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Indian Banking Industry

RBI's risk-based premium framework for deposit insurance to enhance profitability of stronger banks

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Highlights

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ICRA estimates that the revised deposit insurance norms can improve the RoA of strong banks with a long operating history by almost 4 bps. On a whole, banking sector is likely to witness RoA benefit of around 3 bps.

Any rise in the deposit insurance limit would increase the premium payout of banks, impacting their profitability. Nevertheless, stronger banks, getting discounted rates under RBP framework, would be able to negate the impact.

- The Reserve Bank of India (RBI) released a Risk-based Premium Framework for Deposit Insurance in India on February 6, 2026. As per the risk-based premium (RBP) framework, Deposit Insurance and Credit Guarantee Corporation (DICGC; RBI's subsidiary that insures bank deposits up to Rs. 5 lakh per depositor per institutions) will implement differential premium pricing instead of the current practice of a flat rate of 12 paise per Rs. 100 of assessable deposits (AD; i.e. eligible for DICGC insurance) for all banks.
- The RBP framework will primarily categorise banks based on their risk scores as per internal rating methodology of DICGC and will provide additional benefits based on their track record of no claims/restructuring/major distress. Basis this, stronger banks (having better risk scores) will pay less while weaker banks (having low risk scores) will pay more. As per the rate card, the maximum benefit based on risk scoring will be 33.33% of the current card rate. Besides, the vintage incentive will be a maximum of 25%.
- As per ICRA's analysis, based on a normalised cost structure, the return on assets (RoA) of stronger banks with long operational history of no claims will witness an enhancement of 4 basis points (bps) because of the discounted insurance premium card rate. On a whole, banks contributing around 80% to the sector's deposit base are likely to enjoy high discount and hence lower premium rate on their insured deposit base. Thus, the entire banking sector is expected to enjoy an RoA improvement of around 3 bps.
- The RBP framework would give stronger banks a slight cost advantage over weaker banks and will encourage banks to adopt good risk management practices. Hence, the overall system will become safer.
- Moreover, there have been discussions among market participants with respect to a possible increase in the insurance limit. The limit was last revised from Rs. 1 lakh per depositor per institution to Rs. 5 lakh per depositor per institution in February 2020. This led to an improvement in the insured deposit base to 51% of total deposits as on March 31, 2020 from 27% a year before.
- As per ICRA's analysis, in a scenario of expansion in the insured deposit base, the higher premium payout (as per current card rate) would impact the banking system's profit after tax (PAT) by Rs. 2,000-12,000 crore annually, translating into a moderation in the RoA by 1-4 bps. Nevertheless, stronger banks, with a discounted card rate under the RBP framework, would be able to negate the impact. Thus, going ahead, the RBI may increase the insurance limit without adversely affecting the profitability of stronger banks.

Risk-based premium framework for deposit insurance

DICGC, with the approval of the RBI, is going to implement the RBP framework with effect from April 1, 2026. Since inception, DICGC has been levying a flat rate premium, last revised in April 2020 to Rs. 0.12 per Rs. 100 of AD, on all banks. However, it would now implement a differential pricing framework from April 1, 2026.

The RBP framework will incentivise sound risk management by banks as better managed banks will be levied a lower premium than the card rate of Rs. 0.12 per Rs. 100 of AD.

The RBP framework will primarily categorise banks based on their risk score and will provide additional benefits based on their vintage. The effective premium rate will be:

Effective rate = Card rate * (1 – Risk model incentive) * (1 – Vintage incentive)

Basis the above framework, stronger banks will pay less while weaker banks will pay more. ICRA believes that the framework would give stronger banks a slight cost advantage over weaker banks and will encourage banks to adopt good risk management practices. Hence, the overall system will become safer.

Key aspects of the methodology

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- The RBP framework will entail a two-tier risk-based rating methodology. The Tier-1 model will be applicable to scheduled commercial banks (SCBs) other than regional rural banks (RRBs) while the Tier-2 model will be applicable to RRBs, rural cooperative banks and urban cooperative banks (UCBs). Local area banks and payments banks (PBs) will continue to pay premium at the card rate.
- Under the Tier-1 model, risk rating will be based on a combination of risk-based supervisory rating, quantitative assessment and potential loss to the Deposit Insurance Fund (DIF) from the failure of insured banks. Under the Tier-2 model, factors that will be used are quantitative assessment and potential loss to DIF from the failure of insured banks.
- Quantitative assessment will be based on both financial and non-financial parameters and the same will be used from the latest available year-end audited numbers.
- Based on the risk assessment score, banks will be classified into the following categories with the applicable card rate (paise per Rs. 100 of AD):

