

Revisiting Deposit Insurance: Should the Limit be Increased?

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Synopsis

- Deposit insurance covers all commercial banks as well as cooperative banks. However, it should be noted that deposit insurance is not available to NBFCs that accept public deposits. As of March 31, 2024, registered insured banks stood at 1,997. In US dollar terms, India has a comparatively lower deposit insurance threshold.
- In FY24, insured deposits stood at Rs 94.1 lakh crore, accounting for 43.1% of all assessable deposits, while the share of protected accounts remained at 97.8%.
- After modelling alternative approaches to the quantum of deposit insurance, the range of deposit insurance should be between Rs 520,000 and Rs 2,100,000.
- Meanwhile, it is essential to note that a flat rate is charged, with commercial banks paying a higher amount and a larger share of the premium (94.4% share of the insurance premium in FY24). Nevertheless, cooperative banks have accounted for the more significant proportion of the insurance payouts. Risk-based pricing for insurance premiums could be considered to ensure appropriate pricing according to risk coverage.

Overview

With recent restrictions on the New India Cooperative Bank Ltd., along with the announcement by the Deposit Insurance and Credit Guarantee Corporation of settling dues of eligible depositors and the surrounding furore, which have been accompanied by calls to increase the deposit insurance limit, we thought it would be pertinent to revisit our earlier publications [Speeding Past the Deposit Insurance Limit](#) and [Analysis of the Increase in Deposit Insurance Limit](#) around the same.

The concept of insuring deposits received attention in 1948 after the banking crisis in Bengal. Subsequently, the Deposit Insurance Act of 1961 came into force on January 1, 1962. Deposit insurance covers all commercial as well as cooperative banks. However, deposit insurance is not available to NBFCs that accept public deposits. As of March 31, 2024, the number of registered insured banks stood at 1,997, comprising 95 commercial banks, 43 Regional Rural Banks (RRBs), two Local Area Banks (LABs) and 1,857 cooperative banks. The Deposit Insurance and Credit Guarantee Corporation (DICGC) insures all bank deposits, except deposits of foreign governments, deposits of Central/ State Governments, deposits of State Land Development Banks with State cooperative banks, inter-bank deposits, deposits received outside India, and deposits exempted explicitly by the Corporation with prior approval of RBI. The following figures track the enhancement in the quantum of deposit insurance along with insurance premium rates.

Figure 1: Movement in Insurance Coverage Limit

Coverage Effective from	Insurance Limit (Rs.)
January 1, 1962	1,500
January 1, 1968	5,000
April 1, 1970	10,000
January 1, 1976	20,000
July 1, 1980	30,000
May 1, 1993	100,000
February 2020	500,000

Source: DICGC

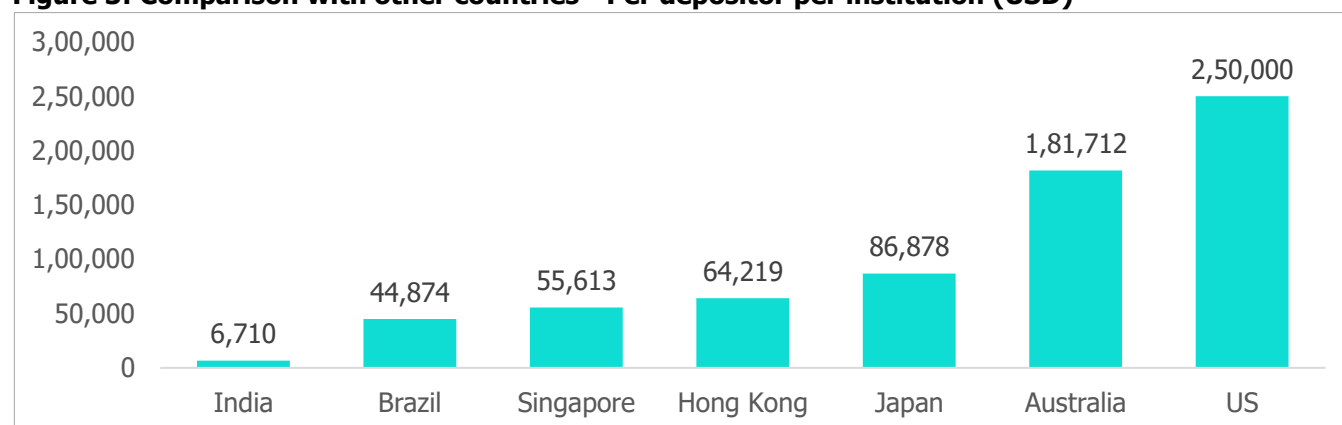
Figure 2: Premium Rates (Per Rs 100)

Rate Effective from	Premium (in Rs)
January 1, 1962	0.05
October 1, 1971	0.04
July 1, 1993	0.05
April 1, 2004	0.08
April 1, 2005	0.10
April 1, 2020	0.12

After witnessing a rise in the share of insured deposits compared to total assessable deposits from 1962 to FY91, the same has witnessed a gradual fall. After the limit was enhanced in FY20, the share of insured deposits spiked to 49% and was subsequently reduced. In FY24, insured deposits stood at Rs 94.1 lakh crore, accounting for 43.1% of all assessable deposits. This is a steep decline compared with the peak of 75.3% in FY97. The growth of the financial sector can largely account for the fall. On the other hand, the share of protected accounts remained at 97.8% in FY24, which jumped in FY20 after the last increase in the insurance limit. This continues to be lower than the 99.4% coverage achieved in FY95. However, for the last decade, the average cover has been around 95%, indicating a significant presence of small deposit holders in the banking system.

