

AN OUTLINE OF FUNCTIONS AND ACTIVITIES

INTRODUCTION :

1.1 Insurance of bank deposits is intended to give a measure of protection to depositors, particularly small depositors, from the risk of loss of their savings arising from bank failures. Such protection by infusing confidence in the minds of the public, contributes to the growth of banking system by assisting in development of banking habits and mobilisation of resources by the banks which in turn can be utilised for purposes accorded national priority. Establishment of the Deposit Insurance Corporation came in the wake of certain bank failures in the fifties and early sixties and consequent efforts to restore the confidence of the depositing public in the banking system by safeguarding their interests.

1.2 The introduction of Credit Guarantee Schemes by the erstwhile Credit Guarantee Corporation of India Ltd., was part of a series of measures taken since the late sixties aimed at encouraging the commercial banks to cater to the credit requirements of the hitherto neglected sectors, particularly the weaker sections of society. In the wake of the social control measures initiated in 1968 followed by nationalisation of major commercial banks, the banks were required to ensure an increased flow of credit to smaller borrowers who found it difficult to have access to institutional credit. While there was an increasing awareness among banks of the need to provide more credit to such borrowers, certain practical difficulties, largely stemming from hesitation on the part of the credit institutions to venture into new and riskier fields of lending as also their inhibition, particularly at the grassroot level, to lend except against easily realisable security, were encountered. The Credit Guarantee Corporation of India Ltd., was thus visualised as an agency to provide a simple but wide-ranging system of guarantees for loans granted by credit institutions to such small and needy borrowers.

1.3 With a view to integrating the above twin and cognate functions the two organisations were merged in July 1978 and the Corporation was renamed as the Deposit Insurance and Credit Guarantee Corporation.

DEPOSIT INSURANCE SCHEME :

Institutional Coverage

2. The Deposit Insurance Scheme was introduced with effect from 1 January 1962. The Scheme provides

automatic coverage for deposits with all commercial banks (including regional rural banks) received in India. Following an amendment to the Deposit Insurance and Credit Guarantee Corporation Act in 1968, similar coverage is also extended in respect of deposits with co-operative banks in such of the States/Union Territories as have passed the necessary enabling legislation amending their local Co-operative Societies Acts. In terms of geographical coverage, the benefit of deposit insurance now stands extended to the entire banking system leaving uncovered only co-operative banks in such of the States/Union Territories as have yet to pass the necessary legislation.

Extent of Insurance Cover

3. Under the Scheme, in the event of liquidation, reconstruction or amalgamation of an insured bank, every depositor of that bank is entitled to repayment of his deposits held by him in the same right and capacity in all branches of that bank upto a monetary ceiling of Rs. 1,00,000/-

Insurance Premium

4. The consideration for extension of insurance coverage to banks is payment of an insurance premium. The premium at the rate of 5 paise per annum per hundred rupees is collected at half yearly intervals. The banks are required to bear this fee so that the protection of insurance is available to the depositors free of cost. Penal interest @8% above Bank Rate is charged on overdue premium.

Payment of Insurance Claims

5.1 When a bank goes into liquidation the Corporation pays to every depositor, through the liquidator, the amount of deposits upto Rs.1,00,000/- . When a bank is reconstructed or amalgamated with another bank and the scheme of reconstruction or amalgamation does not entitle the depositor to get credit for the full amount of his deposit, the Corporation pays to each depositor the difference between the full amount of his deposit (or Rs.1,00,000/- whichever is less) and the amount actually received by him under the scheme of reconstruction/ amalgamation.

5.2 After settling a claim, the liquidator/transferee bank is required to repay to the Corporation, by virtue of the rights of subrogation, recoveries effected by him/

it from out of assets of the insured bank in liquidation/ amalgamation.

CREDIT GUARANTEE SCHEMES :

Extension of Guarantee Support

6.1 The erstwhile Credit Guarantee Corporation of India Ltd., was operating three credit guarantee schemes pertaining to advances to certain specified categories of small borrowers and with the transfer of this undertaking to the Deposit Insurance Corporation in July 1978, the Deposit Insurance Corporation took over those credit guarantee functions also. The three credit guarantee schemes which were formulated by the Credit Guarantee Corporation of India Ltd. and continued by the Corporation, were intended to provide the necessary incentive to financial institutions for extending needbased credit to small borrowers (including farmers) engaged in non-industrial activities.

6.2 A credit guarantee scheme for small-scale industries sponsored and formulated by the Government of India and administered by the Credit Guarantee Organisation (Reserve Bank of India) had been in operations since July 1960. In pursuance of the recommendations of a Working Group constituted by the Government in 1979, it was decided to integrate all credit guarantee schemes under one organisation. Accordingly, this scheme was cancelled by the Government of India in March 1981 and the Corporation, in its place introduced a new scheme with effect from 1 April 1981 covering advances to small scale industries by commercial banks and other financial institutions. The Corporation was also entrusted with the responsibility of discharging the obligations arising out of or accruing under the cancelled scheme, upto the date of cancellation, as an agent of the Government. With the integration of credit guarantee functions relating to small scale industries, the Corporation has been providing guarantee support to a substantial amount of credit granted to the priority sectors.