Rating category	A	B	C	D
Current premium card rate	12	12	12	12
New premium card rate	8	10	11	12
Discount over card rate	33.33%	16.67%	8.33%	0.00%

- The framework will further provide benefits of vintage (signifying longer contribution to DIF of DICGC without any major stress events or claims payouts from DICGC). The incentive to banks in Tier-1 will be in the form of a 1% incentive for each completed year, subject to a maximum of 25%. However, for Tier-2, an incentive of 25% on the completion of 25 years will be available to RRBs, rural cooperative banks and Tier-4 urban cooperative banks.
- In the event of restructuring or major distress, the vintage incentive will be calculated from the date of such restructuring or major distress.
- All UCBs under the supervisory action framework (SAF)/prompt corrective action (PCA) framework of the RBI will continue to pay the card rate of 12 paise and will be considered for RBP from the financial year following the year in which the bank exits the SAF/PCA.

Risk-based premium framework to enhance RoA of stronger banks

ICRA estimates that the revised deposit insurance norms can improve the RoA of stronger banks with a long operating history and no claims during this period by almost 4 bps. This will support the profitability of these banks amid the pressure on their net interest margins (NIMs).

RoA benefit		Card rate (paise per Rs. 100 of AD) as per risk scoring category			
		8 (Cat.* A)	10 (Cat. B)	11 (Cat. C)	12 (Cat. D; Max rate)
Vintage incentive	**0%**	0.03%	0.01%	0.01%	0.00%
	5%	0.03%	0.02%	0.01%	0.00%
	10%	0.03%	0.02%	0.01%	0.01%
	15%	0.04%	0.02%	0.02%	0.01%
	20%	0.04%	0.03%	0.02%	0.02%
	25%	0.04% (Max benefit)	0.03%	0.03%	0.02%

- The above calculations are based on a normalised cost structure for a bank with the insurance premium cost estimated at 10-11 bps of the total asset base. The actual impact would vary for banks depending on their respective cost structures. Nonetheless, the outcome is not expected to be materially different for different banks.
- Under the above structure, banks with sound risk scores and longer vintage of operations without any major disruptions stand to gain by incurring a lower premium cost than other banks.

**Cat. – category as per risk scoring*

Banking sector's profitability to improve under RBP framework

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Exhibit: Deposit market share of PSBs

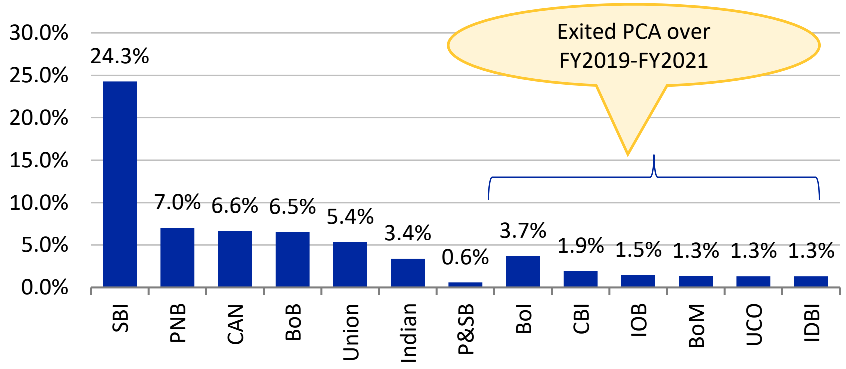
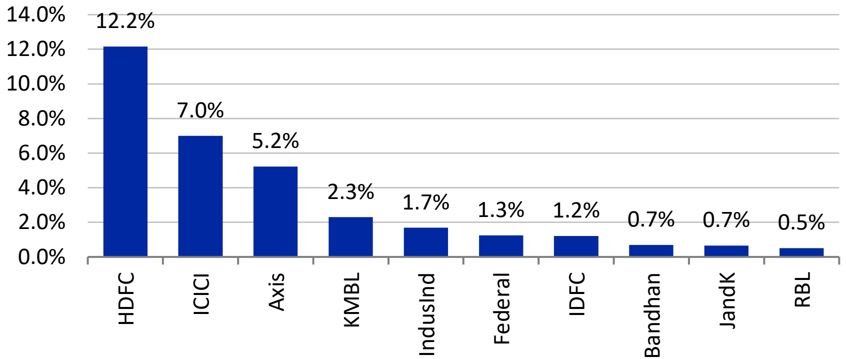