International comparison

Figure 3: Comparison with other countries - Per depositor per institution (USD)



Source: International Association of Deposit Insurers Annual Survey 2022

The figure above clearly highlights the lower coverage in India when compared across select countries globally. The United States and Australia have maximum coverage, which extends into six digits in US dollar terms.

Various Approaches Towards the Deposit Insurance Limit

The last increase in the deposit limit was in early 2020, and after the recent issues in the cooperative bank, there have been calls to enhance the same. This section examines several approaches towards improving the deposit insurance limit.

1. International Association of Deposit Insurers

According to global norms, the system coverage should ideally be around 80% - 90% of all accounts and 20% - 30% of all deposits by value. Since India already has coverage levels higher than these limits, there seems to be no apparent need for a further increase in the deposit insurance limit under this approach.

2. Based on Per capita GDP

Figure 4: Insurance Limit / Per Capita GDP

Date	Insurance Limit (Rs.)	Per Capita GDP* (Rs.)	Insurance Limit / Per Capita GDP
January 01, 1968	5,000	768.6	6.5
April 01, 1970	10,000	865.4	11.6
January 01, 1976	20,000	1,403.8	14.2
July 01, 1980	30,000	2,165.9	13.9
May 01, 1993	100,000	9,820.5	10.2
February 01, 2020	500,000	149,914.9	3.3

*Per Capita at Current Prices: Base Year 2011-12; Source: DICGC, CMIE

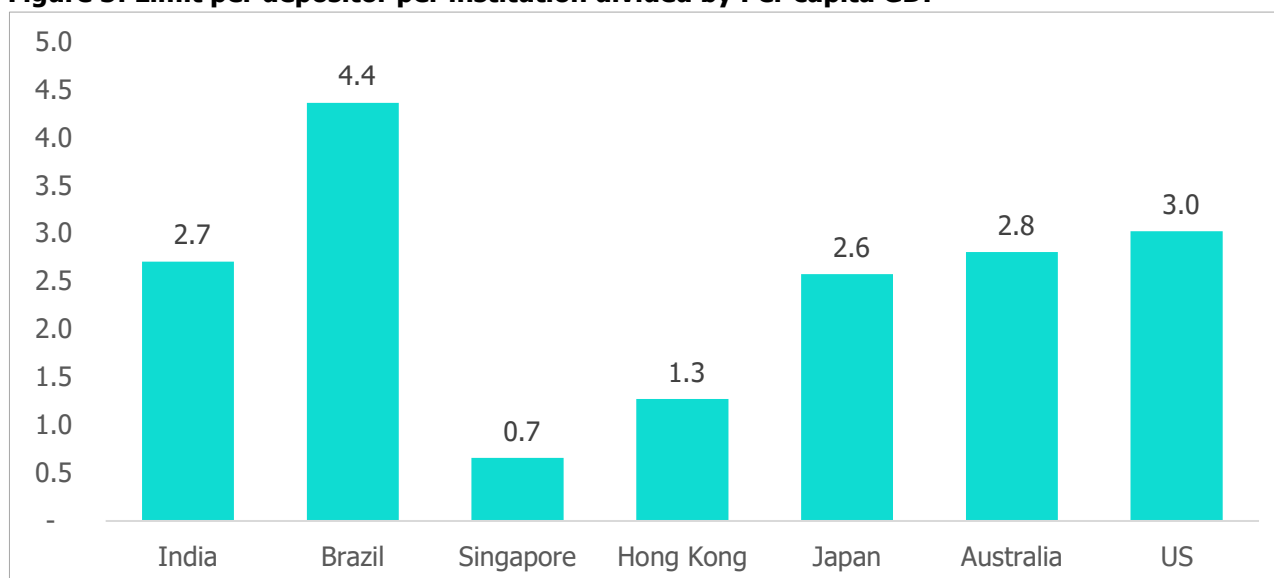
Suppose we average the above insurance limit/ per capita GDP levels and apply the same to the per capita GDP of FY24, which stands at Rs 211,725. In that case, we arrive at an expected deposit insurance limit of Rs 2,105,845.

3. Inflation-based approach

Another approach to the insurance limit would be to take the inflation approach and apply the same to the existing limit. The current limit was last revised in 2020; further, using the spliced WPI series (base year FY12), the inflation rate in India between 2020 and 2024 has been approximately 24.3%, which translates into an approximate amount of Rs 621,511.

4. International

Figure 5: Limit per depositor per institution divided by Per capita GDP



Source: International Association of Deposit Insurers Annual Survey 2022, World Bank, Per capita GDP for 2023

If we average the limit per depositor per institution divided by the per capita income of the countries in the figure above while excluding India and then apply the same to the per capita GDP of FY24, which stands at Rs 211,725, we arrive at an expected deposit insurance limit of Rs 518,118

CareEdge View

Amidst media conversations of an increase in the deposit insurance limit, we have tried to provide alternative approaches to arrive at the same. While one approach necessitates no change, other approaches suggest the range of deposit insurance to be between Rs 520,000 and Rs 2,100,000. Other factors impacting the quantum of deposit insurance limit would include the extent of deposit coverage required, risk ratings of banks covered under the deposit insurance scheme, and pricing. Meanwhile, it should be noted that commercial banks pay a higher amount and share of the premium (94.4% share of insurance premium in FY24). Still, cooperative banks have accounted for the larger share of the insurance payouts. Currently, the premium is flat, which applies equally to all banks; in the future, risk-based insurance premium pricing could be explored to ensure appropriate pricing for risk coverage.

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