6.3 Effective from 1 April 1989 and pursuant to the recommendations of the Expert Committee, 1987, the scope of the credit guarantee schemes has been enlarged to cover the entire gamut of priority sector advances as defined by the Reserve Bank of India. However, at the request of some participating credit institutions, the Corporation has allowed exclusion of certain categories of advances guaranteed by Central/ State Governments, ECGC etc. from total priority sector advances for the purpose of payment of

guarantee fee and consequently these advances ceased to get Corporation's guarantee cover.

Aims, Description and Coverage

7.1 Corporation's various credit guarantee schemes in operation till end of March 1992 were as indicated below:

- (i) Small Loans Guarantee Scheme, 1971.
- (ii) Small Loans (Financial Corporations) Guarantee Schemes, 1971.
- (iii) Service Co-operative Societies Guarantee Scheme, 1971.
- (iv) Small Loans (Small Scale Industries) Guarantee Schemes, 1981.
- (v) Small Loans (Co-operative Credit Societies) Guarantee Scheme, 1982.
- (vi) Small Loans (Co-operative Banks) Guarantee Schemes, 1984.

7.2 With the termination of the Schemes at (ii), (iii) and (v) above with effect from 1 April 1992, the Corporation presently operates the following three schemes.

- (i) The Small Loans Guarantee Scheme, 1971, which came into force on 1 April 1971, covers credit facilities granted by commercial banks including regional rural banks to the priority sector (other than small scale industries) as defined by Reserve Bank and this includes farmers and agriculturists, small road and water transport operators, retail traders, small business enterprises, professional and self-employed persons and educational, housing and consumption loans.
- (ii) The Small Loans (Small-Scale Industries) Guarantee Scheme, 1981 was introduced from 1 April 1981 and it covers credit facilities granted by commercial banks including regional rural banks, co-operative banks, State Financial Corporations and State Development Agencies to small-scale industries units for acquisition of or repairs to or replacement of fixed assets or equipment and for working capital requirements for production and marketing of products.

- (iii) The Small Loans (Co-operative Banks) Guarantee Scheme, 1984 covers credit facilities granted by eligible primary (urban) co-operative banks to the priority sector as defined by Reserve Bank, including activities allied to agriculture, road and water transport operators, retail traders, small business enterprises, professional and self-employed persons and educational, housing and consumption loans. All eligible licensed primary (urban) co-operative banks are as defined in clause (gg) of Section 2 of the DICGC Act, 1961 as well as eligible unlicensed primary (urban) co-operative banks recommended by the Reserve Bank of India as eligible, can participate in the Scheme.

The salient features of various schemes in operation are tabulated in the Annexure.

Guarantee Fee

8. The consideration for extension of the guarantee cover is the payment of guarantee fee at the stipulated rates calculated on the balances outstanding under the priority sector advances (except certain specified categories) and paid yearly in advance by the credit institutions. The fee rate is 2.50 per cent per annum for the Small Loans Guarantee Scheme, 1971 only. The regional rural banks are however, allowed to pay the fee at half the normal rate (i.e. @ 1.25 per cent per annum) for first five years from the date of their joining the Scheme. The guarantee fee rate for two other schemes viz., Small Loans (Co-operative Banks) Guarantee Scheme, 1984 and Small Loans (SSI) Guarantee Scheme, 1981, is 1.50 per cent per annum. The fee is required to be paid regularly and in advance on an annual basis in order to keep the guarantee in force. Penal interest @ 8% above Bank Rate is charged on overdue guarantee fee.

GUARANTEE COVER - KEY CHARACTERISTICS

Automatic Bulk Coverage

9.1 The guarantee cover is available to those credit institutions which join the schemes by entering into necessary agreements with the Corporation and paying the fee regularly at the prescribed rates. The schemes are operated on an automatic bulk coverage basis under which all eligible advances get automatically covered right from the date of their first disbursement without requiring the credit institutions

to make a prior application to the Corporation for covering each credit facility. Therefore, it is not open to participating credit institutions to exclude any eligible credit facility from the purview of guarantee cover.

Benefit confined to “Priority Sector” borrowers

9.2 The guarantee schemes are meant to provide cover for advances granted to small borrowers in the priority sector who without such support may find it difficult to have access to institutional credit. To ensure that the benefits thereof do not gravitate to more affluent persons, several stipulations have been made in the guarantee schemes, such as ceilings on amount of credit as in the case of retail traders, the value of equipment as in the case of business enterprises and of plant and machinery in the case of small-scale industrial units. Besides, absolute limits have been placed on the Corporation's claim liability.