Exhibit: Deposit market share of top 10 PVBs



Source: RBI, ICRA Research; PSB – Public sector banks; PVBs – Private sector banks; For bank names used in exhibits above, kindly refer to Annexure II

- In the past decade, several public sector banks (PSBs) were placed under the RBI's PCA framework. While some of them have already been merged with larger PSBs, the rest exited the PCA framework by the end of FY2021. Thus, the PSBs exiting PCA will be able to get the vintage incentive only from FY2022, thereby limiting the discount to the insurance premium rate card.
- As per ICRA's analysis, non-PCA PSBs contribute around 54% to the sector's total deposit base and many of these are likely to obtain high risk scores and thus be eligible for a higher discount under the RBP framework. In case of private sector banks (PVBs), the top 4 PVBs contribute around 27% to the sector's total deposit base and are likely to obtain high risk scores and thus be eligible for a higher discount under the RBP framework.
- On a whole, banks contributing around 80% to the sector's deposit base are likely to enjoy high discounts and hence lower premium rates on their insured deposit base under the RBP framework. Thus, the banking sector is expected to enjoy an RoA improvement of around 3 bps compared to the maximum 4 bps advantage for stronger banks on an individual basis.

India ranks among top 10 countries in terms of IDR

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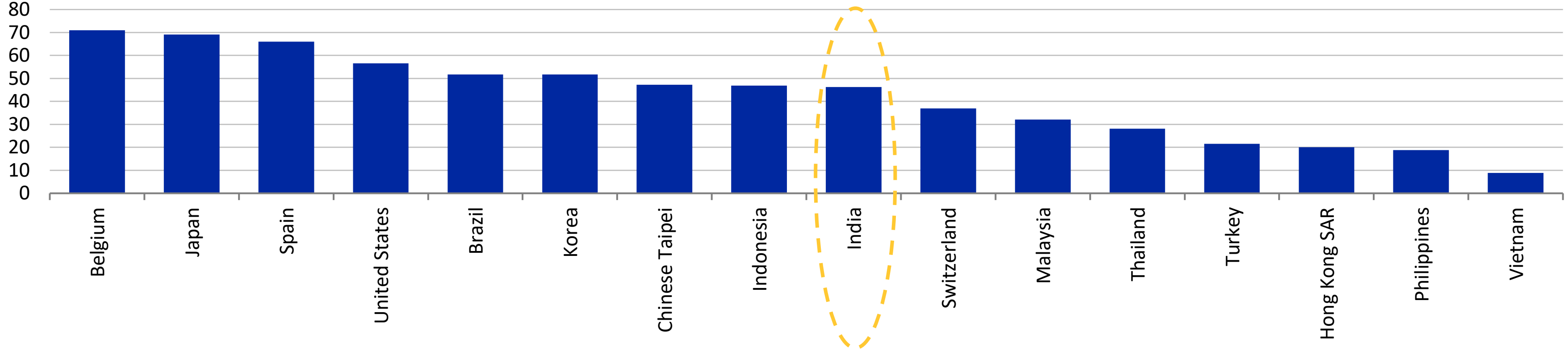
Exhibit: Global comparison of insured deposit to assessable deposit ratio (IDR)



Source: DICGC, ICRA Research; Status as of Sep 2022

- The coverage ratio in India, i.e. the insured deposit to assessable deposit ratio (IDR), in terms of value of deposits, was 41.5% as on March 31, 2025 (43.1% as on March 31, 2024). While the global average stood at 43.1% as on December 31, 2023 compared to 41.0% as on December 31, 2022.
- Insured banks in India comprised 139 commercial banks and 1,843 cooperative banks. According to the International Association of Deposit Insurers (2024 annual survey), this is the largest number of deposit-taking institutions covered by deposit insurance in the world, second only to the US.
- India ranks among the top 10 in the world and among the top 5 in the Asia-Pacific region in terms of IDR. In the past few years, deposit insurance claims have largely been filed by cooperative banks, which had a comparatively higher IDR of 61.9% as on March 31, 2025.

