Bill Summary

The Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill, 2021

- The Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill, 2021 was introduced in Rajya Sabha by the Minister of Finance, Ms. Nirmala Sitharaman, on July 30, 2021. The Bill seeks to amend the Deposit Insurance and Credit Guarantee Corporation Act, 1961. The Act established the Corporation to provide insurance for bank deposits and guarantee credit given by banks and financial institutions. The Bill seeks to provide depositors time-bound access to their insured deposit amount, in case they are restricted from accessing their bank deposits.
- Under the Act, the Corporation is liable to pay the insured deposit amount to depositors of an insured bank. Such liability arises when an insured bank undergoes: (i) liquidation, i.e., sale of all assets on closing down of the bank, (ii) reconstruction or any other arrangement under a scheme, or (iii) merger or acquisition by another bank, i.e., transferee bank. Once the Corporation makes the payment to the depositors, the liquidator or the insured or transferee bank (as the case may be) becomes liable to repay the same amount to the Corporation. The amount paid by the Corporation in respect of a deposit reduces its liability against the deposit by that amount.
- **Interim payment to depositors:** The Bill adds that the Corporation will be liable to pay the insured deposit amount to depositors on an interim basis. The liability will arise on the date the depositors are restricted from accessing their bank deposits. This liability will arise if such restrictions get imposed under any order or scheme under the Banking Regulation Act, 1949. This will also apply if such order or scheme is made before the enactment of the Bill, but the business of the insured bank remains suspended at the time of enactment.
- The Corporation will not be liable to make the interim payment if: (i) the Reserve Bank of India (RBI) removes the restrictions put on the bank for payment to depositors, and (ii) the insured or transferee bank is in a position to pay the depositors without any restrictions.
- Once the Corporation makes the interim payment to a depositor, the value of his deposit in the insured bank will reduce by the amount paid. The insured bank will then be liable to pay that amount to the Corporation.
- **Timeline for interim payment:** The Bill mandates the Corporation to pay the insured amount to the depositors within 90 days of the date such liability arises. Within the first 45 days, the insured bank must furnish the details of all outstanding deposits to the Corporation. Within 30 days of the receipt of details, the Corporation will verify the authenticity of the claims and check with each depositor if they are willing to receive the insured deposit amount. Within 15 days of the verification, the Corporation must make the payment to such depositors.
- The date on which the Corporation becomes liable to pay the depositors may be extended by an additional 90 days. The extension may be given if RBI finds it expedient for finalising a scheme for the reconstruction, arrangement, merger, or acquisition of the insured bank.
- **Premium paid by banks to the Corporation:** Under the Act, insured banks are required to pay a premium to the Corporation on their deposits. The rate of premium for a bank is notified by the Corporation with the prior approval of RBI. The Act limits the rate of premium (per annum) for a bank at 0.15% of its total outstanding deposits. The Bill allows the Corporation to increase this maximum limit with the prior approval of RBI. It may increase the limit considering its financial position and the interests of the banking system of the country.
- **Repayment by the bank to the Corporation:** Under the Act, once the Corporation makes a payment to the depositors, the insured or transferee bank, as the case may be, becomes liable to repay the same amount to the Corporation. The bank is required to repay within such time as prescribed by the Board of Directors of the Corporation. The Bill adds that the Corporation may change this time limit for such period and on such terms as prescribed by the Board through regulations. These regulations must also provide for: (i) prudential principles to assess the capability of the bank to repay the Corporation, and (ii) prohibition on the bank to discharge other specified liabilities until repayment.
- The Bill provides that the Corporation may charge a penal interest for delay in repayment. The penal interest rate may be up to two percent points higher than the repo rate (the rate at which RBI lends money to banks).

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