

1. Deposit insurance and the case of raising it

Introduction

The government is considering increasing the insurance cover for bank deposits from the current limit of Rs 5 lakh. The deposit insurance cover is offered by the Deposit Insurance and Credit Guarantee Corporation (DICGC), a specialised division of the Reserve Bank of India (RBI).



How are the deposits of customers insured against failure of the bank?

The objective of the DICGC is to protect “small depositors” from the risk of losing their savings in case of a bank failure. The insurance cover of Rs 5 lakh per depositor is for all accounts held by the depositor in all branches of the insured bank.

DICGC insures all commercial banks, including branches of foreign banks functioning in India, local area banks, regional rural banks, and cooperative banks. However, primary co-operative societies are not insured by the DICGC.

Savings, fixed, current, and recurring deposits are insured. The DICGC does not provide insurance for deposits by foreign, central, and state governments, and for inter-bank deposits. The premium for deposit insurance is borne by the insured bank. DICGC collects premiums from member financial institutions at a flat or differentiated rate based on the bank’s risk profile.

How does the limit for DICGC’s insurance coverage work?

Imposition of Restrictions: In 2021, a new Section 18A was inserted in the DICGC Act, 1961, which enabled depositors to get interim payment and time-bound access to their deposits to the extent of the deposit insurance cover through interim payments by DICGC, in case of imposition of restrictions on banks by the RBI.

At present, the DICGC offers insurance cover on bank deposits up to Rs 5 lakh within 90 days of imposition of such restrictions. DICGC insures both the principal and interest amount held by a depositor in a bank.

Liquidation of Bank: If the bank goes into liquidation, DICGC is liable to pay to the liquidator the claim amount of each depositor up to Rs 5 lakh within two months from the date of receipt of the claim list from the liquidator.

The liquidator will have to disburse the right claim amount to each insured depositor.

Has the depositor’s insurance ceiling always been Rs 5 lakh?

The cover was raised from Rs 1 lakh to Rs 5 lakh from February 4, 2020, after RBI took action against the Mumbai-headquartered Punjab and Maharashtra Co-operative Bank Ltd. PMC Bank had deposits of more than Rs 11,000 crore, and RBI's action impacted thousands of depositors.

Deposit insurance was introduced in India in 1962, and coverage has thus far been enhanced six times – from Rs 1,500 per depositor held in the same right and same capacity at all the branches of the insured bank to Rs 5 lakh now.

The deposit insurance scheme was started with 287 banks in 1962; the number of insured banks was 1,997 as of March 31, 2024.

What is the case for revising the deposit insurance upwards?

RBI Deputy Governor M Rajeshwar Rao had noted last year that as of March 31, 2024, fully protected accounts were 97.8% of the total, higher than the international benchmark of 80%. However, challenges were likely going forward given that a growing and formalising economy can be expected to see a sharp increase in both primary and secondary bank deposits.

An increase in cover will not only protect to a greater extent the interest of depositors in case of a bank failure, it will likely also strengthen their trust in the banking system.

Relevance: GS Prelims & Mains Paper III; Economics

Source: Indian Express

2. Allahbadia bail condition: SC's gag order and the question of free speech

Introduction

The Supreme Court recently granted interim protection from arrest in the FIRs registered against podcaster-influencer Ranveer Allahbadia for his comments on a YouTube show.

However, a Bench of Justices Surya Kant and N K Singh imposed crucial conditions, including that Allahbadia or his associates cannot air any content on social media until further orders. While Allahbadia was granted relief, the gag order raises some questions of free speech. The order also flies in the face of an SC judgment that said such a condition could have a "chilling effect on the freedom of speech".

Petitioner's plea

The petitioner had moved the SC seeking clubbing of FIRs against him, and an interim order preventing his arrest.

Essentially, the relief would be akin to granting anticipatory bail. Such pleas are routinely entertained under Article 32 of the Constitution for the enforcement of fundamental rights as a safeguard against arbitrary police action.

The pattern of filing multiple FIRs in different jurisdictions for the same cause of action or alleged offence has been noted in several cases as restricting liberty.

Courts club the FIRs or allow investigation in one FIR, while the others are stayed so the petitioner does not have to appear in multiple courts. Ultimately, even if convicted, the accused would serve a common sentence, and not consecutive sentences.

Ranveer Allahbadia - Supreme Court order in a nutshell

- **Arrest of Allahbadia stayed in all FIRs registered against him;**
- **No further FIR shall be registered;**
- **Allahbadia can approach local police of Maharashtra and Assam for protection of life and liberty in case of any threat;**
- **He should deposit his passport with the Thane police;**
- **Cannot leave country without permission of Supreme Court;**
- **Should not do any other show for now.**



SC's gag order

The court stayed the FIRs already registered, and also any future FIRs on the same set of allegations. It allowed Allahbadia to approach the police for protection in the event of any threat.

But the SC imposed two conditions: that Allahbadia deposit his passport so he does not leave the country, and that he "or his associates shall not air any show on Youtube or any other audio/video visual mode of communication till further orders".

