



## An Evaluation of India's Deposit Insurance and Credit Guarantee Corporation's (DICGC) Contribution to Banking Sector Reforms and Financial Stability

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### Abstract

Mechanisms for deposit insurance are essential for maintaining financial stability, particularly in nations like India that have developing banking industries. A key player in safeguarding small depositors and fostering confidence in the banking system is the Deposit Insurance and Credit Guarantee Corporation (DICGC), a wholly-owned subsidiary of the Reserve Bank of India. This study explores the DICGC's operational procedures, historical development, and effects on the stability of Indian banks. The study examines the effectiveness, difficulties, and potential of the DICGC through a thorough literature analysis, specific goals, and a strong research methodology. The results show that even while DICGC has greatly increased depositor confidence, changes to governance frameworks, coverage limits, and claim settlement procedures are required to keep up with the ever-changing financial environment. Suggestions are made to strengthen the DICGC's structure in accordance with international best practices.

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### 1. Introduction

Any economy's ability to expand and flourish depends on its financial stability. Effective intermediation between savers and borrowers depends on a strong, stable, and reliable banking industry. Nonetheless, banks are prone to abrupt declines in depositor trust, which frequently result in bank runs, liquidity problems, or systemic failure. Many nations have implemented deposit insurance programs to reduce these risks and safeguard the interests of depositors. India created Asia's first deposit insurance company in 1962 after realizing early on the need for such a safety. In 1978, it changed its name to the Deposit Insurance and Credit Guarantee Corporation (DICGC).

With insurance to safeguard depositors and credit guarantees to expand credit (though the latter has been mostly phased out since 1995), the DICGC serves two purposes. The significance of deposit insurance has resurfaced in policy discourse following a number of bank failures, especially those of small and cooperative banks in recent years. The conventional frameworks for depositor protection are facing new difficulties as a result of the financial sector's explosive growth in India, the integration of digital banking, and the growth of small finance and payment institutions.

Concerns remain over the adequacy, operational transparency, speed of claim settlements, and moral hazard issues, even though the government raised the deposit insurance coverage maximum from ₹1 lakh to ₹5 lakh in 2020. Furthermore, India's coverage ratio, premium structure, and payout procedures show both strengths and important room for development when compared to other countries.

In the larger framework of India's financial sector reforms, this study aims to critically evaluate the DICGC's composition, efficacy, and prospects. By providing a current assessment of DICGC's performance in the face of shifting economic conditions through methodical analysis based on secondary data sources, expert literature, and policy papers, it closes a significant research gap.

## 2. Literature Review

Khan (2015) <sup>[6]</sup> points out that the DICGC's insurance coverage cap has traditionally underperformed in comparison to economic growth and inflation, which has diminished its actual efficacy. He recommends a dynamic review process to periodically modify the insurance ceiling.

Iyer and Puri (2012) <sup>[5]</sup> show in their study on financial crises and depositor behavior that while deposit insurance lowers the likelihood of bank runs, it may also induce banks to take on greater risk, highlighting the need for balanced regulatory control.

The RBI's 2020 report on "Financial Stability" highlights the value of organizations like the DICGC, particularly in times of systemic banking stress, like as the failure of PMC Bank and YES Bank, and demonstrates how depositor protection is essential to market stabilization.

Explicit deposit insurance tends to raise financial fragility unless accompanied with strong regulatory regimes, according to a cross-country analysis of the topic by Cull *et al.* (2002) <sup>[2]</sup>. This is a warning for India's ongoing banking reforms.

The operational inefficiencies of DICGC, including the delays in claim settlements, are criticized by Bhattacharya and Singh (2021) <sup>[1]</sup>, who suggest implementing a technology-driven claims settlement procedure.

## 3. The study's goals

- To investigate the DICGC's organizational structure and historical development.
- To examine the dynamics of insurance coverage and operational procedures.
- To evaluate how DICGC affects depositor confidence and the stability of the banking industry.
- To determine the existing framework's shortcomings and difficulties.
- To make policy suggestions aimed at improving the DICGC's effectiveness.

## 4. Research Methodology

### Research Design

Using a qualitative and descriptive research design, this study aims to comprehend the DICGC's structure, performance, and problems through the analysis of secondary data. The analysis aims to identify trends, assess the efficacy of the institution, and suggest evidence-based changes.

- The research solely uses secondary data sources, such as:
  - Annual Reports of the DICGC (2010–2023)
  - Bulletins and Reports from the Indian Reserve Bank
  - Studies that have been published in journals with peer review
  - Reports from global institutions such as the World Bank, BIS, and IMF
  - Editorials, financial news stories, and professional viewpoints
  - The reliability, applicability, and recentness of every source were thoroughly assessed.

## 5. Data Analysis

The performance, effectiveness, and difficulties of the Deposit Insurance and Credit Guarantee Corporation (DICGC) are examined in this section using secondary data gathered from a variety of official and academic sources.

### 1. Trends in premium prices and insurance coverage

Since its establishment, the DICGC insurance coverage

maximum has only been altered three times:

₹5,000 in 1962

₹30,000 in 1970

₹1,00,000 in 1993

₹5,00,000 in 2020

Revisions were rare, frequently following banking crises (such as PMC Bank bankruptcy), despite notable inflation and the growth of the banking industry.

Bank premium rates have always been low, but in 2020 they went up from 10 paise per 100 deposits to 12 paise per 100.