Invocation of Guarantee

10. The Corporation has revised the conditions for invocation of guarantee with effect from 1.4.1995. The conditions are as follows :

- (i) The participating credit institutions should lodge the claims only after the outstanding amount in the account is written off in the books of account of the institution under orders of the competent authority.
- (ii) The Corporation's guarantee shall cover only the principal amount sanctioned by the credit institution and in the case of cash credit/overdraft and other revolving credit facilities, amount outstanding upto the regular limit sanctioned under each type of credit facility.
- (iii) No claim shall be admitted from credit institution in respect of accounts where recovery received from borrowers (excluding adjustment of subsidy) in a particular account is less than 25% of the total debits in the account on the date of write off, except under exceptional circumstances as under :
 - (a) When borrower has expired ;
 - (b) When any natural calamity has affected the area;

- (c) any other ground which may merit exception depending upon the circumstances brought to the notice of the Corporation in general, for a particular area or category of borrowers;
- (iv) The claims should be lodged with the Corporation within a year from the date of write-off of the amount in the books of credit institution.
- (v) The condition of observance of 3 years lock- in-period for lodgement of claims has been deleted in respect of all claims which fell due for lodgement on or after 1st April 1995.

The Corporation pays 50% of the principal amount in default subject to certain absolute limits stipulated in the schemes in regard to different categories of eligible

activities. To smaller borrowers, relatively higher cover is provided by the Corporation. After payment of the claims, the claimant institutions are required to continue effective steps to recover the dues and remit to the Corporation its share of the recoveries effected less expenses incurred for such recoveries, by virtue of the right of subrogation. Since 22 February 1994, credit institutions have been delegated powers to take decisions in matters like change/release of security/ surety, waiver of legal action, compromise and scaling down of dues and write-off and they are not required to obtain the Corporation's prior approval. The proposals involving staff accountability, frauds, misappropriation etc., have, however, to be referred to the Corporation for its prior approval. On invocation of a guarantee and payment of a claim in respect of a borrower, the Corporation's guarantee cover is not available for any other credit extended to that borrower till the amount due to the Corporation on account of the claim already settled has been repaid.



ANNEXURE
CREDIT GUARANTEE SCHEMES – SALIENT FEATURES

Schemes	Eligible participants	Category of Borrowers	Guarantee fee	\$Guarantee cover
(1)	(2)	(3)	(4)	(5)
A) SMALL BORROWERS				
I) Small Loans Guarantee Scheme, 1971	Commercial Banks (including Regional Rural Banks)	(i) Transport Operators	2.5% p.a. uniformly to be calculated on outstanding priority sector advances as on 31 March every year and collected annually. (In case of RRBs the rate of guarantee fee is 1.25% p.a. for first five years of their joining this Scheme).	50% of the amount in default or Rs. 1,50,000/- whichever is lower.
		(ii) Retail Traders	— do —	50% of the amount in default or Rs. 25,000/- whichever is lower.
		(iii) Professional & Self-employed Persons & Business Enterprises	— do —	50% of the amount in default or Rs. 50,000/- whichever is lower.
		(iv) Farmers & Agriculturists-Direct Finance		
		1) For raising crops	— do —	50% of the amount in default or Rs. 10,000/- whichever is lower.
		2) For developmental activities	— do —	50% of the amount in default or Rs. 20,000/- whichever is lower.
		3) For conversion of crop loans upto a maximum of 3 conversions under special circumstances	— do —	50% of the amount in default or Rs. 30,000/- (i.e. Rs. 10,000 x 3) whichever is lower.
		4) For allied activities		
		i) Pisciculture	— do —	50% of the amount in default or Rs. 37,500/- whichever is lower.
		ii) Sericulture	— do —	50% of the amount in default or Rs. 18,750/- whichever is lower.
		iii) Animal Husbandry	— do —	50% of the amount in default or Rs. 15,000/- whichever is lower.
		iv) Poultry Farming	— do —	50% of the amount in default or Rs. 22,500/- whichever is lower.
		v) Dairy Farming	— do —	50% of the amount in default or Rs. 15,000/- whichever is lower.
(With overall ceiling of Rs. 60,000/- for more than one activity)				
\$ With effect from 1.4.1995 the Corporation's guarantee shall cover only the principal amount sanctioned by the credit institution and in the case of cash credit/overdraft and other revolving credit facilities, amount outstanding upto the regular limit sanctioned under each type of credit facility.				

(Contd.)

ANNEXURE (Contd.)