Deposit Insurance Limit

RBP framework with incentives for banks with sound risk management practices may be a precursor for hike in deposit insurance limit

Deposit insurance limit raised over time to provide healthy coverage

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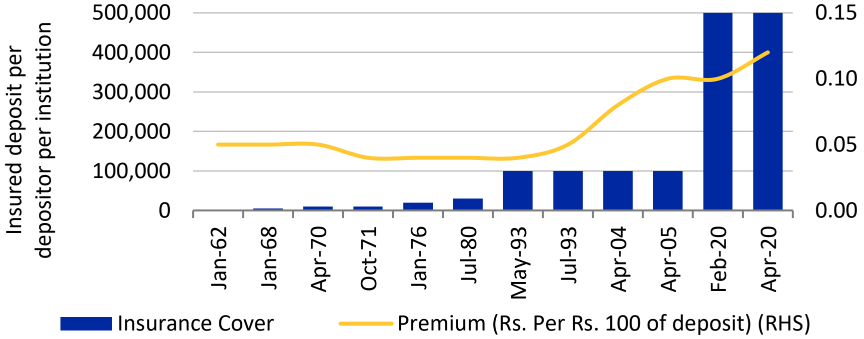
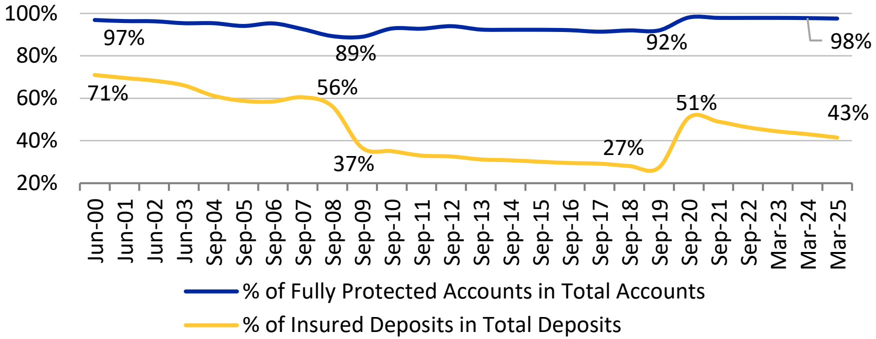
Exhibit: Trend in insurance cover per depositor and premium pricing



Source: DICGC, ICRA Research; Amount in Rs.

Exhibit: Percentage of accounts and total deposits insured by DICGC



Source: DICGC, ICRA Research

- The Deposit Insurance Act, 1961 came into force on January 1, 1962 and covers cooperative banks and all commercial banks, including the branches of foreign banks in India, small finance banks (SFBs), PBs, RRBs, and local area banks. In 1962, the insurance cover was limited to Rs. 1,500 per depositor per institution. The coverage was increased gradually and currently stands at Rs. 5.0 lakh per depositor per institution. Similarly, the premium charged by DICGC rose over time to Rs. 0.12 per Rs. 100 of deposits at present from Rs. 0.05 per Rs. 100 of deposits in January 1962.
- As on March 31, 2025, Rs. 100.05 lakh crore of deposits or 41.5% of the assessable deposits (value terms) was insured by DICGC. **Looking at the recent episodes at some cooperative banks, the insurance coverage limit has been under discussion. Besides the introduction of risk-based pricing, the sector was looking at a possible increase in the deposit insurance limit.** The last hike in the deposit insurance limit to Rs. 5.0 lakh from Rs. 1.0 lakh in February 2020 had also followed the failure of a cooperative bank in September 2019.

Expansion in insured deposit base to impact profitability of banks; RBP framework, however, to protect stronger banks' profitability

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Exhibit: Impact of increase in insured deposit base on PAT

