Q8

What is a single ownership account?

A single (or individual) ownership account is an account owned by one person. Such accounts include those in the owner's name; those established for the benefit of the owner by agents, nominees, guardians, custodians, or conservators; and those established by a business that is a sole proprietorship.

Q9

Are deposits in different banks separately insured?

Yes. If you have deposits with more than one bank, deposit insurance coverage limit is applied separately to the deposits in each bank.

Q10

If I have my funds on deposit at two different banks, and those two banks are closed on the same day, are my funds added together, or insured separately?

Your funds from each bank would be insured separately, regardless of the date of closure.

Q11

What is the meaning of deposits held in the same capacity and same right; and deposits held in different capacity and different right?

If an individual opens more than one deposit account in one or more branches of a bank, e.g. Shri S.K. Pandit opens one or more savings/current account and one or more fixed/recurring deposit accounts etc., 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 maximum insurance cover is available upto rupees one lakh.

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If Shri S.K. Pandit holds other deposit accounts 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 Smt. S. K. Pandit, in one or more branches of the bank then such accounts are considered as held in different capacity and different right. Accordingly, such deposits accounts will also enjoy the insurance cover upto rupees one lakh separately.

It is further clarified that the deposit held in the name of the proprietary concern where a depositor is the sole proprietor and the deposit held in his individual capacity are aggregated and insurance cover is available upto rupees one lakh in maximum.

Illustrations

Deposits held in different capacities

	Savings A/C	Current A/C	FD A/C	Total Deposits	Deposits Insured
Shri S. K. Pandit (Individual)	17,200	22,000	80,000	1,19,200	1,00,000
Shri S. K. Pandit (Partner of ABC & Co.)		75,000	50,000	1,25,000	1,00,000
Shri S. K. Pandit (Guardian for Master Ajit)	7,800		80,000	87,800	87,800
Shri S. K. Pandit (Director, J.K. Udyog Ltd.)		2,30,000	45,000	2,75,000	1,00,000
Shri S. K. Pandit jointly with Smt. K. A. Pandit	7500	1,50,000	50000	2,07,500	1,00,000

Deposits held in joint accounts (revised w.e.f. April 26, 2007)

If more than one deposit accounts (Savings, Current, Recurring or Fixed deposit) are jointly held by individuals in one or more branches of a bank say three individuals A, B & C hold more than one joint deposit accounts 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 Rs. 1 lakh.

However, if individuals open more than one joint accounts 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 the different capacity and different right. Accordingly, insurance cover will be available separately upto rupees one lakh to every such joint account where the names appear in different order or names are different.

Illustrations

Deposits held in joint accounts

Account (i) (Savings or CurrentA/C)	First a/c holder- "A" Second a/c holder - "B"	Maximum insured amount upto Rs.1 lakh
Account (ii)	First a/c holder - "A" Second a/c holder - "C"	Maximum insured amount upto Rs.1 lakh
Account (iii)	First a/c holder - "B" Second a/c holder - "A"	Maximum insured amount upto Rs. 1 lakh
Account (iv) at Branch 'X' of the bank	First a/c holder - "A" Second a/c holder - "B" Third a/c holder - "C"	Maximum insured amount upto Rs.1 lakh
Account (v)	First a/c holder - "B" Second a/c holder - "C" Third a/c holder - "A"	Maximum insured amount upto Rs. 1 lakh
Account (vi) Recurring or (Fixed Deposit)	First a/c holder - "A" Second a/c holder - "B"	The account will be clubbed with the a/c at (i)
Account (vii) At Branch 'Y' of the bank	First a/c holder - "A" Second a/c holder - "B" Third a/c holder - "C"	The account will be clubbed with the a/c at (iv)
Account (viii)	First a/c holder - "A" Second a/c holder - "B" Third a/c holder - "D"	Maximum insured amount upto Rs. 1 lakh

Q12

Can the bank deduct the amount of dues payable by the depositor?

Yes. Banks have the right to set off their dues from the amount of deposits. The deposit insurance is available after netting of such dues.

Q13

Who pays the cost of deposit insurance?

Deposit insurance premium is borne entirely by the insured bank.

Q14

When is the DICGC liable to pay?

If a bank goes into liquidation: The DICGC is liable to pay to each depositor through the liquidator, the amount of his deposit upto Rupees one lakh within two months from the date of receipt of claim list from the liquidator.

If a bank is reconstructed or amalgamated / merged with another bank: Where in respect of an insured bank a scheme of compromise or arrangement or of reconstruction or amalgamation has been sanctioned by any competent authority and the said scheme provides for each depositor being paid or credited with, on the date on which the scheme

comes into force, an amount which is less than the original amount and also the specified amount, the Corporation shall be liable to pay to every such depositor in accordance with the provisions of section 18 of DICGC Act an amount equivalent to the difference between the amount so paid or credited and the original amount, or the difference between the amount so paid or credited and the specified amount, whichever is less:

Provided that where any such scheme also provides that any payment made to a depositor before the coming into force of the scheme shall be reckoned towards the payment due to him under that scheme, then the scheme shall be deemed to have provided for that payment being made on the date of its coming into force.

Q15**Does the DICGC directly deal with the depositors of failed banks?**

No. In the event of a bank's liquidation, the liquidator prepares depositor wise claim list and sends it to the DICGC. After scrutiny the DICGC pays the money to the liquidator who is liable to pay to the depositors. In the case of amalgamation / merger of banks, the amount due to each depositor is paid to the transferee bank.

Q16**Can any insured bank withdraw from the the DICGC coverage?**

No. The deposit insurance scheme is compulsory and no bank can withdraw from it.

Q17**Can the DICGC withdraw deposit insurance coverage from any bank?**

The Corporation may cancel the registration of an insured bank if it fails to pay the premium for three consecutive half year periods. In the event of the DICGC withdrawing its coverage from any bank for default in the payment of premium the public will be notified through newspapers.

Registration of an insured bank stands cancelled if the bank is prohibited from receiving fresh deposits; or its licence is cancelled or a licence is refused to it by the RESERVE BANK; or it is wound up either voluntarily or compulsorily; or it ceases to be a banking company or a co-operative bank within the meaning of Section 36A(2) of the Banking Regulation Act, 1949; or it has transferred all its deposit liabilities to any other institution; or it is amalgamated with any other bank or a scheme of compromise or arrangement or of reconstruction has been sanctioned by a competent authority and the said scheme does not permit acceptance of fresh deposits. In the event of the cancellation of registration of a bank, deposits of the bank remain covered by the insurance till the date of the cancellation.

Q18**What will be the Corporation's liability to the banks on de-registration.**

The Corporation has deposit insurance liability on liquidation etc. of "Insured banks" i.e. banks which have been de-registered (a) on account of prohibition on receiving fresh deposits or (b) on cancellation of license or it is found that license can not be granted. The liability of the Corporation in these cases is limited to the extent of deposits as on the date of cancellation of registration of bank as an insured bank.

On liquidation etc. of other de-registered banks i.e. banks which have been de-registered on other grounds such as non payment of premium or their ceasing to be eligible co-operative banks under section 2(gg) of the DICGC Act, 1961, the Corporation will have no liability.