Bail conditions

Section 438(2) of the CrPC stipulates that the High Court or the Court of Sessions can direct a person to be released on conditional bail. The court shall impose conditions in the context of the facts of a particular case.

For example, the condition of depositing a passport is to address situations where the accused could be a flight risk. Bail could be set for a high monetary value to ensure the accused joins the investigation. Another common condition is that the accused should periodically present himself before a police officer.

In other cases, courts have imposed onerous bail conditions like sharing a Google map PIN or residing in a particular locality.

However, a gag order, while granting protection from arrest, is an unusual condition because it is in the nature of a prior restraint — when speech or any other expression is prohibited before it can take place.

A body of jurisprudence in India bars the state from making prior restraint laws. In hate speech cases, the court could observe that the accused cannot make similar statements, essentially tailoring the gag order narrowly to not interfere with speech entirely.

Past SC ruling

In 2022, while granting bail to Alt News co-founder Mohammed Zubair, a three-judge Bench headed by Justice D Y Chandrachud rejected the Uttar Pradesh government's plea that the accused must be barred from tweeting while on bail.

"Merely because the complaints... arise from posts that were made by him on a social media platform, a blanket anticipatory order preventing him from tweeting cannot be made. A blanket order directing the petitioner to not express his opinion — an opinion that he is rightfully entitled to hold... — would be disproportionate to the purpose of imposing conditions on bail. The imposition of such a condition would tantamount to a gag order against the petitioner. Gag orders have a chilling effect on the freedom of speech," the court said.

The court noted that Zubair would need to use social media as a medium of communication for his work, and said that a gag order would "amount to an unjustified violation of the freedom of speech and expression, and the freedom to practice his profession".

Relevance: GS Prelims & Mains Paper II; Governance

Source: The Hindu

3. What is the fraud at Mumbai's New India Cooperative Bank, why depositors can't get their money

Introduction

The Economic Offence Wing (EOW) of the Mumbai Police last week arrested Hitesh Mehta, former general manager and head of accounts at the city-based New India Cooperative Bank,

for allegedly siphoning Rs 122 crore from the bank's safe. A developer, Dharmesh Paun, has also been arrested for allegedly assisting Mehta in routing the embezzled money.

The Reserve Bank of India (RBI) then restricted withdrawals from the bank, leading to depositors queuing up for their money.



What is the fraud at the New India Cooperative Bank?

The fraud involved the disappearance of a significant amount of cash from the bank. During an RBI inspection on February 12, officials discovered discrepancies in the bank's cash records. Specifically, Rs 112 crore was found missing from the Prabhadevi branch safe, and an additional Rs 10 crore was missing from the Goregaon branch's safe.

Upon investigation, Hitesh Mehta came under the scanner for allegedly stealing the money over six years, between 2019 and 2025.

Who are the key individuals involved in the fraud?

Hitesh Mehta was responsible for handling the cash at the Prabhadevi and Goregaon branches. Mehta has confessed to stealing the money. He has further admitted to taking cash from both branches and handing it over to Dharmesh Paun, who allegedly helped him in routing the money through his company. While Mehta and Paun have been arrested, another suspect yet to be arrested is Unnanathan Arunachalam, who is also believed to have helped in misappropriating the funds.

What are the sections invoked?

The FIR was filed under sections 316(5) (criminal breach of trust by a public servant or banker, merchant, broker, attorney or agent) and 61(2) (criminal conspiracy) of the Bharatiya Nyaya Sanhita (BNS).

What action has the RBI taken?

The RBI has imposed restrictions on the bank due to concerns over its financial stability. These restrictions include prohibiting the bank from issuing new loans, making investments, borrowing funds, or allowing withdrawals for a period of six months.

Additionally, the RBI has superseded the bank's board of directors for a 12-month period due to "poor governance standards." The RBI has appointed Shreekant, a former chief general manager of the State Bank of India, as the administrator to manage the bank's affairs, assisted by a committee of advisors.

The restrictions also prevent the bank from granting or renewing loans, making investments, incurring liabilities, accepting fresh deposits, or disbursing payments without written approval from the RBI.

What is the record of the bank?

New India Cooperative Bank had a network of 30 branches and a deposit base of Rs 2,436 crore as of March 2024. The bank had posted losses of Rs 22.78 crore in 2023-24 and Rs 30.74 crore in 2022-23.

Is this the first time that the RBI has imposed restrictions on a cooperative bank in Maharashtra?

No. A similar thing happened with the Punjab and Maharashtra Co-operative (PMC) Bank, which faced action due to large-scale fraudulent loans.

On September 23, 2019, the RBI imposed restrictions on PMC Bank, preventing around 17 lakh depositors from withdrawing money from its 137 branches across six states.

Probe revealed that the bank had unlawfully sanctioned around 73% of its loans to the Housing Development Infrastructure Ltd (HDIL) group of companies, favouring its promoters, Rakesh Wadhawan and his son Sarang. The bank allegedly concealed HDIL's non-performing assets from the RBI. The EOW arrested over 15 people in the case, including the bank's top management.

Relevance: GS Prelims & Mains Paper III; Economics

Source: Indian Express

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