(1)	(2)	(3)	(4)	(5)
	<p>(v) Indirect Finance to Agriculture As per RBI definition of priority sector except advances for construction and running of cold storage and to custom service units which will be covered under Small Loans (SSI) Guarantee Scheme, 1981.</p>		2.5% p.a. uniformly to be calculated on outstanding priority sector advances as on 31 March every year and collected annually. (In case of RRBs the rate of guarantee fee is 1.25% p.a for first five years of their joining this Scheme).	50% of the amount in default or Rs. 60,000/- whichever is lower per borrowing constituent/ institution.
	<p>(vi) Education Credit facilities to individuals for educational purposes granted by eligible credit institutions under special schemes introduced by them for the purpose.</p>		— do —	50% of the amount in default.
	<p>(vii) State Sponsored Organisations for SCs/STs Advances sanctioned by State sponsored Organisations for SC/ST for the specific purpose of purchase and support of inputs to and/or the marketing of the outputs of the beneficiaries of these organisations.</p>		— do —	50% of the amount in default or Rs. 60,000/- whichever is lower (per borrowing constituent/ institution).
	<p>*(viii) Housing-Direct Finance (a) Loans upto Rs. 2 lakh for construction of houses granted to all categories of borrowers.</p>		— do —	50% of the amount in default.
	<p>(b) Loans upto Rs. 25,000/- for repairs to damaged houses granted to all categories of borrowers.</p>		— do —	— do —
	<p>*(ix) Housing Indirect Finance i) Assistance given to any government agency for the purpose of constructing house exclusively for the benefit of SC/ST and low-income group and where loan component does not exceed Rs.2 lakh per housing unit.</p>		— do —	50% of the amount in default or Rs. 60,000/- whichever is lower (per borrowing constituent/ institution).
	<p>ii) Assistance to any government agency for slum clearance and rehabilitation of slum dwellers where loan component does not exceed Rs. 2 lakh per housing unit.</p>		— do —	— do —

* All Housing Loans have been excluded with effect from 1.4.1995 for the purposes of guarantee cover and computation of guarantee fee payable to the Corporation.

(Contd.)

ANNEXURE (Contd.)

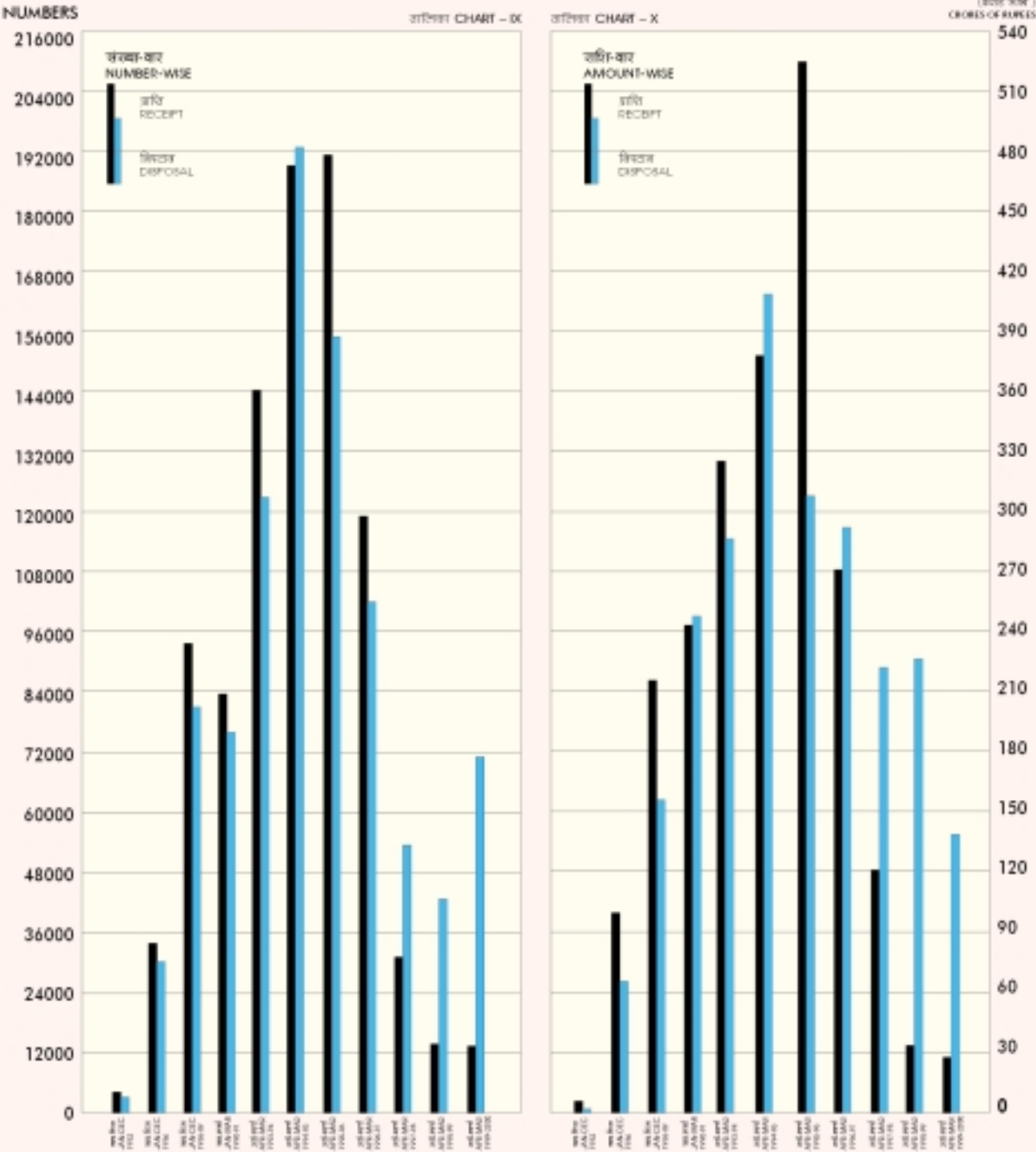
(1)	(2)	(3)	(4)	(5)
		(x) Consumption Pure consumption loans granted, consumption loans granted under the Consumption Credit Scheme.	— do —	50% of the amount in default.
II) Small Loans (Co-operative Banks) Guarantee Scheme, 1984	Primary Urban Co-operative Banks	i) Transport Operators	1.5% p.a. uniformly to be calculated on outstanding priority sector advances as on 31 March every year and collected annually.	50% of the amount in default or Rs. 1,50,000/- whichever is lower.
		ii) Retail Traders	— do —	50% of the amount in default or Rs. 25,000/- whichever is lower.
		iii) Business Enterprises & Professional & Self-employed Persons	— do —	50% of the amount in default or Rs. 50,000/- whichever is lower.
		iv) Educational Loans	— do —	50% of the amount in default.
		v) Consumption Loans to individuals upto Rs. 500/-	— do —	— do —
		*vi) Housing Loans not exceeding Rs. 25,000/- to		
		a) Individuals	— do —	50% of the amount in default.
		b) Government Agency	— do —	50% of the amount in default or Rs. 60,000/- whichever is lower per borrowing constituent/ institution.
		vii) Activities allied Agriculture		
		i) Pisciculture	— do —	50% of the amount in default or Rs. 37,500/- whichever is lower.
		ii) Sericulture	— do —	50% of the amount in default or Rs. 18,750/- whichever is lower.
		iii) Animal Husbandry	— do —	50% of the amount in default or Rs. 15,000/- whichever is lower.
		iv) Poultry Farming	— do —	50% of the amount in default or Rs. 22,500/- whichever is lower.
		v) Dairy Farming	— do —	50% of the amount in default or Rs. 15,000/- whichever is lower.
		vi) Purchase of bullock carts, camel carts, pack animals etc.	— do —	50% of the amount in default or Rs. 10,000/- whichever is lower.
		(With overall ceiling of Rs. 60,000/- for more than one activity)		
* All Housing Loans have been excluded with effect from 1.4.1995 for the purposes of guarantee cover and computation of guarantee fee payable to the Corporation.				

