Patchwork progress

Move to hasten insured bank deposits' repayment need not have taken this long

The Government hopes to ring in fresh changes to the 1961 Deposit Insurance and Credit Guarantee Corporation law in the monsoon session, after the Cabinet nod this week. From savers' perspective, the most significant modification on the anvil is a 90-day deadline for the Corporation (DICGC) to remit the insured deposits of customers in troubled banks. As per the plan, once the RBI imposes curbs on a bank, the clock will start ticking and by the 91st day or thereabouts, account holders will get their outstanding balance back with a cap of ₹5 lakh. While Finance Minister Nirmala Sitharaman said this will not apply retrospectively, she did indicate that this would apply to cases of lenders already under a moratorium. In the last two years, Yes Bank, Lakshmi Vilas Bank and the PMC Bank, have faced such a bar on depositors seeking to withdraw. PMC Bank accounts still face such curbs, even as savings parked in other co-operative lenders that have gone under continue to elude their rightful owners. The Minister said it normally takes eight to 10 years for insured deposits to be forked out, from the time a bank hits a hurdle and myriad conditions are imposed on withdrawals. But these delays were well-known last year too, when the insured deposit amount was raised to ₹5 lakh from ₹1 lakh laid down in 1993.

Making incremental changes in quick succession suggests a piecemeal approach to governance rather than a system-wide view, even though the government stressed it has been working 'overtime' to resolve the PMC Bank crisis. Nevertheless, given the rising distress in households and the downward momentum in savings levels due to the pandemic, this change must be allowed to make it through the din in Parliament. As per RBI data, ₹76.21 lakh crore or almost 51% of deposits are now insured, but 98.3% of all accounts have balances of ₹5 lakh or less so they are fully insured. This can be a source of renewed comfort for people in the banking system, grappling with bad loans, dwindling deposits and a still-fledgling insolvency framework. It is important for financial stability that people feel it is safer to park their money in a bank than stashing it under a mattress. For several people with limited financial literacy and access to retirement savings instruments, with lifetime earnings (possibly over ₹5 lakh) parked in a neighbourhood co-operative bank, this would still be a less than perfect outcome. The RBI needs to up its oversight game, and the Centre, which has recently made the Department of Cooperation a full-scale ministry, needs to allow it to do so. Moreover, just as the latest amendments have an enabling provision to raise the premium paid by banks to the DICGC in future, there should have been one to raise the insured deposit limit in line with inflation and per capita income trends.