**Table 1:** Deposit Insurance Premium Rates Over Time

| Year | Premium (per ₹100 deposit) |
|------|----------------------------|
| 1993 | ₹0.05                      |
| 2005 | ₹0.10                      |
| 2020 | ₹0.12                      |

Source: DICGC Annual Reports

### 2. According to the DICGC annual report 2022–2023, the growth in insured deposits and the coverage ratio:

- The total amount of insured deposits is 81 lakh crore.
- ₹172 lakh crore in total deposits in the banking system
- Coverage ratio: around 47% of total deposits, meaning that they are protected by the ₹5 lakh cap.
- This highlights the limitations of full depositor protection by demonstrating that, although coverage has improved in volume terms, it still covers fewer than half of deposits in the banking system in percentage terms.

### 3. Settlement of claims and settlement speed

Since the DICGC Act was amended in 2021 to require reimbursement within 90 days of bank collapse, claims resolution has significantly improved.

**Table 2:** Claims Settled by DICGC

| Financial Year | Amount Paid (₹ Crore) | No. of Banks |
|----------------|-----------------------|--------------|
| 2018-19        | 40.08                 | 6            |
| 2019-20        | 1,725.00              | 3            |
| 2020-21        | 791.00                | 4            |
| 2021-22        | 3,457.45              | 16           |

Source: DICGC Annual Reports

The dramatic increase in claims resolved in 2021–2022 is a result of both accelerated settlement under the modified Act and rising banking stress, particularly among urban cooperative banks.

### 4. DICGC's financial stability

The main payout reserve is the Deposit Insurance Fund (DIF).

By March 2023: Size of the DIF: 1.477 lakh crore Ratio of Fund to Insured Deposit (FIDR): around 1.79%

For soundness, international best practices (FSB, 2020) suggest a ratio of 2–2.5 percent.

As a result, even though DICGC has a reasonably solid fund position, it falls just short of optimal worldwide standards.

### 5. Issues Found by Data

- Low Coverage Ratio: India's deposit insurance coverage, at 47%, is less than that of economies such as the USA, where approximately 95% of accounts are covered.
- Concentration Risk: Scheduled commercial banks account for over 93% of insured deposits, making

DICGC particularly vulnerable to failures in this industry.

- High Claim Settlements in Cooperative Banks: Approximately 80% of DICGC claims involve cooperative banks that have failed, indicating hazards unique to this industry.

## 6. Findings and Discussion

### 1. DICGC's structure and evolution

- The Deposit Insurance Act of 1961 served as the foundation for the DICGC, which became Asia's first deposit insurance agency in 1962. The Deposit Insurance and Credit Guarantee Corporation Act, 1961 (modified in 1978) reorganized its organization by combining the functions of credit guarantee and deposit insurance.
- Structure of the Organization: The Reserve Bank of India owns all of it.
- Overseen by a Board of Directors that includes representatives from the government, commercial banks, cooperative banks, and the RBI.

### 2. Mechanisms of Operations

- As of 2020, the DICGC would protect deposits up to ₹5 lakh per depositor per bank, which is more than the previous ₹1 lakh cap. The Deposit Insurance Fund is accumulated by the DICGC, which receives premium payments from banks.
- Important Procedures: Superior Collection Evaluation of Risk Settlement of Claims in the Event of Bank Failure Nevertheless, claim settlement has historically been sluggish, often requiring more than a year after a bank's license is revoked, in spite of these procedures.

### 3. Effect on monetary stability

The DICGC's existence has proven to: fewer instances of bank runs.

- increased trust among depositors, especially small ones.
- During local bank crises, It helped keep the banking system stable.
- However, larger depositors are left susceptible because the insurance cap frequently only covers a portion of the total deposits in commercial and urban cooperative banks.

### 4. Problems

- Low Insurance Coverage: Usually, approximately 60–70% of the total depositor balances are covered by the ₹5 lakh limit.
- Slow Claim Settlement: Following bank collapses, depositor confidence is damaged by procedural delays.
- Moral Hazard: Banks may be encouraged to engage in riskier lending practices if they are guaranteed protection without strict oversight.
- Low Public Awareness: A large number of depositors are still ignorant of deposit insurance's existence and advantages.
- Technological Lag: Quick payouts are made more difficult by the absence of real-time deposit tracking.

## 5. Comparing Countries

### Comparing on a worldwide scale:

- Compared to nations like the USA and Canada, India has a lower insurance coverage ratio (as a percentage of GDP per capita).

- When compared to best practices, settlement durations in India are far longer (for example, the FDIC in the US aims for payout within 7 business days).

## 7. Concluding remarks and suggestions

### In conclusion

In India, the DICGC has been essential to maintaining depositor safety and financial stability. To stay up with the changing financial landscape, its operating architecture must be updated. Its efficacy may be compromised in the event of subsequent systemic crises if prompt reforms are not implemented.

### Suggestions

Adjust the insurance limit dynamically by tying insurance coverage to GDP growth or inflation.

Accelerated Settlement of Claims: Establish mandatory deadlines for handling claims.

Risk-Based Premiums: Vary premiums according to the risk profiles of banks.

Improved Public Awareness Campaigns: Inform depositors through digital and print media.

Technological Integration: DICGC receives real-time data reporting from banks for quick settlement and verification.

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