

India's bank deposit cover among the lowest globally

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For over two decades, insurance has been at ₹1 lakh per depositor, per bank

BL Research Bureau:

Less than a third of all bank deposits in value terms in the country is insured by the RBI arm Deposit Insurance and Credit Guarantee Corporation of India (DICGC). The central bank is fine with this, and points to the international benchmark of 20-30 per cent.

Yes, countries such as Canada, Korea, Russia, Singapore and Switzerland have insurance only for 20-30 per cent of their bank deposits, according to a March 2013 paper put out by the International Association of Deposit Insurers (IADI).

But what is left unsaid is that the deposit coverage limit in each of these countries is far higher than the ₹1 lakh cover available in India. While Brazil has a coverage limit of around \$79,300, Canada insures up to a maximum \$75,000 and Switzerland upwards of \$100,000 per depositor. In contrast, the per person deposit insurance cover in India works out to a measly \$1,500.

Deposit insurance in India covers all commercial banks, local area banks, regional rural banks and co-operative banks. Each depositor is insured up to ₹1 lakh for both principal and interest.

The deposit insurance coverage limit is applied separately to deposits in each bank. If a bank goes belly up, then the DICGC pays the insured amount to the depositor.

While 92.3 per cent of the 168-odd crore accounts were covered in 2015-16, only 30 per cent of the amount in these accounts was insured. The insurance cover, which was about 35 per cent five years back and a much higher 60 per cent a decade back, has been dropping in the last couple of years.

The reason lies in the sharp jump in high-value deposits, given the growing income levels in India. From about ₹40,000 in 2005-06, the average amount in each deposit account has moved upwards of ₹60,000 in the last three to four years. The coverage under DICGC was last raised in 1993 from ₹30,000 to ₹1 lakh. This was done after a long gap of 13 years. For over two decades, the cover has remained at ₹1 lakh.

Well covered

When compared with other countries globally, the deposit cover in India falls badly short on two counts. One, of course, is the coverage limit, which is only a fraction of that offered in most countries. Canada, Brazil, Indonesia, Switzerland, France and the US — all insure an amount upwards of \$70,000 per depositor.

While many of these countries only cover around 30 per cent of the total deposits, the much higher per depositor limit offers some respite.

In the US, the Federal Deposit Insurance Corporation offers an insurance coverage of \$250,000, a limit that was revised in 2009 from the earlier \$100,000.

Aside from the coverage limit, India also ranks lower than the US, Japan, Indonesia, France and Australia, in terms of coverage ratios. These countries cover 60-70 per cent of total deposits in the system, according to the IADI paper.

Differential premium

While it is true that the coverage should include as many individual depositors as possible, a reasonable value of total deposits should be left uncovered to avoid moral hazard, according to IADI. To avoid moral hazard, the RBI is mooted a differential premium which can lay the ground to increase the ₹1 lakh limit.

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