(Contd.)

ANNEXURE (Contd.)

(1)	(2)	(3)	(4)	(5)
B) SMALL SCALE INDUSTRIES				
Small Loans (Small Scale Industries) Guarantee Scheme, 1981	Commercial Banks (including RRBs), Co-operative Banks, State Financial Corporations and State Development Agencies	i) Small Scale Industrial Units (including ancillary units) to whom credit facilities not exceeding Rs. 2 lakh per borrowing constituent in the aggregate extended.	1.5% p.a uniformly to be calculated on outstanding priority sector advances as on 31 March every year and collected annually.	50% of the amount in default or Rs. 20 lakh (apportioned separately and equally viz., Rs. 10 lakh for term loans and Rs. 10 lakh for working capital) whichever is lower.
		ii) Small Scale Industrial units in backward areas with credit facilities without any limit.	— do —	— do —
		iii) Small Scale Industrial units (including ancillary units) in other than backward areas having total credit facilities exceeding Rs. 2 lakh.	— do —	50% of the amount in default or Rs. 20 lakh (apportioned separately and equally viz., Rs.10 Lakh for term loans and Rs. 10 lakh for working Capital) whichever is lower.
		Indirect finance to SSI		
		i) Agencies involved in assisting the decentralised sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.	— do —	(a) 50% of the amount in default or Rs. 60,000/- whichever is lower in respect of credit facilities not exceeding Rs. 2 lakh per borrowing constituent in the aggregate. (b) 50% of the amount in default or Rs. 60,000/- whichever is lower in respect of credit facilities exceeding Rs. 2 lakh per borrowing constituent in the aggregate.
		ii) Government sponsored Corporation/organisations providing funds to the weaker section in the priority sector (provided they are not covered by Government or any other guarantee).	— do —	— do —
		iii) Loans for construction and running of cold storage.	— do —	50% (as stated above) of the amount in default or Rs. 20 lakh (Rs.10 lakh each for working capital and term loans) whichever is lower.
		iv) Advances to custom service units managed by individuals, institutions or organisation who maintain a fleet of tractors, bulldozers, well boring equipment, threshers, combines etc. and undertake work from farmers on contract basis.	— do —	— do —
		(v) Industrial Estates Loans for setting industrial estate.	— do —	— do —

