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Market Watch

Bank deposit cover may be doubled to Rs 2 lakh

BY [SALONI SHUKLA](#) & [SACHIN DAVE](#), ET BUREAU | UPDATED: JAN 31, 2020, 08.19
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Post a Comment

Mumbai: The government is discussing a proposal to double the insurance cover on bank deposits to Rs 2 lakh and an announcement to this effect may be made in the February 1 budget, said several people with knowledge of the matter.

The move comes after the government and the [Reserve Bank of India](#) (RBI) faced flak over their handling of the closure of Punjab & Maharashtra Co-operative Bank (PMC), which downed shutters in September last year, leaving thousands of depositors high and dry.

The government is expected to bring about these changes through an enabling amendment that would increase the deposit cover in the future without tinkering with the Deposit Insurance & Credit Guarantee Corporation (DICGC) Act.

“Looking at the aftermath of the PMC Bank crisis, doubling of the deposit cover will be a much-anticipated breather for bank deposit holders,” said Ashvin Parekh, proprietor of [Ashvin Parekh](#) Advisory Services. “The only challenge to my mind is who will now bear the added cost of a higher insurance premium? ”

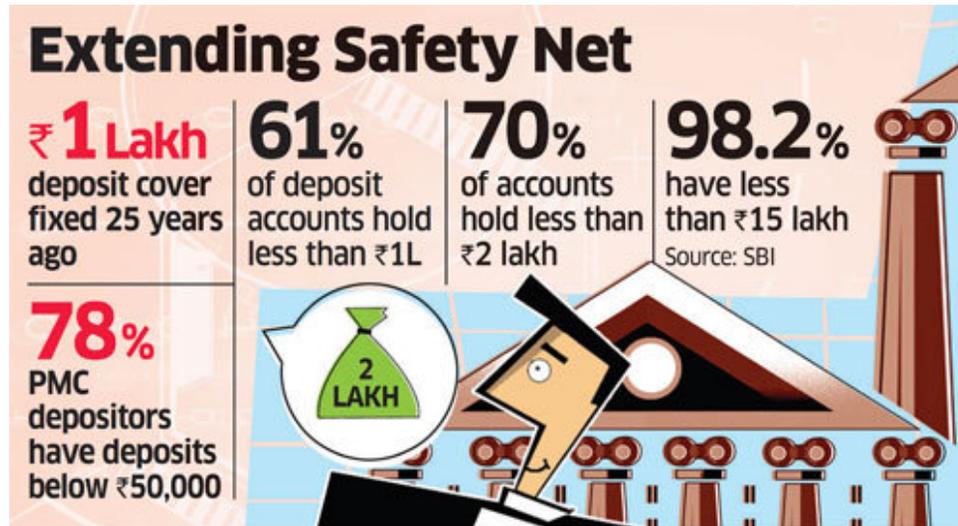
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Safety of bank deposits took centre-stage after the collapse of PMC Bank. Currently, the DICGC Act, 1961, provides deposit insurance of up to Rs 1 lakh and the rest of the amount is forfeited in the event of a bank failure. This compensation was last fixed more than 25 years ago.



The government is also considering proposals on allowing emergency access to deposit insurance when a bank fails, inflation indexation of the insurance cover and risk-based pricing of the insurance premium depending on the health of the financial institution.

“The biggest bone of contention is higher premium payout if the deposit cover is raised. I think banks will have to bear the burden of that, but at least they should consider forcing less robust institutions to pay a higher premium cover,” said a senior

banking official.

Many Requests Made to Raise Limit

RBI data showed more than 78% of PMC Bank depositors had deposits below Rs 50,000. As per an SBI analysis, 61% of the total deposit accounts in India are under Rs 1lakh, around 70% are under Rs 2 lakh and 98.2% are under Rs 15 lakh. There have been several calls to raise the deposit cover. The issue had come up at the time of the Financial Resolution and Deposit Insurance Bill, which the previous government introduced in 2017 and then withdrew the next year. Data on Cross Country Deposit Insurance Coverage limit shows that deposit insurance coverage in India is one of the lowest at \$1,508 as against \$250,000 in the US and \$111,143 in the UK.

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