

# **A GUIDE TO THE DEPOSIT INSURANCE SYSTEM**

**Outline of the System and  
Questions & Answers**

**Deposit Insurance and Credit Guarantee Corporation of India  
(A Wholly Owned Subsidiary of Reserve Bank of India)**

**March 2006**

**(Website: [www.dicgc.org.in](http://www.dicgc.org.in))**

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## Part One

### Outline of the Deposit Insurance System

**(1) Role and Function 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 sophisticated depositors, against loss of deposit to a significant extent.

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

**(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 banks. At present all co-operative banks, other than those in the States of Meghalaya, Mizoram, Nagaland and the Union Territories of Chandigarh, Lakshadweep and Dadra & Nagar Haveli are covered by the Scheme. The co-operative banks in the three new states of Chhattisgarh, Uttaranchal and Jharkhand which were insured on the date of creation of these states continue to remain covered under the Scheme.

**(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 reach 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 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 saving, 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 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 Cover (Protection)**

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

**(6) Deposit Protection Scheme**

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

**(7) Insurance Premium**

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

The premium paid by the insured banks to the Corporation is required to be absorbed 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 in Payment of Premium**

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

**(9) Cancellation of Registration**

Under Section 15A of the DICGC Act, the Corporation has the power 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 together with interest. Registration of an insured bank stands cancelled if the bank is prohibited from accepting 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 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, deposits of the bank as on the date of cancellation remain covered under 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 right and in the same capacity at all the branches of that bank put together, standing as on the date of cancellation of registration (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 cover 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 depositors 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 right and in the same capacity 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 verified 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**

In terms of Section 21(2) of the DICGC Act read with Regulation 22 of the DICGC General Regulations, 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 enable him to declare a dividend of not less than one paise in the Rupee to each depositor.

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**Part Two**

**Questions & Answers**

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 Scheme. At present all co-operative banks other than those from the States of Meghalaya, Mizoram, Nagaland, and the Union Territories of Chandigarh, Lakshadweep and Dadra & Nagar Haveli are covered under the deposit insurance scheme 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 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?**

Presently, deposits of 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 right and same capacity”** 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 bank’s officials in this regard or visit DICGC website on the web address [www.dicgc.org.in](http://www.dicgc.org.in).

Q5

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

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

Q6

**Does the DICGC insure just the principal deposit amount 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 deposit(s) with 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 were Rs. One lakh, the accrued interest would not be insured, not because it was interest but because the amount was 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 deposits 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 right and capacity and different right and capacity?**

If a person opens in his name more than one account in a bank, for example Mr. K.A.Pandit opens one savings account and one or more fixed deposit accounts, all the accounts are considered in the same right and same capacity and insurance coverage is limited to a maximum of Rupees one lakh. But if Mr. K.A.Pandit opens a joint account, the joint account is considered in a different right and different capacity and insurance coverage is provided separately. Each joint account is insured separately from any deposits individually owned by

the joint depositors. Each joint account owned by a combination of different persons is insured upto Rupees one lakh. All joint accounts owned by the combination of same persons are added together and the combined total is insured upto Rupees one lakh.

### 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

#### Deposits held in joint accounts

Account (i)	First a/c holder- "Shri A. K. Sharma" Second a/c holder - "Smt. B. Sharma"	Maximum insured amount upto Rs.1 lakh
Account (ii)	First a/c holder - " Shri A. K. Sharma" Second a/c holder - "Shri P. Sharma"	Maximum insured amount upto Rs.1 lakh
Account (iii)	First a/c holder - "Smt. B. Sharma" Second a/c holder-"Shri A. K. Sharma"	The a/c will be clubbed with the a/c at (i)
Account (iv)	First a/c holder - "Shri A. K. Sharma" Second a/c holder - "Smt. B. Sharma" Third a/c holder - "Shri P. Sharma"	Maximum insured amount upto Rs.1 lakh
Account (v)	First a/c holder - "Smt. B. Sharma" Second a/c holder - "Shri P. Sharma" Third a/c holder - "Shri A. K. Sharma"	The a/c will be clubbed with the a/c at (iv)

Q12

#### Can the bank deduct the amount of dues payable to it 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 DICGC coverage?**

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

Q17

**Can the DICGC withdraw deposit insurance cover 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 cover 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 accepting 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 on de-registration of banks ?**

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 acceptance of fresh deposits or (b) on cancellation of license or where 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 subject to the monetary ceilings applicable.

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 has no liability.

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