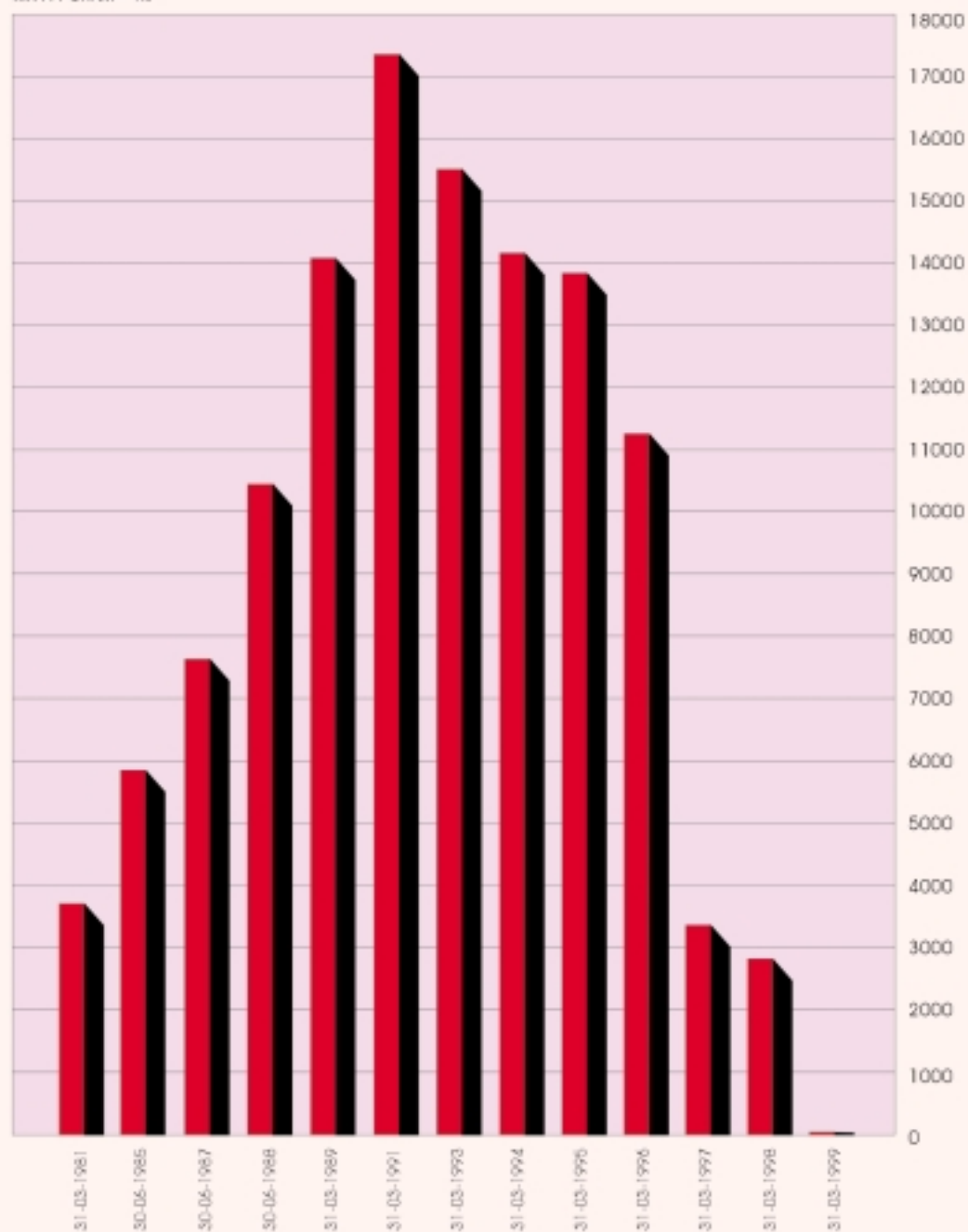
लघु उद्योगों के लिये गिरम की ऋण गारंटी योजना के संबंध में दावों की प्राप्ति और निपटान
RECEIPT AND DISPOSAL OF CLAIMS IN RESPECT OF
CORPORATIONS CREDIT GUARANTEE SCHEME FOR SMALL SCALE INDUSTRIES



लघु उद्योगों से संबंधित निगम की ऋण गारंटी योजना के संबंध में गारंटीकृत अग्रिमों में वृद्धि
(करोड़ रुपये)

