Deposit Insurance and Credit Guarantee Corporation (DICGC) Act, 1961

Compiled by DR GAGAN K

A crucial piece of legislation in India designed to:

- protect bank depositors
- maintain the stability of the banking system.

Purpose:

- To provide insurance for bank deposits, ensuring that depositors receive their funds even if a bank fails.
- To instill confidence in the banking system and prevent panic withdrawals during times of financial distress.
- Originally it also had a Credit Guarantee function, but those functions were separated.

- **Establishment of DICGC:**
  - The Act established the DICGC, a wholly owned subsidiary of the Reserve Bank of India (RBI).

- **Deposit Insurance Coverage:**
  - The DICGC provides insurance coverage for deposits held in eligible banks, including commercial banks, regional rural banks, and cooperative banks.
  - Currently, the deposit insurance coverage is ₹5 lakh per depositor per bank. This means that if a bank fails, each depositor is entitled to receive up to ₹5 lakh from the DICGC, regardless of the amount of their deposits.

- **Insured Deposits:**
  - The insurance covers various types of deposits, including savings accounts, current accounts, fixed deposits, and recurring deposits.

- **Premium Payment:**
  - Banks are required to pay insurance premiums to the DICGC.

- **Bank Failure and Payout:**
  - In the event of a bank failure, the DICGC is responsible for paying the insured amount to depositors.
- **Role of RBI:**
  - The RBI plays a vital role in supervising and regulating the DICGC.
- **Amendment of the act:**
  - Recent amendments have allowed for quicker access to insured funds for depositors of troubled banks, even before the complete liquidation of the bank.

Significance:

- Depositor Protection
- Financial Stability
- Promoting Banking Habits

STRUCTURE OF THE ACT

Part I: Preliminary

- This part contains the introductory sections, including:
    - Short title, extent, and commencement.
    - Definitions of key terms used throughout the Act.

Part II: Establishment and Management of Deposit Insurance Corporation

- This part deals with the formation and administration of the Deposit Insurance Corporation (now DICGC). It covers:
    - Establishment and incorporation of the Corporation.
    - Capital structure.
    - Management of the Corporation, including the Board of Directors.
    - Functions of the Managing Director.

Part IIA: Credit Guarantee Functions

- This part outlines the Credit Guarantee functions of the DICGC.

Part IIB: Deposit Insurance Functions

- This part details the deposit insurance functions of the DICGC.
    - It covers the registration of eligible banks as insured banks.
    - It defines the Corporation's liability to depositors.
    - It specifies the procedures for paying out insured deposits in the event of bank failures.
    - It also deals with the premiums that insured banks must pay.

Part III: Funds, Accounts and Audit

- This part focuses on the financial aspects of the DICGC:
    - Establishment of various funds.
    - Maintenance of accounts.
    - Audit procedures.

Part IV: Miscellaneous

- This part includes a variety of supplementary provisions:
    - Staffing matters.
    - Returns to be submitted by insured banks.
    - Inspection powers.
    - Penalties for offenses.
    - Power of the Central Government to give directions.
    - Power to make regulations.

The Deposit Insurance and Credit Guarantee Corporation Act, 1961 (DICGC Act)

SALIENT FEATURES

1. Establishment and Objective:

- The Act provides for the establishment of the **Deposit Insurance and Credit Guarantee Corporation (DICGC)**.
- The primary objectives are to **insure deposits** in banks and **guarantee credit facilities** (though the credit guarantee function has been largely phased out, with the focus now primarily on deposit insurance).
- The DICGC is a **wholly-owned subsidiary of the Reserve Bank of India (RBI)**.

2. Mandatory Insurance:

- The deposit insurance scheme is **compulsory** for all eligible banks operating in India. No bank can withdraw from it.

3. Coverage of Banks:

- The DICGC covers the following types of banks:
    - All **commercial banks**, including branches of foreign banks functioning in India.
    - **Regional Rural Banks (RRBs)**.
    - **Local Area Banks**.
    - **Cooperative banks** (all eligible State, Central, and Primary cooperative banks).
- **Exclusions:** Certain deposits are not insured, such as:
    - Deposits of foreign governments.
    - Deposits of the Central and State Governments.
    - Inter-bank deposits.
    - Any amount due on account of any deposit received outside India.
    - Deposits specifically exempted by the DICGC with the RBI's prior consent.
    - Deposits with State Land Development Banks.
    - Non-banking financial companies (NBFCs) are not covered.

4. Extent of Insurance Cover:

- The Act specifies the limit of insurance coverage per depositor per bank. Currently (as of February 2020), the **deposit insurance cover is ₹5 lakh per depositor per bank**. This includes both the principal and interest amount.
- If a person has accounts in different branches of the same bank, all these accounts are aggregated, and the maximum insured amount remains ₹5 lakh.
- If a person has accounts with different banks, the insurance cover of ₹5 lakh is available for the deposits held in each bank separately.

5. Premium Payment:

- The **insured banks pay the insurance premium** to the DICGC. Depositors do not directly bear this cost.
- The DICGC is empowered to determine the rate of premium, with the approval of the RBI.

6. Reimbursement in Case of Bank Failure:

- If an insured bank goes into liquidation, the DICGC is liable to pay each depositor up to the insured amount (currently ₹5 lakh).
- The DICGC (Amendment) Act, 2021 inserted Section 18A, which mandates that when the RBI imposes restrictions on a bank, the DICGC shall pay the depositors the insured amount within a stipulated time frame (currently **within 90 days** of the imposition of restrictions). This aims for quicker relief to depositors.
- The DICGC makes the payment to the depositors through the liquidator appointed for the failed bank.

7. Funds of the DICGC:

- The DICGC maintains three main funds:
  - **Deposit Insurance Fund:** Funded by premiums received from insured banks, used for settling deposit insurance claims.
  - **Credit Guarantee Fund:** (Though less active now) was funded by guarantee fees and used for settling credit guarantee claims.
  - **General Fund:** Used for the establishment and administrative expenses of the Corporation.
- Surplus funds are invested in Central Government securities.

8. Management:

- The management of the DICGC vests with a **Board of Directors**, with a **Deputy Governor of the RBI as the Chairman**.

9. Powers of DICGC:

- The DICGC has the power to register and cancel the registration of insured banks.
- It can call for information and returns from insured banks.
- The RBI can inspect insured banks, and the DICGC has access to the banks' records.
- The DICGC can take measures to protect its interests and the interests of the depositors.