

Risk-based deposit insurance premium model proposed

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The Reserve Bank of India (RBI) on Wednesday proposed to introduce a risk-based deposit insurance premium instead of the currently applicable flat rate, which will serve as the ceiling. This is expected to increase banks' risk management and reduce premiums for the stronger lenders.

During the monetary policy statement, RBI Governor Sanjay Malhotra said: "It is further proposed to introduce risk-based deposit insurance premium with the currently applicable flat rate of

premium as the ceiling. This will incentivise sound risk management by banks and reduce premiums to be paid by better rated banks."

Deposit Insurance and Credit Guarantee Corporation (DICGC), under the DICGC Act, 1961 has been operating the deposit insurance scheme since 1962 on a flat rate premium basis. Currently, the lenders are charged a premium of ₹12 paise per ₹100 of assessable deposits.

While the existing system is easier to understand and administer, it does not differentiate between banks based on their soundness. It is, therefore, proposed to introduce a risk-based premium model

which will help banks that are sounder to save significantly on the premium paid. The deposit insurance scheme is mandatory for all banks (commercial and co-operative) which are licensed by RBI. The number of registered insured banks stood at 1,982 as on March 31, 2025. Current coverage limit of deposit insurance is ₹5 lakh per depositor of a bank for deposit accounts held. The DICGC levies banks a flat rate premium of 0.12 per cent per annum on the total assessable deposits for providing deposit insurance. During 2024-25, deposit insurance premium received was ₹26,764 crore, according to RBI financial stability report.

RBI also added that the detailed notification will be issued shortly, which will be effective from the next financial year.

Anil Gupta, senior vice-president and co-group head, Icra said: "If larger, well-rated banks choose to pass on the benefit of reduced deposit insurance costs through higher deposit rates, it could enhance their competitive edge. This may, in turn, pressure smaller and weaker banks, adversely impacting their market share. To remain competitive, these banks might be compelled to offer higher deposit rates despite facing elevated deposit insurance costs themselves."