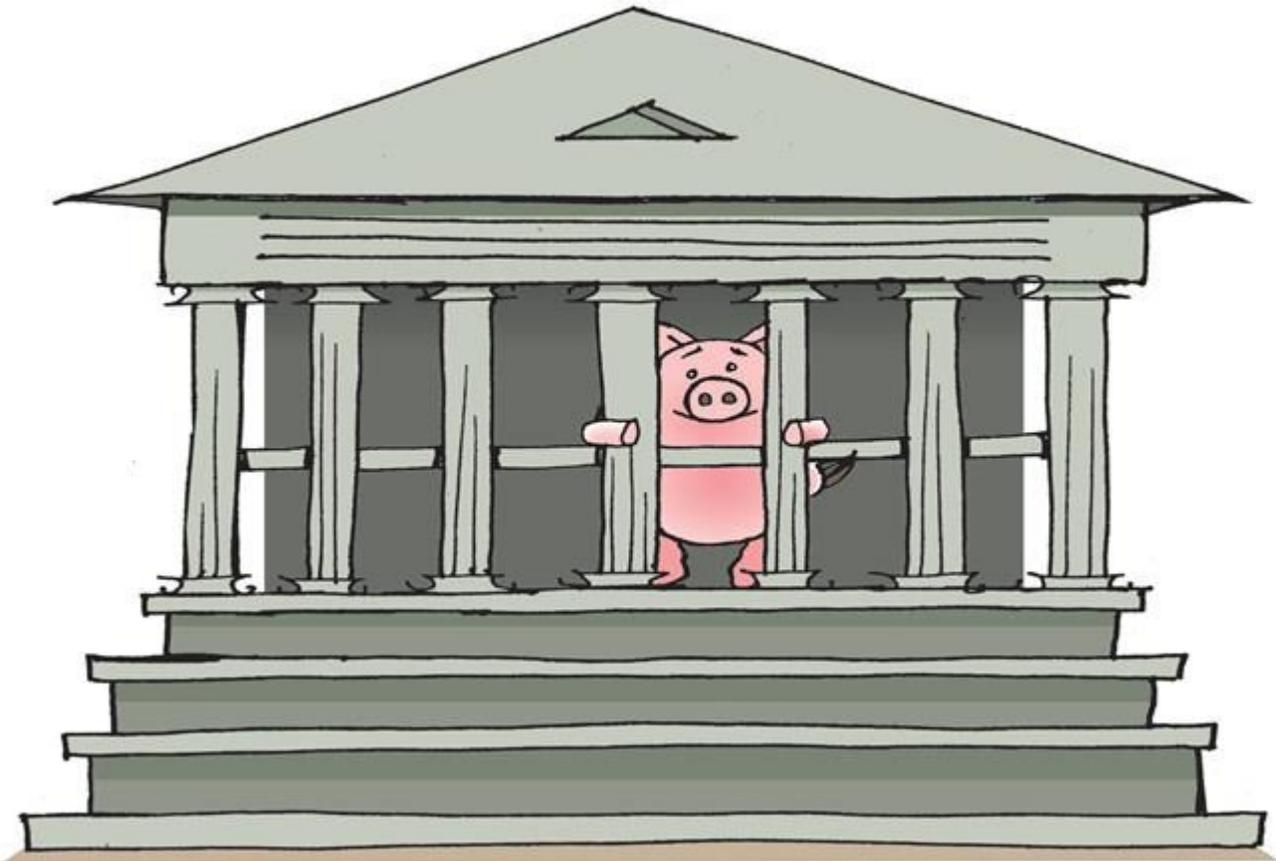


# Insure all bank deposits to retain depositor faith

By: [The Financial Express](#)

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According to SBI data, while 61% of bank accounts have deposits of under Rs 1 lakh—this is why the government doesn't think the deposit insurance level has to be raised—these comprise just 7.8% of the total deposits base.



If banks fail & depositors get back just Rs 1 lakh, they could start exiting; in which case, lending rates will start to soar

Later today, when the Supreme Court hears the PIL that, in the aftermath of the collapse of the Punjab and Maharashtra Cooperative (PMC) Bank, wants the government to insure all bank deposits, it would do well to keep in mind the current Rs 1 lakh ceiling was fixed way back in 1993; India's GDP has risen around 25 times since, but the government still thinks the amount doesn't need to be raised significantly. But, if there are more PMC-type bank failures—fortunately there has been no commercial bank failure since 1969, and [RBI](#) has arranged mergers for some private sector banks that looked close to collapse—and people find their hard-earned savings at risk, the

low levels of insurance could well turn the more well-heeled away from keeping their life's savings in fixed deposits who could then put them in securities like gold, the post office, or the stock market. Should that happen, as bank deposits shrink or their growth slows, the immediate impact will be a rise in interest rates charged on bank lending.

To that extent, the inexplicable delay of decades in taking a decision to raise the levels of deposits that are to be insured, and the unreasonable curbs put on how much money hapless PMC depositors can now withdraw—after all, even if there was a scam in how the bank was run, how are investors to be blamed?—is reckless since it is playing with the country's financial system. Given this, and the fact that hiking the ceiling for deposit insurance should have been a routine administrative decision, and an easy one to make, it is not even clear why the matter had to reach the SC.

While no one who has invested her money should lose any part of it, especially since bank deposits are considered zero-risk savings—unlike investments in the stock market—this is not just a question of what is morally right, it is also a matter of being practical. According to SBI data, while 61% of bank accounts have deposits of under Rs 1 lakh—this is why the government doesn't think the deposit insurance level has to be raised—these comprise just 7.8% of the total deposits base. And, while just 0.2% of bank deposits are of more than Rs 1 crore, around a third of all deposits in the banks are made by this category of depositors.

Some argue that insuring all bank deposits, as the PIL wants, will cause a spurt in premium rates for deposit insurance; this is incorrect since the premium will rise only if there is a spurt in bankruptcies. The other argument is that if all deposits are insured, there will be less pressure on regulators like RBI to guard against bank failure by effective supervision, and even politicians will not press for better oversight in the manner they would if the voting public was in danger of losing its life savings. Wanting to hold regulators accountable is a noble objective, but it cannot be at the expense of depositors who stand to lose their savings. Also, if a bank fails, even if depositors get their money back from an insurance firm, they may be reluctant to deposit that in another bank; if that happens, it will put pressure on both RBI as well as the government since lending rates will start rising. Just because you buy house insurance, to use another example, doesn't mean there is no onus on the authorities to ensure there are no fire hazards in the area, or for the fire department to have adequately equipped fire-fighters and equipment.

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