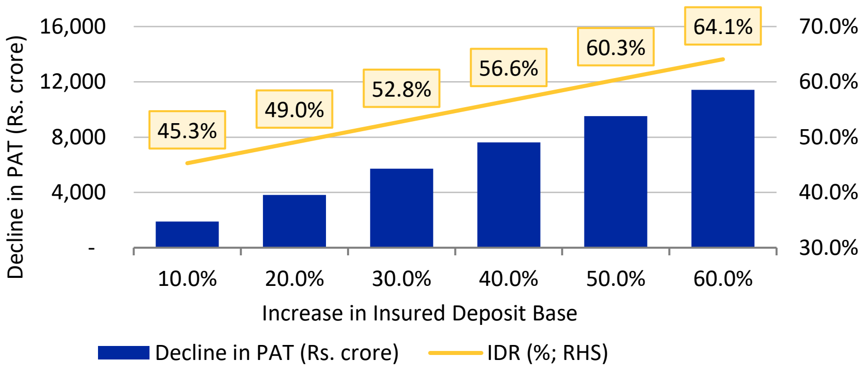
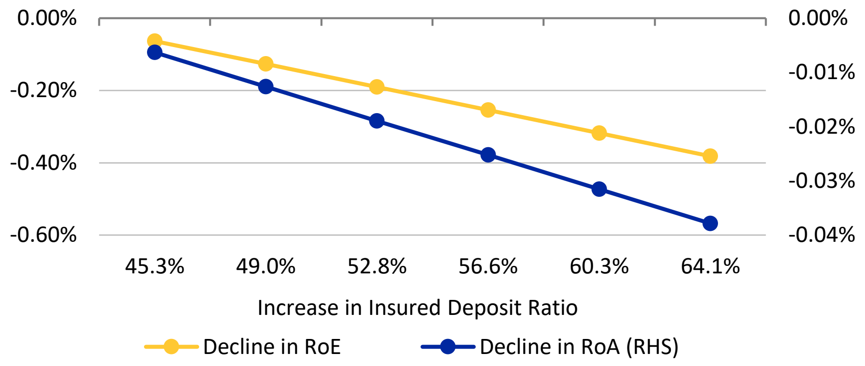


Exhibit: Impact of increase in insured deposit base on RoE and RoA



Source: DICGC, ICRA Research

- The deposit insurance limit of Rs. 5.0 lakh per depositor per institution was last reviewed in February 2020, when it was enhanced from Rs. 1.0 lakh. This led to an improvement in the insured deposit base to 51% of total deposits as on March 31, 2020 from 27% a year before. Depending on the extent of hike in the deposit insurance limit, a substantial increase can be expected in the insured deposit base and IDR.
- ICRA has analysed scenarios, wherein the insured deposit base rises upon the increase in the deposit insurance limit. Under various scenarios of a 10-60% increase in the insured deposit base, the IDR could rise to 45.3-64.1% of total deposits (see exhibit above) from 41.5% as on March 31, 2025. This will result in an additional premium payout by banks, adversely impacting their profitability.
- With the expansion in the insured deposit base, the higher premium payout (as per current card rate) would impact the banking system's PAT by Rs. 2,000-12,000 crore annually, leading to a moderation in the RoA by 1-4 bps and return on equity (RoE) by 7-40 bps. Nevertheless, stronger banks with a discounted card rate under the RBP framework would be able to negate the impact. **Thus, going ahead, the RBI may increase the insurance limit without adversely affecting the profitability of stronger banks.**

Annexure I: Recent research reports published in the banking sector

- RBI's draft guidelines enhance dividend flexibility for banks with high core capital; actual dividend payout unlikely to rise materially (January 2026)
- Retail and MSMEs drove credit growth in YTD FY2026; trend to continue in the medium term (December 2025)
- Impact of RBI's proposed ECL framework on banks' capitalisation profile likely to be moderate (October 2025)
- RBI's draft framework on capital charge for credit risk hints at relief for banks (October 2025)
- GST rate cuts to support consumption, which along with surplus liquidity, would drive bank's credit growth (September 2025)
- Margins to be under pressure, given repo rate cuts; asset quality remains monitorable (June 2025)
- Final guidelines on liquidity coverage ratio to support credit growth (April 2025)

Annexure II: Bank names used in the note

S. no.	PSBs with respective abbreviations	S. no.	PVBs with respective abbreviations
1	Bank of Baroda (BoB)	1	Axis Bank Limited (Axis)
2	Bank of India (BoI)	2	Bandhan Bank Limited (Bandhan)
3	Bank of Maharashtra (BoM)	3	Federal Bank Limited (Federal)
4	Canara Bank (CAN)	4	HDFC Bank Limited (HDFC)
5	Central Bank of India (CBI)	5	ICICI Bank Limited (ICICI)
6	IDBI Bank Limited (IDBI)	6	IDFC Bank Limited (IDFC)
7	Indian Bank (Indian)	7	IndusInd Bank Limited (IndusInd)
8	Indian Overseas Bank (IOB)	8	J&K Bank Limited (JandK)
9	Punjab National Bank (PNB)	9	Kotak Mahindra Bank Limited (KMBL)
10	Punjab & Sind Bank (P&SB)	10	RBL Bank Limited (RBL)
11	State Bank of India (SBI)		
12	UCO Bank (UCO)		
13	Union Bank of India (Union)		

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