GUARANTEED ADVANCES IN RESPECT OF CORPORATIONS CREDIT GUARANTEE
SCHEME RELATING TO SMALL SCALE INDUSTRIES
(RUPEES IN CRORES)

बारचार्ट CHART - VII



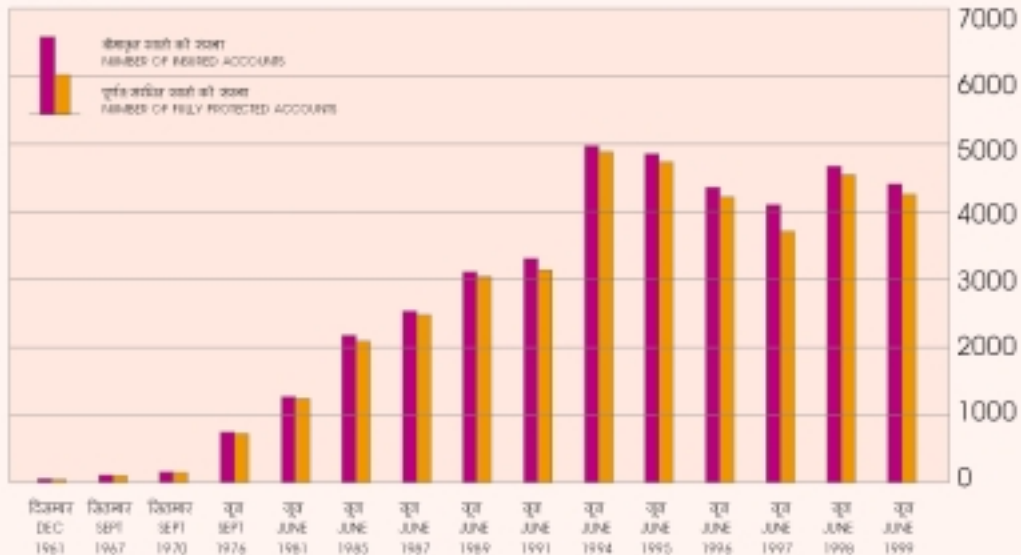
बीमाकृत खातों की संख्या

(इलेक्ट्रॉनिक खातों के अंतिम शुक्रवार को)

NUMBER OF INSURED ACCOUNTS
(AS ON LAST FRIDAY OF EACH YEAR)

चित्रण CHART - I

संख्या लाखों में
NUMBER IN LAKHS



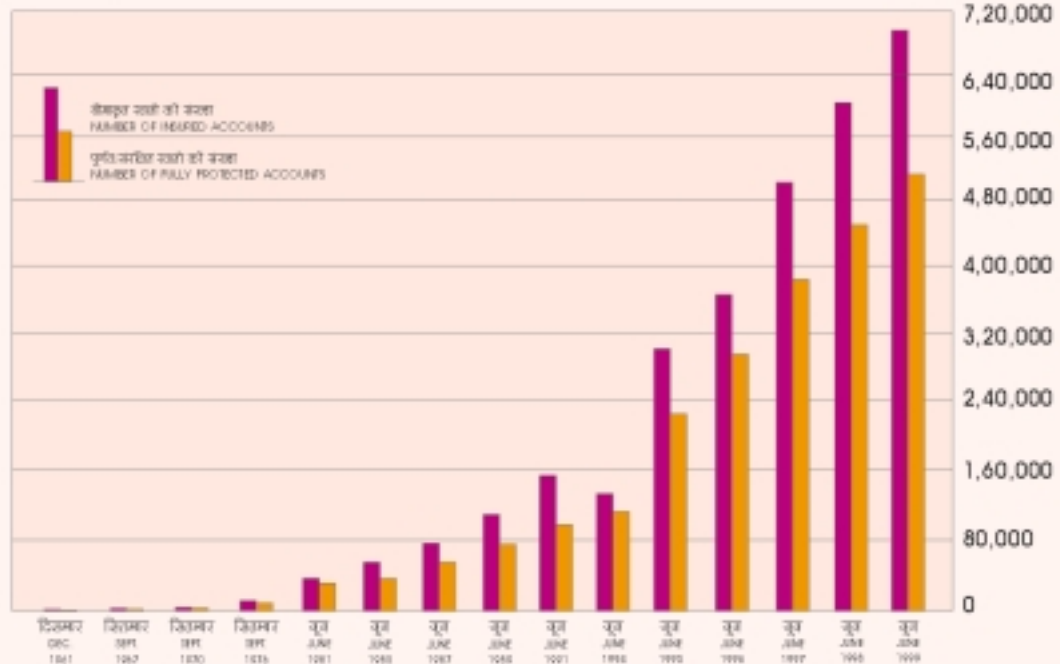
बीमाकृत खातों की संख्या

(इलेक्ट्रॉनिक खातों के अंतिम शुक्रवार को)

