

Bank deposits to get doubly safer: This clause in FRDI bill is music to the ears of depositors

By: [Banikinkar Pattanayak](#)

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The latest move comes at a time when fraud-hit Punjab and Maharashtra Co-operative Bank is facing a grave crisis and customers have been demanding their entire money back, apart from lifting the daily withdrawal curbs.



According to RBI's latest data, deposit insurance covers 92% of the total number of accounts in India but only 28% of the total deposits with the banking system.

The government is considering raising the insurance cover for bank deposits to anywhere between Rs 2 lakh and Rs 3 lakh from the current level of Rs 1 lakh under a modified Financial Resolution and Deposit Insurance (FRDI) law, a source told FE. The finance ministry is also debating whether the minimum insured amount can be allowed to be withdrawn by the depositors of a troubled bank even when it is continuing operations as a going concern, said the source. Under the extant rules, depositors are entitled to the insured amount of Rs 1 lakh only when the bank is liquidated, he added.

The latest move comes at a time when fraud-hit Punjab and Maharashtra Co-operative Bank is facing a grave crisis and customers have been demanding their entire money back, apart from lifting the daily withdrawal curbs.

“The deposit insurance cover could be at least doubled. There is also a thumb rule in some countries that such a cover should be at least the double of the per capita GDP. This possibility is also being looked at. So the cover can be hiked up to Rs 3 lakh as well. A final decision will be made soon,” said the source. The country’s per capita GDP was Rs 1,42,719 in FY19.

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- Govt mulls a change in the rule that customers will be entitled to the **₹1 lakh insured amount only** when a bank goes for liquidation
- Deposit insurance currently covers **92%** of the total number of accounts but only 28% of bank deposits



After a meeting with chiefs of state-run banks on October 14, finance minister Nirmala Sitharaman had said the government would soon introduce the revised FRDI Bill in Parliament and that there were discussions in the government to raise the cover on deposits. The Bill is still in the works.

The government has kept the deposit cover unchanged at Rs 1 lakh since May 1993, when it was raised from Rs 30,000 after the security scam in 1992 had led to the liquidation of Bank of Karad in Maharashtra. The hike then was aimed at placating angry and concerned depositors of this private bank so that a run on even other banks could be avoided.

Banking analysts say there is no hard rule for deposit insurance in India, although there are two thumb rules, based on international experiences. First, the cover should be double the per capita GDP. Second, it must cover 80% of the number of depositors fully but only 20% of the value of deposits, which is also known as the '80-20 rule'.

According to the Reserve Bank of India's (RBI's) latest data, deposit insurance covers 92% of the total number of accounts in India but only 28% of the total deposits with the banking system.

In its 2018-19 annual report, the central bank said: "With the current limit of deposit insurance in India at Rs 1 lakh, the number of fully protected accounts stood at 200 crore at the of end-March 2019, which constituted 92% of the total number of accounts, as against the international benchmark of 80%." As of March 2019, the number of registered insured banks in India stood at 2,098 —157 commercial banks and 1,941 cooperative banks.

However, analysts say although the current cover of Rs 1 lakh satisfies the so-called "80-20 rule", such an international experience should not ideally be applicable to India. Unlike in the West, the high incidence of fully-covered accounts is mainly due to the aggressive opening of small accounts, especially under the Jan Dhan scheme, where the deposit per customer is typically low. In fact, according to the 2018 International Association of Deposit Insurers Survey, India was ranked 102nd out of 115.

Interestingly, the Report of the Committee on Customer Service in Banks of the RBI had in 2011 suggested that the cover be raised dramatically to at least Rs 5,00,000 to draw more people to the banking fold.

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