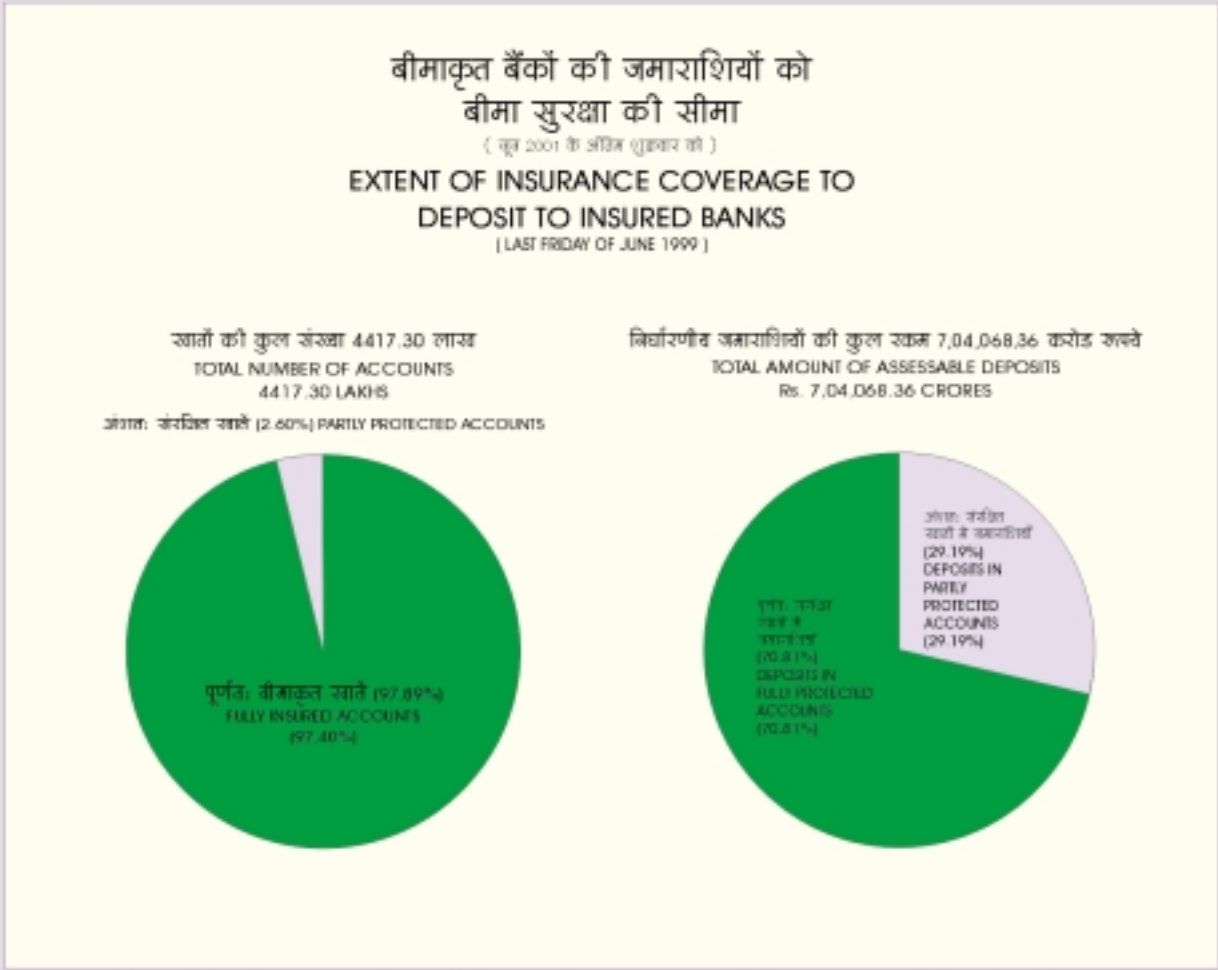
NUMBER OF INSURED ACCOUNTS
(AS ON LAST FRIDAY OF EACH YEAR)

चित्रण CHART - II

संख्या करोड़ों में
CRORES OF RUPEES



ग्राफिक CHART - III



छोटे उधारकर्ताओं से संबंधित ऋण गारंटी योजनाओं के संबंध में गारंटीकृत अग्रिमों में वृद्धि
(करोड़ रुपये)

**GROWTH OF GUARANTEED ADVANCES IN RESPECT OF CREDIT
GUARANTEE SCHEMES RELATING TO SMALL BORROWERS**
(CRORES OF RUPEES)



छोटे उधारकर्ताओं से संबंधित ऋण गारंटी योजनाओं के संबंध में गारंटीकृत अग्रिमों के क्षेत्र-वार विश्लेषण
(मार्च 1998 के अंत की स्थिति)

**SECTOR-WISE ANALYSIS OF GUARANTEED ADVANCES
IN RESPECT OF CREDIT GUARANTEE SCHEMES RELATING TO SMALL BORROWERS**

